

Main Developments in the Postal Sector (2004-2006)

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

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Contents

List of Tables	IV
List of Figures	VII
List of Case studies	X
Terms and Abbreviations	XI
Abbreviations – Country Code	XV
1 Executive Summary	1
2 Introduction	19
2.1 Changing role of postal services	19
2.2 Developments in Community legislation affecting the European postal sector	20
3 Regulatory Developments	31
3.1 Overview of regulatory framework	31
3.1.1 Postal laws and secondary legislation	31
3.1.2 Distribution of regulatory authority	35
3.1.3 Postal ministries and universal service providers	40
3.2 Universal service obligation	44
3.2.1 Scope of universal service obligation	44
3.2.2 Access and delivery requirements	48
3.3 Special and exclusive rights	53
3.3.1 Reserved services	53
3.3.2 Exceptions to the reserved area	57
3.3.3 VAT and corporate taxes	59
3.3.4 Financing	61
3.3.5 Customs procedures	62
3.3.6 Access to the public postal network	63
3.3.7 Access to the public transport infrastructure	67
3.4 Authorization of postal operators	68
3.4.1 Authorization of postal operators inside the universal service area	68
3.4.2 Authorization of postal operators outside the universal service area	75
3.4.3 Universal service funds	78

3.5	Tariff principles	79
3.5.1	Scope and principles of price regulation	79
3.5.2	Methods of regulation	83
3.5.3	Individual agreements	86
3.5.4	Special tariffs	87
3.5.5	Rate investigations	89
3.5.6	Terminal dues	90
3.6	Accounts of universal service providers (USPs)	91
3.6.1	Separation of accounts	91
3.6.2	Allocation of costs	95
3.6.3	Verification and publication of regulatory accounts	98
3.6.4	Financial accounts	100
3.7	Quality of service	100
3.8	Complaints and redress procedures	105
3.9	National regulatory authorities	108
3.9.1	Mission and resources of NRAs	108
3.9.2	Independence of NRAs	117
3.9.3	Regulatory powers	120
4	Sector Developments	123
4.1	Key figures – The European postal sector	123
4.2	Supply of postal services	126
4.2.1	Competition and market shares – Letter post services	126
4.2.1.1	Overview	126
4.2.1.2	Domestic letter mail services	127
4.2.1.3	Delivery of newspapers, magazines and periodicals	148
4.2.1.4	Cross-border letter post services	149
4.2.1.5	Competition cases	150
4.2.2	Competition and market shares – parcel and express services	154
4.2.3	Organization and business activities of USPs	159
4.2.3.1	Corporatization and privatization	159

4.2.3.2	The role of private equity companies as potential investors	161
4.2.3.3	Business activities of USPs in general	165
4.2.4	Economic situation of USPs	171
4.2.5	Employment of USPs	181
4.3	Demand for postal services	188
4.3.1	Letter post	188
4.3.2	Demand structure and development	197
4.3.3	Evolution of postal services	203
4.3.3.1	The impact of electronic communications on postal demand	203
4.3.3.2	Postal services and upstream activities	208
4.4	Price performance	211
4.4.1	Public tariffs for letter post	211
4.4.2	Special tariffs	217
4.4.3	Public tariffs for parcels	220
4.5	Provision of universal service	224
4.5.1	Access to universal service	224
4.5.2	Quality of Service	231
4.5.3	Transit time performance	233
4.5.4	Complaints and redress procedures	239
4.5.5	Implementation of CEN standards	241
5	Specific Policy Issues	245
5.1	Market opening and the development of the USPs	245
5.2	Market opening and universal service requirements	250
5.3	Mail volume development	253
5.4	Conclusions	256
6	Recommendations	257

List of Tables

Table 3.1.1	Evolution of Member State postal laws	32
Table 3.1.2	Evolution of Member State postal regulations	33
Table 3.1.3	Authority determining policy decisions required by the Directive	35
Table 3.1.4	Primary responsibility for regulatory administration required by the Directive	37
Table 3.1.5	Responsibility for enforcement of competition rules	39
Table 3.1.6	Ministries with primary responsibility for postal policy	40
Table 3.1.7	Universal service providers	41
Table 3.1.8	Ownership and control of USP	43
Table 3.2.1	Specific requirements (postal outlets)	48
Table 3.2.2	Replacement of post offices and closure of postal outlets	49
Table 3.2.3	Delivery requirements	51
Table 3.3.1	Services reserved for the USP in Member States	55
Table 3.3.2	Exceptions to the reserved area in Member States	57
Table 3.3.3	Postal services exempted from VAT	59
Table 3.4.1	Authorizations in universal service area	71
Table 3.4.2	Authorizations in universal service area by year	72
Table 3.4.3	Evaluation of authorization systems in universal service area	73
Table 3.4.4	Authorization regimes and conditions for services outside universal service area	76
Table 3.4.5	Development of authorizations outside universal service area, 1998-2005	77
Table 3.5.1	Principles of price regulation	79
Table 3.5.2	Average annual postal expenses of non-business mailer	82
Table 3.5.3	Methods of price regulation: scope	84
Table 3.5.4	Number of rate investigations begun, 1998 to 2005	89
Table 3.6.1	Separation of accounts by individual universal service products	92
Table 3.6.2	Allocation of USP costs	96
Table 3.6.3	Review and publication of accounts	98
Table 3.7.1	Regulatory routing time targets for letter post and parcel post services (2005)	101
Table 3.8.1	Mediation of complaints addressing USP's postal services	106

Table 3.8.2	Mediation of complaints addressing competitors' postal services	106
Table 3.8.3	Complaint procedures: publication requirements and practice	107
Table 3.9.1	National Regulatory Authorities for postal services	109
Table 3.9.2	Responsibility allocated to NRAs	110
Table 3.9.3	Responsibility for enforcement of competition rules	111
Table 3.9.4	Organizational independence of NRAs	118
Table 3.9.5	Enforcement powers of NRAs	120
Table 4.1.1	Overview of countries (2004)	123
Table 4.2.1	Perceived degree of competition in domestic letter post (2005)	126
Table 4.2.2	Main CPOs on domestic letter post markets	128
Table 4.2.3	Acquisition strategies of TNT and DPWN in foreign letter post markets	131
Table 4.2.4	E2E versus third party access in the UK	137
Table 4.2.5	Target markets of postal service providers active in cross-border letter post segment	150
Table 4.2.6	Competition cases in the Community concerning domestic postal services	150
Table 4.2.7	Perceived degree of competition (2000 and 2005)	154
Table 4.2.8	Market shares in the European parcel and express market (2004)	157
Table 4.2.9	Legal status and privatization of USPs (2006)	159
Table 4.2.10	M&A activities of private equity companies in Europe (Transportation and Logistics)	161
Table 4.2.11	Business activities of USPs – geographical coverage and business segments	168
Table 4.2.12	Pension obligations of USPs employing civil servants	178
Table 4.2.13	EU-25 Total USP Employment (000, headcount) – UPU and WIK results (2000-2004)	181
Table 4.2.14	Development of full-time and part-time employment (2000-2004)	182
Table 4.2.15	Total headcount and estimated FTE employment of USPs in the Community (in thousands)	185
Table 4.2.16	Civil servants employed by USPs – development and share (headcount, 2002-2004)	185
Table 4.3.1	Sender and receiver per segment	198
Table 4.3.2	Most important customer groups of letter post	199

Table 4.4.1	Overview discounts for bulk correspondence offered by USPs	218
Table 4.4.2	Overview of direct mail tariffs and discounts for direct mail offered by USPs	219
Table 4.5.1	Development of the postal network - EU-25 (2002-2004)	224
Table 4.5.2	CEN Standards	241
Table 5.1.1	Market opening and profitability of USPs	246
Table 5.1.2	Profitability and costs of USPs	247
Table 5.1.3	Development of postal revenues	249
Table 5.2.1	Degree of market opening and access to the public postal network	250
Table 5.2.2	Degree of market opening and quality of service requirements	251
Table 5.2.3	Degree of market opening and uniform tariff requirements	252
Table 5.3.1	Mail volume development, internet penetration and price developments	253
Table 5.3.2	Age structure, internet penetration and mail volume development	254
Table 5.3.3	Mail volume development and universal service provision	255

List of Figures

Figure 2.1.1	The mail industry value chain	19
Figure 3.1.1	Legal Status of USPs	42
Figure 3.3.1	Services reserved for the USP in Member States	56
Figure 3.4.1	Evaluation of authorization systems in universal service area	69
Figure 3.4.2	Evaluation of authorization systems outside universal service area	75
Figure 3.5.1	Uniform tariffs	80
Figure 3.5.2	Methods of price regulation	84
Figure 3.6.1	Universal services subject to accounting separation	94
Figure 3.7.1	Development of D+1 transit time targets (2003-2005, EU-25)	102
Figure 3.9.1	Estimated NRA budgets and employees, 1998-2005	112
Figure 3.9.2	Resources of NRAs in large Member States, 2005	113
Figure 3.9.3	Resources of NRAs in medium-sized Member States, 2005	113
Figure 3.9.4	Resources of NRAs in small Member States, 2005	114
Figure 3.9.5	Resources of NRAs in very small Member States, 2005	114
Figure 4.1.1	Size of the EU-25 letter post market (revenues): appr. 54 billion € revenue in 2004	124
Figure 4.1.2	EU-25 letter post market (domestic letter post volumes) – appr. 93 billion letter post items (2004)	125
Figure 4.2.1	Development of USP's shares in domestic E2E letter mail volume 1996-2004 (DE, ES, NL, SE, and UK)	133
Figure 4.2.2	Access to the postal supply chain	135
Figure 4.2.3	Germany: Development domestic mail volumes in the licensed area (2000-2004)	139
Figure 4.2.4	Germany: Mail, revenue and average price development of D licensees (1999 – 2004)	140
Figure 4.2.5	Germany: Market shares per type of licence (revenues, 2002 and 2004)	141
Figure 4.2.6	Germany: Distribution of company size of licensees other than DPAG (1999-2004)	142
Figure 4.2.7	Germany: Number of access agreements per year (2000-2005)	144
Figure 4.2.8	Price comparison: Public tariffs vs. access prices in DE, FR, UK, and USA (2004)	146
Figure 4.2.9	European parcel and express market - segmentation	156

Figure 4.2.10	Positioning of European parcel and express service providers	156
Figure 4.2.11	Business activities by revenue share (2004)	165
Figure 4.2.12	Share of total revenues earned in foreign markets (2004)	166
Figure 4.2.13	Geographical revenue structure of TNT and DPWN (2004)	167
Figure 4.2.14	USPs' total revenues in 2004 – 113 Billion EUR	171
Figure 4.2.15	USPs' postal revenues in 2004 – 83 Billion EUR	172
Figure 4.2.16	USPs' letter post revenues in 2004 – 53 Billion EUR	172
Figure 4.2.17	Domestic revenues of USPs per capita (EUR, 2004)	173
Figure 4.2.18	Profit margins of the USPs – 2000, 2002, and 2004	174
Figure 4.2.19	Profit margins per business segment of selected USPs	175
Figure 4.2.20	Share of employment costs on total operating expenses, 2000-2004	176
Figure 4.2.21	Development of employment expenses per headcount (CAGR, 2002-2004)	177
Figure 4.2.22	Development of USP employment –WIK survey (headcount, CAGR 2002-2004)	182
Figure 4.2.23	Development of USP employment in headcount and full time equivalent (FTE) – WIK survey (CAGR 2002-2004)	183
Figure 4.2.24	Share of part-time employment (2004)	184
Figure 4.2.25	Ratio of FTE and headcount employment (2000, 2002, 2004)	184
Figure 4.2.26	Development of employment at German licensees (headcount, 2000-2004)	186
Figure 4.3.1	EU domestic letter post, 2000-2004	188
Figure 4.3.2	EU domestic letter post: Member State shares 2004	189
Figure 4.3.3	MS domestic letter post: average annual growth, 2000-2002 and 2002-2004	190
Figure 4.3.4	MS domestic letter post: items per capita, 2002 and 2004	191
Figure 4.3.5	MS domestic letter post: items per €1,000 GDP in constant EUR, 2002 and 2004	191
Figure 4.3.6	MS domestic letter post: LP per cap v. GDP per cap, 2004	192
Figure 4.3.7	MS domestic letter post per GDP: average annual growth, 2000-2002 and 2002-2004	193
Figure 4.3.8	Average annual growth rates of USPs' direct mail (addressed and unaddressed) 2002-2004	194

Figure 4.3.9	Average annual growth rates of newspapers, magazines, and periodicals delivered by USPs, 2002-2004	195
Figure 4.3.10	Distribution of letter post volume by weight	200
Figure 4.3.11	Expected volume development in EU-25 until 2011	201
Figure 4.3.12	Expected volume development in high volume Member States until 2011	202
Figure 4.3.13	Expected volume development in low volume Member States until 2011	202
Figure 4.3.14	The mail industry value chain	208
Figure 4.4.1	USP tariffs for domestic 20g letter of fastest standard category, 2005, in EUR and PPS	211
Figure 4.4.2	USP tariffs for 20g letter of fastest standard category and second fastest standard category, 2005, in EUR	213
Figure 4.4.3	Average annual increase of USP tariffs for 20g letter of fastest standard category, 2000-2005	214
Figure 4.4.4	USP tariffs by weight: tariffs for 50g, 100g, and 350g as % of lowest weight step, 2005	215
Figure 4.4.5	USP tariffs for cross-border 20g letter of fastest standard category, 2005, in EUR and PPS	216
Figure 4.4.6	USP tariffs for a 5 kg domestic parcel (lowest available public tariff), 2005, in EUR and PPS	220
Figure 4.4.7	Average annual increase of USP tariffs for a 5 kg domestic parcel (lowest available public tariff), 2000-2005	221
Figure 4.4.8	USP public tariffs for a 5 kg cross border parcel (lowest available public tariff), 2005, in EUR and PPS	222
Figure 4.5.1	Number of postal outlets per 10,000 inhabitants	225
Figure 4.5.2	Development of postal outlets and post offices between 2002 and 2004 in relation to postal density in 2002	226
Figure 4.5.3	Share of postal agencies in 2002, 2004 and 2005	227
Figure 4.5.4	Satisfaction with access to postal outlets	228
Figure 4.5.5	Intra-Community overall performance D+3 in EU 15	234
Figure 4.5.6	D+1 transit time targets 2003, 2004, and 2005	235
Figure 4.5.7	Transit time performance D+1 (2003-2005)	236
Figure 4.5.8	Comparison of FSC targets and performance	237

List of Case studies

Case study 3.1	DE: Scope of postal universal service under discussion	45
Case study 3.2	NL: Scope of postal universal service	45
Case study 3.3	UK: Universal service for bulk mailers	45
Case study 3.4	IE: Universal postal service – A working definition	46
Case study 3.5	SE: Postal law under revision	46
Case study 3.6	DE: Safeguarding universal postal service in fully liberalized postal markets	47
Case study 3.7	VAT exemption for reserved services in Spain	60
Case study 3.8	Downstream access in France, Germany, and the UK	64
Case study 3.9	Access to PO boxes	65
Case study 4.1	Acquisition strategies of TNT and DPWN in foreign letter post markets	131
Case study 4.2	DE and NL: Development of competition in delivery of addressed direct mail	134
Case study 4.3	E2E competition (PIN and EP Europost)	143
Case study 4.4	Privatization of Post Danmark A/S and the acquisition of De Post/La Poste	160
Case study 4.5	Fortis Private Equity	163
Case study 4.6	Attractivity of German companies for a major PEC like 3i	164
Case study 4.7	Rebuilding the post office network in Sweden	228
Case study 4.8	DE – Improving access by Postpoint and Packstation	229
Case study 4.9	Access points of CPOs	229
Case study 4.10	Post office network UK	230
Case study 4.11	Transit time from consumers' point of view	238

Terms and Abbreviations

acct'g	accounting
accts	Accounts
AG	Aktiengesellschaft
AT	Austria
auth.	Authorization
B2B	Business to Business
B2C	Business to Consumer
BE	Belgium
BEUC	European Consumers' Organization
BG	Bulgaria
bldg	Building
bln	billion
BnetzA	Bundesnetzagentur (The Federal Network Agency)
BtB	Business to Consumer
BtoC	Business to Customer
BtC	Business to Customer
C2B	Consumer to Business
C2C	Consumer to Consumer
CAGR	Compound annual growth rate, average growth rate calculated over a multiple-year period
CB	Cross border
CC	Candidate country, i.e., one of 3 countries being considered for entry into the European Union, namely, Bulgaria, Romania, Turkey.
CEN	European Committee for Standardization
CEP	Courier, express and parcels
CERP	European Committee for Postal Regulation
Commission	European Commission
Comp.	Competition
ComReg	The Commission for Communications Regulation
Conf.	Confidential
CPO	Competitive postal operator, i.e. postal operators other than the universal service providers (the latter being equal to the public postal operator in all countries surveyed).
Cross sub	Cross-subsidization
CVC	British investment group, CVC Capital Partners
CY	Cyprus
CZ	Czech Republic
DE	Germany
DG	Director General
dirs	Directors
DK	Denmark
DM	Direct Mail
Dom	Domestic
DPAG	Deutsche Post AG
DPWN	Deutsche Post World Net

E2E	End to End
€	Euro
e.g.	Exempli gratia (Latin: for example)
EC	European Commission or European Council
ECN	European Competition Network
EEC	European Economic Community
EE	Estonia
EEA	European Economic Area
EMN	European Mail Network
EN	Official European Standard
EN	English
ER	Essential requirements
ES	Spain
EU	European Union
EUR	Euro
Exec	Executive
FI	Finland
FPE	Fortis Private Equity
FR	France
FSC	Fastest Standard Category
FTE	Full time equivalent
g	Gram
GA	General authorization
GBP	British pound
GDP	Gross Domestic Product
Govt.	Government
GR	Greece
Hi vol	High volume
HU	Hungary
i.a.	Inter alia (Latin: amongst others)
i.e.	Id est (Latin: that is)
IE	Ireland
IPC	International Post Corporation
IPO	Initial Public Offering
IS	Iceland
IT	Italy
KfW	Kreditanstalt für Wiederaufbau
kg	Kilo-Gram
LECG	LECG Ltd., international consultancy firm
LI	Liechtenstein
Lic	Licence
Lo vol	Low volume
LP	Letter Post
LPLic	Letter post licence
LT	Lithuania
LU	Luxembourg
LV	Latvia

MBE	Mail Boxes Etc.
md	market dominant
Min Other	(for this report) Ministry other than the one with primary responsibility for the postal sector
Min Post	(for this report) Ministry with primary responsibility for the postal sector
MI	Mail International and Value-added Services”
MIN	Ministry
Mkt dom op.	Market dominant operator
MS	Member state (of the European Union)
MT	Malta
N	No
N/A, NA	means not applicable
NA, na	Not available
NCA	National Competition Authority
NL	Netherlands
NO	Norway
NRA	National Regulatory Authority (for postal services)
OECD	Organization for Economic Co-operation and Development
PEC	Private Equity Company
PL	Poland
Plc	Public Limited Company
PM	Prime Minister
PPI	Producer Price Index
PPP	Purchasing Power Parities
PPS	Purchasing Power Standard, developed and updated by OECD/Eurostat
PT	Portugal
PTS	Swedish national regulatory authority (Post- och telestyrelsen)
PUDLV	Post-Universaldienstleistungsverordnung
QoS	Quality of Service
Reserved. corr.	Reserved items of correspondence
Res. servs.	Reserved services
RO	Romania
ROI	Return on investment
resp.	Responsibility
SE	Sweden
SI	Slovenia
SK	Slovak Republik
SMEs	Small and Medium-sized Enterprises
SPI	Swiss Post International
SSC	Second fastest standard category
TEMO	Swedish market research agency
Thou	Thousand
TNT	TPG Post
TR	Turkey

UK	United Kingdom
UKP	British pound
UNEX	Unipost External Monitoring System
univ.	Universal
UPS	United Parcel Service
UPU	Universal Postal Union
US	(Postal) Universal Service
USLic	Universal Service Licence
USO	Universal Service Obligation
USP	Universal Service Provider
VAT	Value Added Tax
vzbv	Verbraucherzentrale Bundesverband
WAZ	Westdeutsche Allgemeine Zeitung
WIK	WIK-Consult
yr	Year

Abbreviations – Country Code

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary
IE	Ireland
IS	Iceland
IT	Italy
LI	Liechtenstein
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovak Republic
TR	Turkey
UK	United Kingdom

1 Executive Summary

The Changing Postal Sector

The role of postal services is evolving substantially. Postal services today find themselves at the crossroads of three markets important for economic development: communication, advertising, and transportation. Due to considerable technological developments in electronic communications postal activities are continuously shifting from two-way communication services to advertising and transportation services.

The postal sector—encompassing letter post, parcel and express services—is of high importance for the Community's economy:

- The overall size and composition of the European postal sector has changed little since 2002.
- Postal services in the EU earned about 90 billion EUR in 2004 or 0.9 percent of the gross domestic product (GDP). The postal sector makes a significant direct contribution to the EU economy. We estimate its direct contribution to EU GDP to be about 37 billion EUR or 0.4 percent.
- The letter post submarket accounts for about 60 percent of all revenues from postal services. The parcel and express segments account for the remainder.
- Postal services employed about 1.6 million persons accounting for 0.8 percent of all jobs in the European Union.

But the postal sector today is not the same it was ten years ago:

- In nearly all Member States traditional postal administrations have been replaced by universal service providers that are increasingly commercially minded and customer-oriented. They are challenged by new entrants in their parcel and express business and, more recently, in their letter post business. The Single Market for express and parcel services has become a reality for the business world and emerges in the consumer world, too.
- Corporatization and privatization of former postal administrations have made considerable progress and support the commercialization of the postal business. Financially strong private equity companies appear as new players in the market backing medium-sized universal service providers and, sometimes, competitive postal operators.
- Market opening has gained momentum. However, competition does not emerge smoothly: National regulatory and competition authorities are increasingly engaged

in complaints dealing with abusive behaviour of universal service providers who still dominate the national letter markets.

- The role of letter post continues shifting from two way correspondence to a medium for one way information: While the overall demand for letter post largely remained stable since 2002 direct mail is significantly growing. Electronic substitution of transaction mail (e.g. bills) has not occurred to the extent forecasted before 2000.
- Due to technological developments and increasing cost awareness of postal customers the traditional postal value chain – collection, sorting, transport, and delivery of addressed postal items – is increasingly confronted by processes of both disintegration and extension into related activities. Information technology, high speed telecommunication and data services, and centralization of printing devices make it possible to substitute all traditional postal activities except for the final delivery. Consequently, the limits between postal and other services are blurring. In order to promote dynamic development of the postal sector, postal regulation needs to take into account this wider context of postal services in the Community economy.
- These developments have not derogated postal universal service. In contrast, reliability of postal delivery has improved especially in the new Member States and a dense network of postal outlets—post offices and postal agencies—guarantees customer-friendly access to postal universal service.

At Community level many promising developments have emerged which relate to the regulatory framework for European postal services: the discussion on services of general economic interest, the creation of an Internal Market for services, the modernization of antitrust procedures, the reform of public procurement procedures and the discussion on public private partnerships, the reform of EU state aid control with respect to services of general economic interest, and recent developments in the application of VAT on postal services. These initiatives commonly aim at increasing transparency and efficiency, supporting legal certainty, and establishing a level playing field to the extent possible while safeguarding universal service provision and protecting consumers' and customers' rights.

2006 is a very important year for European postal policy. The Commission will publish a prospective study which assesses, for each Member State, the impact on universal service of the full accomplishment of the postal internal market in 2009. Based on the study's conclusions, the Commission is to submit a report to the European Parliament and the Council accompanied by a proposal confirming, if appropriate, the date of 2009 for the full accomplishment of the postal internal market or determining any other step in the light of the study's conclusions. Simultaneously, the Commission will submit a third application report to inform about developments in the sector, particularly concerning

economic, social, employment and technological aspects as well as quality of service aspects.

This study was initiated by the European Commission for the purpose of gathering information for its third biennial report on the application of the Postal Directive due at the end of 2006. This report summarizes regulatory and market developments in the European postal sector since adoption of the Postal Directive in 1997, with particular emphasis on events since the last major survey of the sector in 2004.¹

Regulatory Developments

Evolution of the regulatory framework

The rapid evolution of Community postal legislation set in motion by the Postal Directive is continuing and will continue in the near term.

- A wave of new postal laws was engendered by the accession of ten new Member States in 2004.
- Since 2004, new or substantially amended postal laws have also been adopted in Austria, Denmark, and France. Estonia, Lithuania, the Netherlands, and Spain, among others, are presently planning new postal laws.
- Many Member States are planning new secondary legislation, especially in the areas of price regulation and accounting.

Application of the Postal Directive in Member States depends in part on how regulatory responsibility is allocated among governmental bodies. Ideally, economic and administrative determinations should be vested in the most impartial and expert authorities available while respecting the need for politically attuned bodies to set broad policy objectives. A review of regulatory responsibilities suggests substantial progress towards this ideal (with some anomalies), while also suggesting that overall the postal sector remains exceptionally subject to political control.

Nonetheless, European governments are rapidly withdrawing from direct control and ownership of public postal operators.

- About 71 percent of the EU letter post is now handled by corporatized public postal operators. About 29 percent is carried by operators who are not only corporatized but partially privatized as well.
- Since 2004, Latvia, Lithuania, and Slovakia have corporatized their public postal operators.

¹ WIK-Consult (2004), Main developments in the European postal sector.

- The German government has become a minority shareholder of Deutsche Post, reducing its holding from 63 to 42 percent since 2004, and the Dutch government has lowered its stake in TNT from 35 percent to 10 percent. In June 2005, the Danish government sold 22 percent of its public postal operator to a British investment group. In November 2005, Belgium sold 50 percent less one share of La Poste/De Post to a consortium of the same investment group and the Danish USP.
- Austria sold 49 percent of Österreichische Post AG by initial public offering in May 2006.

Universal service

Member States have achieved a high degree of compliance with basic universal service requirements set by the Postal Directive.

- All Member States meet the minimum levels of delivery frequency, nationwide coverage, and access to universal service required by the Directive.
- All Member States have designated the public postal operator (successor to the former postal administration) as the universal service provider (USP). While all USPs are obliged to provide letter mail and parcel service, delivery of newspapers, magazines, and periodicals is part of universal service in half of the Member States.

In some key Member States, however, the future of the universal service obligation is under active discussion:

- Germany is considering exclusion of bulk mail services from the universal service obligation, following the Dutch example.
- Germany and the Netherlands will probably not designate the public postal operator as the universal service provider in a fully liberalized market.
- The United Kingdom has removed most bulk mail services from the universal service obligation.

In all Member States USPs are free to make use of less costly postal agencies, while in most Member States USPs still face regulatory obstacles if they seek to close post offices. In Germany, the current detailed access requirements to universal service are being reconsidered.

Reserved services and special rights

In the last two years, the most significant development with respect to the reserved area has been the firming up of plans to continue repeal in three Member States (DE, NL, UK). It now appears likely 60 percent of the EU letter post will be effectively liberalized by the end of 2007.

As a result, as a practical matter, the majority in the Community, measured by the volume of letter post affected, has swung in favor of liberalization, rather than reservation, as the best strategy for ensuring an efficient universal service. It is now evident that the Single Market in postal services envisioned in the Lisbon Strategy is an achievable goal.

Nonetheless, to complete the Single Market and ensure undistorted competition it will be necessary to review the special legal rights enjoyed by USPs in addition to the reserved area.

- Value-added tax (VAT) is a particularly important issue; although five Member States (ES, FI, LV, SE, SI) apply VAT equally to public and private operators, most give the USP the benefit of an exemption from VAT for all universal services or even for all postal services.
- The cost of capital is a significant cost of doing business in the postal sector; favourable treatment of USPs may distort competition in some Member States but this issue has received little attention in most Member States.
- Differential application of customs procedures has the potential to distort significantly the operation of liberalized postal markets. In many Member States, special customs procedures developed by the Universal Postal Union are only available to USPs for currently competitive products such as parcels and express services. The potential for competitive distortions arising from unequal customs treatment will increase with full liberalization.
- The USP's unique access to the public postal network may pose a threat to the undistorted operation of the market in some Member States. While most Member States have not legally mandated access to the constituent elements of the public postal network, a consensus seems to be emerging that the NRA should ensure an appropriate level of access to post office boxes, address databases, and the ability of the USP to ensure the return of misaddressed mail to the sender. Some Member States have granted the NRA authority to require downstream access to the public postal network under appropriate circumstances (DE, DK, FR, HU, PT, SI, UK). So far, mandatory downstream access to sorting facilities of universal service providers has been implemented in two Member States (DE, UK).
- By a slight majority, Member States provide the USP special rights to locate mail collection boxes along public roads.

Authorization of postal operators

Within the universal service area, the authorization procedures of the Postal Directive have given Member States a more flexible way of regulating services within the

universal service area and thus have helped pave the way for liberalization. The overall picture is positive, but not wholly so.

- Five Member States, accounting for about two-thirds of the EU letter post market, have imposed a more light-handed but still significant control on segments which had originally been reserved (DE, FR, PL, SE, UK).
- Authorization procedures have not been used to a significant extent in about 12 percent of the Community market (AT, CZ, DK, IE, NL, SI, SK).
- In many Member States authorization procedures have included obligations on postal operators that exceed what is envisioned by the Directive (CY, DE, FI, FR, GR, HU, LT, PL, PT, SE, UK).

Outside the universal service area, in nine Member States accounting for almost 80 percent of the Community postal market, postal operators provide services outside the universal service area without any authorization procedure (CZ, DE, DK, FI, FR, NL, SE, SI, UK). Generally light-handed procedures prevail in the remaining 20 percent of the Community, but there are a few possible problems due to imposition of excessive obligations, failure to permit an immediate start to operations, and lack of non-discriminatory treatment (EE, IE, IT, LU, PL, PT).

Nine Member States have authorized creation of a universal service fund (BE, CY, DE, ES, FR, GR, IT, PT, SI), but only one Member State has actually done so (Italy). Even in this case, it appears that the economic needs and requirements for such a fund were not closely scrutinized. More generally, the precise role, purpose, and financing of the universal service fund in the current Directive are not clearly specified.

Regulation of the prices of universal services

Article 12 of the Postal Directive implies a detailed and sophisticated regime of price regulation to ensure that “for *each of the services* forming part of the provision of the universal service” prices are “geared to costs”, “transparent and non-discriminatory”, and “affordable”. In principle, almost all Member States regulate the rates of all universal service products, although some Member States limit price controls to reserved (HU, LU), single-piece (BE), or market dominant (CY, DE) services. In practice, however, it is questionable whether NRAs have sufficient data to apply the Directive's standards to *each* universal service with objective data and criteria. About half of the Member States require uniform pricing for all universal services, but these states represent only about 17 percent of the EU letter post market. Some of the largest and most progressive Member States are moving towards limiting the uniform tariff requirement to non-bulk mail (DE, FI, NL, SE, UK). France and Hungary limit the uniform tariff to reserved services, while Czech Republic, Ireland, and Italy do not legally require the USP to maintain any uniform tariffs.

In respect to methods of regulation, Member States are developing a creative variety of combinations of ex ante, price cap, and ex post procedures. In nine Member States accounting for about three-quarter of the EU letter post universal service is subject to dual price control regimes (DE, DK, ES, IE, FR, LU, PT, SE, UK), i.e., ex ante and price cap, price cap and ex post, or ex ante and ex post. Dual price control regimes appear to reflect a deliberate decision to suit the method of regulation to the political or commercial risks presented by specific postal products.

Nonetheless, particular problems in the implementation of the pricing controls envisioned by the Directive include the following:

- Regulation of individual agreements and special tariffs appears to be incomplete even though they account for a substantial share of universal service volume. Requirements for individual agreements seem to be unclear or incompletely implemented. With a few notable exceptions (DE, PT, SK, UK), NRAs do not appear to have sufficient data and expertise to ensure that special tariffs comply with the pricing principles of the Directive.
- Only about half of NRAs have conducted more than very infrequent investigations into the prices of universal services. Absence of regulatory activity also raises questions about the level of implementation.
- Although the Postal Directive directed Member States to encourage USPs to bring terminal dues in compliance with the regulatory principles governing other rates for universal services, only a handful of NRAs have addressed these issues (CZ, IE, PT).

Regulation of the accounts of USPs

The regulatory system envisioned by the Directive depends upon the USP maintaining separate accounts, verified by the NRA, for *each* reserved service and, by implication, for *each* non-reserved universal service. This approach has not been fully implemented.

- A significant number of Member States, including some of the largest and most progressive, require separation of product accounts only for reserved services (AT, DE, PL, SI) or for no universal services at all (EE, FR, NL). Without product accounts showing the costs and revenues associated with individual services, it is not possible to ensure that prices are geared to cost or non-discriminatory.
- NRAs generally lack the accounting data required to evaluate whether individual agreements and special tariffs comply with the pricing principles of the Directive, in particular, with the concept of "avoided costs".
- Although about half of the NRAs declare that they have positively reviewed and approved the USP's system for allocating costs to particular services or will soon do

so (BE, CZ, DE, DK, EE, ES, FI, FR, GR, LU, MT, PT, SE, SK), only seven can determine the percentage of postal costs that cannot be assigned to particular services (BE, DK, DE, FR, MT, PT, SK), a critical and seemingly automatic result of a well developed costing system.

The Directive explicitly requires that the accounts of the USP should be independently audited and verified by periodic publication of a "statement of compliance". In about half of the Community, however, the independent auditor is commissioned by the USP and/or the required statement of compliance has not been issued (AT, CY, CZ, ES, FI, FR, GR, HU, IE, IT, LU, LV, LT, SE, UK). More positively, at least six NRAs noted that they have adopted the practice of publishing summary regulatory accounts even though not required by the Directive (DK, HU, IE, IT, LT, MT).

In all Member States except Cyprus, the USP publishes financial accounts in compliance with Community and national legislation.

Quality of service

Quality of service regulation, especially the application of standardized measurement methods, has made considerable progress.

- All Member States have established a quality of service regulation which defines routing time targets for the fastest standard category of universal service. While the Directive requires quality of service targets for all postal universal services only some Member States do so (DK, HU, PT, SK).
- In all Member States the USP is subject to quality regulation. In three Member States licensed competitive postal operators are requested to implement a monitoring system and to publish the results (BE, PT, UK).
- When targets have been set, they have also been monitored and the results have been published (except for CY, EE, LV). Independent monitoring is now established in most Member States except for EE and LV.

Complaint and redress procedures

In the field of complaints and redress procedures as well, progress is visible.

- In all Member States postal legislation requires the USP to establish complaints and redress procedures.
- In most Member States competitive postal operators providing services within the scope of universal service have also been or will be required to establish a complaints management system (except for NL).

- For complaints not satisfactorily resolved by the USP, mediation procedures have been implemented in nearly all Member States (except for SI).
- Publication of the number of complaints and the manner how they are dealt with is organized differently among the Member States; in many Member States only a subset of complaints is subject to publication.

National regulatory authorities

The Community devotes substantial resources to the regulation of postal services although it may be questioned whether the regulatory apparatus is as efficient as it could be.

- In 2005, it may be estimated, the Community spent more than € 37 million on postal regulation and NRAs employed more than 300 persons.
- Community regulatory resources are distributed unevenly among the NRAs, and some NRAs appear to lack sufficient resources. Moreover, allocation of regulatory resources between large and small Member States appears less than optimum. For example, small and very small Member States employ about 28 percent of EU regulatory personnel to regulate about 4 percent of the Community market in terms of letter post volume.
- Responsibilities with regard to postal regulation allocated to the NRAs differ considerably between Member States. In most Member States NRAs do not have the authority to decide on major determinants of the regulatory framework. Notable exemptions are the regulatory authorities in CZ, DK, SK, and UK. In contrast, administrative tasks are mostly vested exclusively to NRAs. AT, ES, IT, and to some extent NL have allocated less tasks to their NRAs than the other Member States.
- In most Member States national competition authorities are responsible for the enforcement of competition rules in the postal sector. Notable exemptions are UK Postcomm and the German Bundesnetzagentur who have already been engaged in competition cases. Generally, regulatory and competition authorities should share information. Actually, about half of the regulatory authorities report that they do so.

Independence of the NRA is vital to the functioning of the Community regulatory framework for postal services but difficult to evaluate in practice. While Member States have done a reasonably credible job so far of conferring independence on NRAs, there are features of the current system that could raise doubts in the mind of a reasonable observer. For example, in at least three Member States (AT, ES, IT), the NRA appears to be an office within a ministry rather than an agency with genuine institutional independence. In others, the heads of the NRA appear to have no statutory protection against dismissal and/or labour under the handicap of short terms of office. Some NRAs appear to lack basic authority to collect information or enforce their orders.

Sector developments

Competition development – letter post services

Competition is developing at different rates in the main segments of the letter post market: correspondence, direct mail, and newspapers, magazines, and periodicals. In most cases, the pace is driven largely by the market opening strategy of the Member States. Competitors providing end-to-end services are often backed by USPs (TNT and Deutsche Post in several Member States, and Norway Post in Denmark and Sweden), publishers (in Austria, France, and Germany), and in one case by a private equity company (Sandd, in the Netherlands).

- In only one of the three fully liberalized Member State, Sweden, the market share of the USP is continuously declining. Ten years after market opening, the most important private operator, Citymail (owned by Norway Post), has a market share of more than 8 percent. In Estonia and Finland competition has not emerged because of restrictive licence conditions and taxation.
- Currently, Spain appears to be the Member State with the highest level of actual competition in the letter post market because letter post services within cities are historically free for competition.
- In Member States where addressed direct mail or printed matter is open for competition (AT, CZ, IT, NL, SI), significant competition in these segments has emerged in at least three countries (CZ, IT and NL).
- Germany and the United Kingdom are the only Member States where significant parts of the postal market are open to competition and where consolidation services based on mandatory downstream access have been established. Experience in these countries shows that the type of market entry (end-to-end or consolidation services) is at least partly shaped by regulatory decisions.
 - The United Kingdom opened end-to-end delivery services for bulk mail first but this step produced very limited market entry for end-to-end letter services. In Germany, a standardized licensing regime and an exemption of letter services distinct from universal services have produced a fragmented market place with numerous small and medium-sized postal service providers.
 - In the U.K. consolidation services and the possibility of downstream access at lower rates have emerged in 2005. These services were new for competitive postal operators and customers alike. In Germany, Deutsche Post granted network access to large customers since 2000. Although private companies have recently won the right to downstream access they are finding it difficult to attract large mailers who now have long established business relations with

Deutsche Post. The winners of emerging consolidation services in Germany are medium-sized mailers who now benefit from discounts.

- Price level and structure have shaped the development of competition. Relatively low public postal tariffs linked with a large spread between public and access tariffs have considerably reduced the incentives to establish an alternative nationwide delivery infrastructure in the U.K. In Germany, relatively high public tariffs linked with a small tariff spread have set strong incentives for investments in alternative delivery infrastructures with focus on items of correspondence.

Emerging end-to-end competition and upstream competition are increasingly subject to review under competition laws.

- In five Member States (AT, DE, ES, IT, SE), USPs have been subject to competition cases because of abuse of dominant position in the delivery of addressed postal items.
- The Danish competition authority has confirmed that the USP has abused its market dominant position in the distribution of unaddressed items.
- The British Royal Mail, French La Poste and German Deutsche Post have been subject to competition investigations regarding consolidation services and third party access.

These experiences suggest that there is a considerable need for strict competition control in the transition period when formerly monopolistic markets turn into competitive markets. The development set in motion by the Modernization Directive will promote the consistent application of Community competition rules.

Competition development – parcel and express services

In contrast to the letter post segment, the parcel and express markets are much more competitive at both national and European levels.

- The business-to-business consignments are the most competitive segment. The Single Market has been broadly realized for these services. DHL, TNT, UPS, GLS, and DPD are the most important parcel and express service providers in the Community (all except for UPS are owned by USPs).
- Recently, the European parcel and express service providers have been extending their business proposals more and more to small and medium-sized mailers of parcels, notably DHL, GLS and UPS.

- B2C and C2C parcel services, which are to large extent domestic services, appear to be dominated by national USPs in most Member States. However, competition in the B2C segment has been emerging (DE, FR, UK), and even in the C2C segment successful market entry can be observed in one Member State (DE), benefiting consumers and small mailers with well-priced parcel services.

USPs' development

Increasing competition and the prospect of complete market opening have affected the strategies of the national postal operators.

- The USPs have continued to turn into flexible commercial organizations.
- Privatization has made important progress. Private equity companies have appeared as new investors in the postal market acquiring stakes of medium-sized USPs (BE, DK). Their entry indicates that business prospects in the postal sector are positive.
- The business strategies of medium-sized USPs have been mixed. While some have continued to focus on national markets (BE, ES, IT), others have been building regional logistics networks, notably the Scandinavian and recently the Austrian USPs. Small USPs have been focusing on national business (including international mail, like MT, LU).
- Most small and medium-sized USPs have established cooperative relations with international or European parcel and express service providers.
- Merger and acquisition activities have slowed down. In the parcel and express segment, acquisitions took place predominantly in new Member States. In the letter post segment, USPs have most commonly acquired companies with a focus on upstream activities or distribution of unaddressed items.

For most USPs, finances have improved considerably in recent times.

- The average annual growth rate of the USPs' total revenues was 3.7 percent from 2002 to 2004. Overall, USPs have continued to grow in terms of revenues, although at a slower pace than in previous years (which had largely been due to external growth following intense merger and acquisition activities by the largest USPs). USP revenues totalled 112 billion Euro in 2004. Eighty percent was derived from postal services while half of total revenues came from letter post services (including distribution of unaddressed items).
- In 2004, all USPs except for the Latvian USP were profitable even though profit margins differed. The letter post business appears to be the main source of profit in most cases. In some Member States, financial services are becoming an important

component of USP profitability (DE, IT). The parcel and express businesses of USPs have generally achieved lower profit margins than the letter post business.

- Since 2002, USP employment (headcount) has slightly decreased (by 0.7 percent). Simultaneously, the share of part-time employment continued to rise. While USP employment appears to be largely stable at Community level, employment trends differ from Member State to Member State reflecting the different reorganization and modernization activities of USPs. The number of civil servants decreased at a considerably higher rate than total employment, by about 10 percent since 2002.
- Pension obligations for former and currently employed civil servants have largely been transferred to the State, leaving limited liabilities for USPs. Only in UK does the USP face financial risks due to an unbalanced pension system (although Postcomm accounts for these extra costs in price control decisions).

Demand for postal services

Total letter post volume increased slightly since 2002.

- The domestic letter post volume in the EU rose from roughly 89 billion items in 2002 to 90 billion items in 2004. The three largest USPs have still more than 60 percent of the EU letter post.
- The growth of letter post is much weaker than GDP growth. This is most obvious in the new Member States, where letter post grew at a lower rate than the economy.
- The Scandinavian USPs (except for FI), and the Dutch USP lost considerable volumes between 2000 and 2005 while other USPs achieved positive growth rates (at least after 2002).
- Addressed direct mail has been growing faster than the economy (6 percent per year) while the growth rate of unaddressed items distributed by USPs has been impressively high with more than 30 percent per year.
- We estimate that about one-third of all unaddressed items in the Community are distributed by USPs or their subsidiaries.
- There are no common trends in the development of first and second class postal items. It appears that in Scandinavian Member States the share of second class items has been increasing, while it has been decreasing in southern Member States. In southern Member States and the new Member States, first class services are far less important than second class services.

- The growth rates for newspapers, magazines, and periodicals distributed by USPs are mixed. Some USPs achieved high growth rates (e.g., AT, FI, and SI), and others lost considerable volumes (notably CZ, IT, and SK).

On average, NRAs and USPs expect letter post volumes to remain largely stable over the next five years. Virtually all parties expect direct mail volumes to grow. Expectations concerning correspondence vary substantially between Member States but are generally less optimistic than for direct mail. For all segments, expectations are remarkably more optimistic in Member States with lower current volume levels than in more developed postal markets.

As direct mail volumes continue to grow, the role of letter post continues to shift away from two-way communications and towards one-way distribution.

- The business to consumer (B2C) segment of the letter post accounts for 62 percent of total volume, up from 60.5 percent estimated in 2004.
- More than 87.5 percent of letter post items are sent by businesses and organizations rather than individuals.
- About 72 percent of letter post items weigh less than 50 grams, and only about 7 percent weigh between 50 and 100 grams. These findings imply that the reduction of the weight limit for the maximum reservable area to 50 grams in 2006 has had a relatively minor effect in terms of volumes.

In the past electronic substitution of mail has taken place much more slowly than forecasted, but it is possible that future generations will use electronic services much more intensely than previous generations.

- Letter post developments show that addressed direct mail is not subject to electronic substitution. Individual correspondence and transaction mail are more susceptible to substitution.
- The experience of Scandinavian countries and the Netherlands, all of whom have extremely high internet penetration rates, suggest that substitution of physical correspondence may become more important in the future.

Price performance

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

- The basic tariff for a 20 gram letter sent by the fastest standard category of universal service ranges from € 0.16 to € 0.65. Adjusting for differences in purchasing power, tariffs range from € 0.23 to € 0.90.

- In nominal terms, the basic letter rate increased in 20 Member States from 2000 to 2005. In inflation-adjusted terms, rates increased in 15 Member States. Substantial tariff increases took place in the new Member States; most importantly in Hungary, Poland, and Slovenia.
- Public tariffs levels, however, may mask reductions in the average price of postal services, realized in the form of deeper or more abundant discounts for large users. Discounts for direct mail, and to lesser extent for bulk correspondence, are widely used in most Member States and appear to be largest in Western and Northern Member States.
- By contrast, some USPs in Central Eastern Europe have recently introduced a first class category to increase average revenue per piece—thus downgrading existing standard service to become second class.

Public tariffs for parcels have continued to increase substantially.

- In the period 2000 to 2005, public parcel tariffs increased in 17 of 22 Member States for which information is available. In 11 Member States, public parcel tariffs increased by more than 5 percent per year on average.
- Here too, increases in public tariffs do not necessarily indicate increasing overall price levels since decreasing tariffs for business senders may have had an opposite effect.
- For both domestic and cross border universal service parcels, public tariffs vary very significantly between Member States.

Development of universal service

The number of post offices has remained fairly stable since 2002.

- In the Community as a whole, the overall number of postal outlets decreased by 1.9 percent between 2002 and 2004. The number of postal agencies decreased more than the number of post offices, a decrease due mainly to closures of postal agencies in DE and UK.
- The development of postal outlets varied between Member States. USPs with a density of postal outlets higher than 2.5 per 10,000 inhabitants have closed relatively more postal outlets (e.g., HU, IE, PT, UK).

Intra-Community transit times between EU-15 Member States seem to have reached a plateau in 2005. The USPs of the new Member States started participating in the new system called UNEX 2005. The UNEX monitoring does not yet include all flows from

and to the new Member States. IPC plans to reach full coverage in 2007. Considerable progress has been made concerning domestic D+1 transit time performance.

- AT, CY, FR, GR, and HU have considerably increased their performance. Except for Austria, however, they still fall short of regulatory transit time targets.
- 15 USPs, two more than 2002, deliver more than 90 percent of FSC the next working day. 6 USPs deliver less than 80 percent of FSC the next working day (CY, FR, GR, IE, and LT).

Specific policy issues

This chapter has considered the extent to which the recent market and regulatory developments identified in the report have effected the development of USPs, universal service requirements, and universal service provision:

- So far, market opening (or the threat of competition) appears to have had positive effects on the financial position of USPs. Those USPs facing liberalized conditions have increased cost efficiency most considerably.
- The modernization process has been accompanied by considerable improvements in quality of service and reliability of postal services. USPs in the new Member States—that had started later in the modernization process—have made considerable progress in increasing transit time performances. Furthermore, they have increased postal tariffs significantly and become profitable.
- Postal legislation appears to grant USPs more commercial flexibility in Member States that have liberalized their markets more vigorously. This flexibility relates in particular to access requirements and use of postal agencies and may also be manifested in less strict uniform tariff requirements and quality of service targets.
- Less strict regulation of universal postal services in these Member States, however, does not seem to have had a negative impact on quality of service in terms of routing time. USPs are looking for ways to tackle the challenges arising from competition but also from electronic substitution. It appears that saving on quality of postal services is counter-productive to USPs competitiveness.

Recommendations

As we have observed, the Postal Directive has been a notable success. Member States have introduced a long list of new postal laws and regulations to implement the requirements of the Directive. Since 1997, Member States have made great strides in bringing their practices in line with the norms of the Directive. On the ground, there have been "a number of significant improvements notably as regards quality of services,

improved business efficiency, and the separation of regulators from operators".² The European Union has become a world leader in the modernization of postal markets.

Since the last report on main developments in the European postal sector (2004) the Postal Directive has not changed and the recommendations provided in that study have been widely confirmed in this report. Taking into account the findings of this study, we respectfully offer the following recommendations for consideration as possible improvements in the regulatory framework for postal services:

1. Confirm January 1, 2009, as the date for full liberalization.
2. Support Member States to create a "level playing field" for all providers of postal services.
3. Limit authorisation procedures to general authorisations for postal services within the universal service area and define more clearly the types of conditions that may be attached.
4. Clarify the purposes and requirements of a universal service fund and other measures necessary to ensure universal service.
5. Sector-specific price and accounting regulation should be carefully focused, clearly justified, and reduced to the minimum necessary to meet public interest objectives.
6. Transparency and financial penalties for inadequate service quality should be continued or even extended.
7. Consumer protection provisions should be extended to give the NRA authority to address multi-operator environments.
8. The powers, duties, and institutional arrangements of NRAs should be more clearly specified, and the overall regulatory burden in the Community should be shared more equitably by encouraging cooperation among NRAs and establishing a Community-level committee of NRAs.

² Commission of the European Communities (2005a), Report from the Commission to the Council and the European Parliament on the application of the Postal Directive, p. 2.

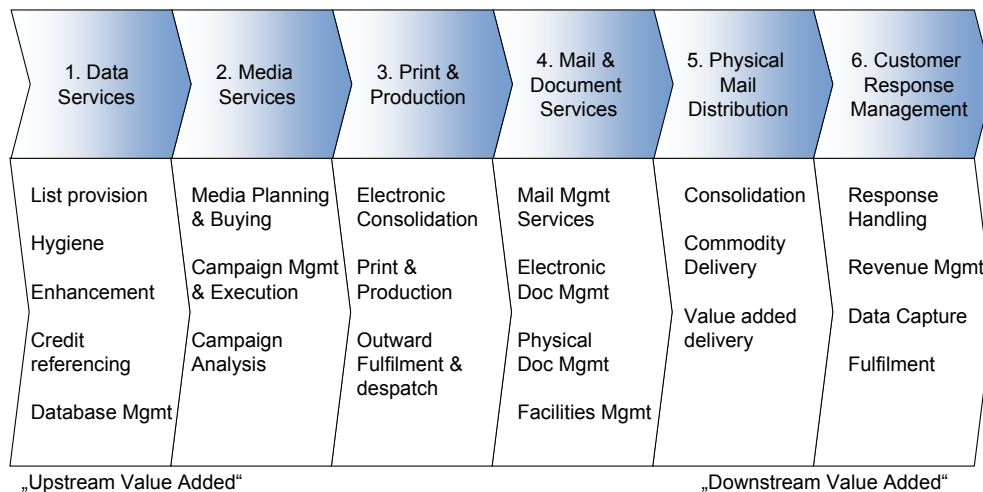
2 Introduction

2.1 Changing role of postal services

The role of postal services is evolving substantially. Postal services today find themselves at the crossroads of three markets important for economic development: communication, advertising, and transportation. Due to considerable technological developments in electronic communications postal activities are continuously shifting from two-way communication services to advertising and transportation services.

Furthermore, the traditional postal value chain – collection, sortation, transport, and delivery of addressed postal items – is increasingly confronted by processes of both disintegration and extension into related activities. Information technology, high speed telecommunication and data services, and centralization of printing devices make it possible to substitute all traditional postal activities except for the final delivery. Thus, mailers and an increasing number of service providers (e.g. mailing houses) take over traditional postal activities. Universal service providers and – where allowed – competitive postal operators have started extending their business into the activities of their mailers (e.g. mailroom and document management) in order to meet these challenges. Consequently, the limits between postal and other services are continuously blurring.

Figure 2.1.1 The mail industry value chain



Source: Walsh, T. (2006), The European mail manifesto, Figure 1.1.

The discussion of European postal policy usually focuses on the universal service providers and the provision of universal service. As shown above both elements are not isolated from the rest of the economy. How universal postal service and universal service providers are regulated has a strong impact on the development and shaping of the potential activities illustrated in Figure 2.1.1. The role of postal services becomes more and more important in economies characterized by manifold insourcing and outsourcing activities of non-core businesses. This development would be further promoted when allowing for downstream access and consolidation services. Mailers, especially large mailers, make increasingly use of service providers taking over tasks like mail design, printing and mail preparation. Medium-sized and small business mailers would benefit from emerging consolidation services. These developments provide additional business opportunities for new and existing companies including the universal service providers. To what extent these opportunities can evolve and be deployed largely depends on the current and future design of postal regulation.

2.2 Developments in Community legislation affecting the European postal sector

Meeting in Lisbon in 2000, the European Council adopted a commitment to transform the Community into “the most competitive and dynamic knowledge-based economy in the world” by 2010.³ The Council emphasized the importance of “an inexpensive and world-class communications infrastructure” including full use of the digital technologies such as internet and mobile communications.⁴ Looking beyond the digital world, the Council stressed the need accelerate “the process of structural reform for competitiveness and innovation and by completing the internal market” and to promote a “a regulatory climate conducive to investment, innovation, and entrepreneurship”.⁵ At Meeting in Brussels in 2005, the European Council has launched a renewed Lisbon strategy with an extended focus on social issues.⁶ The Commission continues to stress the importance of completing the internal market including for services, telecoms, energy, and financial services in order to tackle the challenges emerging from globalization and society ageing.⁷

Internal market strategy and the draft directive on services

In October 2003, the European Council agreed that the internal market for services should be completed to improve the competitiveness of the European economy and create conditions conducive to growth and employment. It called upon the Commission

³ Lisbon European Council (23-24 Mar 2000), Presidency Conclusions § 5.

⁴ Lisbon European Council (23-24 Mar 2000), Presidency Conclusions § 9.

⁵ Lisbon European Council (23-24 Mar 2000), Presidency Conclusions §§ 5, 14.

⁶ Brussels European Council (22-23 Mar 2005), Presidency Conclusions § 4-41.

⁷ Communication from the Commission on European values in the globalised world (COM(2005) 525 final, 20 October 2005), p. 13.

to present any proposals necessary ‘to complete the internal market and to fully exploit its potential, to stimulate entrepreneurship and to create a true internal market in services, while having due regard to the need to safeguard the supply and trading of services of general interest’.⁸

In March 2004, the Commission proposed a directive to promote development of the internal market for services.⁹ The Commission declared that the overall goal of the directive was to progress towards the goal of the Lisbon European Council.¹⁰ To this end, establishment of a genuine internal market in services was deemed “indispensable”. This goal, in turn, would be accomplished by adoption of four regulatory strategies:

- *Eliminate obstacles to free establishment of services.* Eliminate obstacles to the free establishment of services in Member States by laying down principles for authorization regimes, prohibiting restrictive practices, and providing for simplified access to regulatory authorities.
- *Eliminate obstacles to free movement of services.* Allow a service firm to operate across borders subject to the law of the Member State in which it is established (‘country of origin’ principle) unhindered by restrictions on or discriminatory treatment by recipients.
- *Establish mutual trust between Member States.* Foster cooperation and harmonization between the regulatory authorities of Member States and promotion of agreed standards for quality of service and other conduct.
- *Employ dynamic approach.* Phased implementation with a commitment to additional measures in the future.

In April 2006 the Commission submitted an amended proposal for a directive on services in the internal market.¹¹ The Commission has taken into account a considerable number of objections articulated by the Council and the European Parliament.

⁸ Brussels European Council (16-17 Oct 2003), Presidency Conclusions at 6.

⁹ Proposal for a Directive of the European Parliament and of the Council on Services in the Internal Market, COM(2004) 2 final/3 (5 Mar 2004).

¹⁰ Proposal for a Directive of the European Parliament and of the Council on Services in the Internal Market, COM(2004) 2 final/3 (5 Mar 2004) at 3.

¹¹ Amended proposal for a Directive of the European Parliament and the Council on services in the internal market (COM(2006) 160 final of 4 April 2006).

In the explanatory memorandum the Commission listed the objectives of this amended proposal:¹²

- “Improve the basis for economic growth and employment in the EU.”
- “Achieve a genuine Internal Market in services by removing legal and administrative barriers to the development of service activities.”
- “Strengthen the rights of consumers as users of services.”
- “Establish legally-binding obligations for effective administrative co-operation between Member States.”

Most services of general economic interest, i.a. postal services, would be subject to most of the requirements of the amended proposal.¹³ They are, however, explicitly exempted from the application of Article 17 dealing with the freedom to provide services. Rules established by sector specific regulatory frameworks like the Postal directive would in any case override the requirements of the services Directive (e.g. on authorization schemes). Nonetheless, some items of the Services Directive such as consumer rights and administrative co-operation between Member states could offer some inspiration for the postal sector.

Postal services as part of services of general economic interest (2003)

With respect to infrastructure services, the Council called for efforts to “speed up liberalization in areas such as gas, electricity, *postal services*, and transport. The aim is to achieve a *fully operational internal market* in these areas.”¹⁴ The Council urged redoubled efforts “to simplify the regulatory environment, including the performance of public administration” and “efforts to promote competition and reduce the general level of State aids”.¹⁵ At the same time, the Council noted that: “The European Council considers it essential that, in the framework of the internal market and of a knowledge-based economy, full account is taken of the Treaty provisions relating to *services of general economic interest*, and to the undertakings entrusted with operating such services.”¹⁶ To this end, the Council asked the Commission to update an earlier analysis of services of a general economic interest.

In response to the public consultation following the publication of the white paper in 2003, the Commission dropped the idea of a directive on services of general economic

¹² Amended proposal for a Directive of the European Parliament and the Council on services in the internal market (COM(2006) 160 final of 4 April 2006), p. 2.

¹³ Amended proposal for a Directive of the European Parliament and the Council on services in the internal market (COM(2006) 160 final of 4 April 2006), p. 3: “[...] Services of General Economic Interest fall within the scope of application of the Directive because these services are of an economic nature.”

¹⁴ Lisbon European Council (23-24 Mar 2000), President’s Conclusions § 17 (emphasis added).

¹⁵ Lisbon European Council (23-24 Mar 2000), President’s Conclusions § 17.

¹⁶ Lisbon European Council (23-24 Mar 2000), President’s Conclusions § 19.

interest. Instead, in a white paper issued in May 2004, the Commission articulated eight 'guiding principles' that it would follow in addressing the regulation of services of general interest in the future and orientations that it would adopt in the implementing of these guiding principles.¹⁷ More specifically, they provided as follows:

- 1) *Enabling public authorities to operate close to the citizens.* Community measures should be limited to areas that, like the large network industries, have a clear Europe-wide dimension and present a strong case for defining a European concept of general interest.
- 2) *Achieving public service objectives within competitive open markets.* The objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest are generally compatible.
- 3) *Ensuring cohesion and universal access.* Access of all citizens and enterprises to affordable high-quality services of general interest throughout the territory of the Member States is essential for the promotion of social and territorial cohesion in the European Union.
- 4) *Ensuring consumer and user rights.* A high level of consumer and user rights must be ensured. These include in particular the access to services throughout the territory of the Union, affordability, physical safety, security and reliability, continuity, high quality, choice, transparency and access to information from providers and regulators. Implementation of these principles generally requires the existence of independent regulators with clearly defined powers and duties.
- 5) *Monitoring and evaluating the performance.* Systematic evaluation and monitoring is a vital instrument for maintaining and developing high-quality, accessible, affordable, and efficient services.
- 6) *Respecting diversity of services and situations.* The diversity that characterizes different services of general interest and the situations in which they are provided should be given due account.
- 7) *Increasing transparency.* Transparency ensures that public authorities can exercise their responsibilities and that democratic choices can be made and are respected. The principle should apply to all aspects of the delivery process and cover the definition of public service missions, the organization, financing and regulation of services, as well as their production and evaluation, including complaint-handling mechanisms.
- 8) *Providing legal certainty.* Improve legal certainty regarding the application of Community law to the provision of services of general interest.

¹⁷ White Paper on Services of General Interest, COM(2004) 374 final (12 May 2004), parts 3 and 4.

The relevance of this inquiry for postal services is apparent. Even though these conclusions are somewhat imprecise, postal services are a “service of a general economic interest” and the eight guiding principles set out in the white paper are all potentially applicable to postal services to a greater or lesser degree.

Modernization of antitrust procedures (2003)

Stepwise market opening of letter post services is accompanied by an increasing number of competition problems to be dealt with by competent national authorities.¹⁸ Experiences in Member States with more or completely opened postal markets show that the competition problems are the result of the dominant position of the universal service providers mainly borne by existing or formerly existing legal monopolies.

On 1 May 2004, a new system of application of Articles 81 and 82 EC entered into force. The objective of the reform is to ensure an efficient protection of competition in the enlarged Community. The new regulation creates the conditions for a greater involvement of national courts and national competition authorities by making Articles 81 and 82 in their entirety directly applicable. Furthermore, it makes it compulsory to apply Community law whenever the agreement or practice at stake may affect trade between Member States. A network of competition authorities called the ECN (European Competition Network) was set up which is made up of all competition authorities in charge of the application of Articles 81 and 82. It is the framework for the intense cooperation required to ensure a correct case allocation and a consistent application of the rules. The legal instruments for the various exchanges within that network are to be found in Regulation (EC) No 1/2003.¹⁹

This legislation provides the basis for applying Articles 81 and 82 of the Treaty effectively and uniformly in the Community. The competition case dealing with the refusal of Deutsche Post AG to allow for access to consolidators is the first time that these new rules have been applied in the postal sector.²⁰

Public procurement procedures of entities operating in the water, energy, transport and postal services sectors (2004)²¹

Public undertakings providing postal services are subject to the public procurement procedures laid down in the Directives 2004/17/EC and 2004/18/EC. Directive

¹⁸ See section 4.2.1.5 for further discussion of competition cases in the postal sector. An overview of competition cases is provided in Appendix A2.

¹⁹ Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty (OJ L1, 04.01.2003, p. 1).

²⁰ Decision B9-55-03 of 11 February 2005 of German competition authority (Bundeskartellamt) and court decision VI-Kart 3/05 of Oberlandesgericht Düsseldorf.

²¹ Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 on coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors (OJ L134, 30.04.2004, p. 1).

2004/17/EC replaces the Utilities Directive²² and coordinates the procurement procedures of entities operating in the water, energy, transport and postal services sectors. The postal sector has been included within the scope of the public procurement Directives specifically while telecommunication services have been excluded. The second directive consolidates the existing Supplies, Services and Works Directives²³ into one simplified Directive and also takes account of modern procurement methods and developments in best practice. The Directive includes new provisions on central purchasing authorities, new electronic procurement provisions covering such issues as e-auctions and dynamic purchasing systems, framework agreements and also introduces a new competitive dialogue procedure.²⁴ Directive 2004/17/EC and 2004/18/EC shall be implemented by Member States by 31 January 2006. However, according to Article 71, paragraph 1 of Directive 2004/17/EC Member States may avail themselves of an additional period of up to 35 months after expiry of the time limit provided for in the first subparagraph for the application of the provisions necessary to comply with Article 6 of this Directive (this Article covers Postal Services). This is fully in line with the sunset clause of the Postal Directive.

Public undertakings are defined as public or private companies over which the state may exercise directly or indirectly a dominant influence by virtue of their ownership, their financial participation, or the rules which govern it. Private operators which are not dominated by the state but which are subject to exclusive rights granted by the Member State are also subject to this Directive.²⁵ According to Annex IV of the Public Procurement Directive the majority of universal service providers within EU-15 are classified as contracting entities.

Generally, the new public procurement procedures improve transparency and therefore reduce the waste of public money. Indeed, undertakings subject to these rules face an additional administrative burden and less commercial flexibility compared to other commercial entities in the same or other sectors. Therefore, Directive 2004/17/EC also

²² Council Directive 93/38/EEC.

²³ Council Directive 93/36/EEC, the "Supplies Directive"; Council Directive 93/37/EEC, the "Works Directive"; Council Directive 92/50/EEC, the "Services Directive" (apply to public sector contracts).

²⁴ The new competitive dialogue procedure permits a contracting authority to discuss bidders' proposed solutions with them before preparing revised specifications for a tender and going out to bidders asking for modified or upgraded solutions. This process can be undertaken repeatedly until the authority is satisfied with the specifications which it has developed. This procedure is not available for utilities that are covered by Directive 2004/17/EC.

²⁵ Art. 2, 2 b) of Directive 2004/17/EC: "which, when they are not contracting authorities or public undertakings, have as one of their activities any of the activities referred to in Articles 3 to 7 [gas, heat and electricity; water; transport services; postal services; and Exploration for, or extraction of, oil, gas, coal or other solid fuels, as well as ports and airports, the author], or any combination thereof and operate on the basis of special or exclusive rights granted by a competent authority of a Member State."

allows Member States to apply for an exemption, removing from the scope of the Directive any utilities sector that can be shown to be sufficiently competitive.²⁶

Initiative on public private partnerships and Community law on public procurement and concessions (2004)

Public private partnerships (PPPs) are forms of cooperation between public authorities and private companies which aim to meet needs in the general interest. They result in the setting up of complex legal and financial arrangements involving private operators and public authorities carrying out infrastructure projects or services of use to the public. These partnerships have been developed in several areas of the public sector and are widely used within the EU to ensure the provision of services, in particular in the areas of transport, public health, education, public safety, waste management and water distribution.²⁷ This form of partnership may become important for postal services; in an increasingly competitive environment safeguarding universal postal service can also be achieved by public private partnerships in form of service contracts or concessions. Recently, the consultation process on the Green Paper on public private partnership²⁸ have been finished. Based on the results of the consultation process the Commission will continue working on EU initiatives dealing with the award of concessions²⁹ and institutionalized public private partnerships.³⁰

Reform of EU state aid control (2005)

Following the Altmark judgement in 2003³¹ the state aid control for services of general economic interest has been considerably amended. The measures shall ensure that companies can receive public support to cover all costs incurred, including a reasonable profit, in carrying out public service tasks as defined and entrusted to them by public

²⁶ Article 30 "Procedure for establishing whether a given activity is directly exposed to competition" of Directive 2004/17/EC.

²⁷ Press Release IP/04/593 of 4 May 2004.

²⁸ Green Paper on public private partnerships and Community law on public contracts and concessions (COM(2004) 327 final, 30. April 2004).

²⁹ The award of concessions is mainly governed by EC Treaty principles (in particular the principles of transparency, equality of treatment, proportionality and mutual recognition). In contrast, public contracts are subject to the detailed rules of the public procurement directives.

³⁰ Communication from the Commission on public-private partnerships and Community law on public procurement and concessions (COM(2005) 569 final, 15 November 2005).

³¹ Judgment of Court of Justice of 24 July 2003 in Case C-280/00 Altmark Trans GmbH (OJ C226, 20.09.2003, p. 1). In the Altmark judgment the European court of justice fixed a set of conditions that have to be fulfilled to avoid that direct or indirect payments from the government to entities providing services of general economic interest constitute state aid. First, the public service obligation has to be clearly defined. Second, calculating the compensation has to be based on objective and transparent parameters defined beforehand. Third, the compensation must not exceed the net cost of public service provision taking into account a reasonable profit for discharging those obligations. Fourth, "where the undertaking which is to discharge public service obligations is not chosen in a public procurement procedure, the level of compensation needed has been determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with means of transport so as to be able to meet the necessary public service requirements, would have incurred in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations."

authorities, whilst ensuring that there is no over-compensation liable to distort competition.

The Commission Framework³² specifies the conditions constituting public compensation for services of general economic interest as state aid. Compensation that exceeds the costs of the public service is incompatible with the Treaty's state aid rules. The amendment to the Commission Transparency Directive (80/723/EEC)³³ clarifies that companies receiving compensation and operating on both public service and other markets must have separate accounts for their different activities, so that the absence of over-compensation can be checked and undue cross-subsidization can be prevented.³⁴

The postal universal service obligation is not yet subject to a public procurement procedure in any Member State. Therefore, universal service providers who benefit from direct or indirect public payments have to disclose the costs and revenues of public service provision in order to prove that these payments do not constitute state aid. Consequently, they need to have separate accounts as required in the Transparency Directive. While the application of the state aid rules is restricted to public service providers benefiting from direct or indirect payments of public authorities, the requirements of the Postal Directive on accounting separation are mandatory to universal service providers subject to exclusive rights. Insofar the requirements of the Postal Directive go further than the ones of the Transparency Directive. On the other hand postal universal service providers are increasingly active in businesses free for competition and not subject to public service requirements like financial and logistics services. In these cases the Transparency Directive also requires separated accounts to prevent cross subsidization.

VAT on postal services (2003)

Postal services were made VAT exempt from the introduction of the European Community VAT system in the 1970s for two reasons. First, they were seen as part of the state-funded activities in the public interest for which the VAT system has always included a series of exemptions. Furthermore, when the VAT system was established, the postal sector was characterised by monopolies and a limited range of services that were not subject to any competition. A basic principle of the European Community VAT

³² Community framework for State aid in the form of public service compensation (OJ C297, 29.11.2005, p. 4). The Commission Decision of 28 November 2005 on the application of Article 86(2) of the EC Treaty to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ L312, 29.11.2005, p. 67) specifies the conditions under which compensation to companies for the provision of public services is compatible with state aid rules (a clearly defined public service mandate and no over-compensation) and does not have to be notified to the Commission in advance. The Decision is applicable to compensation of less than €30 million per year provided its beneficiaries have an annual turnover of less than €100 million.

³³ Commission Directive 2005/81/EC of 28 November 2005 amending Directive 80/723/EEC on the transparency of financial relations between Member States and public undertakings as well as on financial transparency within certain undertakings (OJ L312, 29.11.2005, p. 47).

³⁴ IP/05/937 of 15 July 2005.

system set out in the Sixth VAT Directive (77/388/EEC) is that each business in the chain charges the tax on the supply that he makes and deducts the tax on the supply that he receives. This means that a business that is exempt from VAT charges no VAT on its supplies but cannot deduct VAT on its costs.

The VAT exemption of postal services has increasingly been distorting competition in stepwise opened postal markets. Furthermore, extending business activities of national postal operators subject to VAT exemption have created additional distortions. For this reason the Commission has proposed an amendment of the Sixth VAT Directive as regards value added tax on services provided in the postal sector in 2003.³⁵ The proposal aimed at introducing VAT on all postal services in order to tackle competition distortions. In order to restrict price increases the proposal allows the Member States to introduce reduced VAT rates on selected postal services. In July 2004 the Commission submitted an amended proposal to the Council and the European Parliament taking the comments of the European Parliament into consideration.³⁶ The scope of postal services which may be subject to a reduced VAT rate has been extended (defined by weight limit which has been increased to 10 kg from 2 kg in the first proposal) and a deadline of the implementation of the new Directive has been defined to give national postal operators enough time to prepare themselves. This amended proposal is still pending.

The European Commission issued on 10 April 2006 a press release IP/06/484 announcing that it is to launch infringement proceedings against Germany, the United Kingdom and Sweden for the manner in which the postal services exemption is applied in those Member States. The Commission notes that, whilst no agreement has been reached on its proposals to modernise the VAT treatment of postal services, it is under an obligation to ensure that the current postal exemption is applied in a way that avoids distortions of competition between former monopolies and market entrants.

The Commission has therefore sent letters of formal notice to these Member States; this constitutes the first step in the procedure under Article 226 EC Treaty. The release recognises that similar issues exist in other Member States and describes these proceedings as test cases. Germany and the United Kingdom present cases where the exemption applies to different sets of services supplied by the former postal monopolies (all Royal Mail products are exempted in the UK; in Germany all universal services but business parcels are exempted). The Commission believes that the former monopolies are in competition with commercial operators for many services with the result that the VAT treatment is distorting competition. In the case of Sweden, no exemption is applied.

³⁵ Proposal for a Council Directive amending Directive 77/388/EEC as regards value added tax on services provided in the postal sector (COM(2003) 234 final of 5 May 2003).

³⁶ Amended proposal for a Council Directive amending Directive 77/388/EEC as regards value added tax on services provided in the postal sector (COM(2004) 468 final of 8 Jul 2004).

Next steps in European postal policy

2006 is a very important year for European postal policy. From 1 January 2006 services may only be reserved for domestic correspondence and incoming cross-border correspondence up to a weight of 50g (or two and a half times the public tariff for an item in the first weight step of the fastest standard category). In 2006 the Commission will publish a prospective study which assesses, for each Member State, the impact on universal service of the full accomplishment of the postal internal market in 2009. Based on the study's conclusions, the Commission is to submit a report to the European Parliament and the Council accompanied by a proposal confirming, if appropriate, the date of 2009 for the full accomplishment of the postal internal market or determining any other step in the light of the study's conclusions. Simultaneously, the Commission has to submit the third application report informing about developments in the sector, particularly concerning economic, social, employment and technological aspects as well as quality of service aspects.

The Commission commissioned the present study in 2005 for the purpose of gathering relevant data and analyses to be used in the preparation of this third biennial report on the application of the Directive in 2006. This study reviews regulatory and market developments in the Member States. Chapters 3 and 4 provide an interpretation and summary of the regulatory and sector information collected in the survey, by desk research or interviews.³⁷ These two chapters offer a compilation of main indicators related to universal service, regulation, postal operators, competition, employment, and social issues. The organization of chapter 3 closely follows the sequence of topics in the Postal Directive. The presentation makes use of diagrams, figures and analytical tables to highlight and compare country-specific outcomes in order to identify "best practices" in relation to the issues considered. Chapter 5 considers the extent to which the recent market and regulatory developments identified in the report shed light on some specific questions, like how market opening has effected the operations and financial position of USPs and how they have responded to a changing regulatory and market environment. Chapter 6 provides recommendations flowing from the preceding analysis.

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

3 Regulatory Developments

This chapter surveys implementation of the regulatory principles of the Postal Directive by the Member States. The chapter begins with an overview of the national postal laws and the allocation of regulatory authority within Member States. The chapter then describes how Member States have carried out the main policies and requirements of the Directive. This discussion is organized under the following headings:

- universal service;
- special and exclusive rights of the universal service provider;
- authorization of postal operators;
- regulation of universal service prices;
- regulation of accounts of universal service providers (USPs);
- regulation of quality of universal service;
- procedures for handling user complaints; and
- establishment on independent regulators.

In this review, we shall highlight best or innovative practices among Member States and identify areas where experience suggests Community policy might be clarified or improved.

3.1 Overview of regulatory framework

3.1.1 Postal laws and secondary legislation

Spurred by the 1997 Postal Directive and its amendment in 2002, as well as by shifting commercial and technological circumstances, postal law in the Member States has evolved rapidly and substantially. In 1997, the average age of the postal law in the 25 countries now comprising the European Union was about 15 years. Today, postal laws in the Member States average 5 years since enactment or major revision. As shown in Table 3.1.1, each Member State has amended or replaced its postal law since 1997; some have done so two or three times.

Table 3.1.1 Evolution of Member State postal laws

MS	Date of current law	Date of law in effect 1997	Amendments since 1997	Directive 1997/67 transposed?	Directive 2002/39 transposed?	EN translation
AT	1997	1957	2	Yes	Yes	No
BE	1991	1991	5	Yes	Yes	No
CY	2004	1960		Yes	Yes	Yes
CZ	2000	1950	1	Yes	Yes	Yes
DE	1997	1969	4	Yes	Yes	No
DK	2004	1995		Yes	Yes	Yes
EE	2001	1991		No	No	Yes
ES	1998	1953		Yes	Yes	No
FI	2001	1993	2	Yes	Yes	Yes
FR	2005	1990	2	Yes	Yes	Yes
GR	1998	None		Yes	Yes	Yes
HU	2003	1992	2	Yes	Yes	Yes
IE	2002	1983	2	Yes	Yes	Yes
IT	1999	1973		Yes	Yes	Yes
LT	2004	1997		Yes	Yes	Yes
LU	2000	1992	1	Yes	Yes	No
LV	2004	1994	4	Yes	Yes	Yes
MT	2002	1975	1	Yes	Yes	Yes
NL	2000	1988	1	Yes	Yes	Yes
PL	2003	1990	12	Yes	Yes	Yes
PT	1999	1988	2	Yes	Yes	Yes
SE	1999	1993	4	Yes	Yes	Yes
SI	2004	1986	4	Yes	Yes	Yes
SK	2003	1950	2	Yes	Yes	Yes
UK	2000	1981	1	Yes	Yes	Yes
Notes: FR: Amendments refer to 1990 postal law. SI: Date of current law is the date of the last amendment of the Postal Act. UK: UK Postcomm negates the transposition of the Directive 2002/39; the Postal Act was amended in 2002 in order to implement the requirements of the Directive (Statutory Instrument 2002 No. 3050, The Postal Services (EC Directive) Regulations 2002). Therefore, the Directive is considered as formally transposed by the Commission.						

Within the EU, transposition of the Postal Directive is almost, but not quite, complete. Most of the new postal laws since 2002 were adopted as part of the process of the accession of ten new Member States in 2004. Seven of the recent postal laws fall into this category (CY, HU, LT, LV, PL, SI, SK). Three of the EU-15 countries have also adopted new postal laws or substantial amendments of their postal laws recently: Austria (2005)³⁸, Denmark (2004), and France (2005). As a result, Directive 97/67 has been transposed by all Member States except Estonia and transposition of Directive 2002/39 in all Member States except Estonia.³⁹

Several Member States have plans for new postal laws in the foreseeable future. Estonia expects to adopt a law in the second half of 2006 that will transpose the Postal

³⁸ This chapter takes into accounts revisions in the postal law of Austria which became effective on 1 March 2006.

³⁹ EEA countries Iceland, Lichtenstein, and Norway have also transposed both directives. Among the candidate countries only Romania has transposed both directives. Bulgaria has transposed the first directive but not the second. Croatia and Turkey have transposed neither.

Directive and introduce a reserved area (Estonia presently has no reserved area). Spain anticipates a new law at the end of 2007. Lithuania will amend its law in the second half of 2006 to complete corporatization of the public postal operator. Latvia is also developing a new law for the second half of 2006. In the first half of 2007, the Netherlands is planning a major amendment that will likely address downstream access, the scope of universal service, and authorization of private operators. In addition, the Netherlands is expected to abolish the reserved area if there is "actual liberalization" in the United Kingdom and Germany.⁴⁰ Poland is planning to corporatize the public postal operator in the first half of 2007. Sweden has recently undertaken a major analysis of its postal law although plans for future legislation are not yet defined.⁴¹ Slovakia expects to abolish its reserved area and revise its postal law in the first half of 2007.

Table 3.1.2 Evolution of Member State postal regulations

MS	Scope of US	Quality of US	Prices of US	Reserved area	Licence or GA	User complaints
AT	2002	2002				
BE	1999	1999	1999			
CY	2004	2005			2005	
CZ	2005	2005		2005	2005	2005
DE	1999	1999	1999			2001
DK	2004	2004	2004	2004	2004	2004
EE		2001	2001			
ES	1999	1999				
FI					1997	
FR		2003	2003			
GR		2000	2003		2003	2004
HU		2004	2004		2004	
IE	2002	2002	2002	2002	2002	2002
IT	2000	2003	2003	2005	2000	
LT		2003	1999			
LU		1999				
LV	2005		2005		2005	2005
MT	2005	2004	2004	2005	2005	
NL	2000	2000	2000	2000		2000
PL		2004				2003
PT		2004	2004		2001	
SE	1994	1994	1994			2001
SI	2003	2003	2004		2003	2003
SK	2002	2002	1996		2002	
UK	2005	2005	2005	2005	2005	2005

⁴⁰ "Actual liberalization" appears to refer to a requirement that the regulatory frameworks in the United Kingdom and Germany give the Dutch public postal operator, TNT, a chance to compete against the public postal operators in those countries that is equivalent to the competitive opportunities which Dutch law affords those operators in the Netherlands. Possible obstacles include different rules relating to downstream access and VAT.

⁴¹ See Sweden, Ministry of Industry, Employment and Communication (2005), Postmarknad i förändring [The Changing Postal Market].

In addition, governments have typically adopted several secondary measures to implement postal statutes.⁴² Table 3.1.2 summarizes the dates when Member States have adopted, or are intending to adopt, secondary legislation addressing key areas of postal policy. This table likewise emphasizes the modernity of the regulatory framework. Almost all secondary legislation dates from 2000 or later. It is also notable that secondary legislation is most often used to define the specifics of universal service and the details of an authorization procedure. The scope of the reserved area, if any, is usually defined by statute. A possible area of concern is that only eleven Member States report secondary legislation dealing with the rights of users and redress of complaints.

Looking to the future, there are noteworthy regulatory measures on the horizon. France is planning to adopt regulations on the authorization of postal operators and the rights of users in the first half of 2006. Italy and the Netherlands also plan to adopt regulations on the authorization of postal operators (in 2006 and 2007, respectively). France and the Netherlands indicated that they intend to reconsider differences in the legal treatment of the universal service provider (USP) and other postal operators. Many Member States plan to revise secondary legislation relating to the scope or quality of universal service (CZ, DE, EE, ES, FR, GR, IT, LV, NL, PT, SI). Eight Member States expect to adopt new regulations on the pricing of universal services in 2006 or 2007 (EE, FR, HU, MT, NL, PT, UK), and in at least three cases (EE, NL, PT) they will address issues posed by special tariffs. Seven Member States will adopt new accounting regulations in 2006 or early 2007 (AT, CY, DK, EE, FR, NL, SI).

Conclusions

The rapid evolution of postal legislation in the EU set in motion by the Postal Directive is continuing and will continue in the near term. A wave of new postal laws engendered by the accession of ten new Member State in 2004 has been followed by new laws in Denmark, France, and Austria and by plans for new postal laws in Estonia, Lithuania, the Netherlands, and Spain, among others. Many Member States are planning new secondary legislation, especially in the areas of price regulation and accounting.

⁴² Since governmental practices vary among Member States, there is no clear distinction between primary legislation and secondary legislation. In this report, the terms "statute" or "primary legislation" refers to a legal measure adopted by parliament or by the head of the government (the president or council) or by the government and parliament acting together (e.g., in Germany and the United Kingdom). "Secondary legislation" or "regulation" refers a legal measure adopted by a minister or lower ministerial official or by the regulator.

3.1.2 Distribution of regulatory authority

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

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

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

Table 3.1.3 Authority determining policy decisions required by the Directive

MS	Frequency of US	Weight limit US parcels	Scope of reserved area	Licence or GA conditions	Need for uniform tariff	QoS standards
AT	C	A	A	A	A	C
BE	A	A	A	ABC	A	B
CY	A	A	A	AD	A	AD
CZ	D	D	AB	A	F	D
DE	B	B	A	A	A	B
DK	D	D	D	D	D	D
EE	A	A	A	A	A	AB
ES	A	A	A	A	A	C
FI	A	A	F	A	A	A
FR	B	A	A	A	A	C
GR	AC	A	C	ACD	A	AC
HU	A	A	A	AB	C	B
IE	A	A	A	A	F	D
IT	A	A	AC	C	A	C
LT	A	A	A	AD	A	C
LU	A	A	A	A	A	B
LV	B	AB	AD	ABD	AD	B
MT	A	AC	AC	AC	AD	AD
NL	C	C	AC		C	C

MS	Frequency of US	Weight limit US parcels	Scope of reserved area	Licence or GA conditions	Need for uniform tariff	QoS standards
PL	A	A	A	A	A	C
PT	A	A	AB	B	AB	AB
SE	A	A	F	AD	AD	AD
SI	A	A	A	AC	A	C
SK	D	D	A	AD	DE	D
UK	AD	D	F	D	AD	D

Key:
A = Postal law includes specific criteria
B = Regulation or decree of Prime; Minister or Council
C = Regulation or decree of Postal Ministry
D = Regulation or licence condition of NRA
E = Discretionary decision of USP
F = None, not applicable
G = Other; use the Notes box to describe

Notes:
CZ Authorization procedures determined by Trade Licensing Act.
FR Quality of service standards set in annual contractual plan between government and USP.

Table 3.1.3 summarizes how Member States have provided for discharge of key policymaking functions required by the Postal Directive. This table reflects the highly political nature of postal services. Most Member States determine most policy issues by direct legislation even though these policies involve difficult technical problems that might be better left to objective experts. To determine the appropriate frequency of service, the decision maker must balance the cost of service against the needs of society. Yet in most Member States, frequency of service is determined by legislation, although there are several exceptions (AT, CZ, DE, DK, FR, LV, NL, SK). The maximum weight of parcels provided universal service is likewise committed to legislation in most cases (exceptions: CZ, DE, DK, NL, SK, UK). Under the Directive, the scope of the reserved area should be no larger than necessary to ensure maintenance of the universal service.⁴³ To administer this "principle of proportionality" would seem to require a sophisticated analysis of detailed accounting data, yet in Member States where there is a reserved area, the basic scope of the reserved area is determined by legislation in all cases but two (DK, GR). The requirements and conditions for postal operators' licenses are likewise often established by legislation. Only five Member States seem to allow a minister or NRA to determine the need for a uniform tariff (DK, HU, IE, NL, SK).⁴⁴ Quality of services standards, however, are more usually committed to the Council or the Postal Ministry (BE, DE, ES, FR, HU, IT, LT, LU, LV, SI) or to NRA (CZ, DK, IE, SK, UK). Overall, it is notable that Italy, Malta, and the Netherlands rely substantially upon the Postal Ministry to decide basic policy matters, while Denmark, Slovakia, and the United Kingdom vest substantial authority in the NRA.

⁴³ See Postal Directive, Article 7(1).

⁴⁴ There is no uniform tariff requirement in the Czech Republic.

Table 3.1.4 Primary responsibility for regulatory administration required by the Directive

MS	User info	Licence or GA	Prices of US	Special tariffs	USP accts	Quality of US	User complaints	Cross subsidy in US	Cross subsidy non-US
AT	Min Post	(NA)	Min Post	Min Post	Min Post	Min Post	Min Post	Min Post	MinPost
BE	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
CY	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
CZ	NRA	(NA)	NRA	NRA	NRA	NRA	NRA	NRA	NRA
DE	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
DK	NRA	(NA)	NCA	NCA	NRA2	NRA	NRA	Min Post	Min Post
EE	NRA	NRA	NRA	NRA	NRA	?	NRA	(NA)	(NA)
ES	Min Post	Min Post	PM/Council	PM/Council	Min Post	PM/Council	NRA	Min Post	?
FI	NRA	PM/Council?	NRA	NRA	NRA	NRA	NRA	(NA)	(NA)
FR	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
GR	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
HU	NRA	NRA	Min Post	NRA	NRA	NRA	NRA	NRA	NRA
IE	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
IT	Min Post	Min Post	Min Post	Min Post	Min Post	Min Post	Min Post	Min Post	Min Post
LT	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
LU	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	Min Post
LV	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
MT	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
NL	NRA	(NA)	Min Post	NRA	NRA	NRA	Min Post	NCA	NCA
PL	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
PT	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
SE	NRA	NRA	NRA	NRA	NRA	NRA	NRA	(NA)	(NA)
SI	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NCA
SK	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA	NRA
UK	NRA	NRA	NRA	NRA	NRA	NRA2	NRA	(NA)	(NA)
Notes: N/A means not applicable DK: In USP accts: NRA2 refers to independent public accountant engaged by government, HU: In Prices of US: Postal Ministry in agreement with Finance Ministry. UK: In Quality of US: NRA2 refers to Postwatch, a statutory body representing users.									

The task of administering postal policy—i.e., the application of general rules to specific facts—is commonly delegated by parliament to a ministry or NRA. In this study, we asked Member States to indicate which government body has primary responsibility for:

- ensuring that USPs give users up-to-date information about universal service?
- granting authorizations by means of general authorizations or individual licences?
- reviewing the prices of universal services and ensuring that they are affordable and geared to costs?
- reviewing special tariffs of the USP, if any, and ensuring that they are transparent, non-discriminatory, and take into account avoided costs?
- reviewing the accounts of the USP and ensuring that they comply with the requirements of the Postal Directive?

- ensuring that the quality of universal services is independently monitored?
- ensuring that transparent, simple, and inexpensive procedures for dealing with the complaints of universal services are drawn up by postal operators?
- ensuring that revenues from the reserved sector, if any, are not used to cross subsidise non-reserved universal services except when strictly necessary?
- ensuring that revenues from the reserved sector, if any, are not used to cross subsidise non-universal services?

Table 3.1.4 summarizes how these administrative tasks are allocated among Member State institutions. This table makes an interesting contrast to Table 3.1.3. For administrative tasks, most Member States vest most administrative tasks in a NRA. Indeed, sixteen Member States rely exclusively on the NRA or National Competition Authority (NCA) for all administrative functions. It is, therefore, departures from this rule that are noteworthy. In this respect, Austria, Spain, and Italy—and to a lesser extent the Netherlands—stand out for their reliance on the Postal Ministry. It should be noted that each of these countries, except for Italy, is in the process of reconsidering its postal law.⁴⁵ At the other end of the spectrum, it is interesting to note that Denmark, the Netherlands, and Slovenia vest some administrative functions required by the Directive in the NCA rather than the NRA. Use of the NCA rather than NRA implies that government is treating the postal sector more like other sectors of the economy and less as a special sector requiring special rules.⁴⁶

The individual columns of Table 3.4.1 foreshadow some of the issues addressed later in this chapter. Column 2, for example, indicates that in three Member States (ES, FI, IT) it is necessary to apply to government for a licence to provide postal services, not to an independent NRA. At the same time, three Member States (AT, CZ, NL) have no authorization procedures.⁴⁷ Comparing columns 3 and 4 reveals the interesting situation that in Hungary and the Netherlands the Postal Ministry regulates the regular tariffs of the USP while the NRA regulates special tariffs. In columns 5 and 6, the use of a specialized NRA is reported by Denmark (an independent accountant appointed by government) and the United Kingdom (Postwatch, an independent representative of postal users). In columns 8 and 9, it appears that five Member States (AT, DK, ES, IT, LU) delegate to the Postal Ministry rather than an impartial NRA the sensitive task for policing cross subsidies.

⁴⁵ In Austria, the new postal law went into effect on March 1, 2006, and a separate regulatory authority will be established in 2008 as part of the regulatory authority responsible for regulation of telecommunications.

⁴⁶ Among the other countries surveyed, Iceland, Bulgaria, and Romania reported exclusive reliance on the NRA to perform the administrative functions of the Postal Directive. Norway and Croatia rely primarily on the NRA but commit some functions to the Postal Ministry. Lichtenstein and Turkey provided no information.

⁴⁷ An authorization procedure will be introduced in Austria as a result of the postal law taking effect on March 1, 2006.

Table 3.1.5 Responsibility for enforcement of competition rules

MS	Primary resp. for comp. rules?	Can NRA enforce comp. rules?	NRA and NCA share info?
AT	NCA	No	No
BE	NCA		Yes
CY	NCA	No	Yes
CZ	NCA	No	
DE	NRA	Yes	Yes
DK	NCA	No	No
EE	Min Post	Yes	
ES			
FI	NCA	No	No
FR	NCA	No	Yes
GR	NRA		
HU	NCA	No	Yes
IE	NCA	No	Yes
IT	NCA	No	No
LT	NCA	Yes	Yes
LU	Min Post	No	No
LV	NRA		No
MT	NCA	No	Yes
NL	NCA	No	Yes
PL	NCA	Yes	Yes
PT	NRA		Yes
SE	NCA	No	Yes
SI	NCA	No	No
SK	NRA		No
UK	NCA	Yes	Yes

Key: NRA = National Regulatory Authority; NCA = National Competition Authority

Notes:
DE: NRA in connection with NCA
GR: Only Postal Ministry can impose sanctions on USP for violation of competition rules; NRA can propose sanction and apply competitions against other postal operators.
IE: NRA takes into account competition rules in making regulatory decisions but does not separately enforce competition rules.
MT: NRA has primary responsibility for enforcing EU competition rules but NCA has primary responsibility for enforcing national competition rules.
SK: NRA enforces competition rules in respect activities conducted under postal law; NCA in other cases.
UK: NRA generally deals with competition issues relating to licensed area.

The Postal Directive, as amended in 2002, declares that Member States may charge NRAs with ensuring compliance with the competition rules but is not required to do so. Table 3.1.5 shows the relationship between postal NRAs and NCAs. Four Member States (DE, GR, LV, UK) have vested "primary responsibility" for enforcing the competition rules in the NRA rather than the NCA, and six other Member States (EE, HU, LT, PL, SE, SI) report that they have delegated to the NRA supplementary authority to enforce the competition rules. The sharing of information between the NRAs and NCAs is an important but sensitive procedure necessary to promote competition in the postal sector. Thirteen Member States declare that some sort of information sharing arrangement is in place, including the four largest providers of postal services, France, Germany, the Netherlands, and the United Kingdom.

Conclusions

The application of the Postal Directive in Member States depends in part on how responsibility to implement the requirements of the Postal Directive and the competition rules is allocated among governmental bodies. Ideally, the specific economic and administrative determinations necessary to carry out the Directive should be vested in the most impartial and expert authorities available while respecting the need for politically attuned bodies to set broad policy objectives. A review of the regulatory responsibilities suggests substantial progress towards this ideal (with some anomalies) while also suggesting that overall the postal sector remains exceptionally, and perhaps excessively, subject to political control.

3.1.3 Postal ministries and universal service providers

Table 3.1.6 Ministries with primary responsibility for postal policy

MS	Postal Ministry
AT	Ministry for Transport, Innovation and Technology
BE	Minister for Economy, Energy, Foreign Trade and Science Policy
CY	Ministry of Communications and Works
CZ	Ministry of Informatics
DE	Federal Ministry of Economics and Technology
DK	Ministry of Transport and Energy
EE	Ministry of Economic Affairs and Communications
ES	Ministry of Development
FI	Ministry of Transport and Communications
FR	Ministry of Economy, Finance, & Industry
GR	Ministry of Transport and Communications
HU	Ministry of Informatics and Communications
IE	Department of Communications, Marine and Natural Resources
IT	Ministry of Communications
LT	Ministry of Transport and Communications
LU	Ministry of Economics
LV	Ministry of Transport
MT	Ministry for Competitiveness and Communications
NL	Ministry of Economic Affairs
PL	Ministry of Transport and Construction
PT	Ministry of Public Works, Transport and Communications
SE	Ministry of Industry, Employment and Communications
SI	Ministry of the Economy
SK	Ministry of Transport, Posts and Telecommunications
UK	Department of Trade and Industry

Table 3.1.6 lists the "Postal Ministry" in each Member State, that is, the ministry with primary responsibility for postal policy.

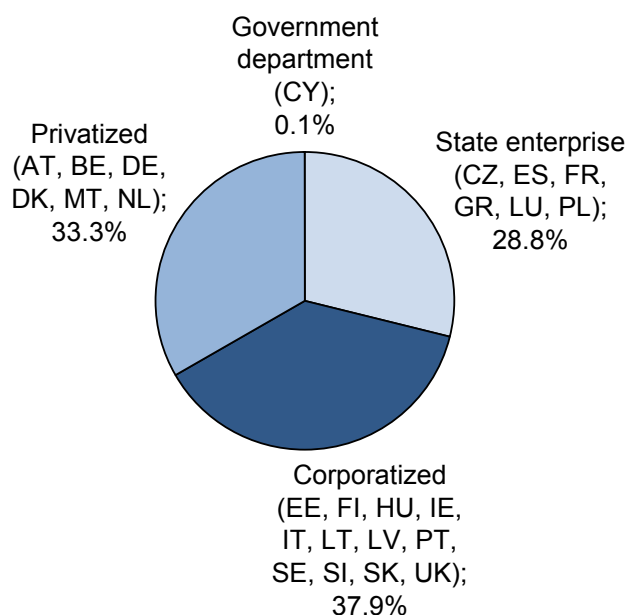
Table 3.1.7 Universal service providers

MS	Universal service providers
AT	Österreichische Post AG
BE	De Post/La Poste
CY	Cyprus Post
CZ	Czech Post. S.E.
DE	Deutsche Post AG
DK	Post Denmark
EE	Eesti Post Ltd
ES	Post and Telegraphs S.A.
FI	Finland Post Corporation
FR	La Poste
GR	Hellenic Post (ELTA)
HU	Hungarian Post Plc
IE	An Post
IT	Poste Italiane s.p.a.
LT	Lithuanian Post
LU	P&T Luxembourg
LV	Latvijas Pasts
MT	Maltapost Plc.
NL	TNT
PL	Polish Post
PT	Correios de Portugal, S.A. (CTT)
SE	Posten AB
SI	Post of Slovenia
SK	Slovak Post
UK	Royal Mail Group Plc

Article 4 of the Directive requires Member States to designate one or more postal operators as universal service provider (USP). Each Member State has designated the public postal operator as the USP, that is, a postal operator that is owned in whole or in part by government. Table 3.1.7 provides a list the USPs in the Member States.

Direct governmental involvement in the operation of USPs is declining. In each Member State, the public postal operator was originally organized as a government department administered by a political appointee such as a minister or state secretary. In the mid to late 20th century, many public postal operators were converted into "state enterprises" or governmental agencies that operate with a high degree of commercial flexibility and that are essentially independent from the direct administrative authority of political appointees. More recently, many Member States have "corporatized" the public postal operator by converting it into a "public limited company", that is, an organization that is organized under the company law applicable to private corporations. In theory, at least, one would expect a postal corporation, like a private corporation, to be administered by a board of directors that provides a degree of independence from the governmental shareholder. Some governments have withdrawn still further from operation of the public postal operator by selling a portion of the ownership of the corporatized public postal operator to the public or to strategic partners.

Figure 3.1.1 Legal Status of USPs



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

Since the last Main Developments study (2004), corporatization and privatization of EU posts have advanced substantially. In the last two years, Latvia, Lithuania, and Slovakia have been corporatized their public postal operators, and Poland has announced plans for doing so. The German government has become a minority shareholder of Deutsche Post, reducing its holding from 63 to 42 percent, and announced plans to sell additional shares. The Dutch government has lowered its stake in TNT from 35 percent to 10 percent and plans to sell all remaining shares. In June 2005, the Danish government sold 22 percent of its public postal operator to a British investment group, CVC Capital Partners.⁴⁸ In November 2005, CVC and Post Danmark bought 50 percent (less 1 share) of the Belgian public postal operator.⁴⁹ Austria sold 49 percent of Österreichische Post AG in May 2006. Italy and Poland have also publicly announced intentions, although not firm plans, to privatize their posts in the future.

⁴⁸ Another 3 percent of ownership was reserved for employee incentive programs.

⁴⁹ Case No. COMP/M.4022 – Belgian State/CVC/Post Danmark/De Post-La Poste, OJ C 288, 19 Nov 2005, page 11.

Table 3.1.8 Ownership and control of USP

MS	Legal status	Govt. ownership	Governing body	Govt. appt'd directors	Total no. directors	Appoints govt. dirs	Term of dirs	Cause for dismissal
AT	Plc	51						
BE	Plc	50	USP Board	6	10	PM/Council	6 yr	Cause
CY	Govt. dept	100	Other					
CZ	State enterprise	100	Min Post					
DE	Plc	42	USP Board	2	20			
DK	Plc	75	USP Board	?	?	Min Post		
EE	Plc	100	Min Post	7	11	Other	5 yr	Discretion
ES	State enterprise	100	PM/Council			PM/Council	None	Other
FI	Plc	100	USP Board	1	7	Min Post	None	Cause
FR	State enterprise	100	USP Board	14	21	Min Post	5 yr	Cause
GR	State enterprise	100	Min Other	?	11			
HU	Plc	100	Other				None	Cause
IE	Plc	100	USP Board	12	12	Min Post	None	Cause
IT	Plc	100	Min Other					
LT	Plc	100	Min Post	1	1	Min Post	4 yr	Discretion
LU	State enterprise	100	USP Board	8	12	PM/Council	5 yr	Cause
LV	Plc	100	USP Board	6	6	Min Post	3 yr	Cause
MT	Plc	65	Min Other			Min Other		
NL	Plc	10	Min Other					
PL	State enterprise	100	Min Post	6	6	Min Post	None	Discretion
PT	Plc	100	USP Board	?	5	Min Other	3 yr	Discretion
SE	Plc	100	USP Board	7	10	Min Post	1 yr	Cause
SI	Plc	100	USP Board	?	?		None	
SK	Plc	100		?	?	Min Post		
UK	Plc	100	Min Post	12	12	Min Post	3 yr	Cause

Notes:

BE: Govt. ownership: 50 percent of shares, less one, owned by DK Post and CVC Capital Partners, Ltd.
CY: Governing body: Commission of Public Service
CZ: Governing body: Aided by advisory board
DE: Govt. ownership: All shares held by KfW Bankengruppe, a government owned development bank.
DE: Total no directors: One director appointed by government and one by KfW; 10 appointed by employees
DK: Govt. ownership: 25 percent of shares owned by CVC Capital Partners, Ltd.
EE: Appoints govt. dirs: 3 appointed by Ministry of Finance; 4 by Postal Ministry
FR: Total no. directors: 7 appointed by employees
GR: Governing body: Ministry of Finance and Economy and Ministry of Transport and Communications
HU: Govt. directors: State Privatization and Holding Company appoints USP CEO who appoints supervisory board.
IT: Govt. ownership: 65 percent owned and 25 percent owned by Cassa Depositi e Prestiti, a government owned development bank.
IT: Governing body: Minister of Economy appoints CEO; no board of directors.
LT: Legal status: Plc from Jan 3, 2006.
LV: Appoints govt. dirs: Directors are appointed by Council which is appointed by Postal Ministry
MT: Govt. ownership: 35 percent owned by New Zealand Post.
PT: Appoints govt. dirs: Directors appointed by Ministry of Finance and Postal Ministry
SE: Total no directors: Three directors represent employees.

In the European Union as a whole, the current status of this trend may be summarized as follows. Eighteen of the 25 public postal operators have been corporatized. Collectively, these operators account for approximately 71 percent of the letter post volume handled by public postal operators. Of these, 8 public postal operators are also partially privatized, accounting of about one third of the EU letter post. The remaining 29 percent of the EU letter post is carried by the 6 public postal operators organized as state enterprises and the 1 public postal operator that remains a government department. See Figure 3.1.1. Further details are set out in Table 3.1.8.

Conclusions

European governments are rapidly withdrawing from direct control and ownership of public postal operators. About 71 percent of the EU letter post is now handled by corporatized operators and 29 percent by partially privatized operators. This trend has advanced materially in the last two years and is expected to progress further in the foreseeable future.

3.2 Universal service obligation

3.2.1 Scope of universal service obligation

The Directive declares that 'each Member State shall adopt the measures necessary to ensure that the universal service includes the following minimum facilities': (1) conveyance of postal items weighing up to 2 kilograms and (2) conveyance of postal packages weighing up to 10 kilograms (or 20 kilograms at the discretion of the Member State). Postal items include all types of addressed things, including items of correspondence, books, catalogues, newspapers, periodicals, and postal packages. Postal packages seems to refer only to addressed boxes of merchandise. All Member States have established a postal universal service definition broadly following the requirements of the Postal Directive.⁵⁰ In contrast to letter mail and parcels the delivery of newspapers and periodicals is part of universal service in about half of the Member States.⁵¹

Facing full liberalization of postal markets in some Member States the discussion on the future scope of postal universal service is in full swing. The most crucial point in the discussions is the role of bulk mail services: shall they be part of universal service or not.

In Germany and Ireland this question is still under discussion (see Case study 3.1 and Case study 3.4) while it is already decided in NL and UK (see Case study 3.2 and Case study 3.3).

⁵⁰ In ES and LV the weight limit for cross-border items is still 10 kg. MT has increased the weight limit to 20 kg.

⁵¹ In AT, BE, CY, DE, DK, FR, GR, HU, IT, PT, SE, and SI the delivery of newspapers, periodicals, and magazines is part of postal universal service (source: internet survey).

Case study 3.1 DE: Scope of postal universal service under discussion

The definition of postal universal service is still under consideration. In the activity report 2004/2005 the German NRA has recommended to reduce the scope of postal universal postal service. Universal services should principally be restricted to postal services which are demanded by consumers and small business customers as senders (e.g. postal items at single piece tariff) and to all postal users as addressees (safeguarding nationwide delivery). In practice this would imply that bulk mail items need not to be accepted by every postal outlet but bulk mail items have to be delivered to every recipient. The German Ministry of Economics intends to go even a step further. They would like to completely exclude bulk mail services from postal universal services after 2007. As one important consequence the VAT exemption would apply no longer to bulk mail services.

Reducing the scope of universal service would not effect the scope of postal regulation in Germany because licensed postal services provided by a market-dominant postal operator are subject to strict regulatory oversight. Licensed postal services and universal postal services are overlapping but not identical.

Case study 3.2 NL: Scope of postal universal service

The universal service applies only to items carried at the single piece tariff outside the reserved area. Bulk mail outside the reserved area (in 2005: bulk mail above 100 gram) is therefore considered to be outside the definition of universal service. Only the reserved part of bulk mail is therefore part of the universal service, but plans are to exclude bulk mail from the universal service entirely after liberalization (and possibly a transition period of few years). As the Dutch authorities argue, competitive pressures have effected that bulk mailers are served adequately by the market and governmental intervention has therefore become superfluous in the liberalized part of the bulk mail market.⁵² In Dutch postal law price and quality controls are restricted to postal universal service. Consequently, TNT would be not obliged to deliver bulk mail nationwide.

Case study 3.3 UK: Universal service for bulk mailers

Postcomm's decision about whether a service is a universal service rather than just within the scope of the universal service does not affect whether it is subject to price and service quality regulation. Postcomm makes clear that products will only be removed from price and service quality regulation if it is content that competition for the product is sufficiently developed to protect customers' interests.⁵³ Postal services which are not universal services (but still within the scope of universal service) and which are not provided under competitive conditions are still subject to price and quality regulation but they are not subject to universal service requirements like uniform tariff and daily, nationwide collection.⁵⁴

In June 2005 Postcomm decided that Royal Mail has to continue to offer Mailsort 1400 (first and second class), the most commonly used bulk mail product, and Cleanmail (first and second class) as a universal service. Cleanmail is considered Royal Mail's "entry level" bulk mail product, especially for small businesses that cannot meet some of the criteria of the pre-sort products. These bulk mail services – about one quarter of total bulk mail – have to be collected and delivered six days a week at a geographically uniform national tariff. Other bulk mail

⁵² See Netherlands, Ministry of Economic Affairs (2004a), Postal Services Policy Memorandum (English version).

⁵³ UK Postcomm (2004d), Decision document: The UK's universal postal service, S. 6.

⁵⁴ UK Postcomm (2004d), Decision document: The UK's universal postal service, S. 7.

products are not subject to the restrictions that specifically apply to the universal service but they are still under regulatory oversight.⁵⁵ The decision on the price and quality control for the period of 2006 to 2010 is still pending.

Case study 3.4 IE: Universal postal service – A working definition

ComReg also considers to restrict the number of bulk mail services defined as universal postal service. In their response to consultation⁵⁶ ComReg has formulated a working definition of the universal service, describing the basic package of postal services which must remain available to everyone in Ireland at an affordable price. Guiding factors are first the importance of the service to customers and second the current market situation. ComReg assessed whether the service is necessary to satisfy the basic social or commercial needs of users i.e. if it is an essential element of the universal service. The second factor, the market situation, takes into account that in a competitive environment customers have the choice between different operators and are therefore less vulnerable.

ComReg stressed that the current working definition is not definitive. They anticipate that the opening up of the market and the development of effective competition will bring innovation in response to customers' needs and therefore wider choice. Due to these changes ComReg's working definition will be continuously revised in order to allow it to evolve to reflect changing levels of competition and customer demand.

Case study 3.5 SE: Postal law under revision

In 2004 the Swedish government commissioned a study to the Postal Market Committee to carry out an analysis of the Swedish postal market and to come up with proposal for future postal market regulation. While their proposals do not foresee any major changes in the scope of universal service and quality of service requirements the Committee suggested to abolish price control on universal services. Additionally they propose to extend the competencies of the Swedish NRA in order to give him the possibility to promote competition. The revision of postal legislation is still pending. The NRA does not expect that there will be any decision before the elections in autumn 2006.

The examples illustrate the insight that regulatory intervention — by means of a universal service obligation — is necessary only for those services that (i) are not adequately provided to customers, or specific types of customers, by a competitive market and (ii) are considered 'generic universal services' in the view of customers. In a changing postal market, adapting the scope of universal services may therefore become necessary as the customer needs as well as competition evolves.⁵⁷

⁵⁵ UK Postcomm (2005e) Decision document on the universal service for bulk mailers.

⁵⁶ IE ComReg (2005b), Universal postal service – A working definition (Response to Consultation).

⁵⁷ Finger et al. argues that changes in customers' demand driven by the development of new communication media on the one hand and the assumed power of large mailers are sufficient to exclude bulk mail services from postal universal service. He does not consider whether there is effective competition in the market or not. See Finger, Matthias, Ismail Alyanak, and Pierre Rossel (2005), The universal postal service in the communications era: Adapting to changing markets and customer behaviour.

Universal service obligation

In most Member States the universal service obligation is not subject to discussion. So far, in all Member States except for LV the former postal administration has been obliged to provide universal services by law, licence or management contract. In LV the government is revising the postal legislation; i.a. they plan to specify in more detail the scope of universal service and universal service requirements. Even in NL the ministry plans to oblige TPG Post (TNT) to provide postal universal service at least in the first years after full market opening.⁵⁸ Only German postal law provides a mechanism to safeguard postal universal service in a fully liberalized postal market without obliging a postal operator ex ante (see Case study 3.6). Before full market opening Deutsche Post is obliged to provide universal services by postal law. In order to avoid a revision of secondary legislation dealing with more specific universal service requirements Deutsche Post has voluntarily imposed some additional obligations on itself. This commitment will also expire with full market opening in 2008.

Case study 3.6 DE: Safeguarding universal postal service in fully liberalized postal markets

The German NRA, the Federal Network Agency, is authorized to contract for supplementary universal services if not provided voluntarily by postal operators and, if necessary, to order postal operators in adjacent areas to provide such services. Article 13 declares, in part, 'Where a universal service is not being appropriately or adequately provided or where there is reason to believe that such will be the case, the Regulatory Authority shall publish in its Official Gazette a statement to this effect. ... Upon expiration of [one month] the Regulatory Authority may oblige one of the companies [providing substantial universal service] to provide the relevant universal service. Such obligation may only be imposed on a licensee providing postal services subject to licence in the geographically relevant market or in a geographically adjacent market and having a dominant position in that market'. These articles of the German Post Law will become effective in 2008 when a transitional provision imposing a universal service obligation on Deutsche Post expires.

Conclusions

Overall there is a high degree of compliance by Member States with basic universal service requirements set by the Postal Directive. In contrast to letter mail and parcels the delivery of newspapers, magazines, and periodicals is part of universal service in about half of the Member States.

Although, the scope of postal universal service is under consideration especially in Member States with more or even completely liberalized postal markets. Main point of discussion is to follow the example of Netherlands to exclude bulk letter mail from postal universal service.

⁵⁸ See Netherlands, Ministry of Economic Affairs (2004a), Postal Services Policy Memorandum (English version).

Generally, the Member State is subject to the universal service obligation. All Member States have transferred this obligation to the former postal administration. In a full liberalized postal market the Netherlands and Germany will most probably abolish the ex ante obligation of one specific postal operator generally expecting that the market will voluntarily provide postal universal service. If the market does not provide the services and the service level wished by the society (i.e. defined by postal legislation) German postal law foresees that the national regulatory authority has the power to tender the respective service or to oblige a market dominant postal operator to provide the service.

3.2.2 Access and delivery requirements

Access requirements

The Postal Directive requires that the availability of access points to the public postal network should meet the needs of users. Access points include street mail boxes and postal outlets. Postal outlets are post offices operated by USP employees and postal agencies operated by contractors. The requirements of the Postal Directive are very general and reflect the principle of subsidiarity. This principle allows the Member States to decide on more specific requirements in order to take their national peculiarities into account. Accordingly, the access requirements strongly differ between the Member States – a result already identified in last EU postal studies. In most Member States postal legislation defines specific requirements to access points, especially to postal outlets. These specific requirements clarify the density of postal outlets in the country by applying different, measurable criteria (see Table 3.2.1).

Table 3.2.1 Specific requirements (postal outlets)

Requirements	
No specific requirement	AT, CY, CZ, ES, FR, GR, IT, LU, MT, SE
Minimum number of postal outlets	DE, DK, LV, NL, PL, SI
Minimum distance	DE, DK, EE, HU (in towns), IE, LT, NL, SK, UK
One postal outlet per municipality	BE, DE, FI, HU, LT, LV, NL, SK
Notes:	
CZ	Decree of 2001 have set minimum distance criteria. In every district one postal outlet shall be placed
DE	Secondary legislation on universal service requirements (PUDLV) is under consideration.
FR	Secondary legislation is still pending; according old legislation: 90 % of the population of each county need to have a post office within 5 km and 20 minutes by car.
MT	Implementation of specific legal requirements planned (i.e. minimum number of postal outlets).
PT	Definition of requirements are under consideration.

Additionally, USPs may be restricted to adapt the organizational structure of postal outlets (use of postal agencies) or the service portfolio. They may even be restricted to close postal outlets within the limits set by specific requirements.

Table 3.2.2 Replacement of post offices and closure of postal outlets

Requirement		Member States
Replacement of post offices by postal agencies allowed? (1)	Yes, without any legal restrictions	AT, CZ, CY, DK, EE, ES, FI, FR, HU, IE, IT, LT, LU, MT, NL, PL, SE, SK, UK
	Yes, considering some restrictions	BE: One post office in every municipality (589) DE: Minimum number of post offices required (5,000) PT: USP has to notify any changes in advance, planned changes can be prevented by the NRA SI: USP is obliged to notify the NRA and provide reasons for the decision
	No	LV
Autonomous closure of postal outlets allowed? (2)	Yes, without any restrictions	CZ [in inevitable cases], ES, IE, IT
	Yes, but considering specific legal requirements (see Table 3.2.1)	BE, DE, DK, FI, HU, LV, NL, SK
	No	Approval of NRA needed: CY, EE, LU, MT, PT (can pretend closure), SE, SI Consultation of public administrations required: AT, FR, PL, UK
Notes: (1) GR Not answered. (2) GR Not answered. CY Only closure of post offices need approval of ministry. FR Secondary legislation is still pending. IT Planned closure has to be announced to the ministry. LV New postal legislation is in preparation. It is planned to introduce a more specific definition of universal service and universal service requirements. LT Situation is unclear. MT Implementation of specific legal requirements planned (Considering these restrictions the USP would be allowed to autonomously close postal outlets). DE Secondary legislation on universal service requirements (PUDLV) is under consideration.		

Table 3.2.2 summarizes the conditions of USPs to replace a post office by a postal agency or to close a postal outlet. In most Member States the USPs are free to change the form of organization, while some Member States still apply restrictions. For example German postal legislation requires that Deutsche Post has to run at least 5,000 post offices. This restriction will most probably be abolished after full liberalization of the German postal market in 2008.

Combining the findings of both tables it is quite obvious that the flexibility of most USPs to design the postal network is still limited. In Sweden for example, the USP does not face specific requirements with regard to its postal outlets, but to safeguard that the density of the points of contact and of the access points shall take account of the needs of users. For this reason, the Swedish USP needs approval from the NRA before closing a postal outlet.⁵⁹ It appears that countries like ES, GR, and IT and to some extent AT provide more freedom to their USPs than other countries. One would expect

⁵⁹ In order to ensure that everyone regardless of location is able to deposit postal items for conveyance and also to receive such items at a place within an acceptable distance from the residence or place of work, closure of access or distribution points affecting more than one user, and for which no acceptable alternative exists, must be approved by the NRA.

that in these countries the decline of postal outlets would be stronger than in other countries. But empirical results are mixed: While the number of Greek postal outlets has increased, the number is quite stable in Italy. Furthermore, Poste Italiane does not make use of the possibility to establish postal agencies, so far. Only in Austria and to lesser extent in Spain the number of postal outlets has declined since 2002. Additionally, the Austrian USP has partly substituted post offices by postal agencies resulting in a very strong decline in post offices.⁶⁰

It appears that access requirements and existing public and political pressures are important constraints to the commercial flexibility of USPs.⁶¹ Governmental funding existing in Sweden and U.K. indicates financing problems of postal outlets:

- Posten AB, the Swedish USP, gets annual financial support from government: 400 million SEK (about 43 million EUR), this compensation results from the government's requirement to provide basic cashier services at postal outlets;⁶²
- Post Offices Ltd., a subsidiary of Royal Mail Holding, receives government funding of the rural network of up to 150 million GBP (about 220 million EUR) per year until 2008. Recently, the European Commission has decided not to raise objections under EC Treaty state aid rules to the refinancing measure in favour of Post Office Ltd. The measure in question refinances an earlier funding to compensate Post Offices Ltd. for the public service costs of rural counter coverage, which the Commission had approved in 2003.⁶³ To solve the financial problems, Postcomm is doing research how to better develop the business of Post Offices Ltd. In the view of Postcomm post offices should for example be able to offer services on behalf of other postal operators, too.

Delivery requirements

The Postal Directive requires a Member State to ensure at least one delivery each working day, not less than five days a week, at all points in the national territory save in extraordinary circumstances. National regulatory authorities must approve exceptions

⁶⁰ See section 4.5.1.

⁶¹ The USPs put a lot of effort to find cost-minimising solutions by taking account of legal or contractual constraints (e.g. establishing postal agencies or postal outlets with a reduce service portfolio). In some countries, USPs have also extended services offered in post offices – most importantly by offering financial, telecommunications or governmental services. See also section 5.4.x for more details. Simultaneously, most USPs have been reducing the number of postal outlets in order to save costs.

⁶² This requirement has been under consideration since 2003. In 2003 the Swedish government commissioned a study on future regulation of the postal market and on the need of state intervention to provide basic cashier services. One of the findings was that the law relating to the essential financial transaction services should be rescinded, and that instead, the services should be procured by the State. The government bill regarding essential financial transaction services is still in the legislative process. (SOU 2004:52, English Summary; Posten AB, Year End Report January-December 2005, p. 6).

⁶³ Press release IP/06/225 of 24 Feb. 2006.

from nationwide coverage. Compared to the last study the situation has not changed significantly; all Member States still meet the requirements of the Postal Directive.

Table 3.2.3 Delivery requirements

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

In some Member States the USP provides even more deliveries per week than required by postal legislation. Most interestingly, four of the seven USPs (highlighted by bold letters) use the freedom to deliver 6 days per week in urban areas and 5 days per week in rural areas (ES, LT, LV, SI)

In ten Member States no exceptions from the delivery requirements have been noted by the NRAs.⁶⁴ In most of the remaining Member States less than 1 % of the population are subject to exceptions from the legally required frequency and the delivery at their premises. ES, GR, and HU are the countries where more than 1 % of the population is subject to exceptions concerning either delivery frequency or delivery at their premises. Most important reason for exceptions in the frequency of delivery are exceptional geographic circumstances combined with very low mail volumes to be delivered in rural areas as noted by the Greek USP.

In eight Member States parcels are delivered at the premises of the addressee only by extra charge. In the Scandinavian countries FI, NO, and SE delivery at post offices has been the traditional way to deliver parcels. In the Baltic and the Southern Member States CY, ES, GR, and PT the low number of delivered parcels by the USP may explain the extra charge.⁶⁵

Member States with more or completely opened postal markets (notably DE, ES, NL, SE, U.K.) are not planning to relax delivery requirements so far. In Spain discussions are at the very beginning. In Germany stakeholders make very clear that they wish to have six day delivery. In U.K. the delivery frequency is not a point of discussion. In contrast, quality control might be extended on delivery times. After abolishing the universal service obligation the Dutch TPG might implement a second “low-quality” distribution network for advertisements and non-urgent transaction mail delivering two or three times the week.

Conclusions

Access conditions vary widely among Member States, but none are clearly inconsistent with the Directive’s general standards. The political nature of postal outlets is reflected in restrictions faced by the USPs to autonomously close postal outlets. Most USPs are free to replace post offices by postal agencies.

Delivery conditions are consistent with the requirements of the Directive. Some USPs who are required to deliver five times per week voluntarily deliver six times at least in urban areas. In exceptional circumstances USPs make use of reducing the delivery time and / or delivery conditions (not to deliver at the premises of the addressee). So far, reducing the delivery frequency is not a point of discussion in the Member States.

⁶⁴ BE, CY, DE, FR, LT, LU, LV, MT, PL, PT; the NRAs of IT and NL did not answer the second question (exceptions from delivery at the premises of the addressee).

⁶⁵ In these countries less than one parcel per capita per year has been delivered by the USPs (based on WIK survey and UPU figures).

3.3 Special and exclusive rights

Many Member States have granted the universal service provider (USP) special legal rights. The most ancient and most significant is the postal monopoly or "reserved area", that is, an exclusive right to conduct a business for collection, transport, and delivery of letters and possibly other items. In addition, the USP may be protected from competition by other types of special legal rights such as favorable tax treatment, advantageous financial arrangements with government, simplified customs procedures, and other measures.⁶⁶

3.3.1 Reserved services

The postal monopoly originated in the 16th and 17th centuries as a way of allowing the monarch to monitor the correspondence of citizens, especially correspondence with foreigners. After post offices extended delivery to virtually all addresses in the nation in the late nineteenth and early twentieth centuries, a new justification for the postal monopoly was asserted: that it is economically necessary to allow the postal administration to provide universal service. In early twenty-first century, however, European governments have become increasingly convinced that the postal monopoly, or "reserved area" as it is now called, is unnecessary to sustain universal service and generates more costs than benefits for the public.

In 1997, the Postal Directive limited the scope of services which Member States may reserve for the USP. As amended in 2002, Article 7(1) of the Directive declares that, as of 1 January 2006, the reserved area may include the carriage of items of *domestic and incoming cross-border correspondence* only if two conditions are met: (1) each item weighs less than 50 grams, and (2) the transportation charge for each item is less than two and a half times the universal service provider's public tariff for carriage of an item in the lowest weight step of the fastest standard category of service.⁶⁷ Even within these weight and price limits, postal services for domestic and incoming cross border

⁶⁶ In March 2005, Postcomm, the UK NRA, completed a comprehensive review of the potentially anti-competitive effects of various types of special rights. Postcomm also articulated the main policy arguments for and against retention of such rights. Many of the special rights addressed by Postcomm are replicated in other Member States. For the most part, however, other NRAs appear to have given little attention to the implications of special rights for the emerging European postal market. See Postcomm (2005a), Tackling barriers to entry in postal services: Final decisions and recommendations.

⁶⁷ Whether or not the Directive's rule limiting the reserved area to postal services priced less than 2.5 times the basic stamp rate refers to the postage charge before or after application of value added tax, if any, is a matter of uncertainty among Member States. Suppose the public tariff is € 0.50 and VAT is 20 percent. Is the reserved area limited to services priced below € 1.25 (2.5 times the public tariff excluding VAT) or € 1.50 (2.5 times the public tariff including VAT)? In this survey, three Member States (DE, DK, ES) considered the price limit to exclude VAT, and three considered the price limit to include VAT (CY, CR, SI). Fifteen Member States declared positively that they had no position.

correspondence may be reserved only “to the extent necessary to ensure the maintenance of universal service”.

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

The Postal Directive’s repeated insistence that a reservation may be introduced only “*to the extent necessary to ensure the maintenance of universal service*” implies a duty to adjust the reserved area to the economic requirements of universal service. This provision of the Directive echoes the “principle of proportionality” of Postal Green Paper, but it has been more honoured in the breach than in the observance.⁶⁸ At least two Member States, Sweden and the United Kingdom, have concluded economic analyses showing that no reserved area is needed to maintain universal service; they have accordingly repealed the reserved area although it should be noted both states offer supplemental assistance to the USP to support additional postal outlets. In this survey, three Member States—Belgium, Spain, and Portugal—reported that they had completed economic analyses showing the extent of the reserved area required to maintain a specific definition of universal service, but none provided details.

With respect to a reservation over outgoing mail, the Postal Directive requires a Member State to base a reservation on a specific rationale and offers two examples: liberalization of other postal services and specific circumstances. Of the eleven Member States that reserve outgoing mail, two cited liberalization of other postal services (LV, IT); seven cited specific circumstances (CY, ES, GR, HU, MT, PL, SK); and one cited both reasons (PT). The Luxembourg NRA simply mentioned that the reservation of outgoing mail helps to finance the universal service.

The Postal Directive also specifically requires that document exchanges be outside the reserved area. No Member State reserves document exchange services.

⁶⁸ The question of whether or not a given level of reserved area is needed to sustain a given level of universal service should be distinguished from the question of whether or not a public postal operator is earning abnormal profits. To give but one obvious illustration of this truism, a reserved area may be larger than necessary to sustain a given level of universal area and yet the public postal operator may earn no more than an ordinary profit because it dissipates extra monopoly revenues in inefficient operations.

Table 3.3.1 Services reserved for the USP in Member States

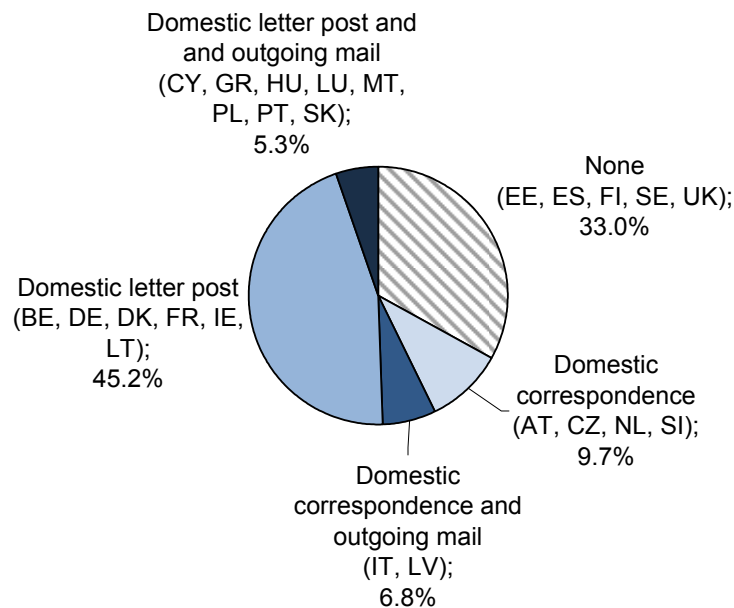
MS	Weight in % of domestic letter post (2004)	Domestic & inbound CB	Direct mail	Outgoing CB
EE, ES, FI, SE, UK	33.0%	Liberalised		
AT, CZ, NL, SI	9.7%	X		
IT, LV	6.8%	X		X
BE, DE, DK, FR, IE, LT	45.2%	X	X	
CY, GR, HU, LU, MT, PL, PT, SK	5.3%	X	X	X
Notes:				
ES Reserved area included outbound letters but excludes intracity mail.				

Table 3.3.1 summarizes the reserved area in the Member States as of 1 January 2006 according to the three areas of potential reservation. In this table, each row represents a higher degree of liberalization than the row below it.

As shown in the top row of this table, we conclude that five Member States may be deemed completely or substantially liberalized (EE, ES, FI, SE, UK). All except Spain have formally repealed the reserved area: In Spain, the postal reservation has never included intra-city postal service, the largest part of a modern postal system. Since transmission of documents between cities by telecommunications or express is also outside the reserved area, the practical effect of the remaining postal reservation over intercity postal items appears to be relatively slight compared to the postal monopolies in other Member States. In fact, in Spain private operators deliver a higher percentage of letter post items than in Member States which have repealed the reserved area entirely. Hence, we consider that, viewed in the terms established by the Directive, Spain has a relatively minor reserved area. Collectively, these five countries comprise about 33 percent of the EU letter post. Although this list of five countries has remained the same during the last two years, the situation has continued to evolve. The United Kingdom completely repealed its reserved area on 1 January 2006. As discussed below, this step appears likely to pave the way for repeal of the reserved area by other large Member States.

The other rows of Table 3.3.1 show lesser degrees of liberalization. The most important step in this chart seems to be liberalization of direct mail, a substantial part of the modern letter post. Six Member States have taken this step (AT, CZ, IT, LV, NL, SI).

Figure 3.3.1 Services reserved for the USP in Member States



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

Figure 3.3.1 provides a graphical summary from a Community standpoint of the services reserved for USPs. In this figure, reservations of Member States are weighted by their share of the total EU letter post market.

The most significant development with respect to the reserved area in the last two years has been the firming up of plans to continue repeal in three Member States. It now appears very likely that Germany will repeal the reserved area completely at the end of 2007. The Netherlands will likely do the same provided it is convinced that VAT and other rules in Germany and the United Kingdom do not place the Dutch USP, TNT, in an unfair competitive position. Slovakia, too, has indicated that it will repeal its reserved area in 2007. With the addition of these three countries, 60 percent of the EU letter post will be effectively liberalized by the end of 2007.⁶⁹

In short, as a practical matter, the majority in the Community, measured by the volume of letter post affected, has swung in favor of liberalization, rather than reservation, as the best strategy for ensuring an efficient universal service. This is not to say that concerns about other issues, such as unfair competition by other USPs, may not delay liberalization, but the reserved area per se is no longer generally accepted as necessary for universal service. From this observation, two conclusions are apparent.

⁶⁹ This is true even though, as noted above, it appears that Estonia will reintroduce the reserved area in 2006.

First, if the new directive is to require or promote liberalization, it should also address other issues which may give rise to unfair competition among USPs. Second, given the viability of liberalized postal markets so far and the decisions of additional Member States to liberalize their markets, the Single Market in postal services envisioned in the Lisbon Strategy is an achievable goal both factually and politically.

Conclusions

The majority in the Community measured by the volume of letter post affected has as a practical matter swung in favor of liberalization rather than reservation as the best strategy for ensuring an efficient universal service. However, to promote full liberalization the new directive should also restrain state measures which may give rise to unfair competition among USPs. The Single Market in postal services envisioned in the Lisbon Strategy is an achievable goal.

3.3.2 Exceptions to the reserved area

Table 3.3.2 Exceptions to the reserved area in Member States

MS	Percent of EU letter post	Upstream services	Services distinct from univ. serv.	Other exceptions
AT	2.0%			
CZ	0.8%	X		
DE	20.6%	X	X	
DK	1.4%		X	
ES	5.8%		X	
FR	19.4%		X	
HU	0.9%			X
IE	0.8%	X		
IT	6.6%		X	
LU	0.1%	X		
NL	5.9%		X	
PT	1.4%		X	X
SI	0.4%	X		

Notes:
 HU: Other exceptions: mail for the blind.
 PT: Other exceptions: day certain delivery services.

In addition, some Member States with reserved areas provide significant exceptions not foreseen in the Directive. Four Member States (CZ, DE, IE, LU) exempt upstream services, i.e., collection and transportation of mail to a post office for final delivery. The Czech Republic and Slovakia also exempt incoming cross-border mail from the reserved area. Several Member States (DE, DK, ES, FR, IT, NL, PT) explicitly exempt "special services" from the reserved area, i.e., services that are "distinct from the

universal service”.⁷⁰ In addition, Portugal exempts "day certain" delivery services from the reserved area. See Table 3.3.2.

In some Member States in which the reserved area includes items of correspondence but does not provide the same reservation over direct mail, the precise definition of "direct mail" has caused confusion. There are seven such Member States: CZ, DE, ES, IT, LV, NL, SI.⁷¹ This difficulty has arisen because modern computers and printing technology blur the distinction between printed matter and individualized correspondence. Traditionally, direct mail has been thought of as printed advertising matter, i.e., identical items produced in large quantities by a mechanical process. Today, however, it is possible to produce a large quantity of advertising items and individualize them by inserting, for example, the name of the addressee or a reference to his or her last purchase. The Directive seems to extend the concept of "direct mail" to include advertising items that are individualized in this manner if "the nature of the message" is the same in all items. Yet this line is plainly difficult draw. Among the seven Member States that have faced this issue directly, the Netherlands and Germany have taken a simple but restrictive approach. In the Netherlands, direct mail includes only wholly printed matter. In Germany, items of direct mail can vary among themselves only in respect to a few specified elements. The NRAs in Spain and Italy, on the other hand, consider direct mail to include items whose body is "essentially identical". The Czech Republic simply affirms compliance with the Directive. The NRAs of Greece, Latvia, and Slovenia either admit ambiguity or have no specific position.

Conclusions

In defining exceptions to the reserved area, there has been some confusion among

⁷⁰ In Case C-320/91 Paul Corbeau [1993] ECR I-2563, the Court of Justice ruled that the competition rules did not permit extension of a reserved area to "specific services dissociable from the service of general interest which meet special needs of economic operators". In 1997, Germany incorporated this concept in its seminar postal reform law by creation of "D-licences" for private operators who seek to provide "services distinct from universal services, having special features and higher quality". In 2000, the Commission proposed adding to the Postal Directive an explicit exemption from the reserved area for "special services: services clearly distinct from the universal service, which meet particular customer requirements and which offer additional service features with added-value not offered by the standard postal service." COM(2000) 319 final. Ultimately, the Council and Parliament were unwilling to introduce "special services" into the Postal Directive, but because of the fundamental nature of the Corbeau case and the popularity of the D-licences in Germany, it appeared worthwhile to inquire whether other Member States had embraced, at least in a general way, the notion of an explicit exception from the reserved area for special or dissociable services.

⁷¹ Article 2(8) of the Postal Directive defines "direct mail" as "a communication consisting solely of advertising, marketing or publicity material and comprising an identical message, except for the addressee's name, address and identifying number as well as other modifications which do not alter the nature of the message, which is sent to a significant number of addressees, to be conveyed and delivered at the address indicated by the sender on the item itself or on its wrapping. . . . Bills, invoices, financial statements and other non identical messages shall not be regarded as direct mail. A communication combining direct mail with other items within the same wrapping shall not be regarded as direct mail.

Member States about the precise scope of the "special services" exception created by the Corbeau decision and by the definition of "direct mail" in the Directive. If the new directive permits continuation of reserved services under any circumstances, it may be appropriate to clarify these concepts.

3.3.3 VAT and corporate taxes

After the reserved area, tax treatment probably constitutes the second most important category of special legal treatment accorded universal service providers in most Member States. The universal service provider may be exempted in whole or in part from either taxes on sales, such as value added taxes (VAT), or taxes on profits.

Table 3.3.3 Postal services exempted from VAT

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

The applicability of VAT to the services of USPs varies among Member States. Three Member States (FI, SE, SI) do not exempt any postal services from the normal application of VAT. Two Member States (ES, LV) exempt only reserved services from VAT. The majority rule, however, is to exempt from VAT either all universal services (AT, BE, CZ, DE, DK, EE, FR, GR, LT, LU, MT, NL, SK) or all postal services provided by the USP (HU, IE, IT, PL, PT, UK). The scope of the VAT exemption for postal services is summarized in Table 3.3.3.

As a result, only five Member States apply VAT equally to the USP and to other postal operators either because there is no VAT or because VAT is limited to the reserved area. If the services of the USP are exempt from VAT while the services of competing postal operators are not, the result is to distort competition, generally in favor of the incumbent USP. Moreover, in the cross border competition among universal service providers, those with a larger "home base" protected by VAT exemption will have a competitive advantage. The Commission has proposed modernization of the VAT

exemption for postal services.⁷² This proposal, however, remains blocked in the Council and current distortions continue to disturb the markets. Recently, the Commission has sent formal requests for information to the United Kingdom, Germany, and Sweden on the VAT application of postal services.⁷³ Logically, the Commission should continue to urge that the Sixth VAT directive will be amended in order to establish identical VAT treatment of all postal operators.⁷⁴

Case study 3.7 VAT exemption for reserved services in Spain

In Spain, the VAT exemption for postal services provided by Correos S.A. was reduced as of 1 January 2006. Since then, only reserved services have been exempt from value added tax while non-reserved services are subject to VAT. Due to the liberalization of local traffic (as opposed to inter-city), the tax treatment of letter post services in Spain now appears relatively complex. The table below is a simplified version of the leaflet Correos provides to its customers.⁷⁵

Domestic items				Cross border			
Local		Inter-City		EU		Other countries	
≤ 50 g	> 50 g	≤ 50 g	> 50 g	≤ 50 g	> 50 g	≤ 50 g	> 50 g
VAT	VAT	Exempt	VAT	Exempt	VAT	Exempt	Exempt

Whether operational difficulties will arise from this differential tax treatment of reserved and non-reserved letter post services is unclear to date. However, it appears likely that separate fiscal accounts for different weight steps of letter post as well as urban/inter-city traffic may result in substantial additional administrative cost for the USP as well as its customers.

Another tax that may fall unevenly on postal operators is a tax on the corporate revenue. However, in their responses, only three Member States declared that corporate taxes are applied differently between the USP and private operators (CY, ES, FR).

⁷² See Proposal for a Council Directive Amending Directive 77/388/EEC as Regards Value Added Tax On Services Provided In The Postal Sector, COM(2003) 234.

⁷³ See IP/06/484 (10 April 2006).

⁷⁴ The special rights of the USP in respect to non-postal laws are often specified in Community and national legislation other than legislation devoted primary to postal services. For example, special rules for postal services relating to VAT are set out in Community VAT directives. This practice is not invariable, however. Special rules relating to the customs treatment of postal services are included in the Universal Postal Convention. The Postal Directive refers to, inter alia, the rights of USPs to locate boxes along site public highways (Article 8) and the rights of consumers in respect to relations with USPs (Article 19) even though access to public highways and consumers' rights are typically dealt in non-postal legislation as well. Whether or not special rights for USPs are addressed in "postal" legislation or "non-postal" legislation seems to us a matter of legislative choice and convenience rather than matter of legislative principle. If the VAT exemption for postal services is so significant that it threatens accomplishment of the Single Market in postal services (as it may be), then it could be considered an appropriate subject of "postal" as well as tax legislation.

⁷⁵ The table relates solely to services provided from the Spanish mainland (and the Balears). The Spanish original leaflet further distinguishes between the Spanish mainland on the one hand and the Canary Islands and the African exclaves Ceuta and Melilla on the other hand (where different taxes apply).

Conclusions

Although five Member States apply VAT equally to public and private operators, most give the USP the benefit of an exemption from VAT for all universal services or even of all postal services. To avoid distortions in the competition the Commission should continue to urge that the Sixth VAT directive will be amended. Another problem may be differences in the application of corporate tax laws in a few Member States.

3.3.4 Financing

To begin or expand a postal service requires a substantial investment. In simple terms, an normal company raises the money needed to start a new business or embark on a new activity by selling stock or borrowing money. Either source of financing comes at a price, the cost of capital. Private capital markets impose commercial disciplines on normal companies. The ability or inability of a company to sell stock or borrow money depends on the investors' evaluation of the soundness of the company's balance sheet and business prospects. As Member States move towards corporatization and liberalization of public postal operators, it may be necessary to ensure that government financing of public postal operators does not introduce distortions in the market.

Although 18 USPs are now public limited companies, only eight NRAs in this survey were able to provide a figure for the total capital investment (DK, FR, GR, HU, PT, SE, SI, UK). Most Member States reported that governments could not add capital to the USP without additional legislation, but there were notable exceptions to this rule (GR, IE, LT, PT, UK).

With respect to long term debt, five NRAs reported that the USP has the right to borrow money from the government (HU, IE, LT, LV, UK) while others declared that no such right exists.⁷⁶ None reported any current loans to the USP, however, and two (HU, UK) noted that government loans to the USP must be priced at commercial rates.⁷⁷ All USPs except Royal Mail are authorized to borrow from private sources.⁷⁸ Only three NRAs reported that the USP has borrowed substantial sums from private lenders. Most NRAs did not answer this question, implying a lack of knowledge. Borrowing from private lenders poses a competitive issue if, but only if, government has implicitly or explicitly guaranteed the success of the enterprise by, for example, granting a reserved

⁷⁶ The NRAs of GR, IT, LU, and NL did not answer or disclaimed knowledge in this area. Since the USP of Cyprus is a government department, the idea of borrowing from the government is inapplicable to Cyprus.

⁷⁷ The UK NRA reported a loan of UKP 590 million to Royal Mail, but this appears to be initial capital rather than a loan.

⁷⁸ No answers were received from IT, NL. The Cypriot USP, a government department, is not included in this statement.

area. In such case, the USP may be able to secure debt financing at a lower cost than private competitors. Almost all NRAs reported that the government is not liable for the debts of the USP.⁷⁹

Conclusions

The cost of capital is a significant cost of doing business in the postal sector. As Member States move towards corporatization and liberalization of public postal operators, it may be necessary to ensure that government financing of public postal operators does not introduce distortions in the market. This issue appears to have received relatively little attention so far in most Member States.

3.3.5 Customs procedures

"Trade and customs procedures practices . . . affect the price of traded goods, the ability of governments to collect border-related trade taxes and the geographical location of supply chains," declares a recent study by the OECD.⁸⁰ Equal application of customs procedures to all postal operators is, therefore, a significant factor in creating an undistorted postal services market.

Documents and parcels transported by universal service providers have traditionally been afforded different customs treatment from those transported by private operators. The Universal Postal Convention (2004) provides simplified customs documentation for use by postal administrations and limitations on the liability of postal administrations. The Convention, however, does not require governments to limit these privileges to postal administrations.⁸¹ Nor is it entirely clear to what extent such customs privileges should be or must be accorded to the commercial shipments of USPs.

This survey suggests both substantial variation among Member States in how UPU-type customs procedures are applied and a lack of focus by NRAs on this issue. Overall, nine of 25 NRAs did not respond to questions regarding the scope of the services receiving the benefit of UPU-type customs procedures. Among those that did respond,

⁷⁹ Cyprus is an exception since the USP is a government department. Three NRAs did not answer this question (IT, MT, NL).

⁸⁰ OECD (2005), *The economic impact of trade facilitation*, p. 4.

⁸¹ Article 18 of the Universal Postal Convention (2004) says merely that, "The postal administrations of the countries of origin and destination shall be authorized to submit items to customs control, according to the legislation of those countries." Nonetheless, Regulation RL 152, adopted by the UPU's Postal Operations Council, sets out simplified documentation for use by postal administrations. Article 22(3) declares, "Postal administrations shall accept no liability for customs declarations in whatever form these are made or for decisions taken by the Customs on examination of items submitted to customs control".

four indicated that UPU customs procedures were limited to the clearance of letter post and parcel post items of low value, i.e., valued less than € 250 (BE, FR, SE, UK).⁸² Other NRAs indicated that UPU procedures are available to the USP for the clearance of competitive products such as high value postal parcels and express items.⁸³ When all products are competitive, the potential for competitive distortions will obviously increase. Remarkably, 10 NRAs (BE, CY, CZ, EE, FR, GR, LV, MT, SE, SK) declared that postal operators *other than the USP* may make use of UPU-defined customs procedures for the importation of similar postal items, while nine NRAs state the opposite (DK, HU, IE, LT, LU, NL, PL, SI, UK). On the other side of the coin, relatively few NRAs are aware of the existence of expedited clearance procedures developed for express shipments imported by private operators or whether the USP can make use of such procedures.⁸⁴

Conclusions

Differential application of customs procedures has the potential to distort significantly the operation of liberalized postal markets. The special customs procedures developed by the UPU appear to be available to USPs for competitive products such as parcels and express services as well as for reserved services although this practice varies among Member States. Competitive distortions created by UPU customs privileges will become still more significant after full liberalization. Whether or not UPU-type customs procedures are also made available to postal operators other than the USP appears to be unclear. Generally, NRAs do not seem well informed about the effects of UPU-based customs procedures on the postal services market.

3.3.6 Access to the public postal network

In the Postal Directive, the *public postal network* is defined as "the system of organization and resources of all kinds used by the universal service provider(s) for the purposes in particular of the clearance of postal items covered by a universal service obligation from access points throughout the territory; the routing and handling of those items from the postal network access point to the distribution centre; [and the] distribution to the addresses shown on items". The public postal network is a vast network of physical and informational resources built up at public expense. As postal service markets become more competitive, some private operators and their customers have sought access to portions of the public postal network without paying for use of the entire system. Large mailers, for example, would like to buy only the delivery services of the USP without paying for collection and transportation. Some private

⁸² The UK NRA, Postcomm, was unclear about the range of postal parcels covered by UPU procedures.

⁸³ Incredibly, two NRAs (CY, LV) declared the UPU customs procedures were not available for the letter post but were available for high value parcels.

⁸⁴ Only nine NRAs are aware of the availability of expedited procedures for express items carried by private operator. Only one of these (SK) says the USP is not permitted to use such procedures.

delivery companies would like to bypass virtually the whole gamut of end-to-end services and just pay the USP whatever it takes to maintain a "post office box". In some cases, private delivery services and direct mailers would like buy access to some of the USP's database systems without necessarily buying any universal service. Member States have adopted different policies in respect to different sorts of access.

A common issue is "downstream access". Suppose a competitive postal operator or a large mailer would like to purchase only downstream services, without collection and transportation. Can the NRA require the USP to provide unbundled downstream services at a price geared to cost? Seven Member States have granted the NRA authority to require downstream access to the public postal network under appropriate circumstances (DE, DK, FR, HU, PT, SI, UK) while other Member States have not. Three NRAs report that they have used this authority to encourage or compel access (DE, DK, PT).⁸⁵ Two other NRAs indicated that, once the USP has granted access to one customer, they have required the USP to give downstream access to all customers on a non-discriminatory basis (IT, LT).⁸⁶

Case study 3.8 Downstream access in France, Germany, and the UK

Whether or not regulators should require downstream access currently is a controversially debated issue in the Member States as well as on Community level. This case study summarises the situation in the three largest postal markets of the Community.

In **France**, La Poste has provided downstream access since the early 1980ies (at the latest), and a market for consolidation has developed for more than 20 years. Downstream access was provided by La Poste in the absence of a requirement to do so. As La Poste itself became increasingly active in the consolidation business, SNELPD—an association for providers of logistics and direct mail—alleged the USP of anti-competitive conduct and filed a complaint with the European Commission. In 2001, the Commission decided that French practice was violating EC competition law and called for an independent NRA to control prices and tariffs related to downstream access. Since adoption of the new postal law in 2005, ARCEP, the French NRA, is authorised to require downstream access and determine access condition. ARCEP reported not to have taken such decisions to date. The French market for upstream service in France was estimated to approx. € 1 billion in 2004. It thus appears clear that consolidators play a significantly more important part in France than in most other Member States. As regards the market share of consolidators, estimations provided by La Poste confirm that approximately half of all letter post items delivered in France are handled by consolidators.

In **Germany**, market dominant postal licensees are obliged to grant competitors access to portions of its network at rates considered reasonable and competitive by the NRA. In its first access case in 2000, BNetzA (formerly RegTP) determined lawful rates for downstream access to the network of Deutsche Post AG (DPAG), the German USP. BnetzA adopted the principle that the price for access to DPAG's network should be set at the retail price for the postal service at issue less the USP's avoided costs. Compared to retail tariffs, the highest discounts determined by BnetzA amounted to 23 percent. In 2003, BnetzA adopted a price cap regime for many of DPAG's services; this regime incorporated the principles of the earlier access case. However, the interpretation of German postal law did not allow for downstream access within the reserved area. This limitation effectively barred consolidators from access to discount tariffs that DPAG offered to large customers. In February 2005, the German competition authority—

⁸⁵ Although the Irish NRA lacks authority to compel downstream access, it has encouraged the USP to grant access.

⁸⁶ See also section 4.2.1.2 for further discussion and WIK-Consult (2005b), The evolution of the regulatory model for European postal services, p. 94.

taking on a case initiated by the European Commission (DG Competition)—obliged DPAG to provide downstream equal access to both mailers and consolidators. Following a provisional approval of the decision by administrative courts in April 2005, many consolidators have reached access agreements with DPAG under the terms determined by the NRA. While the German NRA reports that operations of consolidators have gained momentum since mid 2005, no quantitative information on the share of volume handled by consolidators is available to date.

In the **United Kingdom**, Royal Mail is required to provide, at rates that reflect a reasonable allocation of costs, to CPOs access to its postal facilities and delivery systems. UK Mail, a CPO with a mail consolidator licence, started negotiations with Royal Mail over access prices in November 2001. After negotiations failed, UK Mail requested Postcomm to determine a reasonable access price and Postcomm proposed an approach towards access prices for UK Mail, based on the cost of the downstream service. Under pressure from the Postcomm proposal, Royal Mail resumed negotiations with UK Mail and reached a “voluntary” agreement in February 2004; followed by agreements with other CPOs. Compared to retail tariffs, discounts for downstream access may be as high as 50 percent. In October 2004, Royal Mail introduced “zonal” access charges in an agreement with another party (“direct customer access”). Following complaints from licensed operators, Postcomm found this agreement to be anti-competitive and proposed a fine on Royal Mail in 2005. A final decision by Postcomm on access charges including “zonal pricing” is expected to be taken during the 2006 price control. As regards the market impact of downstream access, Postcomm reported that in 2005, only about three percent of all correspondence (letters below 350 gram and £ 1.) was handled by consolidators and delivered by Royal Mail under access agreements.

The post office box, a box located in an office of the USP and used for the receipt of mail, is another element of the public postal network to which a private operator might reasonably seek access. Five Member States (DE, FR, NL, PT, SE) have given their NRAs authorization to require access to the post office box, and at least two regulators have made use of this authority (DE, SE). Other Member States have not given the NRA authority over access to the post office box.

Case study 3.9 Access to PO boxes

Access to post office boxes maintained by the USP is highly important in a competitive postal market. Without such access, competitive postal operators practically cannot deliver mail addressed to PO boxes for two reasons. First, the competitive postal operators would incur extra cost for identifying the street address of the recipient. Second, receivers that have chosen to rent a PO box have done so because they prefer to have all their mail delivered to this PO box. Delivery to their street address would not only be more costly for the CPO, but would as well have detrimental effects on final recipients.

On the one hand, this need does not necessarily justify regulation of access to PO boxes since there is a possibility for CPOs to negotiate access terms with the USP. On the other hand, however, the USP is in a very favourable position in such negotiations as it is the only possible contractor for CPOs. In addition to a complete refusal of access to PO boxes, USPs are in a position to set unfavourable conditions for this access. For example, they may charge excessive prices, or accept mail addressed to PO boxes only at unfavourable hours.

To avoid potential anti-competitive behaviour by USPs, several postal jurisdictions have authorised NRAs to require and set conditions for access to PO boxes (DE, FR, NL, PT, SE). Interestingly, not all NRAs in these Member States found it necessary to actually require access or determine terms of access. Only the Swedish and German NRAs did so while access terms

were negotiated between operators in the Netherlands and the UK (we are not aware of experiences to date with the regulatory provisions on this matter established by the 2005 French postal law). Even where NRAs have not actively influenced access to PO boxes, it appears that they have had an important role as mediators and the possibility of regulatory action may have benefited negotiations between USPs and CPOs.

The database of valid physical addresses and the database of address changes comprise less intangible, but not less important, elements of the public postal network. Incorrect addressing by senders is a basic problem for all postal operators. In each Member State, the USP has the most extensive and up-to-date address database because of its position as the official, and historically the exclusive, provider of universal services. Competition in the postal services market will be inhibited if the USP is able to retain exclusive use of this element of the public postal network. Moreover, from a social standpoint, it is wasteful to increase the number of unsuccessful delivery attempts by denying other postal operators access to a database of valid addresses. For such reasons, five Member States have authorized the NRA to require the USP to give access to the address and change of address databases (DE, DK, FR, MT, UK). In addition, in Sweden, Sweden Post and the second largest postal operator, CityMail, have established a jointly owned corporation to maintain a national address database.

Another feature of the public postal network which a private operator might need is its capacity for the return of misaddressed mail. Like the USP, private operators deliver some mail that is incorrectly addressed by the sender or simply delivered to the wrong address by the operator. In many cases, recipients of this mail give it to the USP for return to the sender. The USP, however, may be unwilling to perform this service for its competitor, especially if it is not specifically compensated. In eight Member States, the NRA is empowered to define common operational procedures to deal with such return mail (CY, DE, FR, IE, LT, PT, SE, UK).⁸⁷ In three Member States, USPs and private operators have voluntarily developed contractual arrangements to ensure return of misaddressed mail (HU, NL, SE).

In the UK, Postcomm has pioneered development of a broad new legal framework to provide for a level playing field and cooperation among postal operators in a liberalized environment. Postcomm has adopted a standard licensing scheme that in principle applies to all postal operators including the USP. It has also promulgated two codes of practice to protect the integrity of mail and promote common operational procedures. The operational code addresses matters such as marking of postal items so the addressee can identify the carrier or carriers, return of misdirected mail, and customer inquiries. All postal operators are required to abide by the terms of these codes (or acceptable alternatives).⁸⁸

⁸⁷ The Netherlands expects to adopt legislation addressing this issue in the near future.

⁸⁸ UK Postcomm (2005g, h, i), Licences under the Postal Services Act 2000: Licensing framework in a fully open market; Protecting the integrity of mail – A Code of Practice; and Postal Code of Practice for

Conclusions

As competition has developed in postal markets, some Member States have begun to assess whether the USP's unique access to the public postal network poses a threat to the undistorted operation of the market or public interest generally. While most Member States have not mandated access to the constituent elements of the public postal network, a consensus seems to be emerging among leading postal reform jurisdictions that the NRA should ensure an appropriate level of access to the downstream services of the USP, post office boxes, address databases, and the ability of the USP to ensure the return of misaddressed mail to the sender.

3.3.7 Access to the public transport infrastructure

Another set of special rights sometimes accorded the USP involves access to the public transport infrastructure. In this survey we posed a few preliminary questions to evaluate this area.

It appears common to give the USP special rights to facilitate local collection of postal items but less common in respect to local delivery. Thirteen Member States grant the USP special or exclusive rights in the placement of collection boxes along public streets (AT, CY, ES, GR, HU, IE, IT, LU, NL, PL, PT, SK, UK). The other twelve Member States say they do not do so. Four Member States allow the USP special rights in respect to the operation of local delivery vehicles (GR, IE, NL, UK). Most of the other NRAs denied that such special rights are provided the USP.⁸⁹

In regard to access to long distance truck and aviation transportation, it appears from this survey that USPs have almost no special rights. No Member State confirmed special rights in respect to the operation of aircraft (for example, the right to operate late night flights) and only one Member State agreed that special rights were granted to the USP for operation of inter-city trucks (FR).

Conclusions

By a slight majority, Member States provide the USP special rights to locate mail collection boxes along public roads. To a significantly lesser extent, Member States give the USP special rights in the operation of local delivery vehicles. In other respects, however, USPs appear to enjoy little or no special access to the public transport infrastructure.

common operational procedures. The three Postcomm decision documents adopting this new regulatory framework total 283 pages.

⁸⁹ Three NRAs did not respond (AT, IT, PT).

3.4 Authorization of postal operators

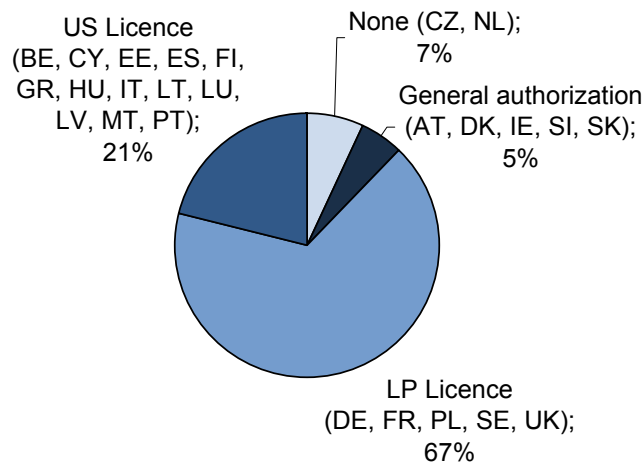
3.4.1 Authorization of postal operators inside the universal service area

Article 9 of the Postal Directive declares that for “non-reserved services that are within the scope of the universal service”, Member States may introduce “*authorization procedures, including individual licences, to the extent necessary in order to guarantee compliance with the essential requirements and to safeguard the universal service.*” The Directive provides for two types of authorization: (1) a *general authorization* and a *individual licence*. The essential difference between the two is that an individual licence requires the operator to obtain specific approval from regulatory authorities before starting operations whereas a general authorization does not.⁹⁰

The Directive thus offers several options for authorization of postal operators within the universal service area. A Member State may wholly refrain from establishing authorization procedures. In the absence of authorization procedures, a Member State may require the USP to maintain universal service with or without the benefit of a reserved area and allow other postal operators to provide services within the universal service area under the same rules that apply to other commercial activities. Alternatively, a Member State may require postal operators offering services within the universal service area to obtain either a general authorization or an individual licence to supply some or all universal services. One portion of the universal service area could be subject to an individual licence while another portion may be subject to a general authorization or to no authorization at all.

⁹⁰ The Postal Directive § 2 defines “individual licence’ to mean an authorization which is granted by a national regulatory authority and which gives an undertaking specific rights, or which subjects that undertaking’s operations to specific obligations supplementing the general authorization where applicable, *where the undertaking is not entitled to exercise the rights concerned until it has received the decision by the national regulatory authority*” [emphasis added]. The same article defines “general authorization” to mean “an authorization, regardless of whether it is regulated by a ‘class licence’ or under general law and regardless of whether such regulation requires registration or declaration procedures, *which does not require the undertaking concerned to obtain an explicit decision by the national regulatory authority before exercising the rights stemming from the authorization*” [emphasis added].

Figure 3.4.1 Evaluation of authorization systems in universal service area



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

As a practical matter, four approaches to authorization of postal operators have emerged among the Member States.

- Individual licence for all universal services (including parcels)
- Individual licence for some or all letter post services
- General authorization for all universal services
- No authorization procedure

Figure 3.4.1 shows the prevalence of these authorization procedures in the Community. Most Member States have introduced individual licences for all universal services including parcel services, the most restrictive approach towards regulation of universal services permitted by the Directive (BE, CY, EE, ES, FI, GR, HU, IT, LT, LU, LV, MT, PT).⁹¹ However, the largest Member States and several smaller Member States, accounting for more than three-quarters of the Community's letter post, have introduced more liberal approaches. Five Member States (DE, FR, PL, SE, UK) require licences for some or all letter post services within universal service area. In Germany, a licence is

⁹¹ Since, in general, postal services outside the reserved were not subject to authorization procedures prior to the Postal Directive, it is not clear why it is necessary to subject the entire universal service area to a system of individual licences. Article 9 of the Postal Directive states that "Member States may introduce authorization procedures, including individual licences, to the extent necessary in order to guarantee compliance with the essential requirements and to safeguard the universal service". In this survey, we asked Member States whether they had prepared or endorsed an economic study demonstrating why a program of individual licences, rather than general authorizations, is necessary to safeguard the universal service. All Member States with such procedures replied in the negative (or, in a few cases, did not reply at all).

required for carriage of letter post items weighing not more than 1000 grams.⁹² In the United Kingdom, a licence is required for carriage of letters weighing less than 350 grams and charged less than UKL 1.00 (€ 1.45) for carriage.⁹³ In France, an authorization procedure has not yet been implemented, but a 2005 amendment to the postal law limits authorizations to services for the carriage of items of correspondence.⁹⁴ In Sweden and Poland, a licence is required to provide regular delivery of letters weighing up to 2000 grams.⁹⁵ In five Member States, a general authorization procedure has been implemented (AT, DK, IE, SI, SK), and in two other Member States there are no authorization procedures (CZ, NL).

As noted, according to the Directive authorization procedures are to be employed "*to the extent necessary in order to guarantee compliance with the essential requirements and to safeguard the universal service.*" "Essential requirements" refers to public interest objectives of a non-economic nature.⁹⁶ "Universal service" refers to the regular nationwide delivery of documents and parcels by a universal service provider.⁹⁷ Hence, within the universal service area an authorization may be subject to two categories of obligations: (1) those necessary to ensure compliance with "essential requirements" and (2) those necessary to safeguard universal service.

"Essential requirements" include certain non-economic objectives such as confidentiality of correspondence, security of the network as regards the transport of dangerous goods, data protection, environmental protection, and regional planning. This category of obligations has a negligible effect on the postal sector as distinct from other sectors and will not be considered further.

Obligations necessary to "safeguard the universal service" may include one or more of the following four types of obligations:⁹⁸

- universal service obligations "where appropriate";
- requirements concerning quality, availability and performance of relevant services "if necessary";⁹⁹

⁹² German Post Law § 5. The licensed area excludes courier services and certain other services.

⁹³ U.K. Postal Services Act (2000) §§ 6-7.

⁹⁴ France, Post and Electronic Communications Code § L-3 (as amended 2005).

⁹⁵ Postal Act 1993, as amended, §§ 3-4; Polish Postal Act 2003, as amended, § 6.

⁹⁶ Postal Directive § 9(2). Postal Directive § 2 defines "essential requirements" to mean "general non economic reasons which can induce a Member State to impose conditions on the supply of postal services. These reasons are the confidentiality of correspondence, security of the network as regards the transport of dangerous goods and, where justified, data protection, environmental protection and regional planning".

⁹⁷ Precisely which postal services are "within the scope of the universal service" is not entirely self-evident. For example, are irregular or localized services "within the scope of the universal service"?

⁹⁸ Postal Directive §§ 9(2), 9(4).

⁹⁹ Article 19, as amended in 2002, permits a Member State to require a postal operator other than the USP to fulfill obligations relating complaints and redress. For the purposes of this discussion, conditions relating to complaint and redress procedures are considered as one type of condition relating to the performance of services within the universal service area.

- an obligation not to infringe on the reserved area or special rights of the universal service provider; and
- an obligation to contribute to a universal service compensation fund.

Obligations which exceed those necessary to ensure essential requirements (ER) and safeguard universal service appear to be inconsistent with the Directive. Examples include obligations to meet minimal capital requirements, give financial guarantees, or demonstrate technical or operational competence. An obligation to provide information to the NRA seems logically necessary to the administration of the Directive and therefore is not considered an obligation outside the contemplation of the Directive

Table 3.4.1 Authorizations in universal service area

MS	Type of auth.	Conditions to ensure ER	Conditions to ensure US	Conditions to ensure other requirements	Applies equally to all operators?
AT	GA	?	C	?	Yes
BE	USLic	ABCD	BDE		No
CY	USLic	ABCD	ABCDE	AB	Yes
CZ	None				
DE	LPLic	AC	DE	ABC	Yes
DK	GA				No
EE	USLic				Yes
ES	USLic				No
FI	USLic	A	ABC	B	Yes
FR	LPLic	ABCD	BCDE	ABC	Yes
GR	USLic	ABCD		B	No
HU	USLic	ABC	BCD	AB	No
IE	GA	ABCD	CD		No
IT	USLic	ABCD	DE		No
LT	USLic	ABC	CD	BC	Yes
LU	USLic	ABC			No
LV	USLic	ABC	ABD		Yes
MT	USLic	ABC	ABCD		Yes
NL	None				
PL	LPLic	AC	BCD	BC	No
PT	USLic	ABCD	DE	B	No
SE	LPLic	A	ABC	A	Yes
SI	GA	ABC	DE		Yes
SK	GA	ACD	BCD		Yes
UK	LPLic	AC	BC	ABC	Yes
Key:					
Conditions to ensure ER: A = Confidentiality of correspondence; B = Restrictions on dangerous goods; C = Data protection requirements; D = Environmental protection requirements					
Conditions to ensure US: A = Obligation to provide all or part of universal service; B = Quality, availability, performance, or price standards; C = Proper response to complaints; D = Non-infringement of reserved area of USP; E = Contribution to universal service fund					
Conditions to ensure other: A = Minimal capital or financial guarantees; B = Technical or operational competence; C = Other restrictions; use Notes box to explain					
Notes:					
AT GA procedure not operational until 2006; details unknown.					

Table 3.4.1 lists the types of obligations that Member States have attached to authorizations for postal operators providing postal services inside the universal service. Seventeen of the 21 Member States requiring authorization to provide universal service have included obligations designed to safeguard universal service. Eleven of these Member States, accounting for almost three-quarters of the Community market, have also introduced further conditions which arguably exceed the scope of what is envisioned by the Directive (CY, DE, FI, FR, GR, HU, LT, PL, PT, SE, UK). This may indicate excessive control of universal services or it may suggest the new directive should permit imposition of additional obligations on providers of universal service.

Table 3.4.2 Authorizations in universal service area by year

MS	Year NRA began	1998	1999	2000	2001	2002	2003	2004	2005
CY	2002	0	0	0	0	0	0	1	1
DE	1998	0	0	775	860	860	1,020	1,195	1,374
DK	1995	1,657	1,842	1,895	1,940	1,935	1,959		
EE	2002					1	1	1	1
ES	1998			326	396	441	470		
FI	1994	0	0	1	1	1	1	1	1
GR	1998		0	0	0	1	1	2	6
IE	2002			0	0	0	0	23	29
IT	1999	0	0	228	263	307	331	198	211
LT	2002							11	11
LU	2000	0	0	0	15	17	18	18	18
LV	2001				19	23	27	33	
MT	2003						0	1	1
PL	2002	19	21	12					105
PT	1981				1	3	3	3	5
SE	1994	80	64	46	41	35	33	36	36
SI	2002					5	12	19	13
SK	2002					7	13	14	18
UK	2000								10

Notes:
 AT GA procedure not operational until 2006.
 BE Licence procedure not operational until 2006
 FR Licence procedure not yet implemented as of early 2006

A more fundamental issue is whether an authorization procedure inhibits competition. The best objective test of whether an authorization regime acts as a barrier to entry into the universal service area appears to be the number of authorizations granted, although such numbers must be interpreted with caution.¹⁰⁰ See Table 3.4.2. Where a Member State requires a individual licence to provide universal service but has authorized no postal operator or only one postal operator in addition to the USP, it seems reasonable

¹⁰⁰ It should be noted that for the 5 Member States that employ letter post licences (DE, FR, PL, SE, UK) reported figures are not comparable to figures for Member States that employ universal service licences because the number of authorised postal operators does not include operators providing universal services outside the licensed area. Likewise, the number of postal operators operating in the universal service area in 4 Member States (AT, CZ, DK, NL) are not included in this table because they have no authorization regimes at all. Moreover, in some Member States postal operators provide services within the universal service area without official authorization.

to surmise that obligations associated with such licences – or the failure to provide for the issuance of such licences – may in fact constitute a significant barrier to entry. From Table 3.4.2, it appears that 6 authorization schemes may have an inhibiting character (CY, EE, FI, HU, MT, PL). We do not include Belgium and France since they have not yet implemented their authorization systems and it may be presumed that there are existing postal operators in these markets providing universal services outside the reserved area.

A final requirement of the Directive is that authorization procedures must be "transparent, nondiscriminatory, proportionate and based on objective criteria".¹⁰¹ In this survey, several NRAs declared that the authorization system did not apply equally to the USP and other postal operators, frequently noting the USP was authorised by statute whereas other postal operators were not (BE, ES, GR, HU, IE, IT, LU, PL, PT, UK). Other Member States stated that the authorization procedure does apply equally to all postal operators. While a firm conclusion would require further investigation, it does not appear that authorization procedures are in all cases truly "transparent, nondiscriminatory, proportionate and based on objective criteria" in respect to all postal operators in all Member States.

Table 3.4.3 Evaluation of authorization systems in universal service area

MS	Type of auth.	Multiple Lic or GA	No Excess Con	Equal treatment
AT	GA	?	?	?
BE	USLic	X	X	
CY	USLic			X
CZ	None	None	None	None
DE	LPLic	X		X
DK	GA	X	X	
EE	USLic		X	X
ES	USLic	X	X	
FI	USLic			X
FR	LPLic	X		X
GR	USLic	X		
HU	USLic			
IE	GA	X	X	
IT	USLic	X	X	
LT	USLic	X		X
LU	USLic	X	X	
LV	USLic	X	X	X
MT	USLic		X	X
NL	None	None	None	None
PL	LPLic			
PT	USLic	X		
SE	LPLic	X		X
SI	GA	X	X	X
SK	GA	X	X	X
UK	LPLic	X		

Notes: AT GA procedure not operational until 2006; details unknown.

¹⁰¹ Postal Directive § 9(3).

Table 3.4.3 offers a summary of the situation with respect to authorization procedures for postal services within the universal service area. What emerges is a mixed picture. In about 12 percent of the Community (measured by letter post volume), no or minimal authorization procedures have been introduced. In 67 percent of the Community, authorization procedures have been introduced for the carriage of letter post items, essentially replacing the reserved area with a more light-handed but still significant form of control. In 13 Member States, comprising 21 percent of the Community letter post, authorization procedures have been introduced for the entire universal service area. Introduction of universal service licences may have the effect of inhibiting competition especially in five Member States, 5 percent of the Community, where no authorizations for competing postal operators have been granted in fact.¹⁰² Where authorization procedures have been introduced, it appears that in the majority of Member States the authorizations include obligations that exceed what is envisioned by the Directive. In about half the Member States, authorization procedures have not been applied in a wholly non-discriminatory manner in respect to the USP and other postal operators.

Conclusions

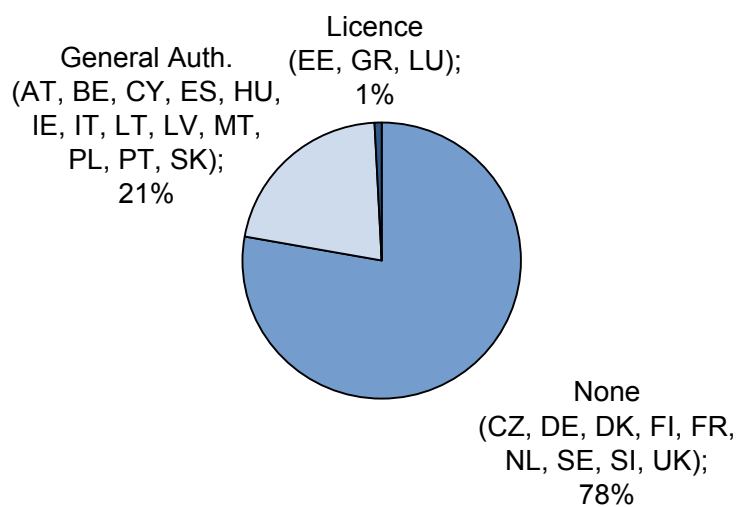
Generally, authorization procedures have given Member States a more flexible way of regulating services within the universal service and thus have helped pave the way for liberalization. The largest Member States and some others, accounting for about 68 percent of the EU letter post market, have used the authorization provisions in the Directive to impose a more light-handed but still significant control on segments which had originally been reserved. Authorization procedures have not been used to a significant extent in about 12 percent of the Community market and perhaps overused (because they extend to entire universal service area) in 21 percent of the market. Where authorization procedures have been introduced, it appears that the great majority of Member States have included obligations that exceed what is envisioned by the Directive. These departures may suggest a need for greater clarity in the new directive.

¹⁰² Omitting Austria, which has not started its authorization procedure.

3.4.2 Authorization of postal operators outside the universal service area

Article 9 of the Postal Directive also provides for authorization procedures for services *outside* the universal service area. It declares, “For non reserved services which are outside the scope of the universal service as defined in Article 3, Member States may introduce general authorizations to the extent necessary in order to guarantee compliance with the essential requirements.”¹⁰³ Thus, only general authorizations, not individual licences, may be employed.

Figure 3.4.2 Evaluation of authorization systems outside universal service area



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

Figure 3.4.2 summarizes use of authorization procedures for non-universal services. Nine Member States representing almost 80 percent of the Community do not require authorization for services outside universal service area (CZ, DE, DK, FI, FR, NL, SE, SI, UK). Thirteen Member States require a general authorization (AT, BE, CY, ES, HU, IE, IT, LT, LV, MT, PL, PT, SK). Three Member States appear to require individual licences rather than general authorizations since in these Member States the postal operator is not permitted to begin operations without receiving explicit approval from the government (EE, GR, LU). These authorizations may apply to all non-universal postal services or only to certain non-universal services such as delivery services for parcels weighing more than the limit for universal services or express services.

¹⁰³ § 9(1).

Table 3.4.4 Authorization regimes and conditions for services outside universal service area

MS	Type of authorization	Scope	Conditions to ensure essential requirements	Conditions to ensure other requirements
AT	GA	Postal services		
BE	GA	Postal services	ABCD	C
CY	GA	Express/parcel services	ABCD	C
DK	None			
EE	Lic	Express/parcel services	ABC	E
ES	GA	Express/parcel services		
GR	Lic	Express/parcel services	ABCD	BCFG
HU	GA	Express/parcel services	ABC	BC
IE	GA	Express/parcel services	ABCD	BC
IT	GA	Express/parcel services	ABCD	C
LT	GA	Express services	ABC	BC
LU	Lic	Other	ABC	BC
LV	GA	Express/parcel services	ABC	C
MT	GA	Express/parcel services		
PL	GA	Express/parcel services		
PT	GA	Express services	ABCD	BCG
SK	GA	Express/parcel services	ACD	BC

Notes:
No authorization procedures for services outside the universal service area in CZ, DE, DK, FI, FR, NL, SE, SI, UK
GR Scope: Courier services, advertising items without addresses, preparation of postal items, document exchange
LU Scope: Correspondence, parcels, direct mail, periodicals and newspapers outside the reserved area.
Key:
Conditions to ensure essential req.: A = Confidentiality of correspondence; B = Restrictions on dangerous goods;
C = Data protection requirements; D = Environmental protection requirements
Conditions to ensure other req.: A = Quality, availability, performance, or price standards;
B = Proper response to complaints; C = Non-infringement of reserved area of USP;
D = Contribution to universal service fund; E = Minimal capital or financial guarantees;
F = Technical or operational competence; G = Other restrictions; use Notes box to explain

For services outside the universal service area, Member States may impose obligations to ensure compliance with essential requirements. In addition, Article 19 authorizes Member States to oblige postal operators outside the universal service area to respond to user complaints in an appropriate manner. As shown in Table 3.4.4, ten Member States have also included an obligation to respect the reserved area.¹⁰⁴ In a very few cases, other conditions are imposed as well.

¹⁰⁴ While Article 22 of the Directive declares that NRAs "shall, where appropriate, establish controls and specific procedures to ensure that the reserved services are respected", some persons may consider it excessive to use administrative procedures to deprive a private company of the right to provide services outside the universal service area—for example, heavy parcel and express services—if it commits an infringement of the reserved area. Appropriate penalties for infringement of the reserved area are generally specified in other parts of the law together with appropriate procedural protections for the accused. The Directive itself expressly approves conditioning authorization on respect for the reserved area only in the context of authority to provide services within the universal service area. See Article 9(2).

Table 3.4.5 Development of authorizations outside universal service area, 1998-2005

MS	Year NRA began	1998	1999	2000	2001	2002	2003	2004	2005
CY	2002	0	0	0	0	0	0	11	12
CZ	2005			2	9	11	18	20	
DE	1998	165	600						
EE	2002					14	23	25	32
ES	1998		1423	1738	1919	2108	2304		
GR	1998	0	152	174	224	262	295	266	301
HU	1990	0	0	0	0	6	51	43	96
IE	2002			0	0	0	0	23	29
IT	1999	0	0	820	1029	1232	1356	1175	1145
LT	2002	0	0	0	0	39	65	71	75
LV	2001				0	0	0	33	
MT	2003						0	0	9
PL	2002	0	0	0	0	0	0	0	105
PT	1981				5	7	11	10	41
SK	2002					7	13	14	18

Notes:
CZ Authorization not required after 2004

The growth of authorizations for postal services outside the universal service area is set out in Table 3.4.5.

An absence of equal treatment for all postal operators in respect to authorization procedures may be an issue in some Member States (EE, IE, IT, LU, PL, PT) although the light-handed nature of regulation outside the universal service area makes this less of a problem in practice.

Conclusions

In ten Member States, accounting for almost 80 percent of the Community postal, postal operators provide services outside the universal service area without any authorization procedure. Generally light-handed procedures prevail in the remaining 20 percent of the Community. In a few Member States, there may be possible problems due to imposition of excessive obligations and lack of non-discriminatory treatment.

3.4.3 Universal service funds

In connection with authorization procedures, the Postal Directive permits a Member State to establish a “compensation fund”. The Directive explains that the purpose of the compensation fund as follows: “In order to ensure that the universal service is safeguarded, where a Member State determines that the universal service obligations, as provided for by this Directive, represent an unfair financial burden for the universal service provider, it may establish a compensation fund administered for this purpose by a body independent of the beneficiary or beneficiaries.”¹⁰⁵ According to the Directive, a Member State may “may make the granting of authorization subject to an obligation to make a financial contribution to that fund.” Since an authorization to provide services outside the scope of the universal service may only be conditioned on compliance with non-economic essential requirements, it appears that only postal operators authorized to provide services within the scope of universal service can be required to contribute to the compensation fund.

Nine Member States have made provision for universal service fund in their laws (BE, CY, DE, ES, FR, GR, IT, PT, SI). However, only one Member State, Italy, has actually created a compensation fund. Prior to doing so, the Italian NRA did not specifically determine that the universal service obligation constituted an unfair burden on the USP even though such a determination would seem called for by the Directive. In any case, the NRA of Italy reports that the universal service fund does not make a significant contribution to sustaining universal service.

More generally, it is unclear from the Directive how a universal service burden could be considered “unfair” if a reserved area has been established since the reserved area is, under Article 7, supposed to be sufficient to ensure maintenance of universal service. The Directive fails to indicate whether, or to what extent, the universal service fund is intended to serve as an alternative to the reserved area as a way of funding universal service. Nor does the Directive provide guidance on how to calculate the burden of universal service. Indeed, it is also unclear whether a burden resulting from universal service obligations in excess of the minimum required by the Directive may be considered a proper justification for establishing a compensation fund.

Conclusions

Although nine Member States have authorized creation of universal service fund, only one Member State has actually done so. Even in this case, it appears that the economic needs and requirements for such a fund were not closely scrutinized. More generally, the precise role, purpose, and financing of the universal service fund in the current Directive are not clearly specified.

¹⁰⁵ Postal Directive § 9(4).

3.5 Tariff principles

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

3.5.1 Scope and principles of price regulation

Article 12 provides that “for each of the services forming part of the provision of the universal service” prices must be “geared to costs”, “transparent and non-discriminatory”, and “affordable”. These few words imply a broad range of price controls.

In the first place, the Directive requires regulation of *each service* forming part of the universal service. In principle, almost all Member States do so, although there are five exceptions. Luxembourg and Hungary impose price controls only on reserved services. Belgium regulates the prices of reserved services and universal services used by private consumers and small and midsize companies. Cyprus and Germany regulate only those universal services in which the USP is market dominant. In practice, as discussed below, the actual extent of regulatory control over individual agreements and special tariffs is open to question in many other Member States.

Table 3.5.1 Principles of price regulation

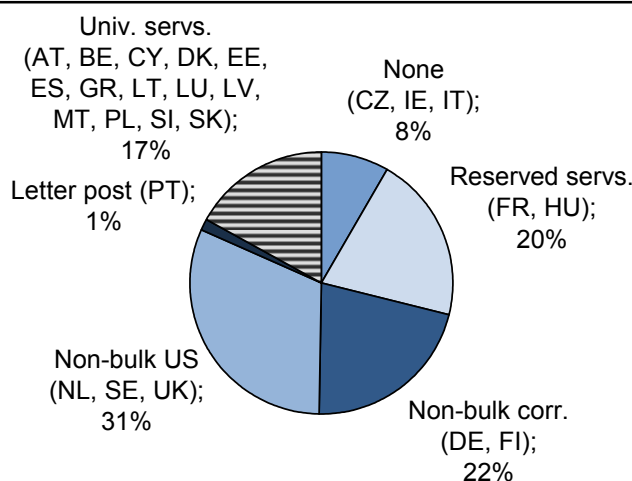
MS	Scope of price regulation	Benchmark for regulating costs	NRA determines product costs	NRA determines product volumes	NRA regulates productivity
AT	US				
BE	US	Price index	No	No	No
CY	US (md)	Past costs			
CZ	US	Efficient costs	No	No	No
DE	US (md)	Efficient costs	No	Yes	Yes
DK	US	Price index			
EE	US	Future costs	No	No	No
ES	US	Past costs	No	Yes	No
FI	US	Past costs	No	No	No
FR	US	Past costs	No	No	No
GR	US	Past costs	Yes	Yes	
HU	Reserved services	Efficient costs	No	No	No
IE	US	Future costs	No	No	Yes
IT	US		No	No	Yes
LT	US	Past costs	Yes	Yes	No
LU	Reserved services.	Future costs	Yes	No	No
LV	US	Past costs	No	No	No
MT	US		Yes	Yes	Yes
NL	US	Cost index	No	No	No
PL	US	Price index	No	No	No
PT	US	Future costs	Yes	Yes	Yes
SE	US	Past costs	No	No	No
SI	US	Efficient costs	No	No	Yes
SK	US	Future costs	Yes	Yes	No
UK	US	Future costs	Yes	Yes	Yes

Notes: BE Reserved services and universal services used by private consumers and small and midsize companies.

In order to regulate prices, NRAs must have some standard to determine which prices are too high or too low. In the survey we asked, "Overall, what standard or benchmark does the NRA (or other appropriate government authority) rely upon primarily for the purpose of evaluating the appropriateness of changes in the prices of universal services?" Their answers are summarized in column 2 of Table 3.5.1. Most NRAs regulate prices by looking to the past or projected costs of the USP. Four NRAs (CZ, DE, HU, SI), however, refer to the costs of an *efficient* postal operator, in principle a far tougher standard. Alternatively, three NRAs appear to rely upon price or cost indexes (BE, NL, PL) rather than the actual costs of the USP. It is not evident, however, how the prices of universal services can be geared to cost if the NRA does not base its evaluation on some version of the costs of the USP.

To ensure that the price of "each of the services prices" is geared to costs, it appears necessary for the NRA to determine the cost which the UPS will incur and the revenue that the USP will earn from each class of service. These calculations depend in turn on the expected volume of mail in each class of service. In addition, a vigilant regulator might require the USP to reduce its unit costs over time, i.e., improve its productivity. The third, fourth, and fifth columns of Table 3.5.1 indicate whether the NRA, in the process of price regulation, determines the costs and revenues associated with each postal product and whether it goes further to set productivity goals. Only the NRAs of Portugal and the United Kingdom asked all three questions affirmatively. Among the others, only the NRAs of Greece, Lithuania, and Slovakia determine both the costs and revenues of each postal product. Yet, without such knowledge, it is unclear how the NRA can ensure that prices of each of the services forming part of the universal service are "geared to costs".

Figure 3.5.1 Uniform tariffs



Notes:

- CY Market dominant universal services only.
- IE Uniform tariff can be required by NRA and Postal Ministry.
- IT Uniform tariff can be required as part of the price decision.
- UK One bulk mail service subject to uniform tariff.
- MSs weighted by domestic letter post volume in 2004.

By way of a limited exception to the principle of cost-based pricing, Article 12 allows a Member State to require that a postage rate be applied uniformly throughout the national territory.¹⁰⁶ About half of the Member States (AT, BE, CY, DK, EE, ES, GR, LT, LU, LV, MT, PL, SI, SK) require uniform pricing for all universal services, but these states represent only about 17 percent of the EU letter post market. The largest and most progressive Member States are moving towards limiting the uniform tariff requirement. Sweden applies the uniform tariff rule to single items of addressed mail. The Netherlands limits the uniform tariff rule by limiting the concept of universal service to postal items tendered at retail postal offices and reserved services. Similarly, the NRA in the United Kingdom has recently concluded that three-quarters of bulk mail products should be considered non-universal services and therefore are outside the scope of the uniform tariff requirement.¹⁰⁷ Finland and Germany limit the uniform tariff rule to non-bulk correspondence. Two Member States apply the uniform tariff rule only to reserved services (FR, HU), and 3 Member States have no legal requirement to maintain uniform tariffs (CZ, IE, IT).

The economic effect of the uniform tariff is to promote a geographic averaging of prices. Mail destined for areas where the cost of delivery is high is charged somewhat more than cost while mail destined for areas where the cost of delivery is low is charged somewhat less than cost. It is often said that primary justification for the reserved area is to allow uniform tariffs. Without the reserved area, it is said, cream skimmers would serve the inexpensive areas, and the USP would either have to de-average rates or confine itself to the money losing routes. The force of this argument depends on the magnitude of the unit cost differential between high cost and low cost delivery areas. In order to evaluate the costs and benefits of the uniform tariff, therefore, it is necessary for NRAs to have reliable data on the variation in delivery costs among different parts of the country. No NRA, however, had conducted an analysis of the variation in delivery costs. None could provide an estimate of the cost of delivery in high and low cost areas compared to the norm. Only one NRA, the German, provided an estimate of delivery costs as a percentage of total end to end costs (50 percent). Hence, the economic effects of the uniform tariff rules appear to be largely unknown.

Article 12 also provides that “for each of the services forming part of the provision of the universal service” prices must be “transparent and non-discriminatory”. To ensure non-discrimination, it appears necessary for the NRA to determine that differences in prices charged to different mailers are justified by differences in costs or other appropriate considerations. Prevention of price discrimination requires much the same analysis and assurance that prices are geared to costs. Transparency appears to imply that the prices of each universal service should be available to the public. According to this survey, most but not all Member States seek to ensure that each universal service is

106 Article 12 says, “prices must be geared to costs; Member States may decide that a uniform tariff should be applied throughout their national territory”.

107 UK Postcomm (2005e), The universal service for bulk mailers: A decision document.

transparent and non-discriminatory. Cyprus and Germany extend such control only to universal services in which the USP is market dominant. Spain limits such control to reserved services. And France seek to regulate only non-bulk universal services.¹⁰⁸

Finally, Article 12 further provides that for each of the services forming part of the provision of the “universal service” prices must be “affordable”. The concept of affordability is not defined in the Directive. In the absence of a Community-wide definition, this survey asked NRAs whether they had adopted an explicit and objective definition of affordability. Seven NRAs replied affirmatively (DE, MT, PL, PT, SI, SK, UK), while the others replied negatively. In some cases, however, these definitions seem circular. For example, the Portuguese NRA states, “The application of a price-cap (when defined) and the principle of prices geared to cost guarantee the affordability of the prices of the universal service.” This begs the question of how one determines whether the price cap has been set at an affordable level.

Table 3.5.2 Average annual postal expenses of non-business mailer

	Annual amount in Euros
BE	€ 15
CZ	84
DE	50
FR	45
IE	25
LU	15
NL	20
PT	2
SE	30
Notes:	DE Per household

To obtain a second view of the concept of affordability we asked NRAs how much the average non-business mailer spends on postage.¹⁰⁹ Estimates ranged from € 84 per year (CZ) to € 2.4 (PT). Judging from the answers of several large Member States, the average for the Community appears to be about € 25 to 30. Most NRAs provided no estimate, however, and eight NRAs explicitly indicated a lack of information.

In sum, there does not seem to be a clear idea among NRAs as to how to implement the Directive’s requirement that prices of universal services must be “affordable”.

¹⁰⁸ No answer from Austria.

¹⁰⁹ Specifically, the question addressed by NRAs was “Approximately how much money does an average non-business mailer spend on postage per year?”.

Conclusions

Article 12 of the Postal Directive implies a detailed and sophisticated regime of price regulation to ensure that “for each of the services forming part of the provision of the universal service” are “geared to costs”, “transparent and non-discriminatory”, and “affordable”. In principle, almost all Member States regulate all universal service products, although some Member States limit price controls to reserved, single-piece, or market dominant services. In practice, however, it is questionable whether NRAs have sufficient data to apply these standards to *each* universal service with objective data and criteria.

About half of the Member States require uniform pricing for all universal services, but these states represent only about 17 percent of the EU letter post market. Some of the largest and most progressive Member States are moving towards limiting the uniform tariff requirement to non-bulk mail, while two Member States limit the uniform tariff rule to reserved services and three others have no legal requirement to maintain uniform tariffs.

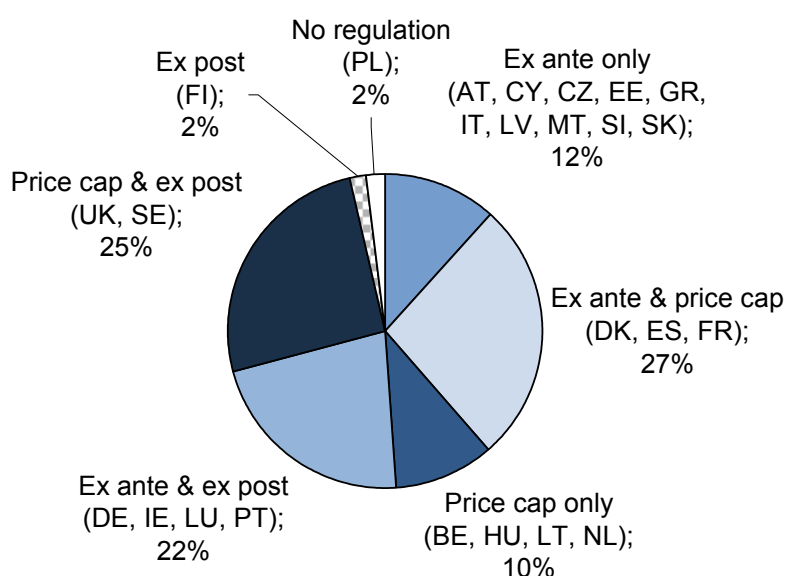
3.5.2 Methods of regulation

The Directive allows Member States to choose how to regulate prices. There are three basic procedures. First, “ex ante” regulation which requires that the USP receive specific approval of the NRA before price changes can be implemented.¹¹⁰ Second, “price cap” regulation which permits the USP to change prices provided they remain below a pre-approved level or formula.¹¹¹ The third type of regulation is “ex post” regulation which allows the USP can change prices without constraint but which also allows the NRA to modify prices if, after investigation, it appears that prices are inconsistent with statutory or regulatory standards (e.g., “cost-based” or “affordable”). A Member State may choose to regulate some universal services by one method and other universal services by another method.

¹¹⁰ For example, suppose a USP proposes to raise the price for a letter in the lowest weight step sent by the fastest standard category from EUR 0.50 to EUR 0.55. If the USP cannot charge EUR 0.55 until the NRA approves the new rate as consistent with regulatory standards such as “cost-based” or “consistent with inflation”, etc., then the regulatory procedure is ex ante. We would consider this an ex ante procedure even if the NRA’s consideration is guided by a cost or price index.

¹¹¹ For example, suppose there is a regulatory rule established in the law or a regulation or a NRA ruling that says, “The USP can raise any postage price by as much as 5 percent per year provided it gives 30 days notice to the NRA, but any greater increase must be reviewed and approved by the NRA”.

Figure 3.5.2 Methods of price regulation



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

Table 3.5.3 Methods of price regulation: scope

MS	Scope of ex ante regulation	Scope of price cap regulation	Scope of ex post regulation
AT	Reserved services		
BE		US	Other
CY	US (market dominant)		US (USP)
CZ	Non bulk US		US (USP)
DE	USP corr (market dominant)		Market dominant operators
DK	Reserved services	Non-reserved US (USP)	
EE	US		US (USP)
ES	Reserved services	Non-reserved US (USP)	
FI			US
FR	Reserved services	Non-reserved US (USP)	
GR	US		
HU		Reserved services	
IE	Reserved services		US (USP)
IT	US		
LT		US	
LU	Reserved services		Non-reserved US (USP)
LV	US		
MT	US		
NL		US	
PL			
PT	Reserved services		Non-reserved US (USP)
SE		Nonbulk LP	US (USP)
SI	US		
SK	US		
UK		US	Market dom operators

Notes:
 AT New postal law, effective 1 March 2006, allows for price cap regulation for reserved services and ex post regulation for universal services provided by USP.

MS	Scope of ex ante regulation	Scope of price cap regulation	Scope of ex post regulation
CZ	Ex ante regulation of 8 selected products including ordinary and registered letters weighing up to 20 grams and parcels weighing up to 2 kg.		
DE	Ex ante approval of NRA is required but in most cases NRA decision is guided by pre-established guidelines set for three baskets of products.		
LU	Ex ante regulation applies to first weight step (20 gram) only.		

The methods of price regulation in the Community as a whole are summarized graphically in Figure 3.5.2, in which Member States are weighted by letter post volume. Further details are given Table 3.5.3.

Ex ante price regulation is relied upon exclusively by 11 Member States to regulate universal services (AT, CY, CZ, EE, GR, IT, LV, MT, SI, SK). Three Member States combine ex ante regulation of reserved services with price cap regulation of other universal services (DK, ES, FR). Four other Member States combine ex ante regulation of some services with ex post regulation of others (DE, IE, LU, PT). Germany, for example, requires ex ante approval of changes in rates for non-bulk correspondence if the USP has a market dominant position. Other rates can be challenged ex post if they contravene statutory standards. Similarly, in Ireland, Luxembourg, and Portugal, ex ante approval is required for changes in the prices reserved services while ex post review is available for the prices of other universal services.

Four Member States appear to rely exclusively on price caps (BE, HU, LT, NL).¹¹² Two other Member States provide price cap regulation and ex post review (SE, UK). In the United Kingdom, the universal service rates of Royal Mail are subject to price caps but the definition of universal service is drawn narrowly to exclude most bulk products. All other market dominant rates, however, are subject to ex post review. In Sweden, price caps are employed only for single items delivered overnight and weighing less than 500 grams. Other universal service rates may be challenged after they are in effect. Where a price cap is used, all Member State make use of general price or consumer price index except the Netherlands, which uses a cost index based on wages. Two Member States reported using an “X” factor to adjust the price index. The United Kingdom uses -1 percent,¹¹³ and Belgium used +2.5 percent.¹¹⁴

Two Member States are unique. Finland relies exclusively on ex post regulation of prices. Poland does not appear to provide regulation of the USP’s universal service prices by an independent NRA.

¹¹² In a price cap regime, the USP must obtain prior approval of the NRA to set prices in excess of the cap.

¹¹³ UK Postcomm (2003a), Review of Royal Mail Group PLC’s price and service quality regulation: Second price control, quality service targets and compensation – Licence modification and decision document.

¹¹⁴ In Portugal the NRA apparently uses an X factor of -0.5 percent as a guide to its review of rates, but the USP can make changes in rates only if the NRA does not object to the new rates within a period of 15 working days.

What appears most remarkable about this picture is the widespread use of sophisticated combinations of regulatory methods. Fifty percent of the Community universal service is subject to dual price control regimes with the stricter regulation being employed for services which are most politically sensitive (e.g., non-bulk correspondence) or most amenable to abuse (e.g., reserved services). For the most part, dual control regimes have been pioneered by the larger Member States and by Ireland and Portugal.

Conclusions

In terms of the methods of regulations, Member States are developing a creative variety of combinations of ex ante, price cap, and ex post procedures. About three quarter of the EU universal service, notably in the large Member States, is subject to dual price control regimes (i.e., ex ante and price cap, price cap and ex post, or ex ante and ex post). Dual price control regimes appear to reflect a deliberate decision to suit the method of regulation to the political or commercial risks presented by specific postal products.

3.5.3 Individual agreements

Article 12 provides that "the application of a uniform tariff does not exclude the right of the universal service provider(s) to conclude *individual agreements* on prices with customers". The extent of individual price agreements has been little explored in prior studies. This survey sought basic information about this practice.

Article 12 appears to limit the authority of Member States to require uniform tariffs in respect to individual agreements: "the application of a uniform tariff does not exclude the right of the universal service provider(s) to conclude individual agreements on prices with customers".¹¹⁵ Thirteen NRAs reported that their USPs make use of individual agreements or are planning to do so (AT, BE, DK, ES, FI, FR, HU, LT, LU, NL, PL, SI, UK). These Member States account for about two-thirds of the Community letter post market. Although Individual agreements cannot (seemingly) be subject to a uniform tariff requirement, they appear to be subject to the more general requirements of universal service tariffs: cost-based, transparent, and non-discriminatory. However, only four NRAs confirmed that Individual agreements could pass these three tests (BE, HU, LU, UK). Most NRAs positively indicated that individual agreements could not meet

¹¹⁵ Whether or not the Postal Directive limits the use of uniform tariffs in this respect is an interesting but seemingly unexplored legal question. Compare WIK-Consult (2005b), The evolution of the regulatory model for European postal services at p. 139-40, in which we suggested that sound regulatory principles argued against allowing Member States to impose a uniform tariff rule in competitive postal markets.

these tests. Another NRA reported that it did not receive information on individual agreements and that, in any case, “The legislation states that all services in total should be geared to costs and not the individual services” (NL). This seemingly informal approach to the regulation of the prices of Individual agreements may be significant for the universal service. Although individual agreements are available in about two-thirds of the Community letter post market, few NRAs could give any estimate of the percentage of mail affected. The three NRAs that could do so offered estimates ranging from 40 to 80 percent.¹¹⁶

Conclusions

The regulatory requirements for individual agreements appear to be unclear or incompletely implemented. Individual agreements may represent a substantial fraction of the universal service. Clarification of the treatment of individual agreements might be desirable in the new directive.

3.5.4 Special tariffs

Special or individualized tariffs must conform to the same principles as other universal service tariffs. Specifically, special tariffs for large businesses or companies that consolidate the mail of smaller firms should “take account of the avoided costs, as compared to the standard service” and “shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services.” Moreover, special tariffs must be made available to “private customers who post under similar conditions”.

Although the Directive does not require a USP to provide special tariffs for universal services provided to large mailers, almost all USPs do so. Twenty NRAs representing 91 percent of the Community letter post reported their USPs employed special tariffs. Only 11 of these NRAs reported that they had complete and up-to-date information on all special tariffs offered by the USP. Of these, only four NRAs stated that they had sufficiently detailed cost data from the USP so that they could calculate accurately the “avoided costs” which must be taken into account in the regulation of special tariffs (DE, PT, SK, UK).¹¹⁷ Among these NRAs, two interpreted Directive’s term “avoided costs” to

¹¹⁶ It is unclear in the Directive whether “individual agreements” are the same as “special tariffs” mentioned later in the same article. If so, individual agreements, like special tariffs, are subject to a “cost-avoided” rule. Among the 13 NRAs faced with individual agreements, 8 declared that individual agreements were the same as special tariffs while 2 said they were not. On the other hand, one of the former said in contradictory fashion that individual agreements were not subject to the cost-avoided test.

¹¹⁷ In Ireland, the NRA, Comreg, has requested data from the USP to justify special tariffs but concluded that the data submitted is insufficient to determine whether the special tariffs are justified by avoided costs. The USP has challenged the additional inquiries of the NRA in court.

refer to the full retail price minus the costs saved by virtue of the downstream access (DE, SK) and one NRA (UK) has interpreted “avoided costs” to refer to the end to end cost minus the costs saved.¹¹⁸ These replies suggest that NRAs are in fact having a difficult time obtaining the data necessary to implement fully the pricing principles of the Directive.

Special tariffs appear to be an important factor in the Community’s universal service. Although data is incomplete, apparently because NRAs are not fully apprised of the volume of mail carried under special tariffs, the indications from the survey are impressive.¹¹⁹ Special tariffs appear to account for 40 to 90 percent of all correspondence in the large Member States although discounts seem to be 10 percent or less in most cases. Special tariffs are applied to nearly 100 percent of direct mail and to 50 to 80 percent of parcels. NRAs generally confirm that special tariffs are transparent and open to consolidators and private operators.¹²⁰

Conclusions

Special tariffs appear to account for as much as half of the volume of universal service or more, yet with a few notable exceptions, NRAs do not appear to have sufficient data and expertise to ensure that special tariffs comply with the pricing principles of the Directive.

¹¹⁸ See UK Postcomm (2004c), Promoting effective competition in UK postal services through downstream access. The NRA of Ireland also supported a "cost minus" interpretation of "avoided costs" but does not have sufficient data to calculate the appropriate discount. The NRA of Portugal did not clearly support either interpretation.

¹¹⁹ Only eight NRAs gave estimates of the volume of mail carried under special tariffs, but these included a reasonable sampling of large and small Member States.

¹²⁰ However, it should be noted that in past studies WIK has found it very difficult to obtain complete information from USPs on special tariffs.

3.5.5 Rate investigations

Table 3.5.4 Number of rate investigations begun, 1998 to 2005

MS	Type	1998	1999	2000	2001	2002	2003	2004	2005
AT	Miscellaneous rates			1					
CZ	Miscellaneous rates								2
DE	Special tariffs		23	104	78	103	117	165	210
DE	Miscellaneous rates						4	4	3
FI	Miscellaneous rates			30	50	35	37	75	
FR	Special tariffs								1
GR	Miscellaneous rates							81	
HU	Miscellaneous rates			5	6	7	8	9	10
IE	General rate change					1	1	1	1
IE	Special tariffs					1	1	1	1
IE	Terminal dues						1		
IE	Miscellaneous rates							2	1
IT	General rate change			79	440	443	378	198	
NL	Special tariffs				1	2	1		
NL	Cross subsidy	1							
PL	Miscellaneous rates			41					
PT	General rate change	4	4	4	8	6	8	8	6
PT	Special tariffs	4	4	4	8	6	8	8	6
PT	Cross subsidy	2	2	2	3	3	3	3	3
PT	Terminal dues	2	2	2	3	3	3	3	4
SE	Special tariffs							1	1
SK	General rate change					2	11	11	18
SK	Cross subsidy					1	1	1	1
SK	Competition rules						5	9	6

As an additional indicator of the vigour of price regulation, this survey requested NRAs to report the number of “formal investigations” into rate issues begun in each year from 1998 to 2005.¹²¹ Separate figures were asked for four types of rate cases: public tariffs, special tariffs, terminal dues, and cross-subsidy.¹²² Responses are summarized in Table 3.5.4. According to this table, only 14 NRAs have ever conducted a rate

¹²¹ By a “formal” investigations, we refer to a detailed and systematic review of whether postal tariffs comply with the principles of the Directive. Such an investigation might be initiated by the USP proposing a change in prices or by a complaint in the case prices which are reviewable after they have been placed into effect. It is unlikely that the NRA will conduct more than a handful of investigations each year because the prices for generally applicable universal service are usually not changed more than once per year and the prices for different services are interrelated (e.g. prices for all generally applicable universal service prices are usually increased at the same time). It is possible, of course, that the NRA might review letter post rates in one proceeding and parcel post rates in other. The question asks for the number of investigations “begun” rather than “conducted” because of the possibility that some investigations might last more than one year. If an investigation considered more than one subject (e.g., prices of both generally applicable prices and special tariffs), it should be noted in answer to both questions.

¹²² Article 12 explicitly bars cross subsidization of non-reserved services from revenues earned from reserved services “except to the extent to which it is shown to be strictly necessary to fulfil specific universal service obligations imposed in the competitive area”.

investigation, and the participation of two or three of these is nominal. Although these numbers must be interpreted cautiously because of different interpretations of the concept of “formal investigation”, this table appears to accurately reflect the fact that most of the regulatory rate investigations have so far been conducted by a relatively few NRAs.¹²³

Conclusions

Only about half or less of NRAs have conducted more than very infrequent regulatory investigations. The absence of regulatory activity raises some questions about the level of implementation.

3.5.6 Terminal dues

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

Only three NRAs reported regulation of terminal dues (CZ, IE, PT). Other NRAs generally were unable to give assurance that terminal dues are related to cost or non-discriminatory.

On the sensitive question of remail, the survey asked two exploratory questions: The first was, “Are there circumstances in which the USP [may] intercept and return mail which is physically prepared in another Member State and transmitted by the USP in that state to your USP for delivery?” Four NRAs answered affirmatively (CZ, GR, IE, LT) and four answered negatively (ES, NL, PL, UK). The second question was, “May the USP charge different prices for the delivery of similar intra-EU cross border mail depending upon whether the mailer resides in your Member State or in another Member State?” The right to surcharge such “ABA remail” was recognized by the European Court of Justice.¹²⁴ In answer to this question, two NRAs responded affirmatively (PT, UK) and five in the negative (CZ, DK, GR, IE, SI).

¹²³ In addition to the cases listed, it is apparent that the UK NRA, Postcomm, has conducted several major rate inquiries since 2000 addressing, inter alia, general rate changes and special tariffs. However, Postcomm did not provide a breakdown of its caseload.

¹²⁴ Joined Cases C-147/97 and C-148/97 Deutsche Post AG v GZS and Citicorp, [2000] ECR I-825.

Conclusions

Although the Postal Directive directed Member States to encourage USPs to bring terminal dues in compliance with the regulatory principles governing other rates for universal services, few NRAs have actively addressed this area and regulation of cross border services is still substantially different from the regulation of equivalent domestic services.

3.6 Accounts of universal service providers (USPs)

Articles 14 and 15 of the Postal Directive establish standards for the regulation and publication of the accounts of the USP.

3.6.1 Separation of accounts

Article 14(2) of Postal Directive sets out the principles for separation of the accounts of the universal service provider as follows:

- A USP must establish "separate accounts . . . for each of the services within the reserved sector on the one hand and for the non-reserved services on the other".
- "Accounts for the non-reserved services should clearly distinguish between services which are part of the universal service and services which are not."

Article 14 thus requires separation of accounts at three levels. The first level of separation is between the accounts for all universal services collectively, on the one hand, and the accounts for all non-universal services collectively, on the other. All NRAs report that the USP is required by law to maintain separate accounts for universal service and non-universal services.¹²⁵ The second level of separation is between all reserved services collectively and all non-reserved universal services collectively. The third level of separation requires separate accounts for *each* of the reserved services. With two prominent exceptions, all Member States with a reserved area require these further separations as well.¹²⁶ The exceptions are France and the Netherlands, which require separate accounts for reserved and non-reserved *collectively* but do not require separate accounts for *each* reserved service. These two Member States, it should be noted, account for a quarter of the Community letter post.

¹²⁵ In some cases, the legal requirement is provided as a licence condition.

¹²⁶ Article 14(8) permits the NRA to exempt the USP from the accounting requirements of Article 14 if there is no reserved area and other conditions are met. Although four Member States have abolished the reserved area (EE, FI, SE, UK), none have exempted the NRA from Article 14. Nor, indeed, it is evident how they could do so and still ensure compliance with the pricing principles of Article 12.

Table 3.6.1 Separation of accounts by individual universal service products

MS	Each reserved service				Each non-reserved universal service			
	Separate accts?	Cost/rev data to NRA?	First year of accounts	Number of products	Separate accts?	Cost/rev data to NRA?	First year of accounts	Number of products
AT	Yes	No		0	No			
BE	Yes	Yes	2000	115	Yes	Yes	2000	594
CY	Yes	Yes	2007		Yes	Yes	2007	
CZ	Yes	Yes	2006	2	Yes	Yes	2006	4
DE	Yes	No	2002		No	No		
DK	Yes	Yes	1997	2	Yes	Yes	1997	7
EE	(NA)	(NA)	(NA)					
ES	Yes	Yes	2004	14	Yes	Yes	2004	9
FI	(NA)	(NA)	(NA)		Yes	Yes	2000	8
FR	No			2	No			2
GR	Yes	Yes	2001	14	Yes	Yes	2001	18
HU	Yes	Yes	2004	2	Yes	Yes	2004	5
IE	Yes	Yes	2002	6	Yes	Yes	2002	10
IT	Yes	No	1999		Yes	No	1999	
LT	Yes	Yes	2005		Yes	Yes	2005	9
LU	Yes	Yes	2001	31	Yes	Yes	2001	48
LV	Yes	No	2007	1	Yes?	No	2006?	2?
MT	Yes	Yes	2005	5	Yes	Yes	2005	5
NL	No				No			
PL	Yes	Yes	2004	7	No			
PT	Yes	Yes	1999	16	Yes	Yes	1997	39
SE	(NA)	(NA)	(NA)		Yes			
SI	Yes	Yes	2006	6	No			23
SK	Yes	Yes	2003	12	Yes	Yes	2003	93
UK	Yes	Yes	2001	32	Yes	Yes	2001	5

Notes:
NA No reserved area, therefore question not applicable.

For the NRA to ensure compliance with Article 14, it seems necessary for the USP to report appropriate data on a regular basis. Almost all Member States require the USP to submit periodic accounts to the NRA. In Austria and Germany, however, the USP provides such information to the NRA only when it is time to adjust rates or rate caps, i.e., every few years. In Finland, the NRA merely reserves the right to request such information. In Latvia, the USP is required to give the NRA volume data but not to provide cost and revenue accounts. In some new Member States, the first reports will not be submitted until 2006 (CZ, SI) or 2007 (CY, LV).

The number of distinct reserved services reflected in the accounts may offer insight in the level of accounting sophistication, although one must make allowance for the size of the reserved area and the complexity of the postal system. In some Member States, the USP's accounts reflect a large number of separate products and hence very fine accounting distinctions. These states include Belgium (115 reserved products), Spain (14), Greece (14), Luxembourg (31), Portugal (16), Slovakia (12), and United Kingdom (32). In other Member States, the division of accounts is less elaborate. Ireland, Malta,

Poland, and Slovenia report 5 to 7 reserved products. The Czech Republic, Denmark, France, Hungary report 2 reserved products.¹²⁷

The obligations of Article 12 serve by implication to extend the accounting separation required by Article 14. As noted in section 3.5, above, Article 12 requires that “for each of the services forming part of the provision of the universal service” prices must be geared to costs and non-discriminatory. In addition, cross subsidization of non-reserved universal services from revenues earned from reserved services is generally barred. To ensure that *each* universal service is geared to cost, non-discriminatory, and free of cross-subsidy, it seems necessary for the NRA to review cost and revenue data for *each* non-reserved universal service, not merely for all non-reserved universal services collectively as required by Article 14.

Despite the implications of Article 12, seven Member States (AT, DE, FR, NL, PL, SE, SI), representing 54 percent of the Community letter post, do not require the USP to maintain separate accounts for each non-reserved universal service.¹²⁸ On the other hand, 16 Member States do oblige the USP to maintain such accounts and to submit them to the NRA.¹²⁹

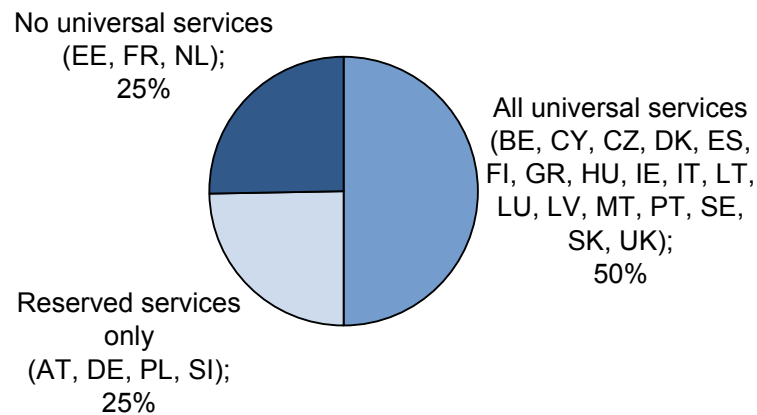
An obligation to maintain separate accounts presents particular questions in accounting for individual agreements and special tariffs. As described in section 3.5, individual agreements and special tariffs account for 40 to 80 percent or more of the letter post in some Member States. The NRA is required to ensure the cost-based, non-discriminatory, and unsubsidized quality of these tariffs no less than for other universal services. With one exception (IE), however, no NRA requires the USP to maintain separate accounts for each individual agreement. Only five NRAs (GR, IE, LT, MT, PT) require the USP to maintain separate accounts for the upstream and downstream portions of services that are subject to special tariffs. Without such detailed accounts, it is unclear how the NRA can ensure that individual agreements and special tariffs meet the strict pricing standards set by Article 12 of the Directive. For example, how can the NRA be confident that special tariffs “take account of the avoided costs, as compared to the standard service” if the NRA does not know what upstream costs are avoided and what downstream costs remain?

¹²⁷ Moreover, it should be noted that some large Member States did not, or could not, specify the number of reserved products in this survey (AT, DE, IT, NL); these Member States account for more than one-third of the Community letter post.

¹²⁸ Germany requires the USP to submit product accounts for all products which require ex ante approval by the NRA. Postal Rates Regulation Ordinance § 2. The USP must obtain ex ante approval of rate changes for services for the carriage of non-bulk letter post items (excluding newspapers and periodicals) weighing up to 1 kg. in which the USP has a market dominant position. German Post Law § 21. Hence, separate product accounts are required for a range of products that exceeds the scope of the reserved area but does not encompass all universal services. Since the great majority of non-bulk letters weighing less than 1 kg. are within the reserved area, because they also weigh less than 100 grams, and there is little non-bulk direct mail, in the following text we shall for simplicity refer to the scope of product accounts in Germany as “reserved services”.

¹²⁹ The NRA of Estonia did not answer.

Figure 3.6.1 Universal services subject to accounting separation



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

The overall status of accounting separation by specific postal product may be summarized as shown in Figure 3.6.1, in which Member States are weighted by the volume of domestic letter post. The great majority of Member States require separate product accounts for all universal services (BE, CY, CZ, DK, ES, FI, GR, HU, IE, IT, LT, LU, LV, MT, PT, SE, SK, UK). These Member States, however, account for only about 50 percent of the Community letter post. A significant number of Member States, including some of the largest and most progressive, require separate product accounts only for reserved services (AT, DE, PL, SI) or, indeed, for no universal services (FR, NL).¹³⁰ From this uneven picture, it seems evident that the new directive needs to specify more clearly what level of accounting separation is required. It may also need to introduce flexibility for Member States based on the level of liberalization and commercialization of their postal systems.

Conclusions

The regulatory system envisioned by the Directive depends upon the USP maintaining separate accounts, verified by the NRA, for each reserved service and, by implication, for each non-reserved universal service. This approach has not been fully implemented. A significant number of Member States, including some of the largest and most progressive, require separation of accounts only for reserved services or for no universal services at all. It appears that NRAs generally lack the accounting data required to evaluate whether individual agreements and special tariffs comply with the pricing principles of the Directive. Taking into account these practical problems of

¹³⁰ Estonia is not included in this summary because it did not provide sufficient information.

implementation, the new directive should specify more clearly, and perhaps more carefully, precisely level of accounting separation is to be required and reported to NRAs.

3.6.2 Allocation of costs

Separation of accounts is meaningless unless costs are allocated correctly to each account. Article 14(3) of the Postal Directive sets out principles for the allocation of costs as follows:

(a) costs which can be directly assigned to a particular service shall be so assigned;

(b) common costs, that is costs which cannot be directly assigned to a particular service, shall be allocated as follows:

(i) whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;

(ii) when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost structures;

(iii) when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the reserved services and, on the other hand, to the other services.

In brief, paragraphs 3(a), 3(b)(i), and 3(b)(ii) require the assignment of costs to each particular service so far as it is possible to do so by direct or indirect means. Paragraph 3(b)(iii) requires the allocation of the unassignable common or "overhead" costs to each particular service based on the proportion of assigned costs.¹³¹

131 In WIK-Consult (2005b), *The evolution of the regulatory model for European postal services*, at p. 49, 149-50, we have suggested the "fully allocated" approach to costing mandated by paragraph 3(b)(iii) may be more restrictive than necessary or desirable to achieve the current objectives of Community postal policy.

Table 3.6.2 Allocation of USP costs

MS	NRA approved cost system	Year of approval	Specific carrier costs?	Specific transport costs?	NRA can calculate unassigned costs?	Assigned costs: % of total	Assigned costs: % of US	NRA data quality review?	Data rev year?
AT	No		No	No	No			Yes	2002
BE	Yes	2000	Yes	Yes	Yes	7	7	Yes	2005
CY	No		No	No	No			No	
CZ	Yes	2006	No	No	No			No	
DE	Yes	2000	Yes	Yes	Yes			No	
DK	Yes	1997	No	No	Yes			Yes	2004
EE	Yes	2004	No	Yes				Yes	2005
ES	Yes	2004	Yes	Yes				No	
FI	Yes	2006			No			No	
FR	Yes	2001	Yes	Yes	Yes	7	7	No	
GR	Yes	2001	Yes	Yes				No	
HU	No		No	Yes	No			No	
IE	No		No	No	No			Yes	2005
IT	No							No	
LT	No		No	No	No			No	
LU	Yes	2001	No	No	No			No	
LV	No		No	No	No			No	
MT	Yes	2006	Yes	Yes	Yes			Yes	
NL	No	2001?	No	No	No			No	
PL	No		No	No	No			No	
PT	Yes	1998	Yes	Yes	Yes	Conf.	Conf.	Yes	2004
SE	No		No	No	No			No	
SI	No		Yes	Yes	No			No	
SK	Yes	2003	Yes	Yes	Yes	95?	100?	Yes	2005
UK	No		No	No	No			Yes	2005
Notes:									
CZ New costing system to be implemented in 2007.									
FI NRA and USP agreed to cost allocation system in February 2006 after two years of judicial proceedings.									
IE Accounting system reviewed but not approved by NRA									
MT NRA states that it can calculate carrier costs, transport cost, and unassigned costs but system is "currently under review".									
PT Percentage of Art 14(3)(b)(iii) costs considered confidential by NRA									
SE Accounting system currently under review by NRA									

Table 3.6.2 summarizes the answers of NRAs to several questions intended to cast light on the extent to which NRAs oversee the specific system of cost allocation used by the USP. Column 1 indicates whether the NRA has specifically approved the USP's costing system, i.e., the procedure and rationale for assigning to each particular postal product the direct costs and common costs assignable by direct analysis and indirect linkage. The NRAs of 13 Member States, accounting for 56 percent of the Community letter post, affirm that they have approved the costing system of the USP (BE, CZ, DE, DK, EE, ES, FI, FR, GR, LU, MT, PT, SK).¹³² Columns 3 and 4 in this table indicate

¹³² The NRA of the Netherlands has approved the USP's cost allocation system insofar as it assigns and allocates costs to (1) reserved services collectively, (2) non-reserved universal services collectively, and (3) non-universal services. However, the Dutch NRA has not approved a cost allocation system

whether the NRA has specifically reviewed and approved how the USP assigns the costs of (1) employees engaged in mail delivery to particular services and (2) transportation. These are examples of basic issues presented by the development of the costs associated with particular services. In general, all NRAs that indicate approval of the USP's costing system also indicate approval of these more specific procedures.

Column 6 of Table 3.6.2 presents a critical test for evaluating the NRA's command of the USP's costing system: Can the NRA determine what percentage of the costs of the USP are unassignable and therefore allocated pursuant to Directive Art. 14(3)(b)(iii)? The answer would seem to be an automatic result of any well developed costing system, yet only seven NRAs declare that they can determine the level of unassignable 3(b)(iii) costs (BE, DK, DE, FR, MT, PT, SK). Of these, three did not or could not specify the percentage (DK, DE, MT). The four remaining NRAs indicated that (b)(iii) costs amounted to 5 to 7 percent of total costs. This low figure may be contrasted with the experience of the United States where, after three decades of intensive litigation and review, the USP and NRA employ extremely detailed and sophisticated cost allocation procedures and yet find that 46 percent of all postal service costs cannot be reliably and causally assigned to a particular postal product.¹³³ The American experience at least raises questions about the reliability of the costing systems employed in the EU. In addition, it should be noted that several relatively active NRAs, including those of Ireland, Sweden, and the United Kingdom, have expressed concerns and are investigating the validity of the costing systems used by the USP.

A final issue presented by cost allocation is the quality of the data to be allocated. Data quality depends on complex statistical issues such as the size and reliability of sampling techniques. Only nine NRAs have so far investigated the quality of data used in the costing systems of the USPs (AT, BE, DK, EE, IE, MT, PT, SK, UK). Only six of these NRAs have reviewed and approved both the costing system of the USP and the data quality (BE, DK, EE, MT, PT, SK).

Conclusions

About half of the NRAs, representing about half of the Community letter post, declare that they have positively reviewed and approved the USP's system for allocating costs to particular services. Only five NRAs, however, can determine what percentage of postal costs cannot be directly or indirectly assigned to particular postal products, a critical and seemingly automatic result of a well developed costing system. Even in

that assigns and allocates costs to "each of the reserved and non-reserved services" as required by Article 14(3) of the Postal Directive. The NRA of France reports that it has specifically reviewed and approved the procedure of the USP for assigning direct and indirect costs to each particular service even though, in answer to another question, the NRA declares that the USP is not legally obliged to maintain separate accounts for each reserved service.

¹³³ U.S. Postal Service (2004), Cost and Revenue Analysis.

cases where NRAs claim to have evaluated fully the cost allocation methods of the USP, there appear to be causes for concern both because of a lack of agreement between the findings of these NRAs and the findings of sophisticated regulators in and out of the EU and because of the relative lack of review of data quality.

3.6.3 Verification and publication of regulatory accounts

Article 14(5) of the Postal Directive states, "National regulatory authorities shall ensure that compliance with one of the cost accounting systems described in paragraphs 3 or 4 is verified by a competent body which is independent of the universal service provider. Member States shall ensure that a statement concerning compliance is published periodically".

Table 3.6.3 Review and publication of accounts

MS	USP accounts reviewed by independent body?	USP accounts reviewed by independent body?	USP accounts review, 1st year	Statement of compliance published?	Most recent Statement of compliance?	Summary regulatory accounts published?	Summary regulatory accounts, 1st year
AT	No			No		No	
BE	Yes	Other	2004	Yes	2004	No	
CY	No			No			
CZ	Yes	USP firm	2004	No		No	
DE	Yes	NRA	2002	Yes	2002	No	
DK	Yes	NRA firm	2004	Yes	2004	Yes	1997
EE	No			Yes	2004	No	
ES	Yes	NRA	2008	No		No	
FI	Yes	NRA	2003	No		No	
FR	Yes	USP firm	2004	No		No	
GR	Yes	USP firm	2005	No		No	
HU	Yes	USP firm	2004	Yes	2004	Yes	2005
IE	Yes	USP firm	2004	No		Yes	2001
IT	Yes		2004	No		Yes	2001
LT	Yes	USP firm	2005	Yes	2005	Yes	2005
LU	Yes	NRA firm	2004	No		No	
LV	Yes	USP	2006	No		No	
MT	Yes	NRA	2006	Yes	2006	Yes	2006
NL	Yes	NRA firm	2004	Yes	2003	No	
PL	Yes	NRA firm	2004	Yes	2004	No	
PT	Yes	NRA firm	2003	Yes	2003	No	
SE	Yes	NRA	2004	No		No	
SI	Yes	NRA firm	2006	Yes	2006	No	
SK	Yes	NRA	2004	Yes	2004	No	
UK	Yes	USP firm	2005	No		No	

Notes:

BE Audit committee consisting of 2 persons from an independent accounting firm and 2 persons from the State Audit Office.

CZ NRA will approve choice of auditor in the future.

DE Audit occurs only during the review of a new price cap system.

NL NRA has designated USP's accountant as its auditor and reviews its work.

SK NRA appears to rely on USP's accountant.

Member State implementation of this provision is summarized in Table 3.6.3. All but three Member States (AT, CY, EE) provide for review of the accounts of the USP by an independent auditor.¹³⁴ However, in several Member States the auditor is retained by the USP so its independence may be reasonably open to question (CZ, FR, GR, HU, IE, LT, UK). Indeed, the Irish NRA noted such concerns in our survey. Since these states collectively represent 45 percent of the Community letter post, the possible lack of independence of the auditing body is not an insignificant issue. Moreover, 13 NRAs, representing almost two-thirds of the EU letter post, report that they have never published the statement of compliance required by the Postal Directive (AT, CY, CZ, ES, FI, FR, GR, IE, IT, LU, LV, SE, UK).¹³⁵

The Directive does not require publication of a summary of the regulatory accounts of the USP. Nonetheless, such information could enable users and citizens to evaluate better the efficiency of different services (both relative to one another and to the services of other USPs) and the potential for unfair discrimination. By comparing such information year to year, users and citizens will be able to assess improvements and changes in the universal service over time. This information may also help users and citizens evaluate the performance of the NRA, both absolutely and relative to other NRAs. Despite lack of direction from the Directive, six NRAs declared they do publish a summary of regulatory accounts (DK, HU, IE, IT, LT, MT).

Conclusions

Although the Directive explicitly requires that the accounts of the USP should be independently audited and verified by periodic publication of a "statement of compliance", implementation has been uneven. In about half of the Community, the independent auditor is commissioned by the USP and/or the required statement of compliance has not been issued. More positively, at least six NRAs have adopted the practice of publishing a summary regulatory accounts even though not required by the Directive.

¹³⁴ Austria and Estonia plan to introduce a new accounting regulation in the second half of 2006. Cyprus plans to do so in the first half of 2007.

¹³⁵ Even if a NRA has reported that a statement of compliance has been published some caution may be in order. For example, the NRA of Estonia reports that a statement of compliance was issued in 2004, yet the NRA's annual report for 2004 makes clear that it did not approve a cost allocation system until November 2004, so "compliance" may refer to the establishment of an accounting system and not to the development of actual accounts. See Sideamet, Yearbook 2004, at p. 50.

3.6.4 Financial accounts

Article 15 of Postal Directive requires publication of periodic financial reports by the USP. The USP's financial accounts must be reviewed by an independent auditor, and they must be published in accordance with the Community and national legislation applicable to commercial undertakings. All Member States except Cyprus report that the USP does in fact publish its financial accounts in accordance with this provision.¹³⁶

Conclusions

In all Member States except Cyprus, the USP publishes financial accounts in compliance with Community and national legislation.

3.7 Quality of service

The Postal Directive stresses the need to improve the quality of universal service. Article 16 puts special emphasis on establishing, publishing, and monitoring routing time targets for domestic universal postal services. The Directive itself establishes routing time targets for cross-border postal services of the fastest standard category.

All Member States have established routing time targets for at least one universal postal service. Other quality of service aspects mentioned by the respondents refer to more specific delivery and access requirements (e.g. waiting time in post offices). Only two Member States have set targets with respect to loss of mail (HU: loss of registered mail, PT). SK additionally requires regular customer surveys on satisfaction with universal postal services. In UK, additional QoS requirements for collection and delivery completion, misdelivery, and delivery and collection times will be introduced.¹³⁷

Scope of routing time targets

The Postal Directive requires routing time targets for all postal universal services. In practice, it is rather the exception than the rule that all universal services of a Member State are subject to routing time targets.

¹³⁶ In the Netherlands, the USP publishes its accounts as part of the consolidated accounts of its parent company, TNT; there is no separate statement for the division providing universal services.

¹³⁷ Postcomm (2006a), Royal Mail's price and service quality review 2006-2010, licence modifications proposals.

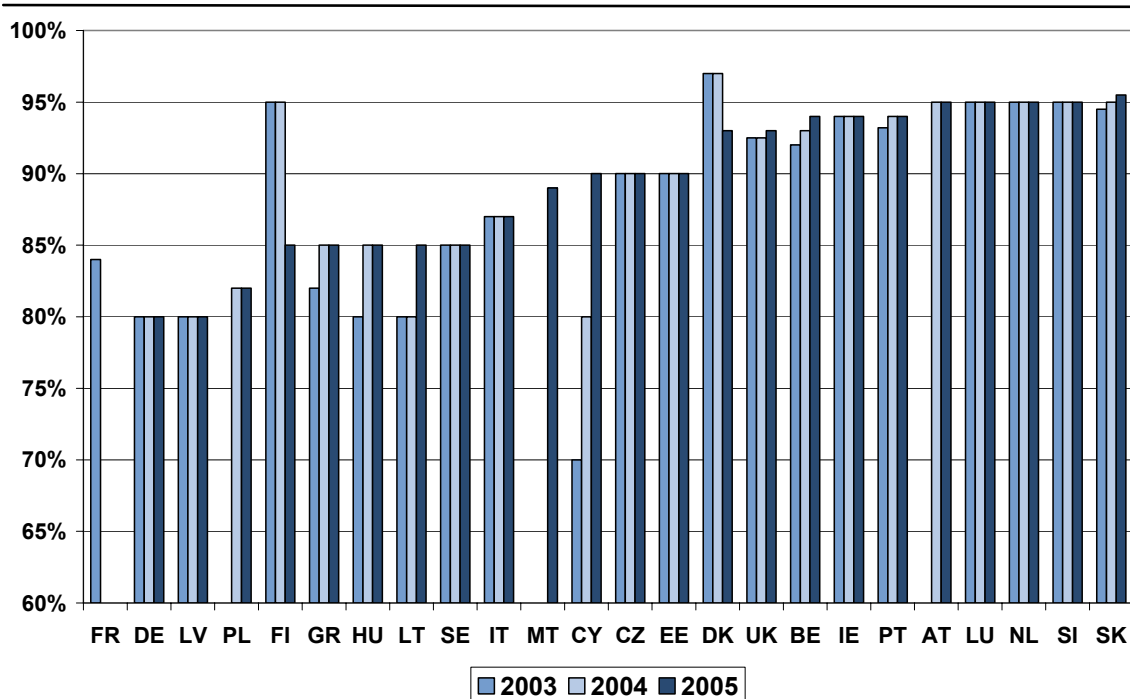
Table 3.7.1 Regulatory routing time targets for letter post and parcel post services (2005)

	Non-bulk (single piece)	All items (bulk and non-bulk)	Part of universal service?	No regulatory target set by
FSC	BE, ES, SK	AT, CY, CZ, DE, DK, EE, FI, GR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, SE, SI, UK	In all Member States	
2ndFSC	BE, SK	DK, HU, IT, LV, PL, PT, UK	In BE, DK, FI, FR, GR, HU, IT, LV, PL, PT, SE, SK, UK	FI, GR, SE
Newspapers and magazines	Not relevant	BE, DK, HU, PT	In AT, BE, CY, DE, DK, FR, GR, HU, IT, PT, SE, SI	AT, CY, DE, GR, IT, SE, SI
Parcels	BE, ES, SI, UK	AT, DE, DK, HU, MT, PT, SK	In all Member States	CY, CZ, EE, FI, GR, IE, IT, LT, LU, LV, NL, PL, SE
Notes:				
FSC Fastest Standard Category				
ES FSC is a D+3 letter service.				
FR Is not included because secondary legislation is still pending.				
LV A new priority service has been introduced on 1 Jan 2006.				
NL Target set for all non-bulk and bulk letters up to 50g.				

The coverage of postal universal services by regulatory routing time targets strongly differs between the Member States. While all Member States have defined routing time targets for letters of the fastest standard category (D+1, resp. D+3 in the Spanish case) other postal services (delivery of newspapers/periodicals, second class letter services and parcels) are subject to regulatory targets only in a subset of Member States. In DK, HU, PT, and SK all standard universal services (single piece and bulk) are subject to routing time targets. BE, ES, and SK at least non-bulk services are subject to routing time targets. UK has the most extensive routing time requirements covering fifteen different services (including non-bulk parcels). Due to full market opening the British NRA Postcomm has recently proposed to reduce the number of transit time targets to seven (including one new target for cross-border services). In three of twelve Member States postal legislation has not defined routing time targets for 2nd class mail (FI, GR, SE). In more than half of the twelve Member States where the delivery of newspapers, periodicals, and magazines is part of the universal service routing time targets have not been set. Parcel services, part of the universal service in all Member States, are subject to routing time targets in less than a half Member States. Both services – delivery of newspapers and parcels – are usually provided under competitive conditions. Although, it should be taken into account that especially parcel services for consumers and small businesses are still dominated by the USP in most Member States.

Level of routing time targets (D+1)

Figure 3.7.1 Development of D+1 transit time targets (2003-2005, EU-25)



Notes:

ES No D+1 service provided by Correos.

FR La Poste shall achieve a transit time performance of 95 percent in 2007. In 2004 and 2005, transit time targets have not been set (secondary legislation of new postal legislation is still pending).

More than half of the Member States have transit time targets of 90 percent or more. In nine Member States the transit time targets have not been changed (CZ, DE, EE, IT, LU, LV, NL, SE, SI) between 2003 and 2005; eight have increased the targets, considerably in CY, and slightly in BE, CY, GR, HU, LT, PT, SK, UK (see Table 3.7.1). The variance of targets has reduced compared to 2003 targets – the minimum transit time target for D+1 services is now 80 percent in DE and LV (2003: 70 percent) while the maximum is 95.5 percent in SK (2003: 97 percent in DK). As in the last study Spain is the only Member State not defining a D+1 target.

More importantly, DK and FI have reduced the transit time targets: from 97 to 93 percent in DK and from 95 to 85 percent in FI. While the target in DK is relatively high, the decline in FI is more surprising. In rural areas the Finnish USP has started jointly delivering newspapers and letters in the early morning. Due to early delivery it is not feasible to collect, transport, and deliver a high percentage of letters the next working day. For this reason the government decided to reduce the transit time target.

Monitoring of routing time targets

When routing time targets have been set they are usually monitored even if the results have not always been published (e.g. routing time performance of parcels of Deutsche Post AG). In some cases the answers of NRAs and USPs differ insofar as the USP has confirmed measurement of routing time of non-bulk items while the NRA is of the opinion that the routing time of all items have been measured. Considering the answers of the USPs who are in most Member States responsible for measurement it appears that in the general practice the transit time of non-bulk items is regularly monitored. All USPs except for EE and LV commission an independent institution for performance measurement. The CEN standard EN 13850 has been applied in all "old" Member States plus HU, PL, SK, and SI and will be applied in CY, CZ, and MT in 2006. EE, LT, and LV plan to establish this standard later than 2006. In contrast to the CEN standard requirements, German postal legislation requires transit time measurement from the viewpoint of the customer. Applying the CEN standard produces results from the viewpoint of the postal operator. Measurement starts with clearing of the street letter box or of the postal outlet. In the German case measurement starts with posting of the letter by the sender at the street letter box or the postal outlet. Therefore, the routing time performance annually published by the NRA is always lower (about 8 to 9 percent) than the performance measured on behalf of Deutsche Post (which fulfils the requirements of the CEN standard).

Publication of routing time performance

Generally, the routing time performance of services subject to regulatory routing time targets are published by the NRAs or the USPs (in their annual reports and/or on their websites). Only exceptions are CY, EE, and LV.

It is worth mentioning that in some Member States routing time targets are integral part of the price cap formula. If the USP does not achieve the targets they may be punished with price decreases or lower price increases (depends on the design of the price cap formula). PT applies this type of price/quality control since 1995, UK has implemented this in the course of the first price control, and BE has introduced a quality-related price cap formula mid of 2005.

So far, mainly USPs are subject to regulatory quality control. Recently, BE demands from licensees to implement a quality measurement. In PT and UK licensees are asked to publish the routing time of their postal services.

Indications for future developments

In UK the price and quality control 2006 – 2010 has been decided. The number of routing time targets has been reduced by amalgamating some routing time targets. Postcomm has introduced a target for cross-border mail in accordance of the

requirements of the Directive. Additionally, new QoS requirements for collection and delivery completion, misdelivery, delivery and collection times have been introduced.¹³⁸

In DE and SE postal legislation is also under consideration. In both countries the scope of quality control and the level of transit time targets will most probably not adapted. The Dutch NRA expects that regulatory quality requirements will be restricted to consumer mail only. In the logic of the Dutch approach bulk mail is not part of the universal service and therefore not subject to strict regulatory oversight in a fully liberalized environment.

Conclusions

All Member States have established a quality of service regulation which at least defines routing time targets for the fastest standard category. In all Member States the USPs are subject to quality regulation. In a low number of Member States licensed competitive postal operators are requested to implement a monitoring system and to publish the results.

While the Directive requires quality of service targets for all postal universal services only some Member States do so. The coverage of quality of service targets varies from single piece letter items of the fastest standard category to targets covering all universal services provided by the USP.

When targets have been set, they are also monitored but not always published. Independent monitoring is now established in most Member States.

¹³⁸ Postcomm (2006a), Royal Mail's price and service quality review 2006-2010, licence modifications proposals.

3.8 Complaints and redress procedures

Article 19 of the Postal Directive requires Member States to ensure that “transparent, simple and inexpensive procedures are drawn up for dealing with users’ complaints, particularly in cases of theft, damage or non-compliance with service quality requirements”. All Member States¹³⁹ have implemented the requirement in their postal legislation.¹⁴⁰ Postal operators offering non-universal postal services are subject to the same requirements in 15 Member States, while nine Member States have not extended the obligation to these operators (AT, BE, ES, FR, IT, LU, MT, NL and UK).¹⁴¹

In competitive postal markets and especially in competitive upstream markets (including consolidation services) more than one postal operator may be involved to produce, prepare, transport, and deliver postal items (multi-operator environment). In case of complaints (e.g. because of lost mail items) the Directive requires to implement procedures which define where responsibility lies. It appears that most Member States have not especially taken this aspect into consideration in their postal legislation. Only DE and GR have stated that they defined complaints and redress procedures for cases where more than one operator has been involved. The UK NRA Postcomm has recently established a common operational procedures code to manage inter-operator issues expected to occur in a multi operator market addressing subjects like mail identification, reposted, misposted, and misdirected mail as well as misdirected customer service enquiries.

The Directive leaves it up to the Member States to require complaint and redress procedures from competitive postal operators; most Member States have implemented this requirement. Five Member States have stated that they do not have a specific requirement for competitive postal operators (AT, FR, IT, NL, and UK). AT and UK have recently introduced this requirement. In UK licence holders are required to set up systems to handle customer complaints. FR and IT plan to introduce it.

139 IS, NO, HR, and RO have also implemented a requirement for complaints and redress procedures in their postal legislation.

140 In CZ, consumer organizations reported that the complaint handling procedures are not customer oriented. Customers have to pay a fee for complaining (CZK 50, equal to postage of 7 standard letters) which the USP will reimburse if he accepts the complaint. The Czech NRA confirmed that this practice was abolished Jan 1, 2006.

141 FI has not answered. Among EEA and CC countries, IS and NO have neither done so, no answers provided by LI and TR.

Table 3.8.1 Mediation of complaints addressing USP's postal services

Mediator	Member States	Notes
NRA	CZ, DE, DK, EE, FI, GR, HU, IT, LT, LU, LV, MT, PL, PT, SK	IT: Ministry of Communication (who is also the NRA)
Ombudsman	BE, FR, IE, NL	
Other	AT, CY, SE, UK	AT: Postbüro CY: NRA, ombudsman, ministry SE: National board of consumer complaints UK: Postwatch
None	SI	
Not answered	ES	The Spanish USP states that the NRA is responsible for mediation.

In all EU countries customers have to submit their complaint to the USP first before they can address another authority in case they are not satisfied with the reaction to their complaint. The Postal Directive requires the Member States to ensure that users may bring cases to the competent national authority when users' complaints to the universal service provider have not been satisfactorily resolved. Most Member States have defined a competent national authority responsible for mediation in case of complaints addressing USP's postal services (see Table 3.8.1).

Table 3.8.2 Mediation of complaints addressing competitors' postal services

Mediator	Member States	Notes
NRA	BE, DE, EE, FI, GR, HU, IE, LT, LU, LV, PL, PT, SK	BE: It is discussed to extend competency of the ombudsman to all postal operators.
Ombudsman	FR	
Other	CY, MT, SE, UK	CY: NRA, ombudsman, ministry; MT: Consumer division, part of the Ministry responsible for competition law; SE: National board of consumer complaints; UK: Postwatch
None	AT, CZ, DK, IT, NL, SI	
Not answered	ES	The Spanish USP states that the NRA is responsible for mediation.

Although the Directive does require mediation procedures only for complaints to USPs, most Member States have determined a mediator in case of complaints not being resolved satisfactorily by competitors. In some Member States the mediator is different from the one responsible for USP related complaints (BE, IE and MT). Six Member States have not defined a specific mediator (see Table 3.8.2).

Table 3.8.3 Complaint procedures: publication requirements and practice

Member State	Number of complaints			Manner how complaints have been resolved		Published by
	Legally required to publish	USP required to publish?	In 2004 published?	USP required to publish?	In 2004 published?	
AT	Y	Y	Y	N	N	
BE	Y	N	Y	N	Y	Ombudsman
CY	Y	Y	N	Y	N	Not published
CZ	Y	N	N	N	N	Not published (Planned to be published by NRA in 2005 annual report)
DE	Y	N	Y	N	Y	NRA (number of complaints filed at NRA)
DK	Y	Y	N	Y	Y	USP
EE	N	N	Y	N	N	NRA (number of complaints filed at NRA)
ES	Y	Y	Y	Y	Y	USP
FI	Y	Y	Y	Y	Y	NRA
FR	N	Y	Y	N	N	Ombudsman
UK	Y	Y	Y	Y	Y	USP
GR	N	N	Y	N	N	NRA (number of complaints filed at NRA)
HU	Y	Y	Y	Y	Y	NRA
IE	Y	Y	Y	Y	Y	USP
IT	Y	Y	Y	Y	N	USP
LT	Y	Y	Y	Y	Y	NRA
LU	Y	Y	Y	Y	N	USP
LV	Y	N	Y	N	Y	USP
MT	Y	Y	N	Y	N	Not published
NL	Y	Y	Y	Y	Y	USP (part of concession report)
PL	Y	N	Y	N	Y	NRA (based on information of USP)
PT	Y	Y	Y	Y	Y	USP
SE	Y	Y	Y	Y	Y	NRA
SI	Y	Y	Y	Y	N	USP
SK	Y	Y	Y	NA	Y	USP

According to the Directive, Member States shall ensure that USPs publish the number of complaints and the manner in which they have been dealt with. Although there are improvements compared to the last report, transposition of publication requirements has not been uniformly achieved (see Table 3.8.3).

- All Member States except for EE, FR, and GR legally require to publish the number of complaints. FR plans introduce a legal requirement by decree (pending).
- In the majority of the Member States the USP is required to publish the number of complaints (18 Member States) and the manner how they dealt with (15 Member States).

- The number of complaints has been published in 21 Member States; in eleven of these countries the USP has published the figures. In some Member States the USP does obviously not fulfil the requirement to publish (CY, DK, FI, FR, HU, LT, MT, SE).
- It appears that in many countries only a subset of complaints is subject to publication. In some cases the NRA publishes information related to complaints filed at the NRA, in other cases information on complaints subject to the mediation procedure have been published.

Generally, in most Member States complaints and redress procedures are existing. Handling and publication of complaints continue to be very different.

Conclusions

In all Member States postal legislation requires the USP and in most countries also competitive postal operators providing services within the scope of universal service to establish complaints and redress procedures. Mediation procedures of complaints not satisfactorily resolved have been implemented in nearly all Member States. There are still deficits in the publication of the number of complaints and the manner how they dealt with.

3.9 National regulatory authorities

3.9.1 Mission and resources of NRAs

Article 22 of the Postal Directive requires Member States to “designate one or more national regulatory authorities for the postal sector that are legally separate from and operationally independent of the postal operators”. Article 22 goes on to declare that NRAs “shall have as a particular task ensuring compliance with the obligations arising from this Directive and shall, where appropriate, establish controls and specific procedures to ensure that the reserved services are respected”.

Table 3.9.1 National Regulatory Authorities for postal services

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

The names of the Community postal NRAs are set out in Table 3.9.1.

Almost all Community NRAs are multi-sector regulators. The only purely postal NRAs are those of Austria, Slovakia, Spain, and the United Kingdom. The remaining NRAs regulate electronic communications services as well as postal services with the exception of the Danish regulator, whose focus is road transport. Three postal NRAs also have jurisdiction over the energy and gas sectors (DE, LU, LV).

Table 3.9.2 Responsibility allocated to NRAs

MS	Policy decisions	Regulatory administration
AT	None	Unclear (NRA is part of the Postal Ministry)
BE	None	ABCDEFGHGI
CY	Shared responsibility: DF	ABCDEFGHGI
CZ	ABF	ACDEFGHI
DE	None	ABCDEFGHGI
DK	ABCDEF	ABFG
EE	None	ABCDEG
ES	None	G
FI	None	ACDEFG
FR	None	ABCDEFGHGI
GR	Shared responsibility: D	ABCDEFGHGI
HU	None	ABDEFGHI
IE	F	ABCDEFGHGI
IT	None	Unclear (NRA is part of the Postal Ministry)
LT	Shared responsibility: D	ABCDEFGHGI
LU	None	ABCDEFGHGI
LV	Shared responsibility: CDE	ABCDEFGHGI
MT	Shared responsibility: EF	ABCDEFGHGI
NL	None	ADEF
PL	None	ABCDEFGHGI
PT	None	ABCDEFGHGI
SE	Shared responsibility: DEF	ABCDEFGG
SI	None	ABCDEFGHGI
SK	ABF Shared responsibility: DE	ABCDEFGHGI
UK	BDF Shared responsibility: E	ABCDEG
<p>Key - policy decisions: A = Frequency of US B = Weight limit US parcels C = Scope of reserved area (not applicable to EE, FI, SE, and UK) D = Licence or GA conditions (not applicable to NL) E = Need for uniform tariff F = QoS standards</p> <p>Key – regulatory administration: A = User info B = Licence or GA C = Prices of US D = Special tariffs E = USP accounts F = Quality of universal service G = User complaints H = Cross subsidy in US (not applicable to EE, FI, SE, and UK) I = Cross subsidy in non-US (not applicable to EE, FI, SE, and UK)</p> <p>Notes: AT From Jan. 1, 2008 the authority responsible for regulation of electronic communications (Rundfunk und Telekom Regulierungs-GmbH) will be the national regulatory authority for postal services. CZ Ministry of Finance regulates prices for domestic postal items, CTO other prices.</p>		

As already discussed in section 3.1.2 the responsibilities with regard to postal regulation allocated to the NRAs differ considerably between Member States. Table 3.9.2 summarizes the main responsibilities of NRAs in making policy decisions and in regulatory administration.¹⁴² In most Member States NRAs do not have the authority to decide on major determinants of the regulatory framework. Notable exemptions are the regulatory authorities in CZ, DK, SK, and UK. So far, especially the UK NRA Postcomm has applied his authority by a long list of far-reaching decisions (i.a. with regard to the scope of universal service and the abolition of the reserved area).

In contrast, administrative tasks are mostly vested exclusively to NRAs. As already outlined in section 3.1.2 Austria, Italy, Spain and to some extent the Netherlands have allocated less tasks to their NRAs than the other Member States.

Table 3.9.3 Responsibility for enforcement of competition rules

		Member States	Not answered
Primary responsibility for enforcement of competition rules in the postal sector	NRA	DE, GR, LV, PT, SK, UK	ES
	NCA	AT, BE, CY, CZ, DK, FI, FR, HU, IE, IT, LT, MT, NL, PL, SE, SI	
	MinPost	EE, LU	
Share of information between NRA and NCA	Yes	BE, CY, DE, FR, HU, IE, LT, MT, NL, PL, PT, SE, UK	CZ, EE, ES, GR
	No	DK, FI, IT, LU, LV, SI, SK	

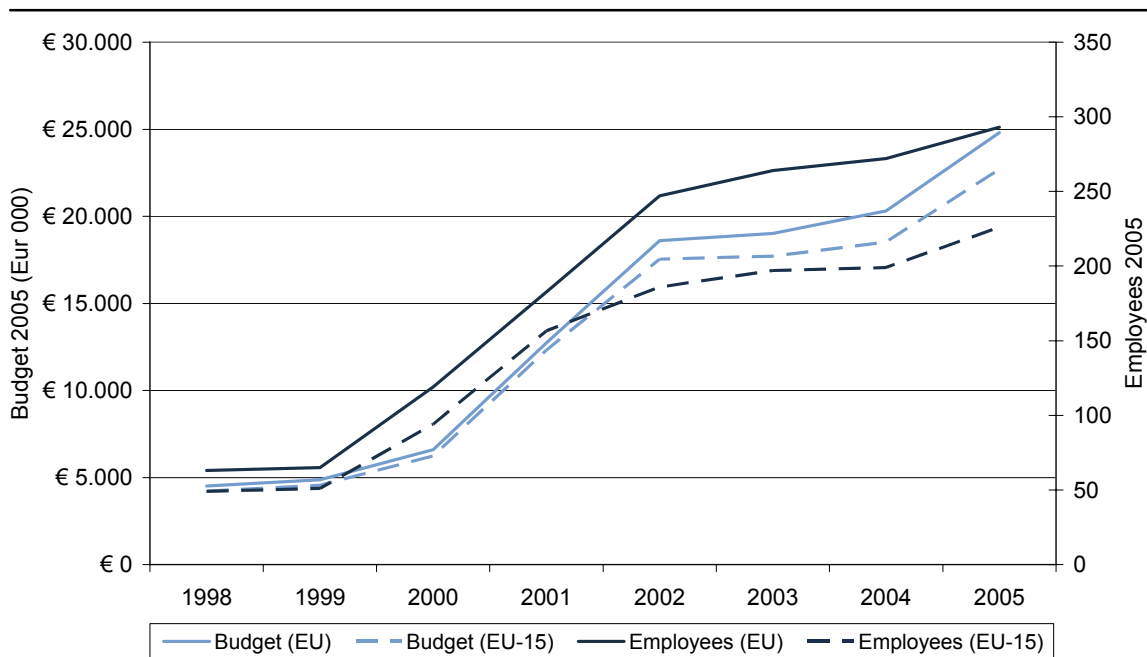
In most Member States the primary responsibility for the enforcement of competition rules in the postal sector is allocated to the national competition authority, in two Member States to the postal minister (Table 3.9.3).¹⁴³ Some national competition authorities have already dealt with competition problems in the postal sector, notably in AT, DE, DK, ES, FR, IT, and SE. UK Postcomm and the German NRA have already been involved in competition cases (mainly abuse of market dominant positions).¹⁴⁴ The German example shows that both institutions might be responsible for competition problems in the sector. For this reason NRAs and NCAs should at least share information when necessary. Actually, about half of the NRAs report that they do so.

¹⁴² The table contents are based on information provided in section 3.1.2 (Table 3.1.3 and Table 3.1.4).

¹⁴³ The table contents are based on information provided in section 3.1.2 (Table 3.1.5).

¹⁴⁴ For more information see section 4.2.1.5 and Appendix A2.

Figure 3.9.1 Estimated NRA budgets and employees, 1998-2005

**Notes:**

Budget figures exclude AT, CZ, DE, ES, LT, LV, PL.

Employee figures exclude AT, PL.

Some figures estimated from prior years.

Since adoption of the Postal Directive in late 1997, the resources devoted to independent regulation of postal services have grown steadily. From 1998 to 2005, incomplete figures for postal regulation indicate an increase in expenditures from about € 4.5 million to € 26.7 million (excluding AT, CZ, DE, ES, LT, PL) and regulatory staff from 63 to 293 (excluding AT, PL). Only a minor part of this growth is due to expansion of the accession of 10 new Member States in 2004. Projecting from these incomplete figures, it may be estimated that in 2005 the Community spent more than € 37 million on postal regulation and employed more than 300 persons.

Figure 3.9.2 Resources of NRAs in large Member States, 2005

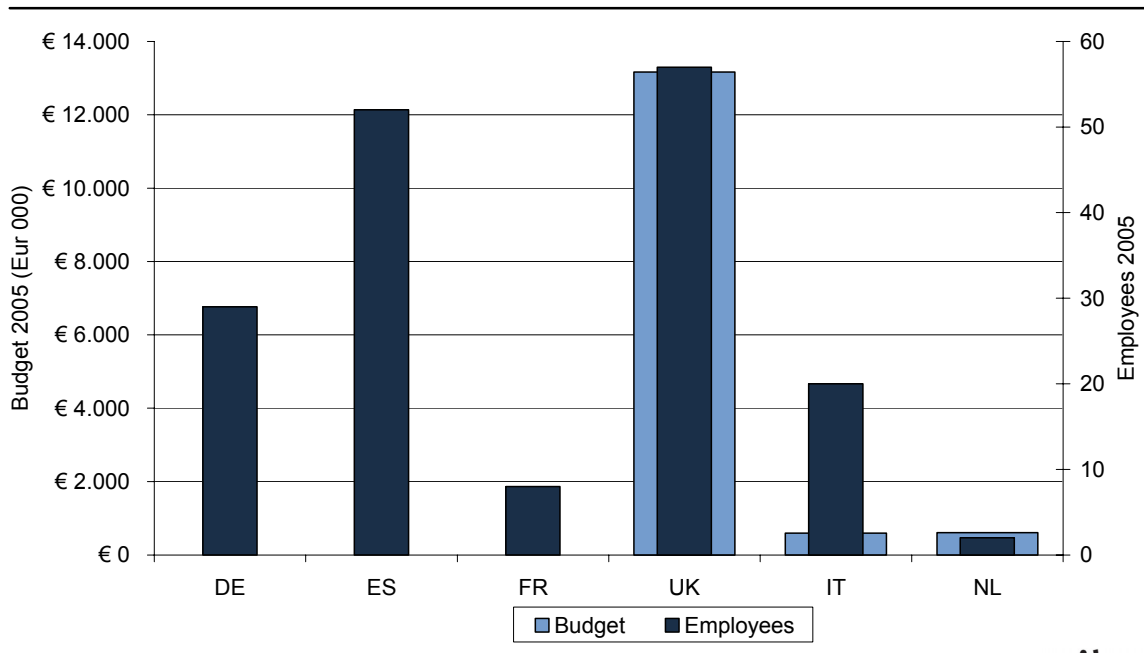


Figure 3.9.3 Resources of NRAs in medium-sized Member States, 2005

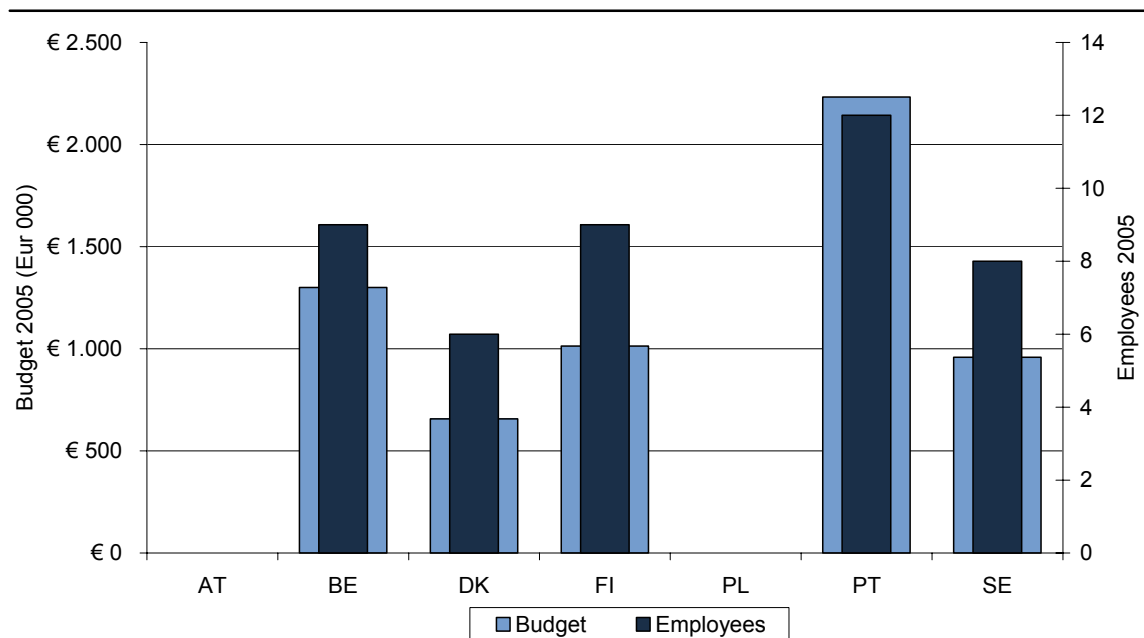


Figure 3.9.4 Resources of NRAs in small Member States, 2005

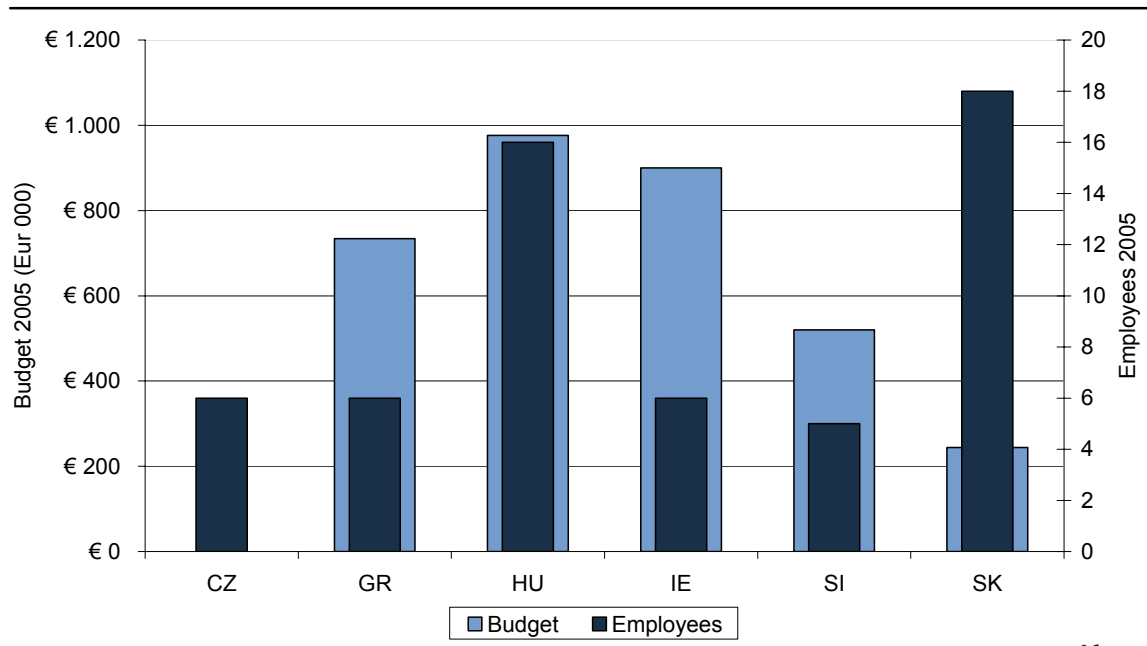
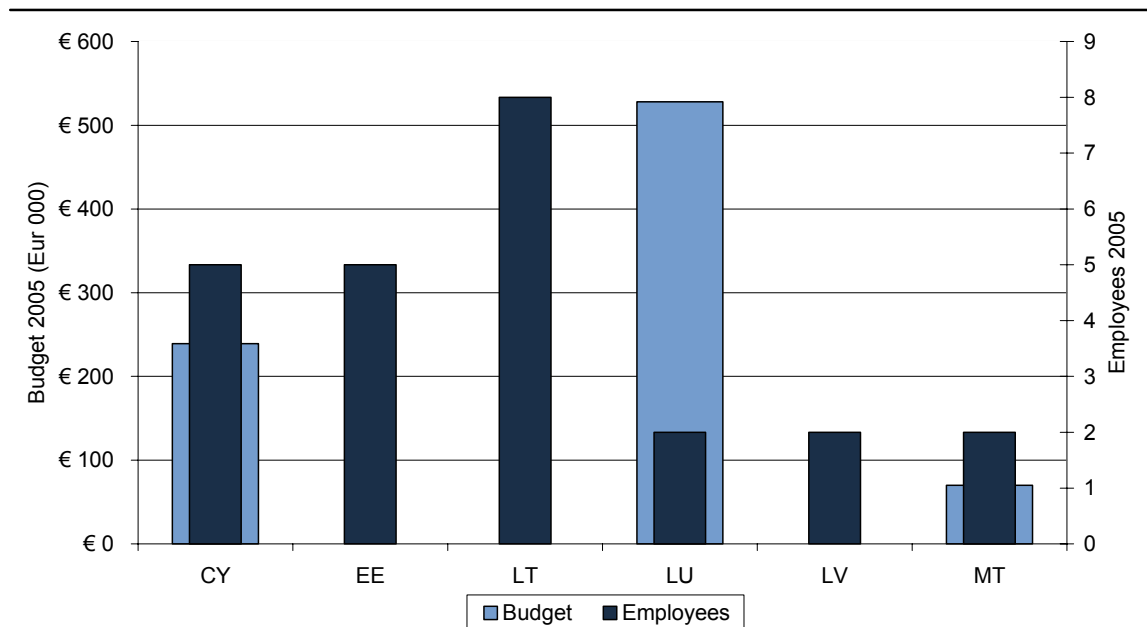


Figure 3.9.5 Resources of NRAs in very small Member States, 2005



The financial and personnel resources available to NRAs vary substantially among the Member States. In order to provide a meaningful comparison, Figures 3.91 to 3.9.5 divide the Member State into four groups: large postal markets (more than 5 percent of the EU letter post); medium-sized markets (1 to 5 percent); small markets (0.2 to 1 percent); and very small markets (0.1 percent or less).

The six large Member States (DE, ES, FR, IT, NL, UK) account for more than 80 percent of the Community letter post. Collectively, NRAs in these states employ more than half of all postal regulators and probably spend two-thirds or more of all regulatory funds.¹⁴⁵ In this group, the United Kingdom stands out in the amount of resources expended on postal regulation. Indeed, the budget of the UK NRA, Postcomm, is half of the total EU regulatory budget in large part because Postcomm makes extensive use of outside consultants. On the other hand, the NRAs in Italy and the Netherlands have less than 5 percent of Postcomm's budget. In terms of personnel, as well, there is a wide gap between NRAs. Some have more than 50 employees (ES, UK) while others having fewer than 10 (FR, NL). Of course, the tasks of the NRA vary from state to state as discussed above.

The seven medium-sized Member States (AT, BE, DK, FI, PL, PT, SE) comprise about 15 percent of the EU letter post. Among these Member States the allocation of financial and personnel resources is more evenly matched with the probable exceptions of Austria and Poland which provided no data. In this group, the average NRA employs only nine persons in the regulation of the postal sector. The average budget of the NRA is about € 1.2 million per year.

The six small Member States (CZ, GR, HU, IE, SI, SK) make up about 3.7 percent of the Community letter post. On average these Member States devote as many persons to postal regulation as the medium-sized NRAs, but they spend only about half as much, about € 675,000 per year. In this group, Greece, Hungary, and Ireland appear to provide the NRA with adequate resources, whereas the Czech Republic, Slovakia, and perhaps Slovenia may need to do more.

Finally, the six very small Member States (CY, EE, LT, LU, LV, MT) collectively comprise less than one-half of one percent of the Community letter post. The NRAs in these Member States average about 4 employees; three NRAs employ 2 persons each. Budgetary information is incomplete, but the Cypriot NRA's budget of € 279,000 per year is probably more typical than that of the relatively prosperous Luxembourg NRA. In this group, the NRAs with the least resources appear to be those of Latvia and Malta.

In sum, Member States spend more than € 37 million and employ more than 300 persons in the regulation of postal services pursuant to the Postal Directive, roughly five or six times the regulatory resources expended in the United States, a far larger postal

¹⁴⁵ This is an estimate since such budgetary figures for the large Member States are incomplete.

market. The resources of postal NRAs vary enormously not only between large and small Member States and also between national postal systems of relatively similar size. Some NRAs appear to lack the resources needed to implement the objectives of the Postal Directive. More generally, since the Postal Directive assigns the same regulatory tasks to small Member States as well as large, the amount of resources needed in small Member States does not decline in the same proportion as the volume of letter post. As a result, small and very small Member States employ about 28 percent of EU regulatory personnel to regulate about 4 percent of the Community market.

It appears that regulatory resources could be employed more efficiently. In the new directive, it may be desirable to consider strategies for achieving a more efficient allocation of regulatory resources within the Community. Such strategies could include a clearer definition of the tasks of the NRAs, encouraging more cooperation and sharing of tasks among NRAs, and greater reliance on competitive mechanisms to reduce the need for regulatory intervention, especially in smaller Member States.

Conclusions

Responsibilities with regard to postal regulation allocated to the NRAs differ considerably between Member States. In most Member States NRAs do not have the authority to decide on major determinants of the regulatory framework. Notable exemptions are the regulatory authorities in CZ, DK, SK, and UK. In contrast, administrative tasks are mostly vested exclusively to NRAs. AT, ES, IT, and to some extent NL have allocated less tasks to their NRAs than the other Member States. National competition authorities are responsible for the enforcement of competition rules in the postal sector in most Member States. Notable exemptions are UK Postcomm and the German Bundesnetzagentur who have already been engaged in competition cases. Generally, regulatory and competition authorities should share information. Actually, about half of the regulatory authorities report that they do so.

The EU Member States devote substantial resources to the regulation of postal services. These resources are distributed unevenly among the NRAs, and some NRAs appear to have insufficient resources. In the new Directive, it may be desirable to consider strategies for achieving a more efficient allocation of regulatory resources within the Community. Such strategies could include a clearer definition of the tasks of the NRAs, encouraging more cooperation and sharing of tasks among NRAs, and greater reliance on competitive mechanisms to reduce the need for regulatory intervention, especially in smaller Member States.

3.9.2 Independence of NRAs

As noted above, Article 22 requires that NRAs be "legally separate from and operationally independent of the postal operators". In one recent case, the Commission held that Article 22 requires Member States to ensure "thanks to a proper separation of duties, that the tasks of economic and financial monitoring, on the one hand, and of supervision of [the USP], on the other, are carried out completely independently one of the other."¹⁴⁶

Independence of the NRA from the postal operator depends on many factors. Ideally, the head of an independent NRA should be not appointed by a minister who is also directly responsible for the success of the USP. Indeed, if the state has an ownership interest in the USP, then a regulator with quasi-judicial independence from the government is to be preferred over a regulator located within a ministry since different ministries necessarily influence each other. Nor should the minister responsible for the USP hold the purse strings of the NRA or exercise appeal authority over decisions of the NRA. The head of an independent NRA, or the members of the committee that serves as the head, should hold office for a fixed term of several years and enjoy legal protection against dismissal. All things being equal, it seems likely that an NRA headed by a multi-member committee will—like a court composed of several judges—be more stable and independent than a single chief regulator.¹⁴⁷

¹⁴⁶ Commission Decision 2002/344/EC of 23 October 2001, OJ L 120, 7 May 2002, p. 19, paragraph 29. In this case, the activities to be monitored involved setting volume thresholds and tariffs for presorted mail by La Poste of France. The Commission observed, 'As regards services open to competition which fall within the scope of universal service, the general principle of cost orientation applies, but the French rules do not spell out the implications of that principle or the arrangements for checking whether it is complied with.' Paragraph 18 (emphasis added). The Commission concluded that France could not, consistent with the Article 82 of EC Treaty (abuse of dominant position), allow La Poste to set requirements for presorted mail without supervision since La Poste would be in a position to favour its own subsidiaries in the mail preparation business to the detriment of competing firms.

¹⁴⁷ In Germany, the number of members in the committee controlling the NRA reflects the number of sectors regulated by the NRA. This may be true in other Member States as well.

Table 3.9.4 Organizational independence of NRAs

MS	Number of NRA heads	Who appoints NRA?	Who appoints DG of USP?	NRA term	Grounds to dismiss NRA head	Suboffice of Min Post?	Subject to guidance by Exec?	Same bldg as Min Post?
AT		Min Post		None				No
BE	4	PM/Council	PM/Council	6 yr	Other	No	No	No
CY	1	PM/Council		5 yr	Cause	No	No	No
CZ	5	PM/Council		5 yr	Cause	No	No	No
DE	3	Other		5 yr	No criteria	No		No
DK	1	PM/Council	Min Post	5 yr	Cause	Yes	Yes	No
EE	1	Min Post	Other	None	Discretion	No	No	No
ES		PM/Council	PM/Council	None	Discretion	Yes		Yes
FI	1	PM/Council	Min Post	None	Cause	No	Yes	No
FR	7	Parliament	Min Post	6 yr	Cause	No	No	No
GR	9	PM/Council		4 yr	Cause	No	No	No
HU	7	PM/Council	Min Other	5 yr	Discretion	No	No	No
IE	3	Min Post	Min Post	4 yr	Cause	No	Yes	No
IT	1	Parliament	Min Other	5 yr	Discretion	Yes		Yes
LT	7	Other	Min Post	5 yr	Cause	No	No	No
LU	3	PM/Council		5 yr	Cause	No	Yes	No
LV	5	Other	Other	5 yr	Cause	No	No	No
MT	4	Min Post	Min Other	3 yr	Other	No	No	No
NL	3	Min Post		4 yr	No criteria	No	No	No
PL	1	PM/Council	Min Post	5 yr	Cause	No	No	No
PT	3	PM/Council	Other	5 yr	Cause	No	No	No
SE	9	PM/Council	Min Post	1 yr	Cause	No	Yes	No
SI	1	PM/Council		5 yr	Cause	No	No	No
SK	1		Min Post	6 yr	Cause	No	No	No
UK	7	Min Post	Min Post	3 yr	Cause	No	Yes	No
Notes:								
DE NRA appointed by federal government.								
IT President of USP appointed by Minister of Economy; NRA is Minister of Communications.								
NL Minister of Economic Affairs appointed heads of NRA.								

Table 3.9.4 summarizes selected features in the organizational arrangements for the NRA and USP that try to shed light on the independence of the NRA. This table identifies some causes for concern. In at least three Member States, the NRA appears to be simply an office within a ministry rather than an agency with genuine institutional independence (AT, ES, IT). In two Member States, the heads of the NRA and USP are appointed by the postal minister (IE, UK). In eight Member States, there is only a single postal regulator (CY, DK, EE, FI, IT, PL, SI, SK) rather than multi-member board. In four Member States, the head of the NRA has no fixed term of office (AT, EE, ES, FI) and in several others the term of office is fairly short (3 years or less). In five Member States, the heads of the NRA appear to have no statutory protection against dismissal (DE, EE, ES, HU, IT, NL). In several Member States, the NRA is admittedly subject to policy guidance by the government (DK, FI, IE, LU, SE, UK). In eight Member States, the budget of the NRA must be approved by Postal Ministry (EE, ES, FI, MT, NL, PT, SE, SK). In Spain, the only appeal from the decision of the NRA is to the postal minister.

Perhaps none of these features is sufficient standing alone to cast doubt on the independence of the NRA. In any case, the negative (or positive) effects of organizational arrangements may be outweighed by the still more intangible political traditions of the Member State. Nonetheless, there remain several features of the institutional arrangements for NRAs that could raise doubts about independence in the mind of a reasonable observer.

In our view, Member States have, with a few exceptions, taken reasonably creditable steps towards establishing NRAs that are independent from the influence of USPs or others affected by the fortunes of the USP. Nonetheless, further steps are needed. In the next directive, it may be desirable to specify more clearly the institutional arrangements that should be employed by Member States to ensure both the reality and appearance of independence.

Conclusions

Independence of the NRA is vital to the functioning of the Community regulatory framework for postal services but difficult to evaluate in practice. While Member States have done a reasonably credible job so far of conferring independence on NRAs, there are features of the current system that could raise doubts in the mind of a reasonable observer. In the next directive, it may be desirable to specify more clearly the institutional arrangements that should be employed by Member States to ensure both the reality and appearance of independence.

3.9.3 Regulatory powers

The effectiveness of the NRA depends as well on its power to obtain information and enforce its decisions.

Table 3.9.5 Enforcement powers of NRAs

MS	Information gathering			Basic enforcement			Additional powers		
	Require data from USP	Require acct'g system	Require new data studies	Cancel unlawful rates	Levy fines	Seek judicial order	Set new rates for USP	Require downstream access	Require data from non-USPs
AT	X	X							
BE	X	X			X	X			X
DK	X						X		X
GR		X			X	X		X	
LT	X	X			X	X			X
LU		X				X			X
LV	X		X			X	X		X
CZ	X	X	X	X	X		X		
EE	X	X	X					X	X
ES	X	X	X	X					X
FI	X	X	X		X			X	
FR	X	X	X	X	X			X	X
HU	X	X	X		X	X		X	X
IE	X	X	X	X		X	X		
IT	X	X	X	X	X		X		X
NL	X	X	X		X	X			
PL	X	X	X		X	X			X
PT	X	X	X	X	X			X	X
SE	X	X	X	X		X			X
SI	X	X	X		X		X	X	X
CY	X	X	X	X	X	X			X
DE	X	X	X	X	X	X	X	X	X
MT	X	X	X	X	X	X	X	X	X
SK	X	X	X	X	X	X	X		X
UK	X	X	X	X	X	X	X	X	X

Table 3.9.5 summarizes the enforcement powers reported by NRAs. The first three columns relate to the collection of data from the USP. Can the NRA require the USP to disclose existing records? Can the NRA require the USP to maintain regulatory accounts in the manner determined by the NRA? Can the NRA require the USP to collect new data, possibly at substantial expense to the USP? The next three columns refer to basic enforcement powers, authority to cancel unlawful tariffs, to impose fines in case of unlawful activity, and to seek judicial enforcement of regulatory orders. The last three columns concern additional powers, authority to set lawful tariffs even if the USP does not propose them, authority to require the USP to provide downstream access even if it does not wish to do so, and authority to require information from postal operators other than the USP.

In this table, the Member States are divided into three groups according to a rough measure of increasing enforcement authority. In the first group, NRAs appear to lack both a full set of information-gathering tools and a full set of basic enforcement powers. This group includes seven NRAs but accounts for only about 7 percent of the Community letter post (AT, BE, DK, GR, LT, LU, LV). The second group includes NRAs that have necessary information-gathering tools but lack some basic enforcement powers. This group includes 13 Member States accounting for 49 percent of the Community market (CZ, EE, ES, FI, FR, HU, IE, IT, NL, PL, PT, SE, SI). The third group consists of NRAs with a complete set of basic information-gathering and enforcement powers. This last category includes Germany and the United Kingdom as well as three smaller states (CY, MT, SK) and collectively represents 43 percent of the Community market.

The foregoing analysis should not be over interpreted. There are shades of enforcement authority that are poorly captured by such a survey. Nonetheless, this review appears to show that some NRAs lack basic enforcement tools. The new directive could, therefore, take steps to define more clearly the enforcement tools that should be given to NRAs to implement Community postal policy.

Conclusions

Some NRAs appear to lack basic authority to collect information or enforce their orders. The new directive could, therefore, take steps to define more clearly the enforcement tools that should be given to NRAs to implement Community postal policy.

4 Sector Developments

4.1 Key figures – The European postal sector

European Union in brief

Table 4.1.1 Overview of countries (2004)

	Size (thou km ²)	Population (in thou)	GDP (in billion EUR)	Employment (in thou)
EU-25	3,991,529	458,339	10,419	191,880
EEA (IS, LI, NO)	427,037	4,888	212	2,449
Candidate countries (BG, HR, RO,TR)	1,180,656	104,706	346	12,568

Source: Eurostat, UPU

After the accession of ten new Member States¹⁴⁸ on May 1, 2004, the European Union embraces 25 countries with a total population of about 455 million persons and a land area of almost 4 million square kilometres. The total gross domestic product of the EU is approximately € 10.4 trillion. The EEA countries represent another 5 million persons and the candidate countries almost 105 million (Table 4.1.1).

Size of the European postal market and its importance for the Community economy

We estimate that the overall postal sector in the European Union, including letter post, parcel, and express services, earned total revenues of about 90 billion EUR in 2004. This figure corresponds to 0.9 percent of the gross domestic product (GDP) of the 25 Member States. The largest segment of the market is the letter post, which accounts for about 60 percent of all revenues. The parcel and express segments combined account for 40 percent of all revenues. The postal sector makes a significant direct contribution to the EU economy. We estimate its direct contribution to EU GDP to be about 37 billion EUR or 0.4 percent.¹⁴⁹

¹⁴⁸ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia.

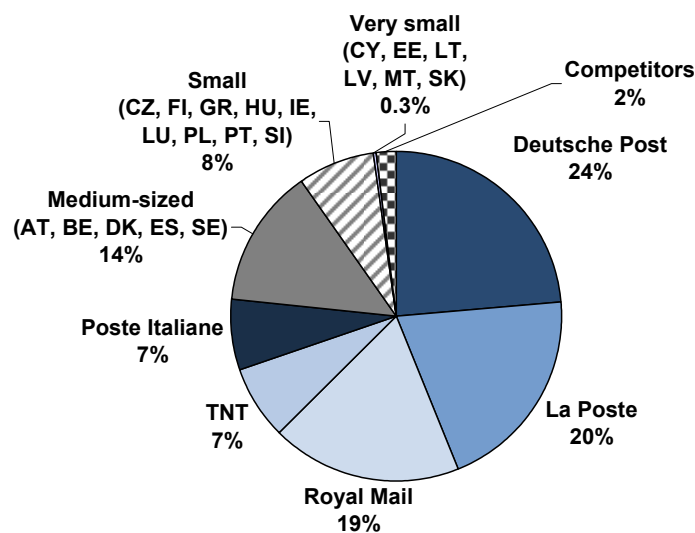
¹⁴⁹ Direct contribution is calculated by total revenues minus operating costs plus employment expenses (value added). It excludes purchased services offered by third parties. In the express industry about 30 % of total revenues are value added (see Oxford Economic Forecasting (2004), The economic impact of express industry of express carriers in Europe). In the more labour intensive letter post business the value added accounts for about 50 percent of total revenues (own calculations based on results of the WIK survey and annual reports).

Total employment in the postal services sector may be estimated very roughly to be about 1.6 million persons, or 0.8 percent of all jobs in the European Union. USPs employed about 1.7 million persons in sum (headcount) and about 1.5 bln in the production of postal services in 2004. This figure includes employment at parcel and express service provider, notably at DHL, DPD, GLS, and TNT. CPOs independent from the USPs account for roughly 100,000 employees.

Size and market structure – Letter post market EU-25

Based on approximate market share data provided by USPs and NRAs, the total revenue earned from letter post services in the EU is estimated to have been about 54 billion EUR in 2004.

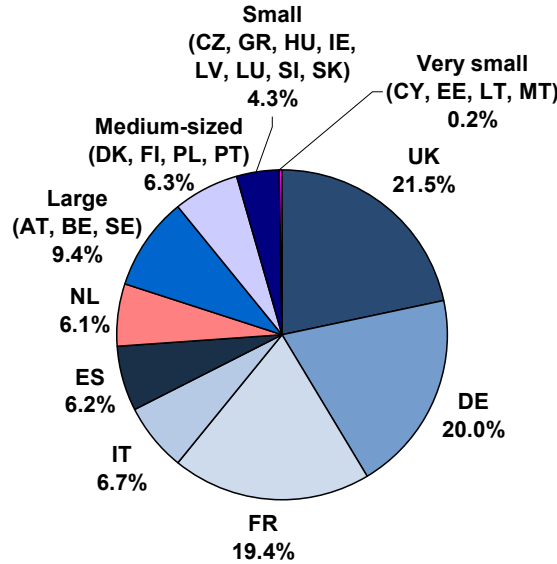
Figure 4.1.1 Size of the EU-25 letter post market (revenues): appr. 54 billion € revenue in 2004



Sources: WIK survey and annual reports of national postal operators. Caveats: letter post revenues of USPs include revenues of non letter post services (e.g., distribution of unaddressed items); revenue information of Deutsche Post and TNT includes revenues from foreign subsidiaries active in letter post markets (i.e. competitors). Competitors share is estimated by published revenue figures of competitors in letter post (excluding subsidiaries of TNT and Deutsche Post to the extent possible). Revenues from distributors of newspapers and magazines are not included.

The USPs are by far the most important providers of letter post services. The shares of the five biggest USPs reflect the size of their home markets: They have still more than 75 % of the European market. The share of competitors independent from TNT and Deutsche Post has been estimated to be about 2 percent in the Community.

Figure 4.1.2 EU-25 letter post market (domestic letter post volumes) – appr. 93 billion letter post items (2004)



Sources: WIK survey and annual reports of national postal operators, market surveys of NRAs.

We estimate that the number of letter post items is about 93 billion in 2004. In contrast to the distribution of revenues now the U.K. letter post market is the biggest followed by the German and French letter post market.

Based on the WIK survey and on data published by Ecorys (2005) we estimate that the number of unaddressed items distributed by USPs and other providers is at least 80 to 90 billion items.

4.2 Supply of postal services

4.2.1 Competition and market shares – Letter post services

4.2.1.1 Overview

Table 4.2.1 Perceived degree of competition in domestic letter post (2005)

MS	Letter post (2000)	Letter post (2005)	Items of correspondence	Direct mail (addr.)	Newspapers, magazines, periodicals	Daily newspapers	Un-addressed items
AT	○	●	NA	●	●●	●●●	●●
BE	◄	●	◄	●	●●	●●	●●●
CY	○	○	○	○	●	●●●	●●
CZ	●	●	●	●●	●●●	●●●	●●●
DE	●	●	●	●	NA	NA	●●
DK	◄	●●	NA	NA	NA	NA	●●●
EE	○	○	○	●	●	●	●●
ES	●●	●●●	●●	●●	●●●	●●●	●●●
FI	●●	●●●	●●●	NA	NA	●●●	●●●
FR	●●	●●●	●	●	●●	●●	●●
GR	○	●	●	●	●	●	●
HU	○	◄	◄	◄	●●	●●	●●●
IE	○	○	○	○	●●	NA	●●●
IT	●	●●	●●	●●●	●●	NA	●●●
LT	●●	●●●	●●●	NA	●●●	●●●	NA
LU	●●	●	●	●	●	◄	●●●
LV	●	○	○	○	●	●	●●
MT	○	●●	●	●	◄	◄	●●●
NL	◄	●●	●	●●●	●●●	NA	●●●
PL	○	●	●	●	●●●	●●●	●●●
PT	●	●	●	●	●	●	●●●
SE	●	●	●	●	●	●	●●●
SI	●	●	●	●	●●	●●●	●●●
SK	●	●●	●●	●●	●●●	●●	●●●
UK	○	●	NA	NA	NA	NA	NA
EU-25	● (0.7)	● (1.3)	●	●	●●	●●	●●●
Note: See text for explanation of criteria and scores. ○ None ● Emerging ●● Substantial ●●● Intense							

Source: Internet survey, combined answers of NRAs and USPs

Letter post consists of delivery of items of correspondence (i.a. transaction mail), addressed direct mail, and the distribution of subscribed newspapers, magazines, and periodicals (incl. daily newspapers when jointly delivered with letter post items). For each of these market segments, Table 4.2.1 summarizes the current degree of competition, as perceived by the stakeholders that responded to our survey.

The last column of Table 4.2.1 reflects the perceived degree of competition in the distribution of unaddressed items which are not part of letter post in our definition. Obviously, the perceived degree of competition strongly differs between the segments. While perceived competition in the delivery of items of correspondence and addressed direct mail continues to be fairly limited, it is much stronger in the distribution of newspapers, periodicals, and magazines and – especially – in the distribution of unaddressed items. Compared with the situation in 2000 it appears that the perceived degree of competition in letter post has slightly increased. The perceived degree of competition in the segment of addressed direct mail is stronger in countries with completely liberalised direct mail (notably in CZ, EE, IT, and NL).

Overall, the results of our survey are in line with the market share information collected by Ecorys (2005). They show that USPs continue to be market dominant in the delivery of letter mail items (items of correspondence and direct mail). The situation is less clear in the distribution of newspapers, periodicals, and magazines and in the distribution of unaddressed items. It appears that lot of USPs also have a strong market position in the distribution of unaddressed items and to less extent in the delivery of subscribed periodicals and magazines. A market dominant position of USPs in adjacent delivery markets (distribution of newspapers, unaddressed items) might reduce the probability of market entry in a liberalised letter mail market: Investing in an already existing distribution network is a common strategy to start business in the delivery of addressed letter mail.

4.2.1.2 Domestic letter mail services

National letter mail markets are generally characterized by limited competition. Nonetheless, some competition has emerged in most Member States. As basic distinction between different business models of new players in the market is whether or not they provide end to end (E2E) services or upstream services (handed over to other operators for final delivery).

Table 4.2.2 Main CPOs on domestic letter post markets

Member State	Foreign USP(s) active in domestic letter post market (upstream and E2E)	Other important competitors (E2E)
AT	TNT (NL) : Redmail (joint venture with Styria (publisher), distribution of addressed and unaddressed items)	
BE	TNT (NL) : Belgische Distributiedienst (distribution of unaddressed items)	
CY		
CZ	TNT (NL) : Dimar providing upstream and direct mail services and ADM (distribution of unaddressed items)	Mediaservis (owned by logistic company Fiege (DE))
DE	Finland Post (FI) : Itella (Upstream services) TNT (NL) : EP Europost (JV logistic company Hermes and NL, E2E)	PIN Group: JV of big publishers and Pin AG (owned mainly by publishers) NET-DBS (JV of various local distributors; Pin 25%) West Mail (JV of publishers) Prime Mail (JV logistic company Hermes and Swiss Post) (addressed),
DK	Finland Post (FI) : Itella (Upstream services) Posten Norge (NO) : Citymail planned (E2E)	
EE	Finland Post (FI) : Itella (Upstream services)	
ES	Deutsche Post (DE) : Unipost (38% share, E2E)	
FI		
FR	La Poste/De Post (BE) : Asterion (upstream services) Deutsche Post (DE) : KOBA (upstream services), Royal Mail (UK) : Crie Group (upstream services)	ADREXO (publisher Spir Communications)
GR		
HU	Österreichische Post (AT) : Feibra Hungary (distribution of unaddressed items) TNT (NL) : Dimar (distribution of unaddressed items)	
IE		
IT	TNT (NL) : Various companies (direct mail, distribution of unaddressed items, upstream activities)	
LT	Finland Post (FI) : Itella (Upstream services)	
LU		
LV	Finland Post (FI) : Itella (Upstream services)	
MT		
NL	Deutsche Post (DE) : Selekt Mail (E2E), MailMerge (delivery at P.O.Boxes) La Poste (FR) : Insa BV (upstream services),	Sandd (E2E) owned by private equity company
PL	TNT (NL) : Dimar (distribution of unaddressed items)	
PT		
SE	Finland Post (FI) : Itella (Upstream services) Posten Norge (NO) : Citymail (E2E)	
SI		
SK	TNT (NL) : Shicuika & Macatch (distribution of unaddressed items)	
UK	Deutsche Post (DE) : DHL Global Mail, Speedmail (E2E and upstream services), Williams Lea (upstream services) La Poste (FR) : Mailplus (upstream services and E2E), TNT (NL) : TNT Mail UK (upstream services), Circular Distributors Ltd. (distribution of unaddressed items)	DX Networks (demerger of recruitment group Hays in 2004) Express Dairies (Arla Foods (DK) (market exit Nov. 2005)

Table 4.2.2 illustrates the importance of USPs as competitors in foreign letter post markets. Next to USPs publishing houses have been engaged in postal service activities. Either they have formed joint ventures with foreign USPs (AT and NL), acted on their own (FR) or established networks with other publishers (DE). Currently, private equity companies have rarely been active in major letter post CPOs. NAZCA, a wholly owned subsidiary of Fortis Private Equity had held shares in Spanish Unipost but sold them to DPWN in September 2004.¹⁵⁰ Dutch Sandd is owned by Trimoteur Holding B.V. who has recently sold part of its shares to two other private equity companies (NIB Capital Principal Investments, Fortis Private Equity).¹⁵¹

Ecorys (2005)¹⁵² has introduced a classification of national letter post markets describing their attractiveness for market entry. They applied criteria like total letter post volume, letter post per capita, and use of direct mail which characterise the development of the national letter post market, or degree of urbanisation and other socio-demographic characteristics which influence the delivery costs. Disregarding remaining barriers related to country specific regulation potential entry ought to be:¹⁵³

- Highest in Belgium, France, Germany, the Netherlands and the UK;
- Relatively high in Denmark, Italy, Luxembourg, Spain and Sweden;
- Moderate in Austria, Czech Republic, Finland, Hungary, Malta, Poland, Portugal, Slovakia and Slovenia;
- Relatively low in Cyprus, Estonia, Greece, Ireland, Latvia, and Lithuania.

So far, foreign USPs have not entered markets in countries with moderate or low competitive threat. The acquisition of Feibra Hungary, the Hungarian market leader for unaddressed mail, by Austria Post is an exception.¹⁵⁴ With this acquisition Austria Post seems to refrain from the strategy to enter Eastern European markets via alliances with the incumbents but rather to acquire competitors.¹⁵⁵

Until 2004, foreign USPs were quite active to enter the interesting foreign markets (according to Ecorys' classification). In the recent past, we note a slight slowdown of new competitive entry. Companies like Express Dairies in the UK even leave the market

¹⁵⁰ Fortis, Annual review 2004, p. 28.

¹⁵¹ Trimoteur Holding, Press Release 28.6.2005. The two new private equity companies took over shares which were held by ING Commercial Finance (formerly partly NMB Heller) before (Interview Trimoteur B.V., 2.3.2006).

¹⁵² Ecorys (2005), Development of competition in the European postal sector.

¹⁵³ Ecorys (2005), Development of competition in the European postal sector, p. 138ff.

¹⁵⁴ AT Österreichische Post, Press notice of 13 October 2005.

¹⁵⁵ See WestLB (2005), Europäische Postunternehmen – Herausforderungen und Chancen der Postbranche [European postal operators – challenges and opportunities in the postal sector], p. 57. Austria Post currently negotiates with Czech companies and plans to enter the Bulgarian and Romanian market, too.

again. However, there are few important exceptions: Norway Post announced to enter the Danish postal market by setting up a CityMail subsidiary.¹⁵⁶ TNT intensifies its EP Europost activities in Germany. The company hopes to link 120 of its 160 regional mail delivery partners under a single European franchise structure.¹⁵⁷ DPWN has recently acquired Williams Lea, a leading provider of value-added document and mail-related services.¹⁵⁸ Furthermore DPWN intensified its activities on the Dutch letter market. It has taken over the majority of MailMerge, the largest specialist supplier for delivery to P.O. boxes.¹⁵⁹ Royal Mail and La Poste have announced to extend their activities to foreign letter markets. GLS, a subsidiary of Royal Mail, plans to enter the German letter market as soon as the reserved area will be abolished. La Poste has extended the licensed business of its affiliate Mail Plus in UK.¹⁶⁰

156 NO Norway Post, Press Notice of 15. February 2006. In 2002 Norway Post purchased 57 per cent of CityMail Sweden. It has an option to acquire the remaining 43 per cent of shares in the first quarter of 2006.

157 Transport Intelligence, Press Notice of 29. November 2005.

158 DE Deutsche Post, Press Notice of 13. February 2006. The acquisition has been approved in March 2006.

159 DE Deutsche Post, Press Notice 12. October 2005.

160 WestLB (2005), Europäische Postunternehmen – Herausforderungen und Chancen der Postbranche [European postal operators – challenges and opportunities in the postal sector], p. 66.

Case study 4.1 Acquisition strategies of TNT and DPWN in foreign letter post markets

TNT and DPWN have begun to diversify their businesses very early. They have grown in the letter post segment both horizontally and vertically. TNT's business segment "European Mail Network" (EMN) and DPWN's segment "Mail International and Value-added Services" (MI) are growing the most. From 2004 to 2005 EMN revenues increased by 23 percent.¹⁶¹ TNT envisages an operating margin of more than 10 percent.¹⁶² Compared to 2004 DPWN's MI revenues increased by 22 percent in 2005.¹⁶³

Table 4.2.3 Acquisition strategies of TNT and DPWN in foreign letter post markets

	TNT	DPWN
Decision criteria to enter a market ¹⁶⁴	<ul style="list-style-type: none"> • Mail volume in total and per capita • Potential for market growth from solid base • Geography of country • Target existing? • Customer base of target company 	<ul style="list-style-type: none"> • Target has to fit strategically in group's portfolio • Regulatory environment • Return on investment (ROI) of at least 12-15 % within 2 to 3 years
Target markets	AT, BE, CZ, DE, HU, IT, PL, SK, UK	ES, FR, NL, UK
Market entry strategy ¹⁶⁵	<p>Acquisition of main players, mainly in unaddressed mail, business clients are key clients;</p> <ul style="list-style-type: none"> • AT: Redmail (printed addressed and unaddressed; almost nationwide coverage) • BE: Belgische Distributiedienst (unaddressed, direct mail; nationwide) • CZ: ADM (unaddressed; nationwide); Dimar Group (unaddressed, upstream services) • DE: EP Europost (addressed mail, JV with Hermes; aims at nationwide coverage), TNT Regioservice (addressed mail, formerly Blitz Logistik; regional), TNT Post Direktwerbung (unaddressed mail; before 2003 five independent companies) • HU: Dimar Group (unaddressed, upstream services) • IT: many companies, involved in addressed, unaddressed, upstream services, mail production • PL: Dimar Group (unaddressed, upstream services) • SK: Shiculka & Macatch (unaddressed), Dimar Group (unaddressed, upstream services) • UK: TNT Mail UK (addressed mail), Circular Distributors Ltd. (unaddressed) 	<p>Acquisition of main players; both unaddressed and addressed; business clients are key clients; develop "one-stop-shopping", expand German value-added expertise across Europe¹⁶⁶</p> <ul style="list-style-type: none"> • ES: Unipost (addressed) • FR: Koba (upstream services) • NL: Interlanden (unaddressed), Selekt Mail (addressed), Mailmerge (delivery to P.O.Boxes) • UK: Speedmail Int. (addressed) (now part of DHL Global Mail), Williams Lea (upstream services)
Future strategy ¹⁶⁷	<ul style="list-style-type: none"> • Focus on leveraging current positions in UK, DE and Eastern Europe • Limited further acquisitions needed 	<ul style="list-style-type: none"> • Expansion of European activities

TNT and DPWN are partly operating in the same countries (Table 4.2.3): They are both engaged

¹⁶¹ NL TNT, Annual Report 2005, p. 34.

¹⁶² NL TNT, Analyst Presentation, 27.2.2006, Slide 16.

¹⁶³ DE Deutsche Post, Annual Report 2005, p. 52.

¹⁶⁴ Interview with TNT, 13.2.2006; Deutsche Post (2005c) Investors' factbook.

¹⁶⁵ NL: TPG Post/European Mail Network and TPG Post/Cendris, TPG (2004) Analyst Presentation Mail Strategy 7.12.2004, and Interview TNT 13.2.2005; DE: Deutsche Post (2005c) Investors' Factbook, Deutsche Post Annual Report 2004, Presentation Dr. Klaus Zumwinkel, Shareholders Meeting 18.5.2005.

¹⁶⁶ The Mail Corporate Division of Deutsche Post contains five business divisions. The fifth one (16 % of total division's revenue) comprises Mail International and Value Added Services.

¹⁶⁷ NL TNT (2005), Analyst Presentation, 6.12.2005, Slide 26.

in each others' home market and in the UK. TNT has recently extended its business to some Eastern European countries, whereas DPWN extended activities in France and Spain. Neither of them have invested in start ups, so far. Up to now they focus on business customers.

However, there are also important differences. In October 2004 DPWN bundled all international mail services outside Germany under the new brand "DHL Global Mail". Global Mail "provides international business customers with global mail solutions which are tailored to meet their specific needs such as corporate communications, direct marketing, sample goods delivery, value added services and press distribution."¹⁶⁸ The objective is clearly defined: DPWN wants to achieve a unique position to offer practically all products along the supply chain of mail business.¹⁶⁹ Therefore, the acquisition of Williams Lea with its office document, direct marketing and document solutions is an important step in this direction.¹⁷⁰

While DPWN is aiming at establishing a "one-stop-shop" service TNT has a more "pragmatic approach"¹⁷¹ with a strong focus on its core business. If customers demand more complex products, TNT buys additional services on the market. By doing so, TNT assumes to find the best provider without losing its independency. However, TNT makes an exception to this strategy: In Italy upstream services had been rather underdeveloped. For this reason TNT acquired a number of mail production (printing) companies. In Germany, TNT intends to fill a gap by offering second class services for items of correspondence which are not offered by DPWN, so far. For this reason, TNT plans to establish a network with less than five day delivery per week in Germany.

TNT's decision to enter a foreign letter post market is driven by different criteria;¹⁷² i. a. the size and the growth prospects of the market (in terms of mail volume). Therefore some of the Eastern European countries are not yet interesting for market entry. Other countries like the Scandinavian ones are too sparsely populated. Furthermore, a suitable target company has to exist. Spanish Unipost e. g. would have been an interesting target company for TNT but DPWN acquired an interest in time. The remaining companies active in distribution of unaddressed items would be too small in the view of TNT for starting business in Spain. This decision reflects TNT's strategy to acquire companies which have achieved sufficiently high stakes and substantial geographic coverage in the distribution of unaddressed items. TNT uses these companies as "springboard" for extending distribution services to addressed items.

Summing up, both companies are very active to enter foreign letter post markets although their strategies are very different. Their M&A activities have recently slowed down. TNT plans to leverage its current positions in the UK, Germany and Eastern Europe accompanied by small-scale acquisitions.¹⁷³ DPWN plans to further extend its European activities. With regard to the acquisition of Williams Lea one might expect DPWN to continue focussing on companies which are active in upstream letter mail services.

¹⁶⁸ DE Deutsche Post (2005c) Investors' factbook, p. 6.

¹⁶⁹ This purpose is not restricted to mail business. DPWN aims to become a "one-stop-shop" for mail, express and logistics (Deutsche Post, Press Release of 13. February 2006).

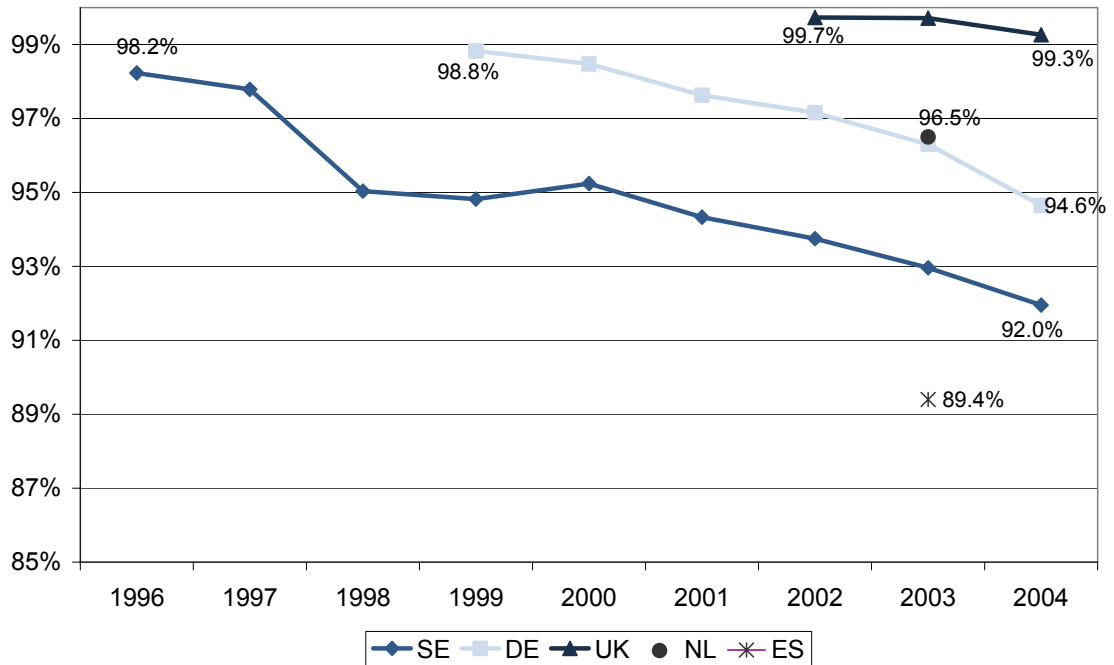
¹⁷⁰ DE Deutsche Post (2006), Standard Presentation Investor Relations, February 2006, Slides 10-11.

¹⁷¹ NL TNT, Interview 13.2.2006.

¹⁷² NL TNT, Interview 13.2.2006.

¹⁷³ NL TNT (2005), Analyst Presentation, Slide 26.

Figure 4.2.1 Development of USP's shares in domestic E2E letter mail volume 1996-2004 (DE, ES, NL, SE, and UK)



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

Sources: Reports of national regulatory authorities.

The development of end-to-end (E2E) competition¹⁷⁴ in the delivery of correspondence and addressed direct mail continues to be very limited even in Member States which go further than required by the Postal Directive (Figure 4.2.1). Market liberalization by reducing weight limits has a lower impact on competition than liberalization of letter classes, e.g., direct mail. This is illustrated by the German and the Dutch examples. While in Germany direct mail items weighing more than 50g have been liberalized in 1998 in the Netherlands printed matter (including addressed advertising) has never been part of the reserved area.

¹⁷⁴ End-to-end competition means that a competitive postal operator offers at least collection, transport and – most importantly – final delivery of letter post items. In contrast to E2E companies providing upstream services, like mailing houses and consolidators, hand over the letter post items to the national postal operator (usually the USP) for final delivery.

Case study 4.2 DE and NL: Development of competition in delivery of addressed direct mail

In DE direct mail above 50g was about 32 percent of total addressed direct mail in 2004.¹⁷⁵ The B-licensees (delivery of direct mail weighing more than 50g) achieved a market share of about 8.3 percent of direct mail items open to competition (in revenues). The corresponding share of mail volume was 8.8 percent. In 1999 this mail volume share was about 6 percent. However, competitors today account for less than 3 percent of total addressed direct mail (including reserved portion of the market).

In the Netherlands distribution of printed matter (including addressed advertising) is completely free for competition. The main competitors Sandd and Selektmail delivered about 240 Mio. items in 2004 (Ecorys, 2005). This would correspond to a share of about 16 percent of total printed advertising. Despite of possible overestimation because both competitors also distribute magazines, catalogues and periodicals the market share of Sandd and Selektmail appears to be significantly higher than the respective share of B-licensees in Germany. It appears that the market share of Sandd has further increased in 2005. Sandd announced to have increased its mail volumes by about 75 percent in 2005 while TNT's mail volumes decreased by 3 percent.¹⁷⁶

¹⁷⁵ Estimation based on figures of Deutsche Post AG (Annual Report 2004) and the German NRA (Bundesnetzagentur, Marktbeobachtungsbericht 2005 [Market Survey of Licensed Area 2005])

¹⁷⁶ NL TNT, Annual Report 2005; Sandd, <http://www.sandd.nl>

E2E competition versus upstream competition

Whether or not regulators should require downstream access is a controversially debated issue in the Member States as well as on Community level.

Figure 4.2.2 Access to the postal supply chain

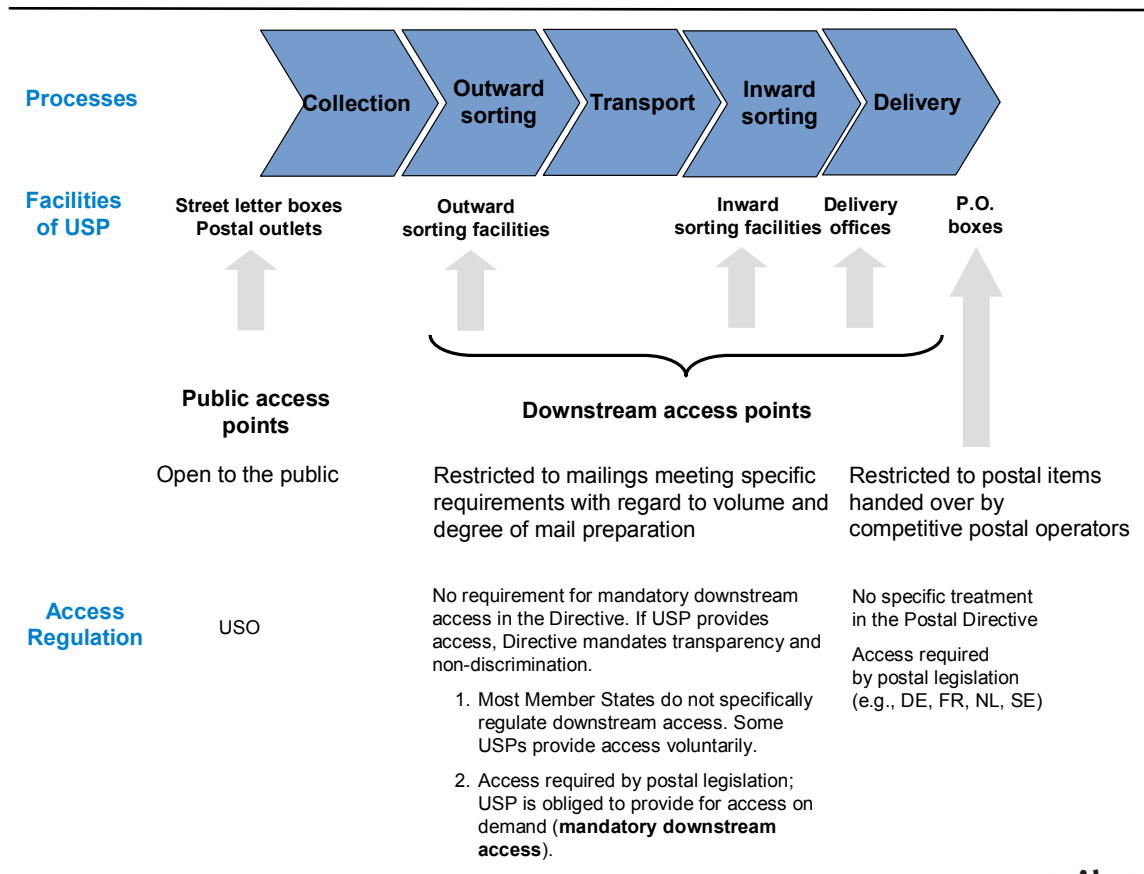


Figure 4.2.2 illustrates the different types of downstream access. In contrast to USPs' street letter boxes and postal outlets which are open to the public access to other USPs' facilities – if provided at all – is restricted to mailings meeting specific requirements with regard to volume (minimum volumes) and the degree of mail preparation (e.g., specific franking methods, degree of presorting, or address quality). The Postal Directive currently does not mandate regulation of downstream access. It does, however, require transparency and non-discriminatory treatment "whenever universal service providers apply special tariffs"¹⁷⁷.

¹⁷⁷ Postal Directive, Art. 12.

In our terminology *Third Party Access* refers to downstream access demanded by postal customers different from the sender.¹⁷⁸ These are intermediaries between the sender and the postal operator responsible for final delivery, e.g. mailing houses or letter shops acting on behalf of one or more mailers, consolidators, or competitive postal operators. In this terminology, the difference between CPOs and consolidators would be that, CPOs, unlike consolidators, build up own delivery networks that typically do not achieve (yet) national coverage. Since they are not in a position to deliver all mail posted by their customers; some CPOs claim that they need access to the USP's network for delivery in order to make attractive business propositions to their customers as happened in Germany and the UK described in more detail below. There are also CPOs not requiring for downstream access: examples are the competitors of TNT in the Netherlands (especially Sandd and Selektmail), CityMail in Sweden, and Adrexho in France. While the Dutch CPOs have built up nationwide delivery networks in less than five years, Swedish CityMail (owned by Norway Post) focuses on the delivery of computer-generated mail in the densely populated South of Sweden.¹⁷⁹ Adrexho plans to enter B2B and the B2C segment after full liberalization of the French postal market. The company would not start from the scratch but has a well-developed distribution network for newspapers, magazines, and unaddressed items with nearly nationwide coverage.¹⁸⁰

As previously outlined the Postal Directive does not provide for a specific regulation of downstream access. If the USP voluntarily provides downstream access at special tariffs then the Directive requires that these tariffs are applied in a transparent and non-discriminatory way. Only in a few Member States, postal legislation requires the USP to grant network access to its competitors (mandatory downstream access):¹⁸¹ In the U.K., Royal Mail is required to grant access to its competitors by licence.¹⁸² While Royal Mail has negotiated access agreements with several other operators on a voluntary basis, these agreement were reached only after subtle intervention of the NRA. Similar legal provisions that require USPs to grant network access to third parties exist in German postal law.¹⁸³ In the following we compare the development of E2E

178 It does not exist a clear definition of the term "Third Party". Sometimes, it only refers to competitive postal operators and consolidators while letter shops and mailing houses acting on behalf of one mailer are considered as "direct customers" (UK).

179 Ecorys (2005), The development of competition in the European postal sector, p. 83.

180 Ecorys (2005), The development of competition in the European postal sector, p. 106.

181 See also section 3.3.6 for discussion of regulatory requirements.

182 See U.K., Postcomm (2003): Amended Licence Granted to Royal Mail Group Plc. (formerly Consignia Plc.), condition 9.

183 German Postal Act, PostG §28 (1): "Where a licensee has a dominant position in a market for postal services subject to licence, it shall, given demand, provide parts of its overall conveyance offering separately [i.e. downstream access, the author], if this is economically reasonable. The obligation according to sentence 1 above shall only apply in relation to another postal service provider when the requesting company does not have a dominant position in the market and when there would otherwise be undue restraints of competition in the same or another market. The licensee may refuse to provide any such incidental service [i.e. downstream access, the author] if the operational capability of its facilities or operational reliability would be endangered thereby or if, in a given instance, all available capacity for the service required is exhausted." (German postal act, English translation).

competition and emerging consolidation services due to mandatory downstream access in DE and UK in more detail.

Following the first market opening step in the UK (in 2002) the number of market entries has been very low. Besides reducing weight and price thresholds Postcomm decided to open bulk mail services (mailings of more than 4,000 items) and consolidation services for competition. Bulk mailings of this size are typically addressed to consumers so that Postcomm actually liberalized B2C bulk mailings which require a well-developed delivery network covering significant portions of the country. Consequently, market entry by providers of E2E services has been very limited.

In UK and Germany third parties (i.e. not the sender) are allowed to collect letter mail items from the senders and transport them to the USP for final delivery. It appears that market entry in upstream activities is more dynamic and quicker compared to establishing a delivery network from the scratch. The first access price agreement between Royal Mail and UK Mail in February 2004 was followed by agreements with other licensees. In just over one year access volumes have grown to over 1 billion items or around 5% of all UK postal volumes. Competitors as well as large mailers and mailing houses make use of the access agreements (“direct customer access”). About half of the volumes comes from direct customer access (large mailers, e.g. Royal Bank of Scotland or T-Mobile and mailing houses). The remaining half comes from competitive postal operators. Royal Mail expects that access volumes exceed 3 billion in 2007.¹⁸⁴

Table 4.2.4 E2E versus third party access in the UK

	Bulk Mail E2E		Consolidation	
	Final quarter 2003/04	First quarter 2005/06	Final quarter 2003/04	First quarter 2005/06
Citipost AMP Ltd. (formerly Alternative Mail and Parcels Ltd.)	n.a.	oo*		
DHL Global Mail (incl. former Speedmail)	oo	oo	oo	ooo
DX Network Services	ooo	ooo		
Express Dairies (exit letter market Nov. 05)	oo			
TNT Mail	oo			oooo
UK Mail			ooo	oooo
* number of circles indicates quarterly volumes handled by each operator (oo - over 100,000 items; ooo – over 1 million items; oooo – over 10 million items)				

Source: Postcomm (2004, 8); Postcomm (2005, 13).

¹⁸⁴ UK Postcomm (2005b), Competitive market review.

Table 4.2.4 indicates the quarterly volumes handled by each operator for both E2E and consolidation services for selected quarters in 2004 and 2005. The larger companies which had already been active in consolidation services for several years have now intensified their activities. TNT has switched from E2E to consolidation services and is currently one of the biggest providers in this segment. In contrast, Express Dairies stopped delivery services of addressed items in November 2005. Obviously, consolidation volumes have significantly grown, stronger than volumes delivered by competitive postal operators. DHL Global Mail increasingly provides consolidation services while its E2E volumes stagnate. DX Network Services traditionally focusses on B2B streams (document exchange) and continues to provide E2E services in the segment.

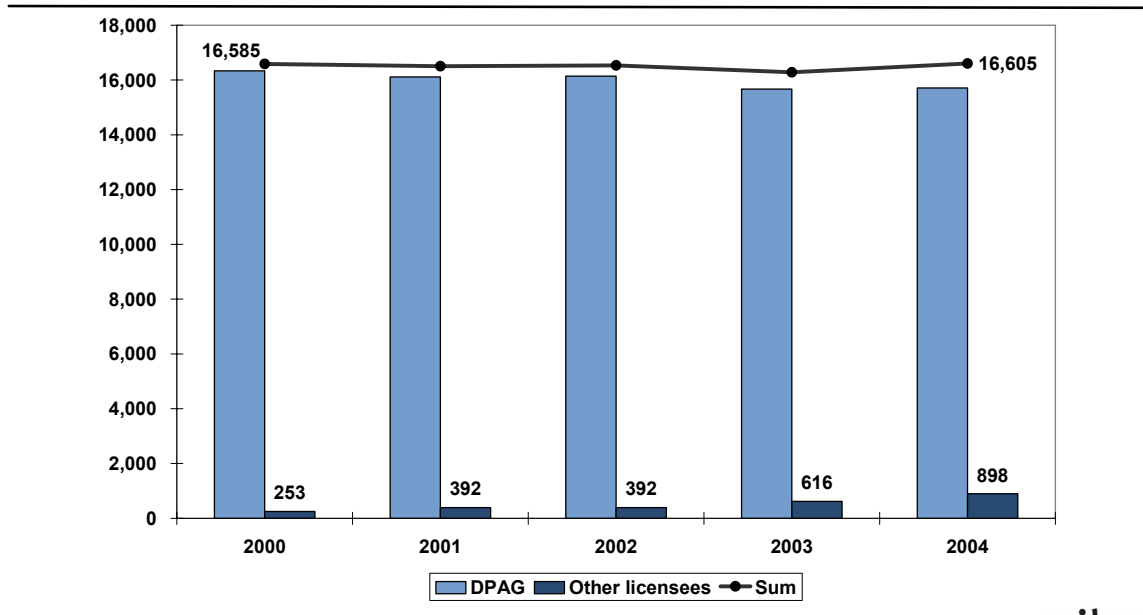
Before 2006, different weight and price limits applied for correspondence and direct mail in Germany: the reserved area included correspondence weighing up to 100 grams and direct mail up to 50 grams. Since 2006 the same weight threshold applies to all letter post. To provide services for correspondence or direct mail weighing up to 1,000 grams, CPOs must apply for a licence. German law provides for eight types of licences, denominated “A” to “H”, some of which act as additional limitations on the scope of the exclusive licence. Until end of 2005 the most important types of licences have been:

- Licence A – conveyance of letter mail items and addressed catalogues weighing more than 100 grams or costing more than three times the standard tariff for a 20 gram letter.¹⁸⁵
- Licence B – conveyance of bulk direct mail weighing more than 50 grams and dispatched in quantities of not less than 50 items.
- Licence D – provision of postal services that are “distinct from universal services, having special features and higher quality”.

The D licence permits a CPO to provide “higher quality” postal services for correspondence and direct mail even if the items fall within the weight and price limits of DPAG’s exclusive licence. Since the required level of quality is not specified by law, the German NRA has established criteria in the course of deciding on licence applications. The definition of the quality criteria for a D-licence has been subject of numerous court cases extending over several years. So far, the courts have upheld D-licences which authorize same day and day certain delivery of postal items, and services including tracking and tracing. Cases involving overnight delivery are still pending.

185 In 2006, Licence B has lost its importance because the weight thresholds for items of correspondence and direct mail are identical.

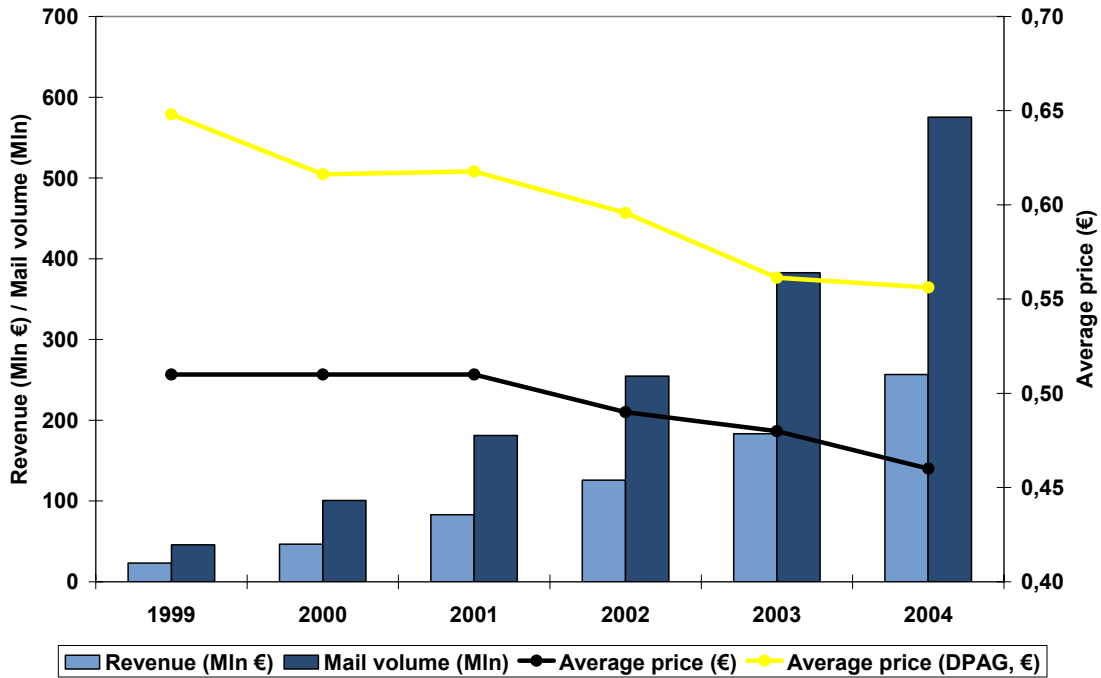
Figure 4.2.3 Germany: Development domestic mail volumes in the licensed area (2000-2004)



Source: Bundesnetzagentur, Market observation survey 2005.

Mail volumes of licensees increased from 253 million in 2000 to 898 million items in 2004 (Figure 4.2.4). Total mail volume remained rather stable implying that Deutsche Post lost market share in terms of volume (and revenue).

Figure 4.2.4 Germany: Mail, revenue and average price development of D licensees (1999 – 2004)

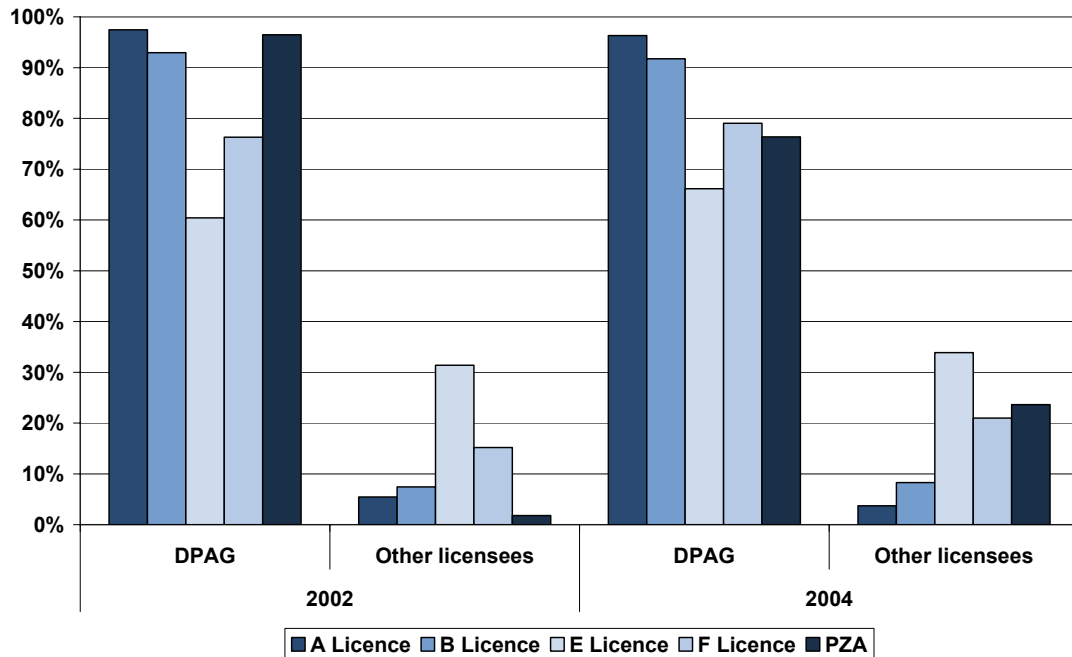


Notes: Weighted average price of DPAG based on revenues and volumes of reserved area, A- and B-licence figures.

Source: Bundesnetzagentur, Market observation survey 2005.

D licensees were responsible for two thirds of total mail volume delivered by other licensees than Deutsche Post in 2004 (Figure 4.2.4). The average price of postal items delivered by D licensees is about 10 cents (or 18 percent) lower than the average price of DPAG’s services. Average prices have decreased at DPAG and D licensees. Possible explanations of DPAG’s average prices include (1) increased competition, (2) increasing use of access contracts by large mailers, and (3) price reductions due to the price cap regime established by decisions of the German NRA.

Figure 4.2.5 Germany: Market shares per type of licence (revenues, 2002 and 2004)



Notes:

A Licence: excluding PZA (see below);

E Licence: Collection of letter items from the premises of the sender and handing over to DPAG for final delivery;

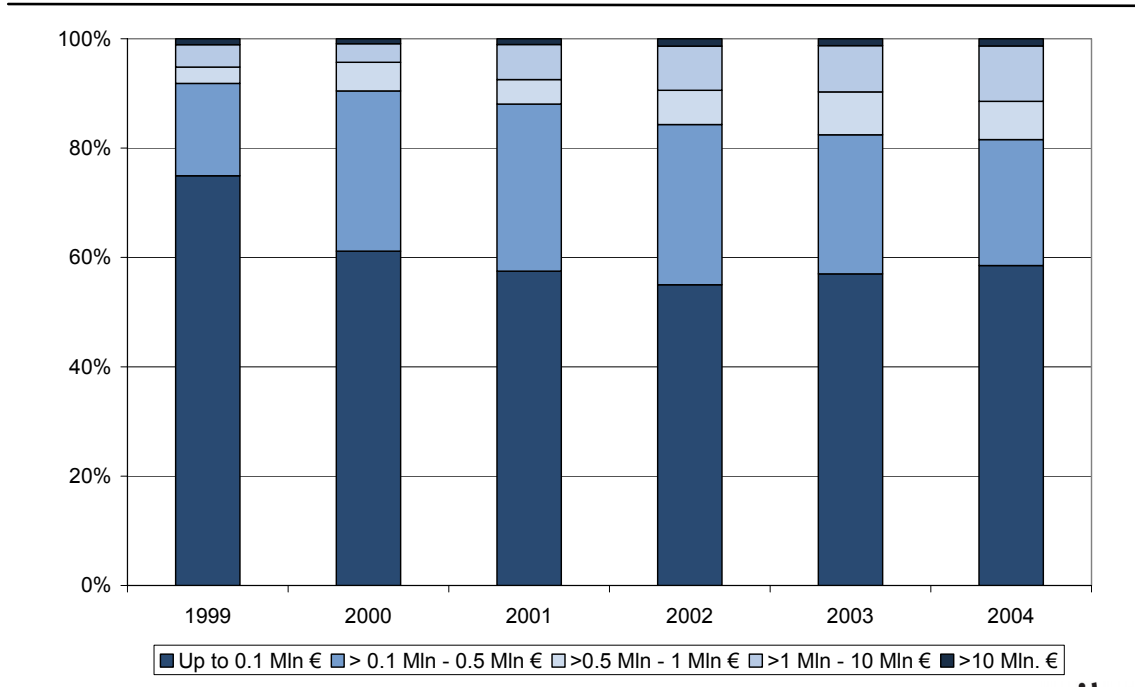
F Licence: Transport of letter items from P.O.Boxes to the premises of the addressee;

PZA ("Postzustellauftrag", delivery of legal notifications): part of A licence, separately published.

Source: Bundesnetzagentur, Market observation survey 2005.

Besides the exclusive licence Deutsche Post also holds an A, B, E, and F licence. The delivery of legal notifications ("Postzustellaufträge") is an important service provided by A licensees which is separately considered in Figure 4.2.5. The A licence figures are correspondingly adapted. Most obviously, Deutsche Post is the most dominant service provider within each licence type. However, there are important differences in the development: In the delivery of legal notifications Deutsche Post's dominant position appears to slowly erode. Actually, the revenue share of Deutsche Post is expected to further decline to about 70 percent in 2005. Furthermore, in the area of the E and F licence which services are related to services upstream and downstream to the traditional postal value chain the market share of Deutsche Post is lower than in the area of the A and B licence covering E2E services. Nonetheless, Deutsche Post enjoys strong market position in these segments and has even improved its competitive position after 2002.

Figure 4.2.6 Germany: Distribution of company size of licensees other than DPAG (1999-2004)



Sources: Bundesnetzagentur, Market observation survey 2005.

In contrast to the situation in UK the number of licensees in Germany is very high. In 2004 more than 1,300 companies have one or more licences for providing postal services. More than half of the licensees have achieved less than 100 thousand EUR revenue in 2004 (Figure 4.2.6) while about 20 percent achieved revenues of more than 500 thousand EUR. Compared to Deutsche Post who generates total revenue of 9.5 billion EUR the licensees are rather small. In sum all licensees excluding DPAG reached a turnover of 530 million EUR or a market share of 5.3 percent in the licensed area.¹⁸⁶

¹⁸⁶ DE Bundesnetzagentur, Market observation survey 2005.

Case study 4.3 E2E competition (PIN and EP Europost)

After introducing the D-licence in Germany many local providers emerged. In order to extend the customer base D-licensees seek to achieve national coverage. In order to achieve this objective PIN AG and EP Europost, two of the most important competitors in the German letter market, follow different strategies.

PIN Group AG: Foundation of a new company by existing actors

The largest German publishing houses Axel Springer, Westdeutsche Allgemeine Zeitung (WAZ) and Holtzbrinck as well as the private equity company Rosalia have established a new company, PIN Group AG, in October 2005. Each shareholder has a share of 25 %; the publishing houses contributed its letter mail activities into the new company. The number of letter items increased from 11 to 200 million during the past five years while turnover increased from 8 to 80 million EUR. PIN Group intends to deliver 400 millions items to achieve a revenue of 150 million EUR in 2006.¹⁸⁷ For 2006 and 2007 PIN Group mainly focusses on business customers. Thereafter, the company plans to target consumers as well.

According to Art. 4 of the company agreement PIN Group AG renders postal services via its own or affiliated companies.¹⁸⁸ For this reason PIN Group AG has started acquiring additional letter mail operators. In March 2006 PIN Group AG took over Westfalian Annen Post and the remaining share of Düsseldorf based Net-DBS GmbH (Netzwerk Deutscher Briefservice).¹⁸⁹ The latter company delivers 12 million letter post items per month with key clients like Vodafone, Arcor or Primagas.

In addition to the strategic approach to take over companies PIN Group AG offers three additional forms of cooperations: a) delivery of letter post items on behalf of PIN Group without integration; b) cooperation agreement with partial integration into the network of PIN Group AG; and c) franchise concept with full integration.¹⁹⁰

In the near future the shareholder structure of PIN Group appears stable. According to Art. 9 and 10 of the company agreement none of the shareholders will sell shares of the group until mid of 2008. Afterwards the remaining shareholders do have a pre-emption right, but in case they are not willing to pay a certain price the shareholder, who is willing to sell off its shares, is free to do so.

EP Europost: Building up a network of independent postal service providers

In October 2000 TNT and Hermes Logistik, an affiliate of Otto Versand, founded EP Europost. TNT holds 71 percent, Hermes 29 percent of the shares. Despite major changes in management – two of three members of the board of directors left the company in mid 2005 – EP Europost has doubled total revenues in 2005. The geographical coverage of the delivery network is close to 90%.¹⁹¹ EP Europost offers a partnership agreement to local postal operators. It provides sorting and transportation and usually also carries out a number of support functions (IT, marketing, billing). Collection and delivery is undertaken by 150 local operators.¹⁹²

¹⁸⁷ DE PIN Group AG (2006), Schick es grün [Mail it green], p. 10.

¹⁸⁸ DE PIN Group AG, Contract of 19. October 2005.

¹⁸⁹ DE Posttip, Notice of 7. March 2006, PIN Group übernimmt Net-DBS und Annen-Post [PIN Group takes over Net-DBS and Annen-Post].

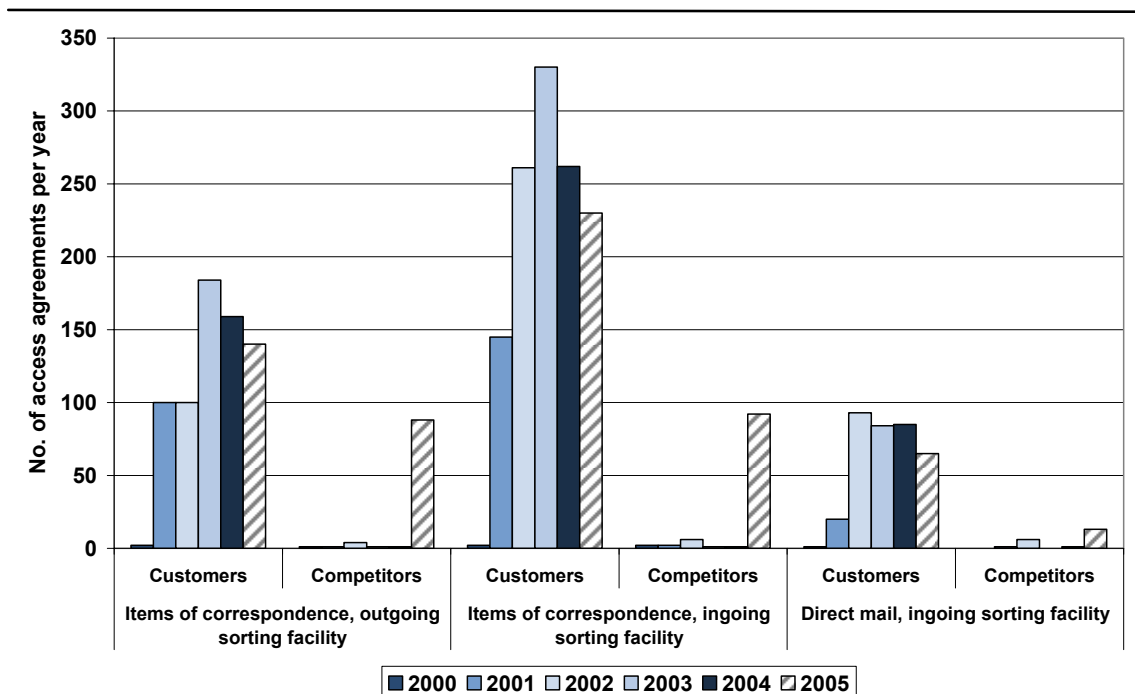
¹⁹⁰ DE PIN Group AG (2006), Schick es grün [Mail it green], p. 7.

¹⁹¹ NL TNT, Annual report 2005, p. 33.

¹⁹² Presentation Alex Eglseer, CEO EP Europost (until end 2005), Deutscher Versandhandelskongress, Wiesbaden, 27.10.05.

In Germany, until recently, the rights for competitors to obtain downstream access to Deutsche Post was interpreted only to refer to services outside the scope of the reserved area. Although the European Commission has ordered Germany to ensure non-discriminatory access to its network for both customers and consolidators — and the German cartel office has ruled Deutsche Post AG should immediately grant access — the case is still pending. After a court confirmed immediate execution of the cartel office’s decision, Deutsche Post concluded first access agreements with consolidators end of April 2005. First indications confirm a dynamic development of consolidation services.

Figure 4.2.7 Germany: Number of access agreements per year (2000-2005)



Source: Bundesnetzagentur, Annual Reports 2000-2005

Figures on mail volume handled by consolidators are not yet available¹⁹³ but the number of access contracts closed between Deutsche Post and consolidators provides a first indication on the development. Figure 4.2.7 shows the development of access agreements between customers/competitors and Deutsche Post. Three types of agreements have been established classified by access location (outward or inward sorting facility) and mail class (items of correspondence or direct mail). Before the court decision in 2005 the number of agreements between Deutsche Post and competitors

¹⁹³ The German NRA is going to adapt their survey methodology to get information on mail volumes handled by consolidators for the 2006 survey.

were considerably low (in sum 29). After the decision more than 190 agreements have been closed between consolidators and Deutsche Post. The number is still much lower than the total number of contracts between customers and Deutsche Post, which was more than 2,250 at the end of 2005. It is obvious that direct customer access accounts for much higher mail volumes than the ones to be expected from consolidators.

Consolidators also need to have a licence in order to provide postal services (E-licence). After the court decision more than 150 competitive postal operators have applied for E licences. Deutsche Post estimated to lose about 200 million EUR in revenues per year due to consolidation services.¹⁹⁴ Due to well established direct customer access the potential market volume for consolidation services in Germany is restricted to mailings which do not fulfil the minimum volume requirements. The German NRA estimates the potential market volume of consolidation services to be about 9 percent of the licensed area (in revenues, about 900 Mio. EUR). The reduction of the weight threshold for items of correspondence accounts for additional 8 percent of the licensed area. Due to both market opening steps the competitive area consists of approximately half of the licensed area in 2006.¹⁹⁵

What are the reasons for the success of access products in the UK and why may they hamper the establishment of alternative delivery infrastructures in the UK but not in Germany? To answer this question we consider the tariffs for third party access in more detail. In Figure 4.2.8 access tariffs in DE, FR, UK, and USA are presented. Reference point for comparison are the public postal tariffs for items of correspondence of the fastest standard category weighing 20g. From the three European countries the public tariff in UK is by far the lowest: It accounts for 75 percent of the German public tariff. In UK the access tariff for handing over items of correspondence at the inward sorting facility even accounts for less than 50 percent of the corresponding access tariff in Germany. Besides differences in the price level between the USPs there are also significant differences in their tariff structures. The spread between the public tariff and the access tariff (inward SF) for items of correspondence is considerably larger in the UK than in Germany: 54 percent of the public tariff in UK compared to 21 percent in Germany.

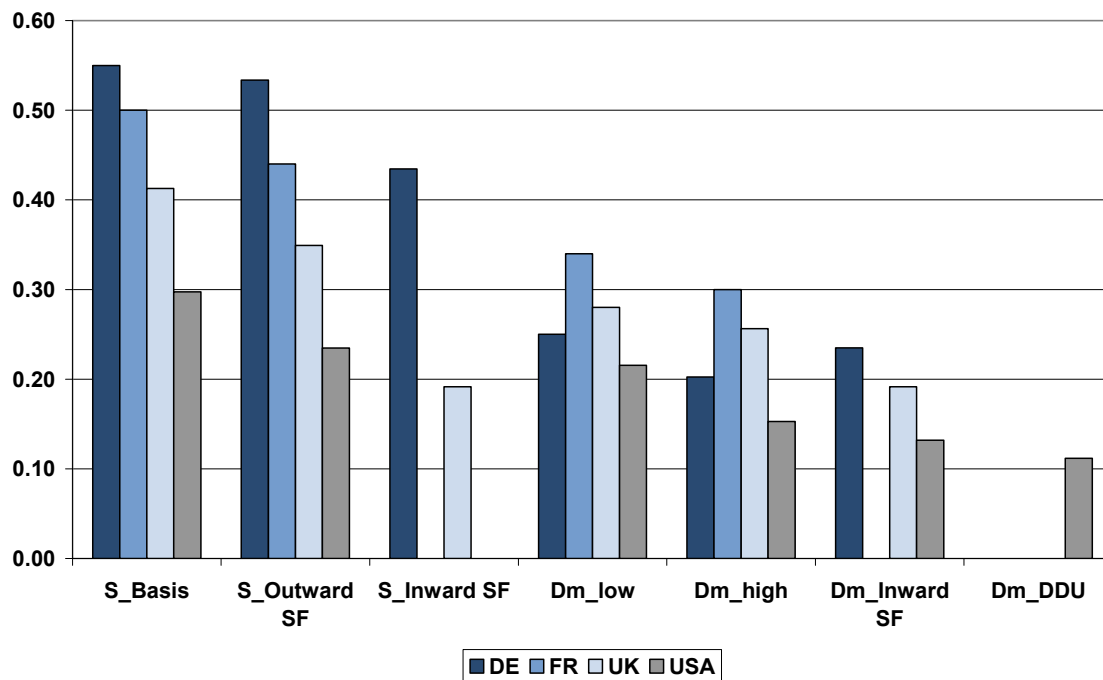
Both price level and tariff structure effect the incentives for potential postal service provider either to establish an alternative delivery infrastructure and (temporarily) using downstream access or to provide upstream and consolidation services. In Germany incentives for establishing E2E services for delivering items of correspondence are obviously stronger than in the UK where price level and access structure promote competition in upstream services (similar to the situation in USA).

¹⁹⁴ Posttip (06.05.2005), Post-Chef: Konsolidierung gefährdet Arbeitsplätze.

¹⁹⁵ DE BNetzA (2005b), Tätigkeitsbericht 2004/2005 [Activity report 2004/2005], p. 311.

In contrast, establishing an E2E service for delivering addressed direct mail appears to be very difficult in Germany, too. The incentives for establishing consolidation services for direct mail are also very low: The spread between the lowest discount for direct mail and the access tariff (inward SF) is only 6 percent. This might explain why the majority of German licensees is providing delivery services for items of correspondence rather than for addressed direct mail.

Figure 4.2.8 Price comparison: Public tariffs vs. access prices in DE, FR, UK, and USA (2004)



Notes: S: Items of correspondence; fastest standard category (20g)
 Dm: Addressed direct mail; UK: comparable bulk mail product selected (Royal Mail does not provide a separate direct mail service); USA: Standard Mail.
 Basis: Public postal tariff for fastest standard category (20g, 2004);
 Outward SF: Postal tariff to be paid when mail handing over at Outward Sorting Facility;
 Inward SF: Postal tariff to be paid when mail handing over at Inward Sorting Facility;
 low, high: Level of discounts depend on requirements on mail volumes (lowest possible discount and highest possible discount);
 DDU: Postal tariff to be paid when mail handing over at the Destination Delivery Unit (possible in USA but in none of the other countries considered).

Source: WIK-Consult (2005a), Zur Konsolidierungsdiskussion im deutschen Postmarkt: Möglichkeiten und Entgelte für Netzzugang, [Contribution to the discussion on consolidation services in the German postal market: Possibilities and Tariffs for Third Party Access] p. 53 [Figure translated]

Thus, relatively low public postal tariffs linked with a large spread between public and access tariffs have considerably reduced the incentives to establish an alternative nationwide delivery infrastructure in UK. In Germany relatively high public tariffs linked

with a small tariff spread have set strong incentives for investments in an alternative delivery infrastructure with focus on items of correspondence. The sustainability of German CPOs' strategy to establish a nationwide delivery infrastructure (as envisioned by PIN or EP Europost) strongly depends on the strategic behaviour of Deutsche Post AG: The German incumbent has considerable room of manoeuvre for reducing postal tariffs (also from a regulatory point of view as long as the tariffs fulfil the regulatory requirements of cost orientation). One option might be to establish a second class service for items of correspondence (bulk) at similar conditions than addressed direct mail. In this case most of German licensees would be at risk to lose considerable parts of their business. Of course, when choosing this strategy Deutsche Post would also reduce its profit margin.

Conclusions

- Development of competition in the delivery of items of correspondence and addressed direct mail is still limited, in most Member States even not existing. In Member States who have more or completely opened the letter markets the shares of competitors in the delivery of postal items are slowly growing.
- E2E and upstream competition in Germany and UK have developed very differently. The British market opening strategy in very limited market entry for E2E letter services and a vivid development of consolidation services still provided by a low number of competitors. The German market opening strategy with standardized licensing regime and the exemption of letter services distinct from universal services have produced a very fragmented market place with numerous small and medium-sized postal service providers.
- Compared to the German situation consolidation services in UK are just evolving. Access products are new for CPOs and for customers. In Germany, DPWN has granted network access to large customers since 2000. Therefore, consolidators in Germany may have more problems to acquire large mailers who already have an established access agreement with Deutsche Post.
- Furthermore, price level and structure matter: relatively low public postal tariffs linked with a large spread between public and access tariffs have considerably reduced the incentives to establish an alternative nationwide delivery infrastructure in UK. In Germany relatively high public tariffs linked with a small tariff spread have set strong incentives for investments in alternative delivery infrastructures with focus on items of correspondence. The sustainability of German CPOs' strategy to establish a nationwide delivery infrastructure (as envisioned by PIN or EP Europost) strongly depends on the strategic behaviour of Deutsche Post AG.

4.2.1.3 Delivery of newspapers, magazines and periodicals

The competitive situation in this market segment is quite diffuse. At first, it is necessary to differ between daily newspapers which need an early delivery and other subscribed magazines and periodicals distributed weekly, monthly or even less. Regular publications of companies (e.g., insurances and financial institutions) and large associations (e.g. German car club ADAC) are also part of these subscribed periodicals. For the purposes of this study we have asked the respondents for their opinions on competition in the segment of addressed newspapers, magazines, and periodicals as well as in the segment of newspapers (early delivery). It appears that in most Member States early delivery of newspapers is usually not provided by the USP. One important exemption is Post Finland, the Finnish USP, who starts focussing on early delivery since some years. In rural areas the USP jointly delivers newspapers and letters in the morning.

The situation is completely different in the delivery of subscribed magazines and periodicals. In Member States where the perceived degree of competition is very low (see Table 4.2.1) it appears that the USPs have a dominant position in the delivery of subscribed magazines and periodicals (CY, EE, GR, HU, LU, LV, PT). In combination with information collected by Ecorys (2005) the USPs in AT, CZ, FI, and FR appears to also have a strong position. Additionally, we would add the German USP who delivers about 50% of subscribed magazines and periodicals.¹⁹⁶ Germany is a special case when taking into account that the publishers are also important competitors of Deutsche Post in the delivery of letters.¹⁹⁷ They have established their own delivery networks for managing the early delivery of newspapers. Simultaneously, they need the delivery services of Deutsche Post for press products not distributed by their own networks (especially when nationwide delivery is needed).

Conclusions

In the distribution of subscribed magazines and periodicals the USPs appear to have strong market positions in at least half of the Member States. In the distribution of daily newspapers USPs seem to play a minor role except for the Finnish USP.

¹⁹⁶ Deutsche Post distributes about 2.2 bln periodicals and magazines per year (Annual Reports). In 2004 the number of subscribed magazines and periodicals was about 4.3 bln items (www.vdz.de). Accordingly, more than half of these items were delivered by Deutsche Post.

¹⁹⁷ See section 4.2.1.2 for more details.

4.2.1.4 Cross-border letter post services

More than half of the Member States¹⁹⁸ have completely opened outgoing cross-border mail for competition. Between 2000 and 2004 less than 4 % of total letter post volumes accounts for cross-border mail collected by USPs. Furthermore, cross-border letter post volumes collected or delivered by USPs have strongly decreased between 2002 and 2004.¹⁹⁹ The perceived degree of competition in the view of USPs and NRAs have also increased in most Member States. Deutsche Post estimates the size of the global market for cross-border mail to be about 9.97 billion EUR in 2004, 3.2 percent smaller than in 2003.²⁰⁰ National postal operators are still playing an important role because ingoing cross-border mail is still subject to the reserved area in most Member States. Affiliates of Deutsche Post (DHL Global Mail), TNT (Spring, 51 % owned by TNT, minority stakes hold by Royal Mail and Singapore Post) and a subsidiary of Schweizerische Post, Swiss Post International (SPI) have increasingly been active in this business.

Interestingly, USPs or affiliates of USPs (SPI) make use of competitive postal operators for delivery of letter post items in target countries with more liberalized letter markets. For example, EP Europost delivers letter mail (weighing more than 50g) on behalf of the French USP, La Poste.

Another important segment is direct entry. Direct entry means that letter post items originated in country A are transported to access points of the national postal operator in the target country B. This type of mail is not different from domestic letter post. Direct entry has the advantage that the mailer (or his agent) can benefit from rebates provided to domestic bulk mailers but not available to foreign bulk mailers. International mailers complain that national postal operators have very different requirements on features like addressing, formats, and how to hand over mail items. These differences create additional costs and workload to mailers.²⁰¹ This may also explain the success of cross-border postal service provider like SPI, Spring and DHL Global Mail who may be better able to manage these problems.

198 All Member States except for all Southern MS (CY, ES, GR, IT, MT, PT), some Eastern MS (SK, LV, MT, HU, PL) and LU. They correspond to less than 20 percent of domestic letter post in EU-25.

199 See section 4.3.1.

200 DE Deutsche Post, Annual report 2004 (p. 44) and 2005 (p. 35).

201 Interview with Time Warner.

Table 4.2.5 Target markets of postal service providers active in cross-border letter post segment

	Active in
DHL Global Mail	All Member States
Spring (TNT)	AT, BE, CZ, DE, DK, ES, FI, FR, IE, IT, MT, NL, PL, PT, SE, SI, SK, UK
Swiss Post International (SPI)	Subsidiaries/offices/franchisees in AT, BE, DE, ES, FI, FR, IT, NL, SE, UK Co-operations with USPs in HU, SI, and SK
La Poste (FR)	BE, ES, PT
La Poste/De Post (BE)	FR, LU

Sources: WIK survey, Ecorys (2005), Website of Schweizerische Post.

Conclusions

Overall, it appears that competition in outgoing cross-border letter post has increased in the last years. Volume development is unclear due to increasing use of direct entry by large international mailers.

4.2.1.5 Competition cases

Slowly emerging competition in letter mail services is accompanied by an increasing number of competition cases. In most countries with more or completely opened postal markets competition or regulatory authorities have to deal with problems related to the dominant position of the national USPs. So far, the USPs of AT, BE, DE, DK, ES, FR, IT, SE, and UK have been subject to competition cases because of abuse of their dominant position. In contrast to the relatively low but increasing number of competition cases in most Member States USPs and NRAs have disputes mainly resulting from an unclear definition of the reserved area.²⁰²

Table 4.2.6 Competition cases in the Community concerning domestic postal services

Year of first decision	USP involved	Subject of competition case
Pre 2003	BE	Rebate scheme (discrimination, bundling); correspondence (B2B, B2C)
	DE	Rebate scheme (fidelity rebates); B2C parcels (mail ordering)
	FR	Rebate scheme (discrimination in tariffs and conditions); mail preparation and consolidation
	IT	1. Scope of reserved area; hybrid mail 2. Scope of universal service; express services
	SE	Rebate scheme (discrimination); bulk mail

²⁰² See Appendix A2 for a list of competition cases in the Community.

Year of first decision	USP involved	Subject of competition case
2003	ES	Rebate scheme (consolidators)
	UK	Mailsort complaint
2004	DK	Rebate scheme (loyalty rebates, discrimination); distribution of unaddressed items
	ES	1. Scope of self-provision; correspondence 2. Rebate scheme (exclusivity contracts); correspondence
	FR	Rebate scheme (tying, loyalty rebates); mail ordering business
2005	AT	Rebate scheme (exclusivity contracts); newspapers and magazines
	DE	Discrimination with regard to downstream access
	DK	Rebate scheme (predatory pricing); distribution of unaddressed items
	ES	Rebate scheme (discrimination); Newspapers and magazines
	FR	Rebate scheme (discrimination in tariffs and conditions); mail preparation and consolidation (related to the pre 2003 case)
2006	IT	Scope of reserved area; hybrid mail (related to the pre 2003 case)
	UK	Unfair commercial advantage (first decision in the zonal pricing case); wholesale business of Royal Mail
Notes: See Appendix A3 for more information.		

Table 4.2.6 summarizes competition cases dealt with by Community or national competition authorities.²⁰³ The most important subject of competition cases have been undue rebate schemes sometimes linked with allegations of predatory pricing (e.g., in DE and DK). Further sources of competition problems have been unclear definitions (scope of reserved area and universal service, e.g., in DE and IT). The number of competition cases which more or less reflect the tip of the iceberg (not every complaint would become subject to a competition case) has increased from year to year. We expect that this development will continue when further opening the market. The effective and uniform application of European competition rules becomes crucial once European postal markets will be completely opened.

Besides competition cases emerging in the field of the core postal business (correspondence and direct mail), activities of incumbent postal operators in related markets have been subject to competition cases: the distribution of unaddressed items (DK) and the delivery of newspapers, periodicals, and magazines (AT, ES). At the end of 2004 the Danish competition authority decided that Post Danmark made use of unlawful loyalty rebates in the distribution of unaddressed items. In February 2005 the competition authority approved a new pricing scheme for the distribution of unaddressed items of Post Danmark. Due to the pushing pricing strategy Post Danmark had increased the number of distributed unaddressed items by more than 60% from 2003 to 2004. The new pricing scheme appears not to have a strong impact on volumes: In 2005 Post Danmark achieved a slightly increased number of distributed unaddressed items.

²⁰³ In UK the national regulatory authority, Postcomm, is responsible for dealing with competition problems while in DE both, the national regulatory authority and the competition authority, can be involved (case by case decision; the involvement of the NRA is limited to competition cases dealing with postal services in the definition of German postal law).

The only competitor of the Austrian USP in the distribution of addressed letter mail and unaddressed items²⁰⁴ is Redmail, a joint venture between TNT and Styria, an Austrian publisher. The Austrian USP has a dominant position in the distribution of daily newspapers, in the delivery of magazines and periodicals, and in the distribution of unaddressed items. Redmail complained that the national postal operator applied exclusivity contracts to publishers of newspapers and magazines. Recently, the supreme court of justice has confirmed the pending court decision in favour of Redmail, agreeing that the Austrian USP has abused its market dominant position.²⁰⁵

Implementation of upstream competition by consolidation services also faces a lot of problems. Service providers are completely dependent on the cooperation of the USP in order to provide high quality services (which include D+1 delivery). At the first glance USPs should be cooperative because they benefit from increasing mail volumes: the more service provider take care on customers needs the more mail volume might be generated.²⁰⁶ Experiences made in Germany and UK show that despite possible benefits the USPs are reluctant to provide access to consolidators. These problems appear to be related to the business activities of the USPs: either they provide upstream services themselves or by subsidiaries (like Deutsche Post or French La Poste) or they prefer making business with large mailers without intermediaries (as happened in UK). The following problems have emerged:

- Achieving an access agreement

In the U.K., Royal Mail is required to grant access to its competitors by licence. While Royal Mail has formally negotiated access agreements with several other operators on a voluntary basis, these agreement were reached only after subtle intervention of the NRA after about two years from the start of negotiations.

- Operational and contractual problems (discrimination between direct access customers, USP's subsidiaries active in consolidation services, and competitors)

Experiences in DE show that abusive behaviour of national postal operators required to provide access is a widely common feature. Nonetheless, it seems that especially operational problems can be resolved in due time. These problems refer to conditions to be fulfilled by consolidators when delivering their mail to the incumbent postal operator. The complaints refer to conditions related to enumerating requirements and the definition time and volume slots at the sorting facilities. If consolidators fail to meet these requirements their mail would not be handled and therefore also fails to be delivered the next working day.

204 Feibra is the second largest distributor of unaddressed items in Austria. The Austrian USP who already dominates this market has acquired Feibra in 2004. The acquisition has been completed in the second half of 2005.

205 Press Notice of 17 March 2006), "OGH-Urteil: Verleger und redmail setzen sich gegen Post AG durch" [Decision of the supreme court of justice: Publishers and redmail prevail over Post AG].

206 The experiences of U.S. Postal Service have often been cited in this regard.

- Pricing issues

In the UK Postcomm began investigating downstream access arrangements in 2005 after three of Royal Mail's competitors – Express Ltd, TNT Mail UK Ltd and UK Mail Ltd – complained about various aspects of Royal Mail's competitive behaviour. The complainants alleged that Royal Mail had obtained an unfair commercial advantage by using information it had obtained through negotiations with operators to their target customers who were likely to consider switching to those operators. The complainants also alleged that Royal Mail was supplying, or offering to supply, downstream access on terms that were unduly discriminatory both against them and against customers who use other bulk mail products and that Royal Mail had failed to properly notify and publish details of some of its offers of downstream access services. In February 2006 Postcomm concluded that Royal Mail was failing to take adequate steps (building up "Chinese walls") to ensure it did not gain an unfair commercial advantage over its competitors. Postcomm proposed a £2.16 million financial penalty and issued an enforcement order on Royal Mail. The decision on the other complaints is still pending (zonal pricing agreements and publication of contract conditions).

The German NRA has begun investigating activities of Deutsche Post subsidiary InHaus GmbH. InHaus GmbH offers mailroom management services to companies and public administrations. The current case deals with mailroom management activities outsourced by the Bavarian financial administration to InHaus GmbH. Local financial administrations in Bavaria make use of the access agreement between the Bavarian financial administration and Deutsche Post AG. The German NRA is investigating the pricing of the InHaus GmbH services because they partly provide services within the licensed area and partly outside. Prices of services laying outside the licensed area (e.g. typical services provided by letter shops) are not subject to ex ante price control. Therefore, it might be possible that these services have been offered at abusive low prices.

Conclusions

Emerging end-to-end competition and upstream competition are increasingly subject to review under competition laws. In five Member States (AT, DE, ES, IT, SE), USPs have been subject to competition cases because of abuse of dominant position in the delivery of addressed postal items. The Danish competition authority has confirmed that the USP has abused its market dominant position in the distribution of unaddressed items. The British Royal Mail, French La Poste and German Deutsche Post have been subject to competition investigations regarding consolidation services and third party access. These experiences suggest that there is an increasing need for strict competition control especially when markets are completely opened in the Community.

4.2.2 Competition and market shares – parcel and express services

Table 4.2.7 Perceived degree of competition (2000 and 2005)

MS	Parcel services (2000)	Parcel services (2005)	Express services (2000)	Express services (2005)
AT	●●●	●●●	●●●	●●●
BE	●●	●●●	●●	●●●
CY	●●	●●●	●●	●●●
CZ	●	●●	●●	●●●
DE	●●	●●	●●	●●
DK	●●●	●●●	●●	●●
EE	●	○	●	●●
ES	●●●	●●●	●●●	●●●
FI	●●●	●●●	●●●	●●●
FR	●●	●●	●●●	●●●
GR	●●●	●●●	●●●	●●●
HU	○	●	●●	●●
IE	●●	●	●●	●●●
IT	●●	●●	●●	●●
LT	●●	●●	●●	●●
LU	●●●	●●●	●●●	●●●
LV	●●●	●●●	●●●	●●●
MT	●●	○	●●	●●
NL	●	●	●●	●●
PL	●●●	●●●	●●●	●●●
PT	●	●●	●	●●●
SE	●●	●●	●●●	●●●
SI	●●	●●	●●	●●
SK	●●●	●●●	●●●	●●●
UK	●●	●●●	●●	●●●
EU-25	●● (2.0)	●● (2.1)	●● (2.3)	●●● (2.6)
Notes: See text for explanation of criteria and scores. ○ None ● Emerging ●● Substantial ●●● Intense				

Source: Internet survey, combined answers of NRAs and USPs

Table 4.2.7 shows that the perceived degree of competition in the parcel and express segment has considerably increased between 2000 and 2005. But the degree of competition differs between subsegments (B2B, B2C/C2B, C2C). Especially in the “old” Member States (former EU-15) competition is strongest in the B2B segment and increasingly strong in the B2C segment, notably in the large domestic markets like DE, FR, NL, and UK. This is not surprising as B2C parcel services are strongly driven by mail ordering (using different communication channels) which is very well developed in

these four countries, too.²⁰⁷ In 2004 more than 80 percent of European revenues generated by distance selling has been generated in these four countries.²⁰⁸ The mail ordering business is still a domestic business. Cross-border transactions represent only 4 percent of total distance selling sales.²⁰⁹ Therefore, cross-border parcel and express services are still dominated by B2B consignments.

The B2B parcel and express segment is very different from the letter post segments. Parcel and express services have been liberalized since decades and a lot of private companies have established national, European-wide or even worldwide distribution networks focussing on business to business services. A wide spread of different services and quality levels have been established in order to meet the very different needs of business customers. Cross-border services are important as they reflect the strongly growing flows of goods between countries, especially within the European Union. The internal market for parcel and express services appears to be already reality.

It is beyond the scope of this study to provide a detailed description of the parcel and express markets. It is even difficult to provide a clear definition of parcel and express services because the service characteristics are sometimes very similar. TNT has provided a classification which describes the main characteristics of parcel and express services by transport speed and weight per consignment. Furthermore, they used this classification to describe the positioning of the most important parcel and express service providers.

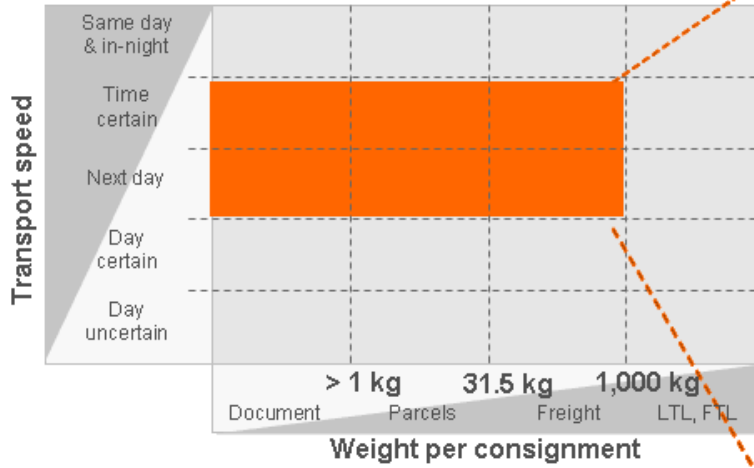
As already mentioned, the B2B segment is the most competitive segment. Especially express services offered for example by UPS, TNT, and DHL are high-price services and focus predominantly on the B2B segment. TNT estimates the size of this segment lying between 13 and 16 bln EUR in 2004.

207 In 2004 the per capita sales were more than 150 Euro for these countries (UK: 376, DE: 246; FR: 186; NL: 174; EMOTA, press release of 17 May 2005, background information).

208 In 2004 total sales were 67.7 bln EUR, about 57 bln EUR were earned in UK, DE, FR, and NL (EMOTA, press release of 17 May 2005, background information).

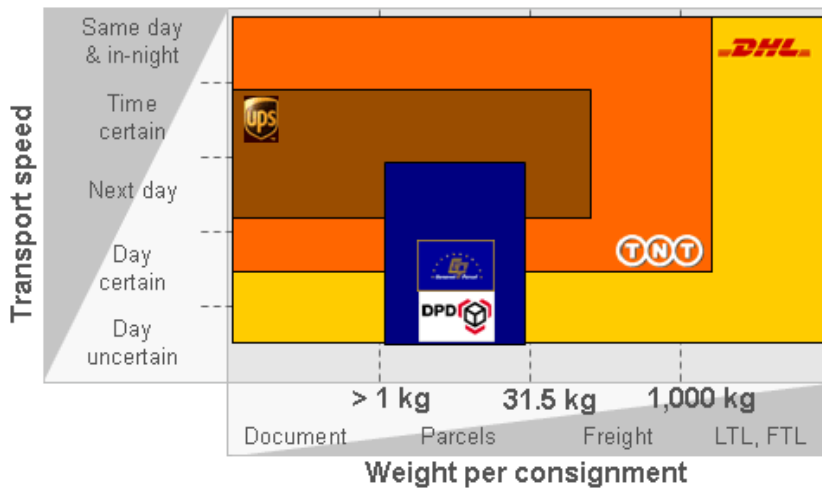
209 EMOTA, press release of 17 May 2005, background information.

Figure 4.2.9 European parcel and express market - segmentation



Source: TNT (2004), Market statistics.

Figure 4.2.10 Positioning of European parcel and express service providers



Source: TNT (2004), Market statistics.

It should be noticed that in this segment UPS is the only important international service provider which is not backed by a former postal administration; DHL is owned by Deutsche Post (DE), TNT by TPG (NL), DPD by La Poste (FR), and General Parcels by Royal Mail Holding (UK).

TNT estimates the size of the widely defined parcel and express market to be about 35 billion EUR.²¹⁰ Deutsche Post estimates the size of a submarket including the six most important European countries DE, ES, FR, IT, NL, and UK to be 27.5 billion EUR in 2004. When adding the countries AT, BE, CH, CZ, DK, FI, GR, LU, NO, PL, PT, SE the market size would be 33.7 billion EUR.²¹¹

Table 4.2.8 Market shares in the European parcel and express market (2004)

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

Sources: TNT (2004), Market statistics: Express and parcel services – intra-Europe; DPWN, Annual report 2005, European CEP market 2004 – market shares based on information from DE, ES, FR, IT, NL, and UK.

Accordingly, the market shares estimated by TNT and Deutsche Post slightly differ between the largest express service provider (Table 4.2.8). Nonetheless, both sources confirm that DHL appears to have the largest market share, followed by TNT and UPS. The position of GLS (Royal Mail) and DPD (Geopost, La Poste) is not clear. But it appears that both also have a substantial market share in the European parcel and express market even possibly higher than UPS's market share. In contrast to the "integrators" (DHL, TNT, and UPS) GLS and DPD provide parcel services (next day, day certain, and day uncertain delivery, see Figure 4.2.10.

Recent developments in the business strategies of the large parcel and express operators show that they are increasingly interested in the business of small and medium-sized mailers (e.g. e-bay power sellers). For this reason GLS, UPS, and DHL have started establishing additional access points in Europe. DHL has announced that they intend to double their existing network of access point from 15,000 to 30,000 in Europe until end of 2008.²¹² Outside Germany DHL has placed access points at railway stations and supermarkets. GLS announced to extent the number of parcel shops to 50 or 60,000 in the next five years.²¹³ Similar to DHL, GLS will cooperate with retail shops when establishing access points. UPS is also extending its network by applying a franchising model. Starting point is the Mail Boxes Etc. (MBE) network acquired by UPS

²¹⁰ This estimation is most probably based on Oxford Economic Forecasting (2004), The economic impact of express industry of express carriers in Europe.

²¹¹ DE Deutsche Post, Annual report 2005, p. 37.

²¹² DE Handelsblatt (20 Oct 2005), Post steckt Milliarde ins Vertriebsnetz [Deutsche Post invests one billion Euro in distribution network].

²¹³ DE Handelsblatt (31 Aug 2005), Paketdienst GLS startet Großangriff auf die Post [Parcel service provider GLS attacks Deutsche Post].

in 2001. UPS is rebranding these shops into “UPS store”. These activities indicate that in the next years competition will increasingly benefit small and medium-sized mailers of parcels.

The C2C parcel segment is still dominated by the USPs. This might change when competitors have established a dense network of access points and offer parcel services to small mailers, too. In Germany, one competitor, Hermes (a subsidiary of a mail ordering company Otto) has established more than 11,000 access points in Germany. Originally coming from the B2C segment Hermes started business for small mailers, notably consumers, small enterprises, and professionals (like lawyers, medicines) at the end of 2003 by offering cheaper parcel services than Deutsche Post. Additionally, they plan to extend their business to express services in co-operation with TNT. In a memorandum of understanding Hermes and TNT agreed to use synergies of both networks. Inter alia TNT plans to offer express services in the numerous Hermes parcel shops.²¹⁴ In 2004 Hermes achieved a market share of 5 percent in the C2C segment. This share increased to 22 percent in 2005. In the B2C segment Hermes has increased the market share from 32 percent to 35 percent in 2005. They intend to achieve 25 percent C2C market share until end of 2006.²¹⁵ In reaction to market share losses in the C2C segment, the chief executive of Deutsche Post has recently announced that the company plans to cut its parcel delivery prices for private clients by about 10 percent in order to compete more effectively with rivals.²¹⁶

Conclusions

- The parcel and express markets at national and European level are much more competitive than the letter post markets. The B2B consignments are the most competitive segment; the Internal Market has been broadly realised for these services.
- The European parcel and express service providers are extending their businesses more and more to small and medium-sized mailers of parcels.
- The other segments (B2C and C2C) are still domestic business; in most Member States the USPs are dominating this segment. But it appears that competition in the B2C segment is increasing, even in the C2C segment competitors have successfully entered the market.

²¹⁴ DE Hermes Logistics GmbH, press release of 12 Dec 2005.

²¹⁵ DE KEP-Nachrichten No. 11 (17 March 2006), p. 2.

²¹⁶ DE Handelsblatt (23 March 2006), Post senkt die Preise [Deutsche Post cuts prices] and Handelsblatt (5 April 2006), Post senkt Päckchen-Preise deutlich [Deutsche Post reduces prices for small packages].

4.2.3 Organization and business activities of USPs

4.2.3.1 Corporatization and privatization

Table 4.2.9 Legal status and privatization of USPs (2006)

Legal status		Member State
Government department		CY
State enterprise		CZ, ES, FR, GR, LU, PL
Public limited company	State owned	EE, FI, HU, IE, IT, LT, LV, MT, PT, SE, SI, SK, UK
	State dominated (>50 %)	AT (51%) BE (50% +1 share), DK (75%), MT (65%)
	Privatized (State owns less than 50%)	DE (42%) NL (10% plus golden share)
Notes: DE – Shares are owned by the state-owned financial institute KfW (Kreditanstalt für Wiederaufbau) IT – The Ministry of Economy and Finance owns 65% and a government financial entity, Cassa Depositi e Prestiti, 35%. NL – The golden share is under consideration at the European Court of Justice. ²¹⁷		

Source: WIK survey and webpages of USPs

While the majority of the USPs is still state owned the number of state enterprises has further decreased: only seven of the 25 USPs are still state enterprises or in one case a government department. The privatization of USPs is also ongoing. The German, the Dutch, and most recently the Austrian USP are listed at the stock exchange. The majority of Deutsche Post is held by private investors. In 2005 minority stakes of the Danish and the Belgian USPs have been sold. In the beginning of the process TNT as well as Deutsche Post were very interested to buy a stake of national postal operators but they failed. The Danish government decided to sell a 22% stake to the British capital investment company CVC.²¹⁸ Post Danmark and CVC then acquired the 49% stake of the Belgian USP. In May 2006 the Austrian government sold 49% of the Austrian USP by IPO instead of selling a stake to a foreign investor (again TNT and Deutsche Post were very interested). After these experiences it appears that TNT and Deutsche Post have now abolished their strategy to enter foreign mail markets by acquiring stakes of the national postal operators. In Norway the new government have recently stopped privatization plans of the USP Posten Norge.

²¹⁷ On April 6, 2006 the ECJ advocate general and adviser Pöiares Pessoa Maduro told the EU's highest legal instance that the Dutch government had failed its obligations under EU treaty law. The special shareholding could deter investors from other EU from acquiring shares in the company, thus restricting the free movement of capital within the EU (CEP-Research, EU wants Dutch govt to drop TNT "golden share", 7 April 2006).

²¹⁸ The remaining shares have been sold to the employees (3%).

Case study 4.4 Privatization of Post Danmark A/S²¹⁹ and the acquisition of De Post/La Poste

Before 2002 Post Danmark was an independent public company. Under the Post Denmark Act and the Danish Postal Services Act Post Danmark adopted in 1995 Post Danmark was allowed to operate as a normal business enterprise. In the years after 1995 Post Danmark has been restructured and modernised. Additionally, they have implemented a business strategy with a focus on quality (TIQ programme – Total Involvement in Quality) accompanied by regular surveys on performance developments.²²⁰ On Jan 1, 2002 Post Danmark was converted into a public limited company named Post Danmark A/S. The act on Post Danmark A/S has already implemented a provision allowing the sale of up to 25 % of the shares. The transformation into a public limited company was accompanied by a change in the payment arrangement with respect to the pension scheme for civil servants still employed at Post Danmark.²²¹

In 2002/2003 an initial analysis regarding the partial privatization of Post Danmark A/S was carried out by the investment bank NM Rothschild & Sons. Based on the recommendations in the initial analysis a market screening identifying potential investors was carried out. After the market screening it was decided to initiate the actual sales process and to pursue a trade sale. The initiation of the sales process was published through a note in the official EU journal. After having informed the Danish state about their interest a number of potential investors were asked to submit indicative offers for the acquisition of a shareholding in Post Danmark A/S. A number of potential investors having submitted indicative offers were invited to perform a due diligence of Post Danmark A/S. Finally the potential investors received a term sheet reflecting the expectations of the Danish government with respect to content of the agreement, share sale and purchase agreement. The potential investors then submitted firm non-binding offers and comments to the term sheet. Based on the firm non-binding offers and the comments to the term sheet the Danish government decided to grant CVC Capital Partners exclusivity in the negotiations regarding the share sale. In August 2005 CVC Capital Partners took over 22 % of the shares in Post Danmark by paying 1.27 billion DKK (about 170 million EUR). Post Danmark A/S acquired 3 % of the shares from the Danish state. These shares were reserved for an employment share ownership program (2.5 %) and for a management share ownership program (0.5 %). The Danish state now owns 75 % of the shares in Post Danmark A/S.

In spring 2005, Post Danmark and CVC Capital Partners agreed to form a consortium aiming at purchasing 50 per cent less one share of the share capital in the Belgian postal service, De Post – La Poste. In July 2005, the consortium was granted exclusivity in the negotiations with the Belgian State and De Post – La Poste. The negotiations resulted in Post Danmark and CVC Capital Partners making an agreement in October on the acquisition of the mentioned shareholding through a capital increase in De Post – La Poste. The purchase was made through a holding company (MIEGroup S.A.) equally owned by Post Danmark and CVC. It was financed partly by the contribution of share capital and subordinate capital and partly by the raising of a bank loan. The acquisition took place in January 2006 on payment of 300 million EUR. The Belgian State retained the majority in the company. In connection with the transaction, the Belgian State contributed another 40 million EUR to the company.²²²

The stepwise privatization of Post Danmark is seen by the government as an important step in the process of transforming the postal sector in Denmark into a more "normal" commercially

²¹⁹ DK Michael Birch (Danish Ministry of Transport and Energy), Privatization of Post Danmark A/S, presented at the IEA conference 2006 in Vienna.

²²⁰ The areas to be measured include customer and employee satisfaction, productivity, quality and service, market share and growth in sales, sickness absence and staff turnover, ability to adapt to change and meet personal development targets, and environmental impact (DK Post Danmark, Annual Report 1999, p.11).

²²¹ From 1999 to 2001 Post Danmark was obliged to pay 20 percent of pensionable salaries of civil servants and staff employed on similar terms to the State. This share was reduced to 12 percent in 2002 after a payment of a lump-sum of about 230 million EUR to the State.

²²² DK Post Danmark, Annual Report 2005, p. 9.

based sector. CVC Capitals Partners do not have specific industry knowledge but supports the business activities of Post Danmark by providing more financial flexibility. The acquisition of De Post – La Poste is an obvious example for the co-operation between Post Danmark and CVC. In contrast, De Post – La Poste has started modernising and restructuring its operations and looked for a partner who can both strengthen the financial position and support the modernization process. De Post – La Poste can benefit from Post Danmark’s operational expertise and know-how in the development of a high level of service and quality. Additionally, Post Danmark has found ways to restructure and modernise its company in co-operation with unions and employees and may support the Belgian postal operator in this regard.

Conclusions

- Transformation of USPs into flexible commercial organizations is further continuing.
- Privatization made important progress; private equity companies appear as new group of investors in the postal market acquiring stakes of medium-sized USPs.
- The exposure of private equity companies indicates that business prospects in the postal sector are positive.

4.2.3.2 The role of private equity companies as potential investors

CVC Capital Partners is a new player in the privatization process of former postal administrations. Private equity companies might be an additional source for financing business activities and for preparing medium-sized and small postal operators for privatization. Furthermore, they might be potential investors of competitive postal operators who are facing financing problems when they are not backed by USPs or other “rich” investors interested in the business. The decision of private equity companies to invest in the postal industry generally indicates that postal markets are markets with positive prospects.

Table 4.2.10 M&A activities of private equity companies in Europe (Transportation and Logistics)

	2002		2003		2004		2005	
	Billion €	No. of deals	Billion €	No. of deals	Billion €	No. of deals	Billion €	No. of deals
Transportation and Logistics	30	376	31	318	17	323	25	396

Source: EVCA [European Private Equity & Venture Capital Association] Barometer, January 2006.

Looking at aggregated data in Table 4.2.10 the activities of private equity companies remained broadly constant. The share of investments in the transportation and logistics

segment accounts for 3.7 % of total engagement. There are no information that within this broad segment of transportation and logistics the activities in letter post companies have increased or decreased. Concerning future activities predictions are mixed: According to interview partners the letter post market is either not interesting at all²²³ or merely of limited interest.²²⁴ These observations are in contrast to the opinion of TNT. The Dutch USP considers that increasing activities of private equity companies in the letter post market establish a mega-trend.²²⁵

Private equity companies (PECs) can be grouped by their investment strategies which might help to identify the possible future role of private equity companies in letter post markets:

- (1) PECs already active in express services or logistics;
- (2) PECs with particularly long term investment horizon;
- (3) PECs targeting a certain market segment;
- (4) PECs targeting different market segments;

Ad (1): Interviews revealed that a PEC already investing in express or logistics services is not necessarily interested in investing in a letter mail company. ²²⁶ This is also true for PECs which have already operated in various postal segments including letter post.²²⁷ However, boundaries are blurring. The PEC 3i UK sold Williams Lea, a company mainly providing upstream letter mail and document management services, to DPWN. Recently, the same PEC has acquired Marken, an affiliate of the logistic company Exel, from DPWN.²²⁸

Ad (2): Generally, lot of PECs try to sell shares on target companies after a relatively short period. There are few PECs which have a long term interest. One example is Trimoteur B.V. who pursues a “buy-and-build”-strategy. Trimoteur has found Sandd, one of the two major Dutch competitors in the letter market. After four years of business Trimoteur starts sharing ownership with other PECs to further finance the expansion strategy of Sandd.²²⁹ Right from the beginning Trimoteur assisted Sandd to acquire local postal companies. Additionally, Sandd invested in new depots and established various partnerships with independent local distributors in order to achieve nationwide coverage. Trimoteur has obviously a long-term interest in Sandd. In its view only a low

²²³ Odewald & Cie; Interview 2.3.2006.

²²⁴ Fortis; Interview 3.3.2006; 3i Germany; Interviews 6.3. and 13.3.2006.

²²⁵ NL TNT, Annual Report 2005, p. 34.

²²⁶ Odewald & Cie; Interview 2.3.2006; Odewald & Cie recently acquired the logistics company trans-o-flex from DPWN and BayernFinanz (DE Deutsche Post, Press Release of 17. March 2005).

²²⁷ 3i Germany; Interview 6.3.2006.

²²⁸ KEP-Nachrichten No. 10 of 10.3.2006.

²²⁹ Triomteur B.V; Interview 2.3.2006.

cost E2E delivery network would be a promising concept. In the view of Trimoteur it would be worth scrutinizing whether this model could be applied in other Member States, too.

Ad (3): Fortis Private Equity is an example of this group. It is a mid-market player, who solely focuses on competitive postal operators. Due to good experiences with E2E competitors Unipost and Sandd their specific business strategies are the most appealing in the view of Fortis.

Case study 4.5 Fortis Private Equity²³⁰

Fortis is an international financial-services provider. With a market capitalization of 33 billion Euro, it ranks among the twenty largest financial institutions in Europe. Fortis's operations in banking are divided into three businesses: Retail -, commercial/private - and merchant banking. Fortis Private Equity (FPE) is part of merchant banking. Teams are operating in Belgium, the Netherlands, Spain and France.

Compared to e.g. CVC Fortis is a mid-market player. They do not actively shape the consolidation process but seek opportunities to provide expansion capital to profitable medium-sized companies (enterprise value of between €15 million and €150 million). Letter mail incumbents are therefore not in FPEs central focus.

Between 2001 and 2004 Fortis had owned a 38 % share in Spanish Unipost. The share was sold to DPWN in 2004. Following this apparently successful investment Fortis took over shares of Sandd in June 2005 from ING Commercial Finance. Sandd is an interesting company due to its lean business model. With relatively little capital expenditures the company provides nationwide postal services in the Netherlands. Fortis envisages to exit within 2-4 years. Fortis supports target companies in corporate governance, management team balance, financial reporting, etc.. This support may make Sandd more attractive (together with operational performance). In their view the most likely buyer might be a foreign incumbent postal operator.

With respect to future activities in European letter markets, Fortis will focus on companies which may be potentially attractive for incumbent postal operators after a transition period needed for improving business and management of the target company. A certain quality standard in postal services provision would be an important condition; business models similar to Unipost or to Sandd would be favoured. The country offices of Fortis determine potential target companies. In their view the Netherlands would be particularly interesting due to high population density and a favourable regulatory environment. The UK, Germany and maybe later Belgium might follow. So far, Fortis has not targeted other Member States due to lacking country specific knowledge.

Ad (4): Only very few PECs are actively shaping letter market consolidation. As described CVC has already acquired shares in incumbent postal operators. So far, 3i only acquired and sold niche players but due to size and importance of this PEC they may decide to enter the market for incumbent postal operators, too.

Both, CVC and 3i, are assisting companies at all funding stages: start-ups, providing growth capital, accompanying management buyouts. The venture capital team focuses on start-up and early-stage companies with funding requirements that are generally, but not exclusively, within the range of €2m to €50m. The growth capital team focuses on

²³⁰ Website Fortis; Interview 3.3.2006.

funding solutions for medium-sized business, usually investing between €10m and €150m. The buyout team funds small and medium-sized deals with a transaction value up to €1bn.

Case study 4.6 Attractivity of German companies for a major PEC like 3i²³¹

3i does not specifically focus on the letter post market. Accordingly, they check an investment opportunity for private equity funding only on request. Currently, they do not actively look for investment opportunities in national letter markets.

The German letter market is characterised by many small, locally operating companies. Most of these companies are not attractive for 3i: Costs related to testing a deal would be too high to check an investment in small companies. Additionally, 3i observes that a number of competitive postal operators faced quality problems. This would have damaged the reputation of all competitors

However, due to high profit margins especially in upstream letter services the letter post market is in their view more interesting than e.g. the parcel market. The Williams Lea deal illustrates this interesting investment opportunities. 3i owned the company for about two years. When selling Williams Lea for 110 million GBP to DPWN 3i made a considerable profit of 3.4 times its invested capital.²³² Currently, 3i is not planning to actively shape the letter post market by acquiring shares of USPs.

Conclusions

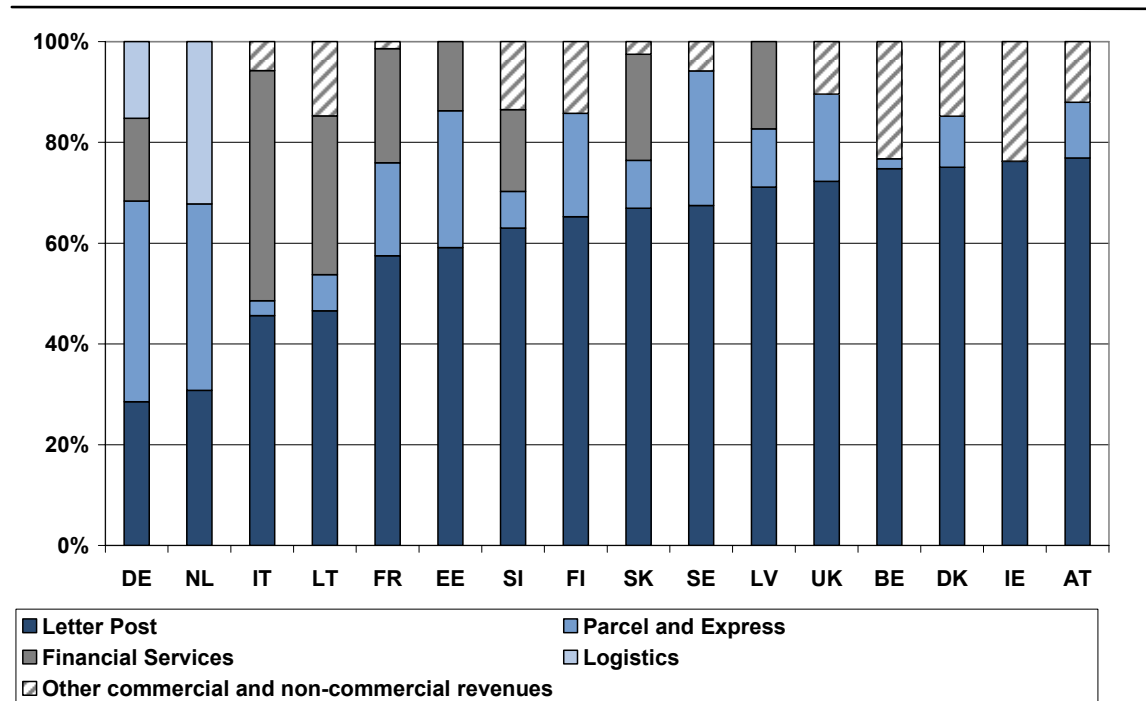
Private equity companies will most probably not become a “lender-of-last-resort”. For this reason funding problems for the majority of competitive letter post companies will remain. As in other sectors the main function of private equity companies is to anticipate market trends. Depending on the specific investment object and the strategic approach of the private equity company an investor may decide to perform a “buy-and-build”-strategy or to improve performance by solely assisting the management in restructuring and refocusing its business.

²³¹ 3i Germany; Interview 13.3.2006.

²³² 3i, Press Release of 13.2.2006.

4.2.3.3 Business activities of USPs in general

Figure 4.2.11 Business activities by revenue share (2004)



Notes: Other commercial revenues include revenues from the retail network (USPs of AT, IE, SE, and UK), subsidies and government payments. Letter post also includes revenues from the distribution of unaddressed items. In some cases logistics and parcel/express revenues are not separately available (DK, FI, SE).

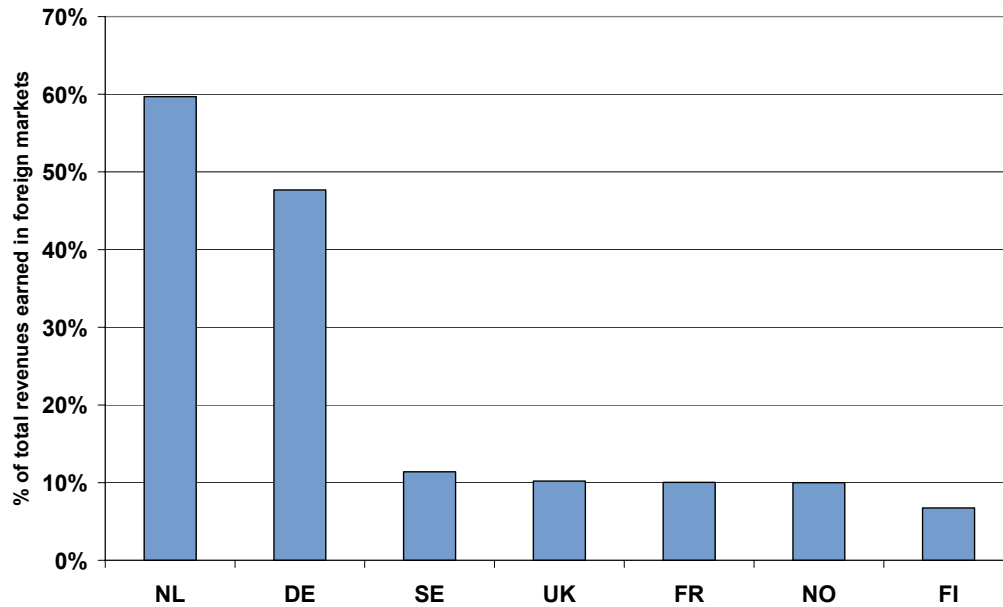
Sources: No disaggregated figures available – USPs of CY, CZ, GR, HU, MT, PL;
Confidential – USPs of ES, LU, PT;
WIK survey – USPs of DE, EE, IT, LT, LV, SI, SK;
Annual reports 2004 –USPs of AT, BE, DK, FI, FR, IE, NL, SE, UK (2004/2005, Royal Mail Holding).

Letter post services are still the most important business activity of USPs. In most cases more than 60% of total revenues have been earned by letter post services. Logistics as well as parcel and express services play a significant role in the businesses of the German, Dutch, French, Estonian, Finnish, British, and Swedish USP. More importantly, some USPs are very active in the provision of financial services, notably DE, IT, and FR. Currently, Deutsche Post is the only USP providing the full scope of financial services. Postbank AG is a separate company partly owned by Deutsche Post. Since 2005 it has been listed at the stock exchange (33 % of the shares). La Poste is going to establish a postal bank as separate company which has been generally allowed by the European Commission in December 2005. BancaPosta, the financial services segment of Poste Italiane, provides payment services (including services provided for the government, e.g. pensions payment, tax collection), postal savings products, and third

party products (in cooperation with Deutsche Bank). Revenues from financial services account for about half of total business of Poste Italiane.

Geographical coverage of business activities

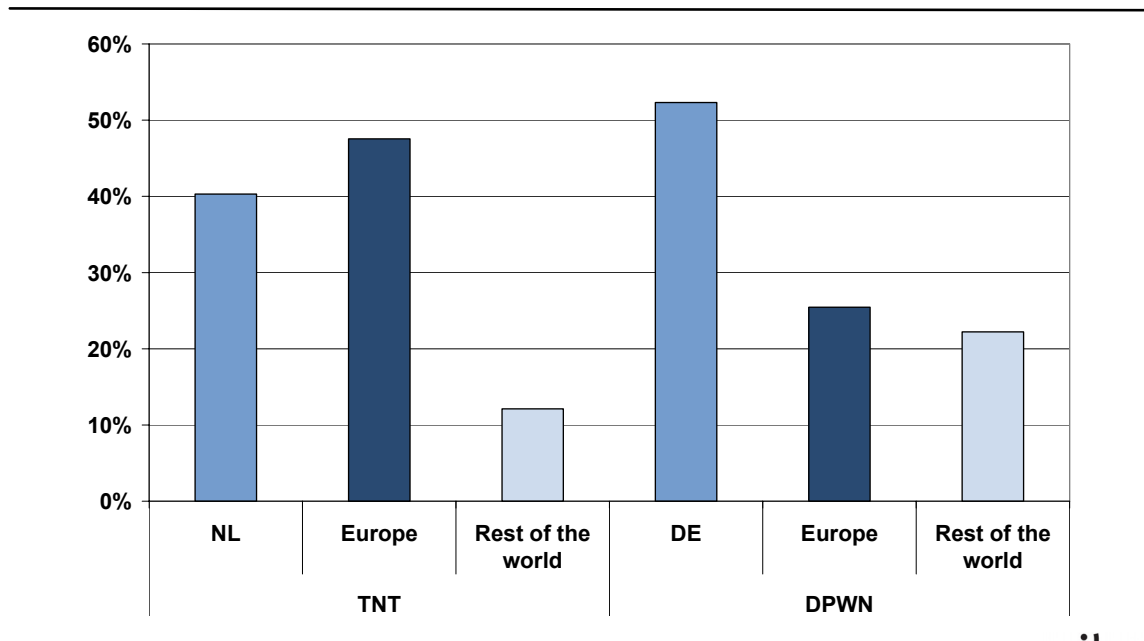
Figure 4.2.12 Share of total revenues earned in foreign markets (2004)



Notes: NL – revenue share excluding logistics activities (following the divestment decision of TNT end of 2005).

The majority of the national postal operators still focus on their national markets: they earn more than 95% of their total revenues in their home markets. Only a handful have significant activities in foreign postal and logistics markets as indicated in Figure 4.2.12.

Figure 4.2.13 Geographical revenue structure of TNT and DPWN (2004)



Source: Annual reports; TNT figures excluding their logistics activities

Only TNT and Deutsche Post provide postal services outside Europe (see Figure 4.2.13) which is reflected by high shares of revenues earned in non-European countries. Nonetheless, their main business still lays in Europe. Due to the size of the German market Deutsche Post earned more than 50 % of total revenues in Germany, while TNT has a more European focus. Outside Europe the emerging Asian markets appear to be the most important target. While TNT decided not to enter the North American parcel and express market Deutsche Post followed the strategy to be a worldwide supplier of postal and logistics services. Up to now the business in North America appears to be more a burden than a profit earner: in the last years Deutsche Post subsidiary DHL faced heavy losses in the North American business.²³³

²³³ DE Deutsche Post, Annual reports 2004 and 2005.

Table 4.2.11 Business activities of USPs – geographical coverage and business segments

	Foreign national markets (EU-25)	Regional scale	European scale	Worldwide scale
Letter post services and distribution of unaddressed items	Deutsche Post (DE): ES, NL, UK; TNT (NL): AT, BE, CZ, IT, HU, PL, SK, UK; Österreichische Post (AT): HU (Feibra); Posten Norge (NO): SE, DK (planned)			DE (DHL Global Mail); NL/UK (Spring) CH (SPI) (plus UPS, Fedex)
Parcel and express services	Deutsche Post – DHL (DE): AT, BE, CZ, DK (Post Danmark) ES, FR, GR, HU, IE, IT, LU, MT, NL, PL, PT, SE, SI, SK, UK La Poste – DPD/Chronopost (FR): AT, BE, CZ, DK, EE, ES, FI, HU, IE, IT, LT, LV, NL, PL, PT, SE (Posten AB), SK, UK TNT (NL): AT, BE, DK, ES, FR, HU, IE, IT, LU, LV, MT, PT, SE, SI, SK, UK Royal Mail Group – GLS (UK): AT, BE, DE, DK, FR, HU, IE, SE, SI UPS: AT, BE, DE, FR, HU, IT, LT, LU, PT, SI, SK, UK Österreichische Post: SI (divested Yellogistic, cooperation with TNT planned), SK	Österreichische Post (AT): Eastern, South-Eastern European countries Post Danmark (DK) and Posten Norge (NO) – PNL: Scandinavia and Baltic countries Posten AB (SE): DPD partner in Scandinavian countries (DK, FI, NO)	Royal Mail Group – GLS (UK) La Poste – Geopost (DPD) / Chronopost (FR)	Deutsche Post – DHL (DE) TNT (NL) (excluding the US market) (plus UPS and Fedex)
Logistics		Posten Norge (NO): Scandinavia Finland Post (FI): Scandinavia, Baltic countries		Deutsche Post – DHL/Danzas (DE)
Upstream activities	Finland Post – Itella (FI): DE, DK, EE, FI, LV, LT, NO, SE Deutsche Post (DE): FR (Koba), UK (Williams Lea)		DE: ?	DE: US (Williams Lea)

Sources: WIK survey, press items, websites of postal operators

Some medium-sized USPs also follow the strategy to provide postal and logistics services outside their home markets. Posten Norge, the Norwegian USP is building up a logistics network in Scandinavia. Furthermore, they are going to establish a Citymail like subsidiary in Denmark for entering the Danish letter mail market. Posten Norge and Post Danmark jointly own Pan-Nordic Logistics (PNL) in order to establish a Scandinavian provider for parcel and logistics services. The Austrian national postal operator is going to establish a regional network in the Eastern and South-Eastern European countries (CZ, SI, SK, HU, but also in Croatia and Romania). So far, these activities have not been reflected by corresponding accounting figures of the Austrian USP. In 2005 Austrian Post earned less than 2 percent of total revenues abroad.²³⁴

²³⁴ AT Österreichische Post, Annual Report 2005, p. 113.

Recent Mergers & Acquisitions by USPs

Generally, the M&A activities in all postal segments have further slowed down since 2004.

- Letter post

DPWN and TNT appear to have abandoned the strategy to buy stakes in foreign universal service providers (AT, BE, DK). In 2005 Deutsche Post acquired Mailmerge, a Dutch postal service provider specialized on delivery of letter post items to post office boxes. Mailmerge and the Deutsche Post owned Selektmail have already cooperated in delivery before the acquisition.

- Distribution of unaddressed items

TNT has extended their activities in the new Member States, notably CZ, HU, PL, and SK by investing in the Dimar Group. Austrian Post has acquired feibra Hungary, the Hungarian market leader in the distribution of unaddressed items in 2005. Despite the strong market position in the distribution of unaddressed items in Austria the USP was allowed to acquire a majority stake of Feibra Austria, the second important competitor in this segment. In June 2005 the Austrian USP acquired the remaining shares of Feibra. Together they have a market share of more than 97% in the distribution of unaddressed items in Austria.

- Upstream services

DPWN has recently acquired Williams Lea, a company i.a. active in document management and mail preparation services and in 2004 Koba, a French mail preparation company. In 2005 TNT bought Euro Mail, a Dutch mailing house focusing on small and medium-sized customers.

- Parcel and express services

The existing European parcel and express service providers have extended their business activities in the new Member States. DHL acquired the Czech PPL CZ s.r.o., TNT the express service provider ISH Nocní Expres active in CZ and SK. La Poste established a cooperation with the Slovenian USP (delivers parcels to and collects from Slovenian customers as part of the DPD network). Austrian Post decided to close Yellogistic, a Slovenian subsidiary, after realising high losses.²³⁵ Currently, they are in talks with TNT about a possible cooperation in the Slovenian parcel and express market.

235 In 2005 Yellogistics lost more than 2 million EUR (AT Österreichische Post, Annual Report 2005, p. 82).

- Logistics

End of 2005 DPWN has acquired Exel (5.7 billion EUR), one of the most important providers of logistics services. In contrast, TNT has decided to divest most of their logistics business. Following the divestment decision total revenue of TNT will go down by about one quarter in 2006.

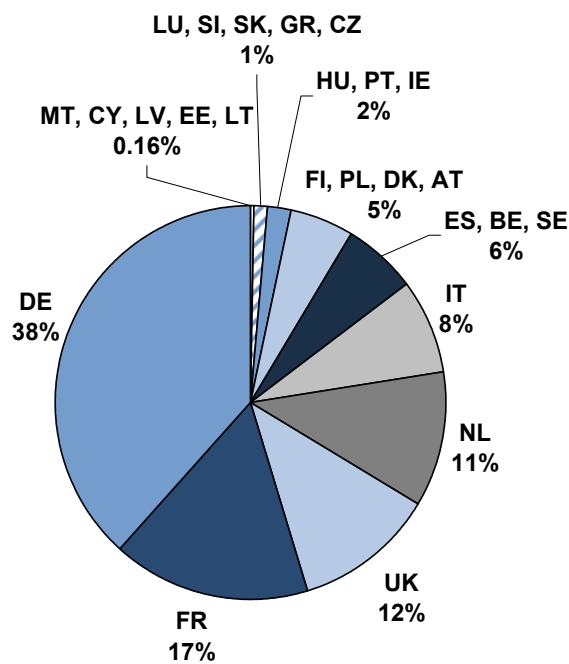
Conclusions

- Generally, the larger the domestic postal markets the more likely are international activities of the national postal operator.
- European postal and express companies, notably DHL, TNT, DPD (Geopost), and GLS are managed by large USPs.
- The business strategies of medium-sized USPs are mixed. While some continues to focus on national markets (BE, ES, IT) others are going to build up regional logistics networks, notably the Scandinavian USP and the Austrian USP. Small USPs focus on national business (including international mail, like MT, LU).
- Most small and medium-sized USPs have established cooperations with international or European parcel and express service providers.
- Overall, mergers & acquisitions activities have slowed down. In the parcel and express segment acquisitions in the new Member States have been predominant.
- In the letter post segment USPs have predominantly acquired companies with focus on upstream activities or distribution of unaddressed items.

4.2.4 Economic situation of USPs

Between 2002 and 2004 total revenues of Community USPs increased by 3.7 percent per year. Revenue growth has slowed down compared to the period between 2000 and 2002 mainly driven by less mergers and acquisition activities of the large national postal operators.

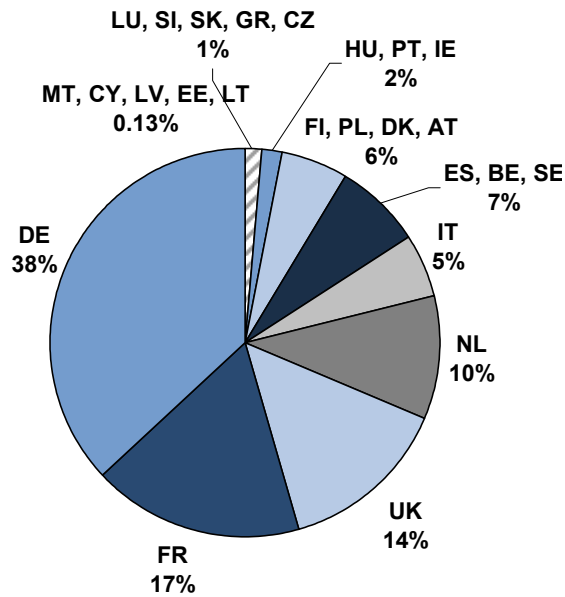
Figure 4.2.14 USPs' total revenues in 2004 – 113 Billion EUR



Notes: CY - 2003 figures

The five biggest national postal operators have achieved more than 85 percent of USPs' total revenues. Postal revenues account for about 75 percent of total revenues (83 billion EUR).

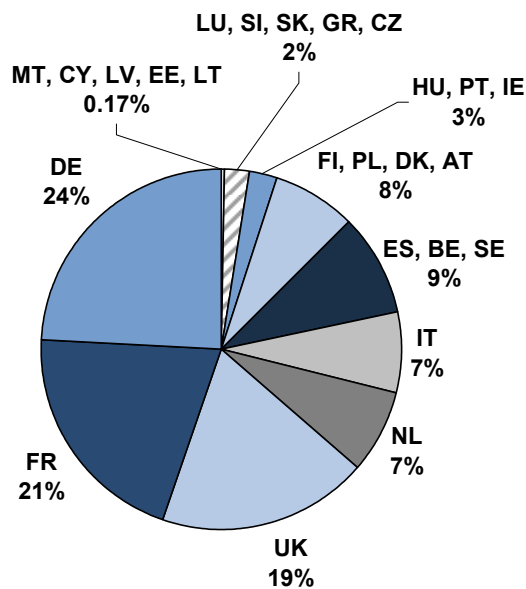
Figure 4.2.15 USPS' postal revenues in 2004 – 83 Billion EUR



Notes: CY, GR - 2003 figures

More than 80 percent of postal revenues are earned by the five biggest USPS.

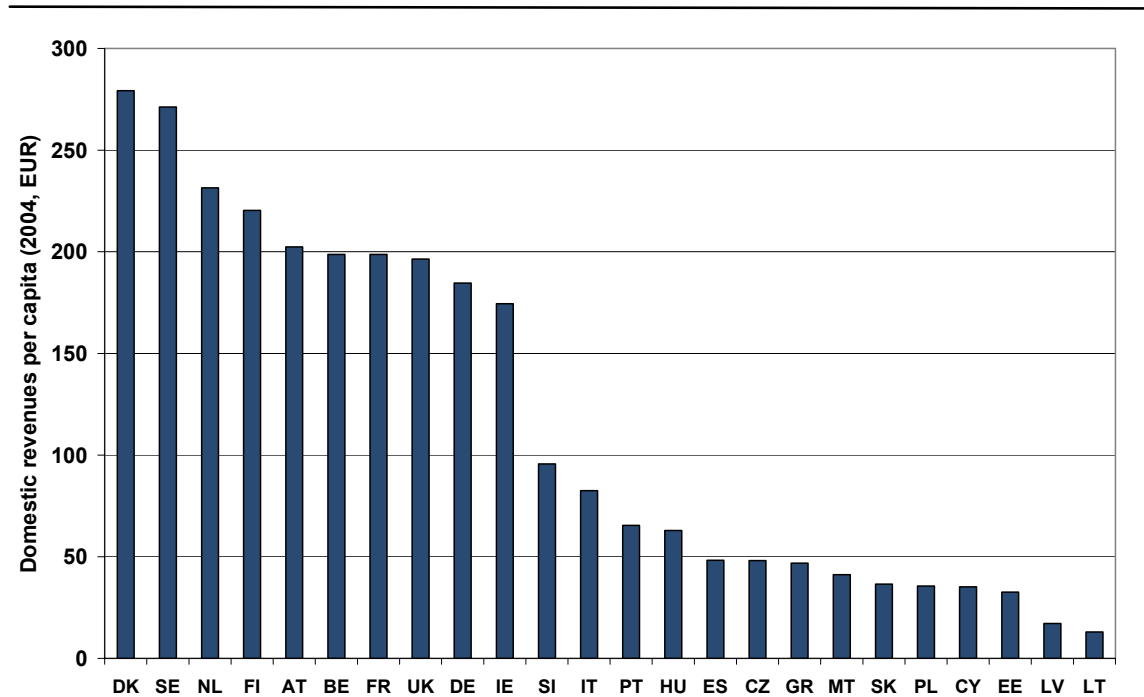
Figure 4.2.16 USPS' letter post revenues in 2004 – 53 Billion EUR



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

Letter post revenues account for about half of USPs' total revenues. Again the five biggest USPs achieve more than 75 percent due to their large national markets.

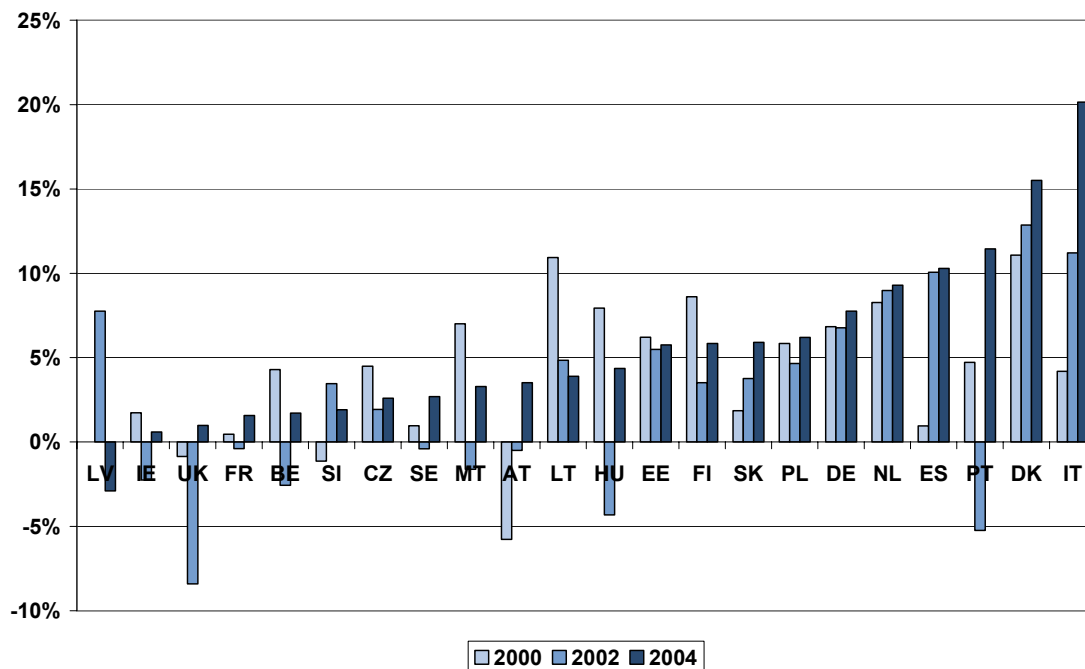
Figure 4.2.17 Domestic revenues of USPs per capita (EUR, 2004)



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

The importance of the USPs at national level is presented by domestic revenues per capita (Figure 4.2.17). This figure can be interpreted as average expenses per inhabitant for postal services provided by the USP. In the new Member States and in Southern EU-15 Member States the USPs earn less than 100 EUR per capita, whereas USPs of middle and Northern EU-15 earn more than 150 EUR per capita. The Scandinavian and the Austrian USPs achieve even more than 200 EUR. The high variance in domestic postal revenues per capita is partly driven by different price and volume levels, but also by different service mixes. The – in terms of revenues per capita – more successful USPs have important stakes in the national parcel business which are well developed in these countries due to their larger economies (high levels of income per capita) and high importance of the mail ordering business. In contrast, the USPs of the Southern European countries, notably in ES and IT, do have very low market shares in parcel and express services and the mail ordering business is much less developed.

Figure 4.2.18 Profit margins of the USPs – 2000, 2002, and 2004



Notes: Profitability = (total revenues – total operating expenses)/total revenues
 IT – based on profits before amortization and depreciation; in 2004 the EBIT margin was 8.9 percent; EBIT margins for 2002 and 2000 are not available.
 CY, GR, LU – confidential;
 UK: 2004 based on Annual Report 2004/2005 (margin based on group operating profit/loss including exceptional items related to operations).

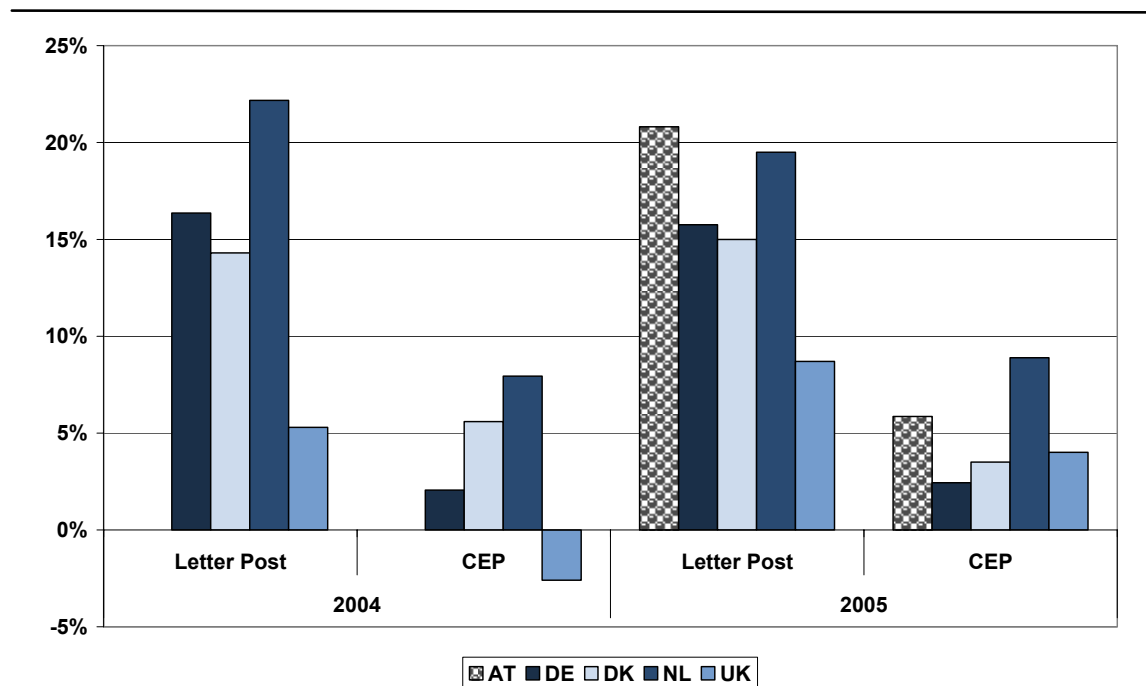
The profitability of the USPs is characterised by a high variance. Figure 4.2.18 presents the overall profitability of USPs. Half of the USPs achieved less than 5 percent while five USPs reached more than 10 percent. Most remarkable are the figures of the Danish and the Italian USP. They achieved a profit margin of 15, resp. 20 percent. It should be noted that the figure of the Italian USP is based on profit before depreciation. In 2004 the EBIT margin was 8.9 %. The main source of profits are the letter post and the international business in the Danish case. Post Danmark was able to achieve high profit margins while facing a significant volume decline. The source of the Italian profits is not clear because they do not publish financial information per business segment. It appears that Banca Posta contributed a substantial part to overall profitability.²³⁶ Furthermore, the profit appears much less positive when subtracting the governmental payments for covering universal service costs: In 2004 Poste Italiane received 336 million EUR of compensation for universal service, the EBITDA margin would be 17 percent; the EBIT margin would decrease to 5 percent. The development of the Spanish

²³⁶ IT Wirtschaftsblatt of 9 Mar 2006, Post geht österreichischen Weg [Post follows the Austrian way].

USP also appears very positive. The most striking difference between the Italian and the Spanish USP is the size of their post offices network: While more than 40 percent of employment is working in Italian post offices, 18% of Spanish postal employees are working post offices. Furthermore, Italy has a more dense post office network than Spain: More than 2 post offices in Italy compared to less than 1 post office per 10,000 inhabitants in Spain.²³⁷ The Italian USP appears to have a top position with regard to costs borne by post offices which might also be the main source for the published deficit in universal service provision.²³⁸

Some USPs made losses in 2002 but the situation appears to be improved in 2004 (AT, BE, FR, IE, UK, HU, PT, SE, UK). These USPs have recently restructured (AT, IE, PT, SE) or are still in the process of restructuring their business organization (BE, FR, HU, UK). In 2005 the Austrian, British, and Swedish USP have further increased their profit margins: They achieved profit margins of 6 percent (AT, UK), and 5 percent (SE).²³⁹

Figure 4.2.19 Profit margins per business segment of selected USPs



Sources: Annual reports 2004 and 2005; AT: segment information only available for 2005; UK: Letter Post is based on Royal Mail's financial figures (2003/2004 and 2004/2005), CEP is based on financial figures of GLS and Parcelforce. Letter post revenues include the revenues from the distribution of unaddressed items.

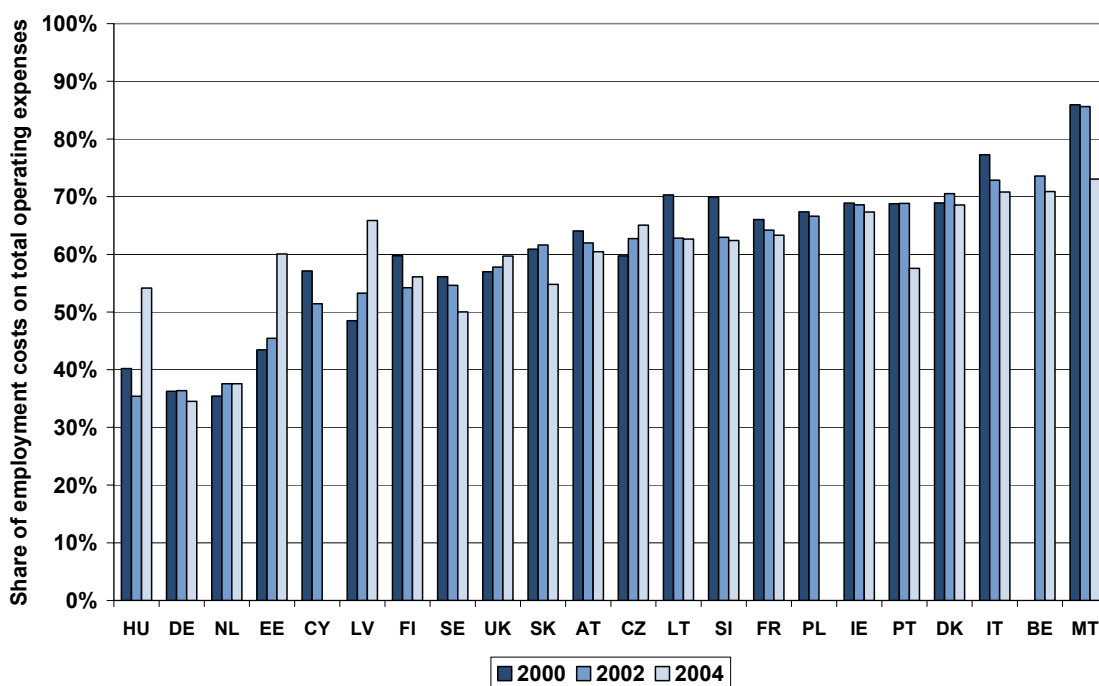
²³⁷ See section 4.5.1.

²³⁸ About 20 percent of employment of the Austrian USP are working at post offices, while less than 10 percent of DPAG's employees are occupied in post offices (parent company).

²³⁹ AT Österreichische Post and SE Posten AB, Annual Report 2005; UK Royal Mail Group, Annual Report 2004/2005.

A subset of USPs publishes segmental financial information (Figure 4.2.19). Based on their financial information we were able to calculate the profitability of their letter post and parcel/express activities. Not surprisingly, the profit rates achieved in the letter post business have been significantly higher than the rates in the more competitive parcel and express segment. TNT appears to be the most successful parcel and express service provider in terms of profit margins while Royal Mail appears to have the lowest profit margin in their letter post activities.

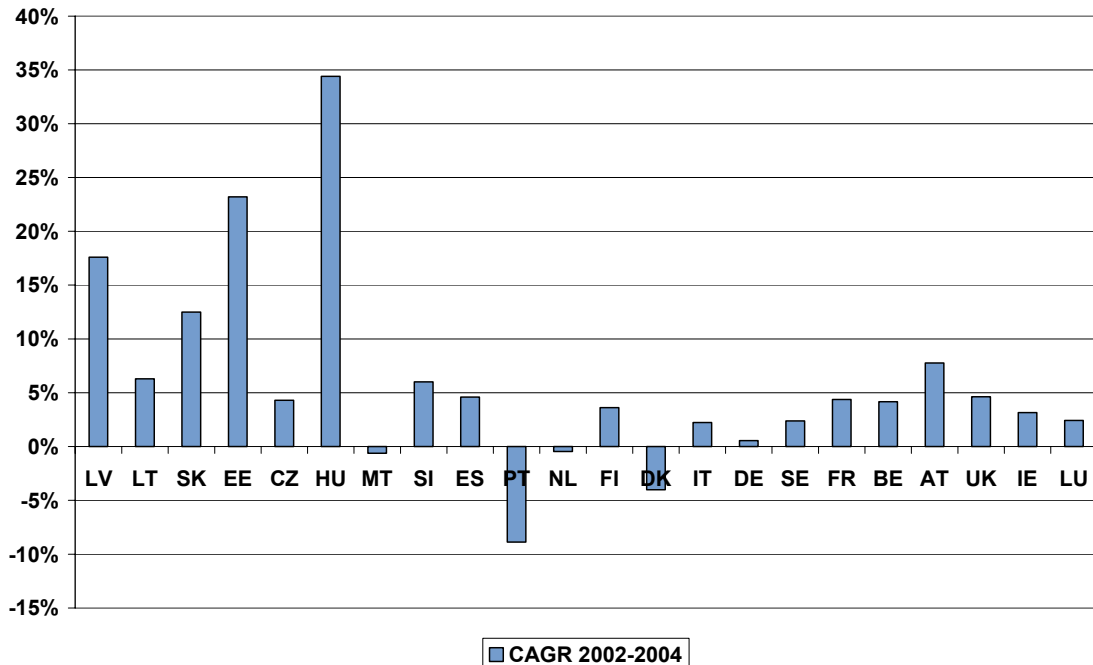
Figure 4.2.20 Share of employment costs on total operating expenses, 2000-2004



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

One important result of restructuring processes is the reduction of employment (due to replacement by machines, optimization of working processes or outsourcing of activities e.g. transport and IT services) resulting in the reduction of the share of employment expenses on total expenses. Figure 4.2.20 summarizes the development of this indicator. Obviously, the outcome is rather mixed. Eleven USPs (AT, BE, DE, FI, FR, IT, LT, MT, PT, SE, SI, SK) reduced the share, between 2002 and 2004, notably the Portuguese, the Maltese, and the Swedish USP. On the other hand, the British USP but also some of the USPs of the new Member States (HU, EE, LV, CZ) increased the share.

Figure 4.2.21 Development of employment expenses per headcount (CAGR, 2002-2004)



Notes: CY, GR, PL – 2004 missing;
USPs in ascending order by average expenses per employee (headcount) in 2004.

In the new Member States except for MT the employment costs per employee (headcount) have significantly increased between 2002 and 2004. This explains the increases shares of employment expenses to total expenses. In the “old” Member States, however, expenses per employee have risen more slowly or have even decreased (PT, NL, and DK). Only the Austrian USP faced an average growth rate of more than seven percent driven by growing expenses for salaries.²⁴⁰

Pension obligations of USPs

As former postal administrations some USPs have employed civil servants. Principally, the state is liable for the pension obligations of civil servants. The transformation of USPs into public limited companies or state enterprises raised questions regarding the responsibility (state or USP) for financing the pension obligations of civil servants employed at USPs.

²⁴⁰ See for example AT Österreichische Post, Annual Report 2004, p. 102. Simultaneously, employment has been reduced.

Pension systems of white and blue collar workers are usually financed by contributions of the employees and the employer to social security systems or pension funds. While the first category is based on “pay-as-you-go” systems the second category is capital funded and restricted to the employees of the company.²⁴¹ In the following we focus on those USPs that still employ civil servants and analyse their solutions for dealing with pension obligations of civil servants. Special emphasis on three questions:

- (1) How does the USP pay contributions to the pension scheme of civil servants?
- (2) Does the USP pay out pensions to retired civil servants (rather than a general state institution for social security)?
- (3) Does the solution create an undue financial burden to the USP compared to private companies?

Table 4.2.12 Pension obligations of USPs employing civil servants

USP	Question (1)	Question (2)	Question (3)	Notes
AT	Yes Civil servants and employer had to pay 30.1 % of gross income of employed civil servants in 2003 and 2004; in 2005 the contribution is reduced to 28.3%. (Annual Report 2004, p. 102)	No, state pays out pensions	No – similar treatment as of employees of the private sector (e-mail from 13 March 2006 of ATUSP)	Employer contributions to pensions (EUR) 2003 – 76 Mln. 2004 – 71 Mln. 2005 – 68 Mln. 6 to 7 % of total employment expenses
BE	Yes USP pays employer contribution of 8.86% of wages and salaries paid to civil servants (e-mail of 14 Mar 2006 of BEUSP)	No, pensions paid by pension service for public sector	No – same treatment as other employees	
DE	Yes Since 2000 USP pays contribution of 33% of gross income of employed civil servants to pension service	No, paid by “Bundes-Pensions-Service für Post und Telekommunikation e.V.”, (guaranteed by state)	No	From 1995 to 1999 contribution of 2,045 million EUR per year 2000 – 767 Mln. 2001 – 706 Mln. 2002 – 677 Mln. 2003 – 664 Mln. 2004 – 650 Mln. 2005 – 650 Mln. (contributions of DPAG, account for about 8 to 9 % of total employment expenses of DPAG)
DK	Yes From 1999 to 2001 Post Danmark was obliged to pay 20 percent of pensionable salaries of civil servants and staff employed on similar terms to the State. This share was reduced to 12 percent in 2002 after a payment of a lump-sum of about 230 million EUR to the State.	No, paid by Danish State	Unlear	Contributions (EUR) 1998 – 70 Mln. 1999 – 92 Mln. 2000 – 92 Mln. 2001 – 94 Mln. 2002 – 71 Mln. 2003 – 74 Mln. 2004 – 77 Mln. 2005 – 73 Mln. (about 10 % of total employment expenses until 2001, between 2002 and 2005 about 8 to 9 % of total employment expenses)

²⁴¹ There might be, of course, other pension or social security systems which might be very different from country to country. But it is beyond the scope of this study to consider the different social security systems in the Community in detail.

USP	Question (1)	Question (2)	Question (3)	Notes
ES	NA	NA	Unclear	Change of the civil servant status in 2004 (Correos, Annual Report 2004)
FR	Today: No, La Poste pays out pensions to its pensioners and does not contribute to external scheme. Future plan: USP shall pay similar charges than for other employees (36.2% of total remuneration to civil servants) after paying a lump sum of about 2 billion EUR to the state at time of transition (due to different age structure of civil servants and employees of private sector)	Today; Yes Future plan: Pensions to be paid by state	Today: burden on La Poste due to imbalance of employed/retired civil servants. To be remedied by restructuring plan. (similar treatment as for employees in private sector).	A reform plan for La Poste's pension scheme is currently under review by the European Commission. If the Commission agrees to this plan, most of the La Poste's pension liabilities (about 70 bln EUR in total) would be transferred to the French State.
GR	NA	NA	NA	NA
IE	Yes Pension entitlements of staff are met by payments to externally funded defined benefit or defined contribution superannuation schemes which are vested in independent trustees, appointed by the Company, for the sole benefit of employees and their dependants. (AnPost, Annual Report 2004)	No, paid by the pension fund (capital based fund paid by contributions of Anpost)	NA	Contributions to the schemes were at a rate of 14.3% of pensionable remuneration. The defined contribution scheme was established for certain employees of An Post's subsidiary undertakings. Employer contributions to this scheme during the year were at rates varying between 5% and 9% of pensionable remuneration.
LT	No	NA	Unclear	Civil servants play a minor role at the company (less than 1 % of total employment)
LU	No	NA	Unclear	

Corporatized USPs of ten Member States²⁴² still employ civil servants (AT, BE, DE, DK, ES, FR, GR, IE, LT, LU; see Table 4.2.16). Generally, these Member States have shifted the obligation for paying out pensions to retired postal civil servants from the USP to state institutions. Most of the USPs that still employ civil servants now provide contributions to the pension system under similar conditions as for "private sector" employees. The Member States, not the USPs, usually have to safeguard the financial viability of the pension system; the State (i.e. the taxpayer) is liable for pension payments to civil servants while the USP contributes to the pension system at defined conditions (that vary from Member State to Member State).

Other countries, like IE, FI or UK, have capital funded pension systems in place. While this report does not provide a comprehensive overview of general pensions systems in every Member State, two examples illustrate the different solutions in place (FI and UK).

²⁴² The Cyprus Post is still a government department and also employs civil servants. As it is not yet corporatized this USP will not be further considered.

- The Finnish state decided to establish a capital covered fund for pensions of long-term employees. The statutory pension security under the Employees' Pension Act (TEL) of the companies incorporated on 1 January 1994, and the additional pension security for long-term employees of P&T agreed at the time of incorporation, is insured by the PT Pension Fund. The pension security of other FinlandPost Group companies is organised through the PT Pension Fund as well. At the end of 2001, PT Pension Fund was split into Finland Post Pension Fund and Sonera Pension Fund. The Finland Post Pension Fund was managed by the USP Finland Post. In 2005, Finland Post decided to transfer the management of the TEL (the Employees' Pensions Act) based pension security and the related liability from Finland Post Pension Fund to Ilmarinen Mutual Pension Insurance Company.
- In UK, the financial position of Royal Mail's defined benefit pension scheme has suffered a serious deterioration over recent years. Liabilities have increased owing to factors largely outside Royal Mail Group's control (such as lower interest rates and increased longevity expectations). Liabilities have also increased owing to factors within Royal Mail's control such as significant increases in pensionable pay. On the other hand, the assets used to back these liabilities have suffered from falls in equity values. Overall, at April 2005 Royal Mail's scheme had about £21bn of liabilities and £17bn of assets, i.e. a deficit of about £4bn. This compares to Royal Mail Group's assets before the pension deficit of around £2.3bn. Recent changes to accounting policies mean that the position of the pension fund will now be recognised on the balance sheet of the company. This means that Royal Mail has a negative net asset position on the Group balance sheet.²⁴³ Postcomm decided to implement a risk sharing mechanism within the price control allowing Royal Mail an average of £320m a year towards reducing the significant deficit in its pension fund. The funding would have the effect of providing a reasonable chance of recovering the deficit in a period of 8 to 12 years. Postcomm expects Royal Mail's management to take responsibility for the pension deficit and, as a commercial enterprise, to do all they can to manage it efficiently.²⁴⁴

The financial deficit faced by the UK USP is borne by factors not comparable with the solutions implemented in AT, DK, or DE. In UK pensions have to be financed by a capital based pension system. Due to this system – the company has to build up sufficient provisions for pensions – Royal Mail Group is liable for the pension payment. In Austria, Denmark, or Germany the State has to pay in the last resort. The risk for these USPs is therefore very limited.

²⁴³ UK Postcomm (2005f), Royal Mail price and service quality review, final proposals for consultation, S.7.

²⁴⁴ UK Postcomm (2006a), Royal Mail's price and service quality review, 2006-2010 licence modifications proposals.

Conclusions

The average annual growth rate of USPs' total revenues was 3.7 percent between 2002 and 2004 – a slowing down mainly due to less merger and acquisition activities. USPs' total revenues account for 112 billion Euro in 2004, 80 percent were earned with postal services while half of total revenues were coming from letter post services (including distribution of unaddressed items).

In 2004 all USPs were profitable even the profitability still widely differs between the USPs. Letter post business is still the main source of profits. In single cases profits from financial services are another important source. Parcel and express businesses are generally less profitable or even loss-making.

Following job reductions there is also a general trend of reducing the share of employment costs. Although, there are some exceptions especially in the new Member States.

Pension obligations for former and actual civil servants have largely been transferred to the State, leaving limited liabilities to USPs. Only in UK the USP faces financial risks due to an imbalanced capital-based pension system (but Postcomm accounts for these extra costs in the price control decisions).

4.2.5 Employment of USPs

Table 4.2.13 EU-25 Total USP Employment (000, headcount) – UPU and WIK results (2000-2004)

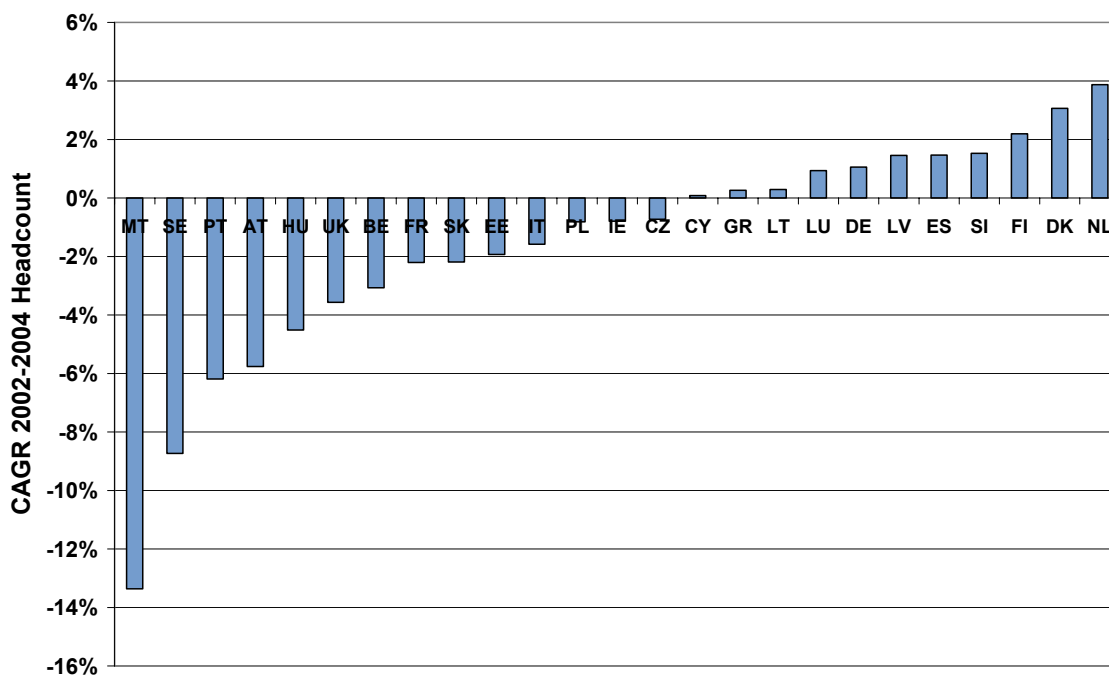
	UPU	WIK Survey
2000	1,473	1,675
2001	1,434	1,661
2002	1,437	1,734
2003	1,385	1,740
2004	1,542	1,710
CAGR 2002-2004	3.6 %	-0.7%

Notes:
WIK headcount information is based on survey answers and on annual report information (AT, DK, FI, SE); missing UPU information has been completed for DK (2002), FI (2001), IT (2000), SE (2000-2004), SI (2000 and 2001), UK (2004) by WIK headcount information. The increase in UPU 2004 results from strong increase in DE figures (2003: 207,400; 2004: 379,828).
Differences to figures of the last study result from corrections (ES, UK).

Based on survey results and a review of annual reports, WIK estimates that Community USPs employed about 1.71 million persons in 2004. Total USP employment decreased by 0.7 % (WIK survey, see Table 4.2.13).

This time WIK’s 2004 estimates for company group employment differ less from figure for employment by postal administrations available from the Universal Postal Union. According to UPU data, USP employment in the Community was about 1.5 million in 2004. This figure represents an increase in employment since 2002 of 3.6 percent. This jump results from non-comparable employment figures provided by Deutsche Post in 2004 (instead of company figures they provided corporate figures).

Figure 4.2.22 Development of USP employment –WIK survey (headcount, CAGR 2002-2004)



Notes: BE – based on UPU figures

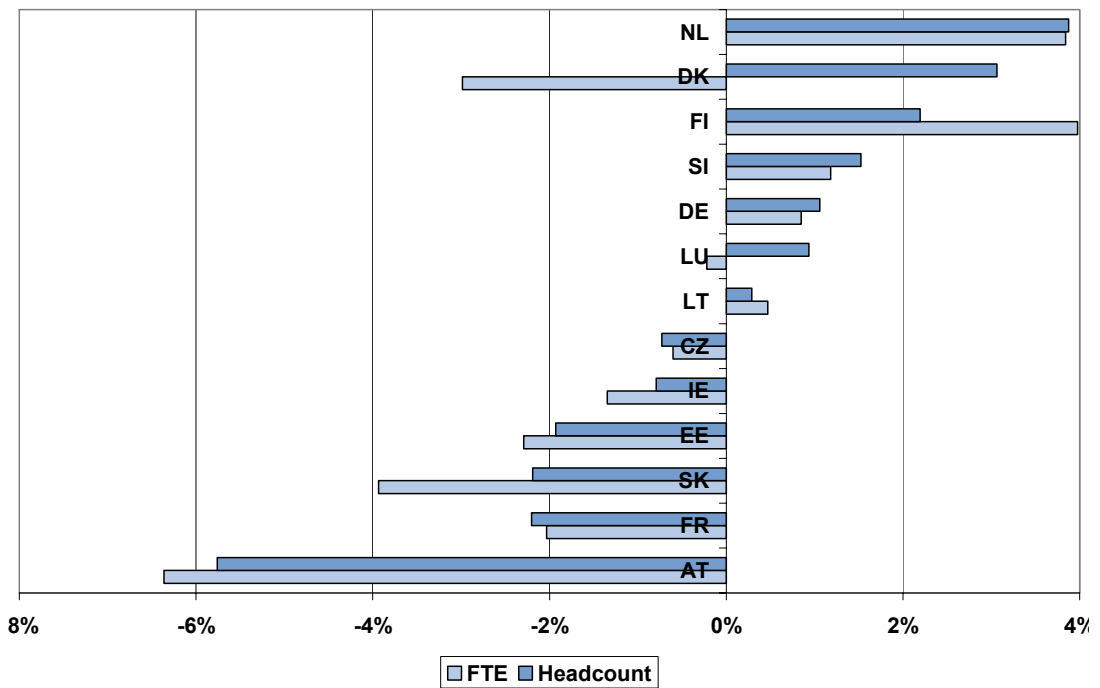
The majority of the USPs have further decreased total employment (Figure 4.2.22). Furthermore, USPs continue to replace full-time employment by part-time employment. UPU figures show that part-time employment was nearly stable while full-time employment has decreased by 3.5 percent between 2002 and 2004 (Table 4.2.14).

Table 4.2.14 Development of full-time and part-time employment (2000-2004)

	Full time	Share	Part time	Share	Total
2002	933,060	81.8 %	208,022	18.2 %	1,141,082
2004	886,783	81.1 %	206,807	18.9 %	1,093,678
Growth rate 2002-2004	-4.96%		-0.53%		-3.57%

Source: UPU; DE, DK, SE – not included because of missing values; UK, SK: 2003 figures

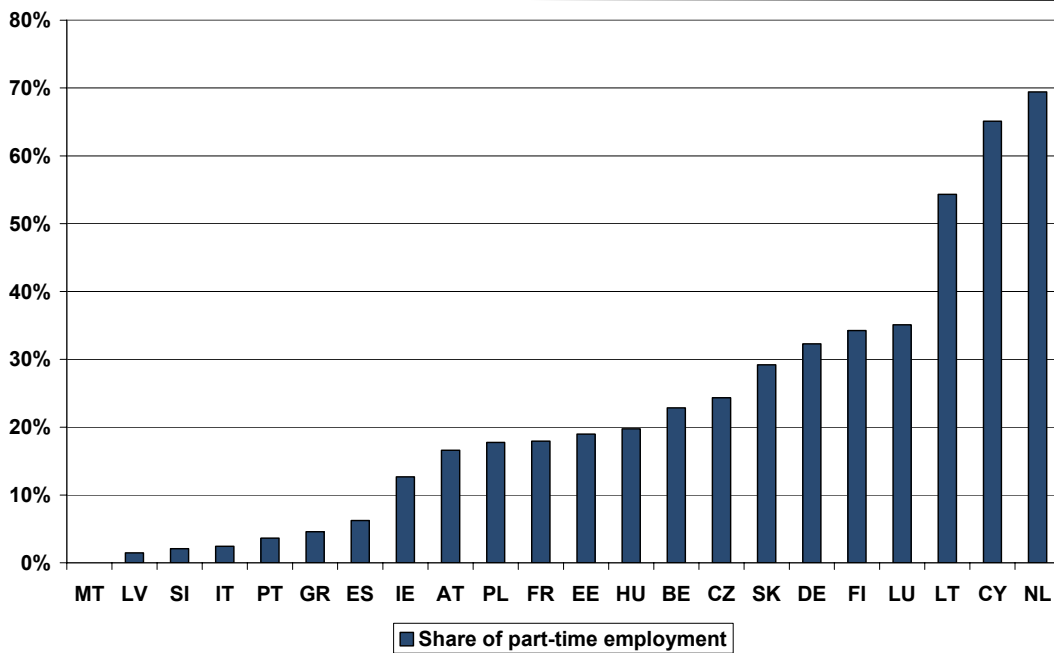
Figure 4.2.23 Development of USP employment in headcount and full time equivalent (FTE) – WIK survey (CAGR 2002-2004)



Notes: BE – employment figures are confidential
 CY, ES, GR, HU, IT, LV, MT, PL, PT, SE, UK - no FTE figures provided

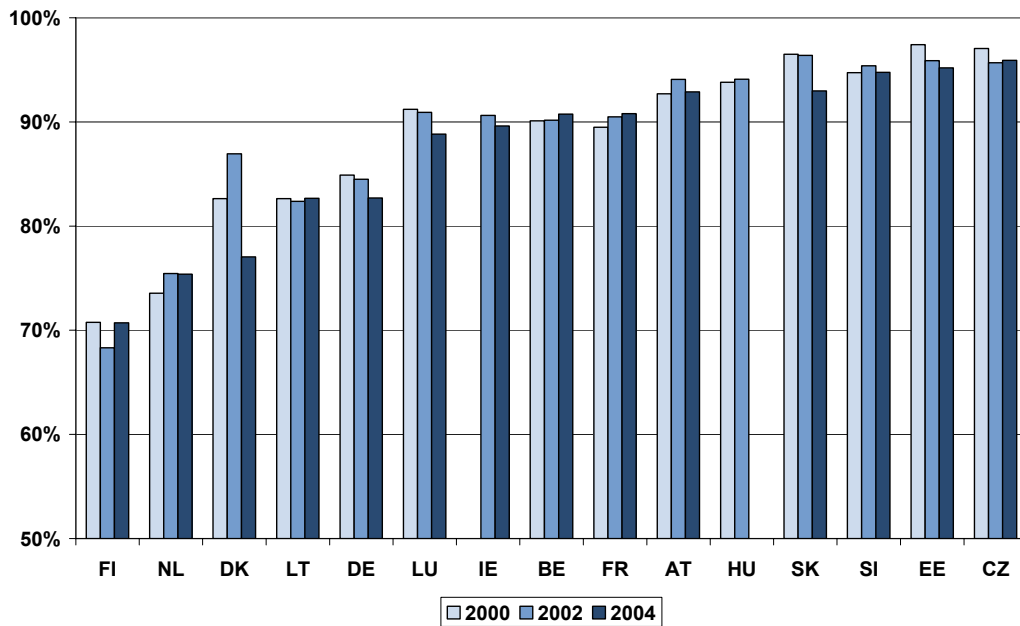
The development of headcount and FTE figures partly reflects this trend (Figure 4.2.23). The Danish USP has considerably increased employment by headcount but reduced considerably the number of full-time equivalents. It appears that this reduction has been implemented by increasing part-time employees. The USPs of SI and LU as well as of IE, EE, SK, and AT have followed the same employment policy. In contrast, La Poste (FR) seems to have considerably reduced part-time development in order to reduce its workforce because the number of FTEs has less decreased than of headcounts. In the Netherlands TNT increased full-time and part-time employment but it is one of the USPs with the high share of part-time workers (about 70 percent of employees located at TPG Netherlands).

Figure 4.2.24 Share of part-time employment (2004)



Source: UPU, no figures for DK, SE, UK;
 SK: 2003 figure;
 DE: Bundesnetzagentur, Annual Report 2005 (based on DPAG figures).

Figure 4.2.25 Ratio of FTE and headcount employment (2000, 2002, 2004)



Notes:
 DE – company figures, for corporate figures the share is about 90% resulting from international logistics and express activities;
 missing information: IE (2000), HU (2004)

The share of part-time employment is strongly varying (see Figure 4.2.24). This is also supported by very different ratio of FTE to headcount figures of USPs (see Figure 4.2.25). It appears that especially the USPs of the Southern Member States (ES, GR, IT, MT, PT) have significantly less part time employees compared to the other USPs. The highest shares appear to have the USPs of Scandinavia, DE, and NL. The Lithuanian USP has the highest share of part-time employment and the lowest ratio of FTE / headcount of the new Member States most probably resulting from very low mail volumes in Lithuania.

Table 4.2.15 Total headcount and estimated FTE employment of USPs in the Community (in thousands)

		2000	2001	2002	2003	2004	CAGR 2000-02	CAGR 2002-04
13 MS	FTE	860	874	924	937	918	3.6%	-0.3%
	Headcount	991	992	1,050	1,064	1,049	2.9%	0.0%
	Ratio FTE/Headcount	86.8%	88.0%	88.0%	88.0%	87.4%		
25 MS	Total Headcount	1,675	1,661	1,734	1,740	1,710	1.7%	-0.7%
	Estimated FTE	1,454	1,463	1,526	1,532	1,495	2.4%	-1.0%
Notes: FTE figures provided by the USPs of AT, BE, CZ, DE, DK, EE, FI, FR, IE, LT, LU, NL, SI, SK; HU and IE excluded because of missing FTE figures in 2004. Estimated FTE: Ratio FTE/Headcount multiplied with total headcount.								

Source: Annual reports and WIK survey.

WIK has got FTE figures from 2000 to 2004 from 13 USPs. Based on this information we estimate that the number of total FTE employed at USPs is about 1,600 million in 2004 compared to 1,571 million in 2000 (see Table 4.2.15).

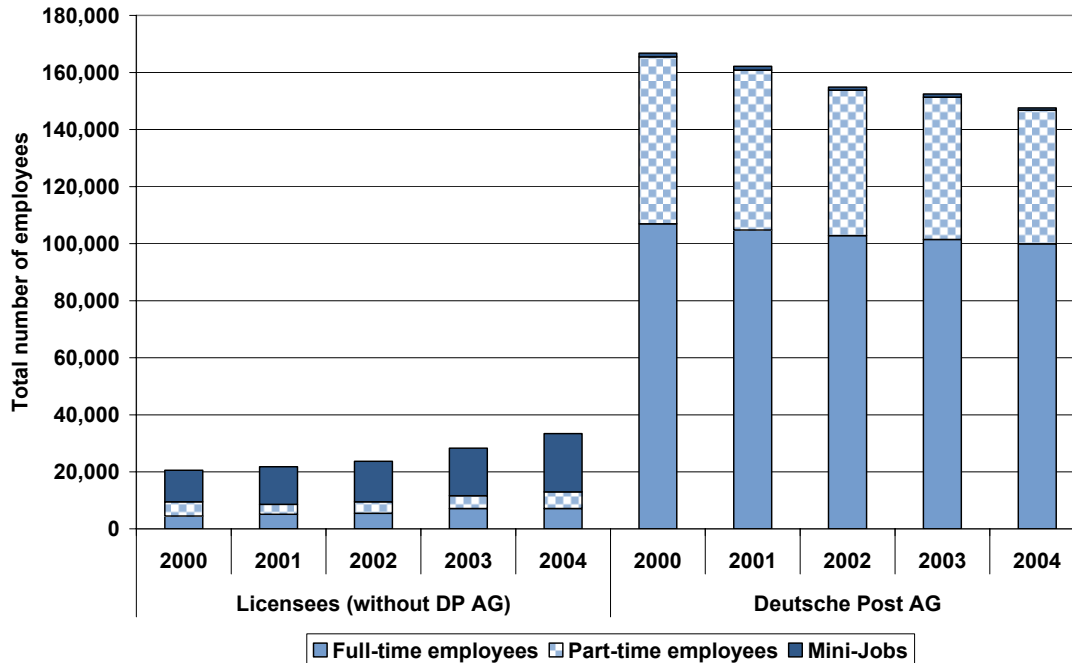
Table 4.2.16 Civil servants employed by USPs – development and share (headcount, 2002-2004)

Year	Civil servants	Share of total employment of USPs concerned	Share of total USP employment (EU-25)
2002	407,278	45.6%	23.5%
2003	384,126	42.9 %	22.1%
2004	365,061	41.4 %	21.4%
Change rate (2002-2004)	-10.4 %		

Sources: WIK survey, Annual Reports of USPs.
Member States: AT, BE, CY, DE, DK, ES, FR, GR, IE, LT, LU

Civil servants are still employed at eleven USPs. Between 2002 and 2004 the number of civil servants continues declining. The share decreased to 41 percent of total employment at these USPs in 2004. In the Community every fifth workplace at USPs is occupied by civil servants.

Figure 4.2.26 Development of employment at German licensees (headcount, 2000-2004)



Source: Federal Network Agency, Postal market survey 2005.

While employment at USPs are continuously decreasing new competitors in the market place help to build up new employment. The German example illustrates this development (Figure 4.2.26). While Deutsche Post reduced employment between 2000 and 2004 by nearly 20,000 workers (headcount) competitors added 12,900 new jobs. Even if the majority of the new jobs are mainly part-time and mini jobs the employment situation is better than without competition; in our view Deutsche Post, as privatized and profit-maximising company, would have reduced employment irrespective of the competitive situation.

Even if the USPs have continued to reduce employment they have also recognized that highly motivated employees are necessary to achieve the demanding quality requirements in postal service provision and to improve customer orientation. Staff in post offices as well as postmen are in daily contact with postal users (customers and recipients of postal items). For this reason USPs have taken various measures in order to motivate their employees and to improve their performance. It is beyond the scope of this study to provide a comprehensive picture on all measures taken place²⁴⁵ but some

²⁴⁵ See PLS Rambol (2002).

interesting examples how to reward employees for improvements in quality and profitability shall illustrate this process.

- The British USP, Royal Mail, has rewarded their employees by returning 320 million EUR (more than 1,500 EUR for each employee) after achieving the best quality of service results for a decade.²⁴⁶
- The Danish USP, Post Danmark, has reserved 3 percent of shares for a employee share ownership program (2.5 percent) and to a management share ownership program (0.5 percent). The employee share ownership program has been very successful giving the employees possibility to acquire shares with a discount of 60 percent.²⁴⁷ Of the just over 21,000 employees who were offered shares, nearly 52 percent chose to accept the offer to purchase shares at a 60 percent discount relative to the price that CVC Capital Partners had paid. The employees taken together were offered 625,000 shares, but the great interest meant that Post Danmark could have sold more than the double amount of shares to the employees.²⁴⁸
- The Austrian USP, Österreichische Post AG, rewards their employees by returning 10 percent of operating profits (EBIT) of the previous year. In 2005, each employee received a bonus of 350 EUR.²⁴⁹

Conclusions

Since 2002 headcount employment has slightly been reduced by 0.7 percent and the number of estimated full-time equivalents by about 1 percent. At the same time the number of civil servants decreased by more than 10 percent. As more full-time than part-time jobs have been cut the share of part-time employment has continued increasing.

Although Community employment appears to be stable USPs employment development widely differ reflecting the reorganization and modernization activities of USPs. Generally the Scandinavian USPs, the Dutch and the German USP employ relatively more part-time workers than the other USPs. The USPs of the Southern Member States are the ones with the lowest share of part-time employment.

²⁴⁶ Presentation of Royal Mail's interim report 2005-06, <http://www.royalmailgroup.com/aboutus>,

²⁴⁷ DK Michael Birch (Danish Ministry of Transport and Energy), Privatization of Post Danmark A/S, presented at the IEA conference 2006 in Vienna.

²⁴⁸ DK Post Danmark, Annual Report 2005, p. 8.

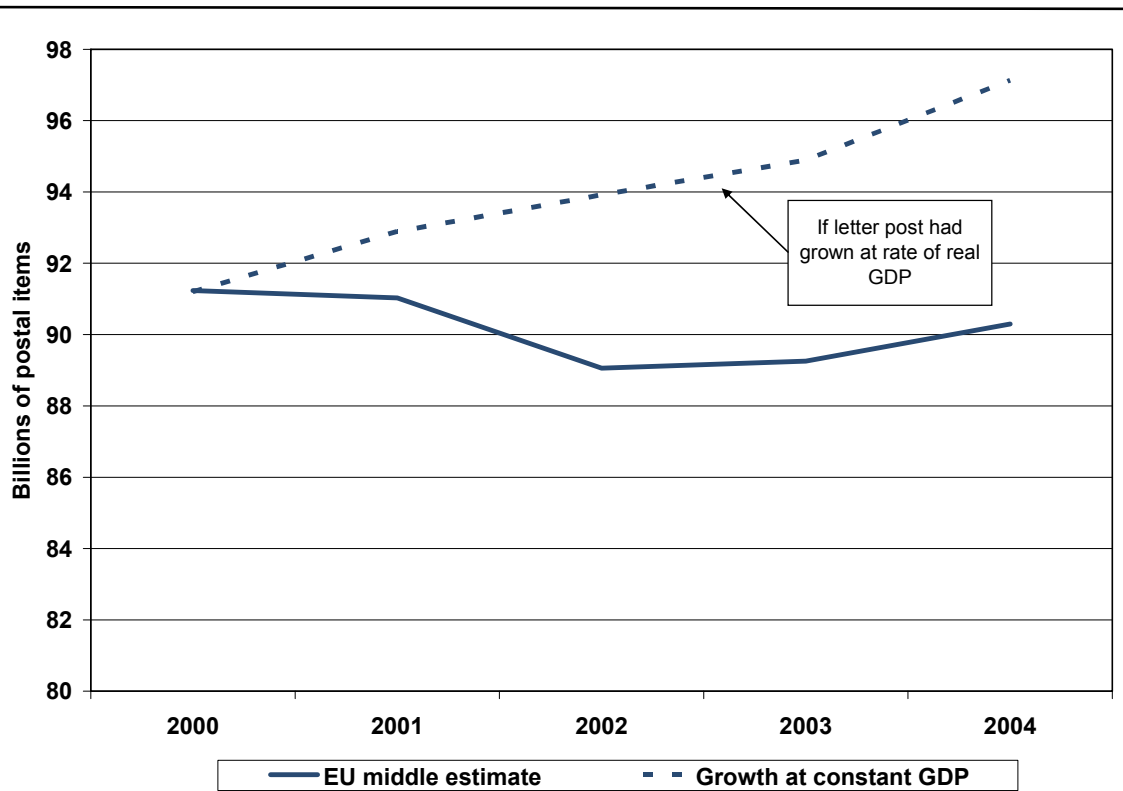
²⁴⁹ AT Österreichische Post AG, Annual Report 2005, p. 42.

4.3 Demand for postal services

4.3.1 Letter post

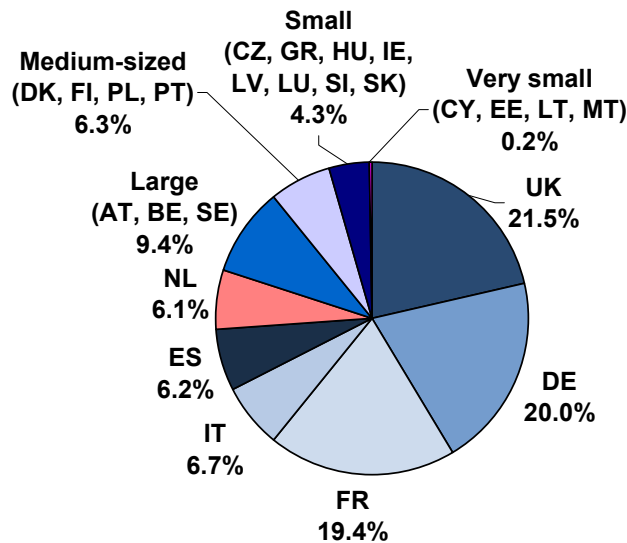
Domestic letter post

Figure 4.3.1 EU domestic letter post, 2000-2004



The economic environment has considerably improved after 2003 also reflected in a slight increase in letter post volume (see Figure 4.3.1). At this aggregated level economic development and letter post development seem not to be strongly interrelated.

Figure 4.3.2 EU domestic letter post: Member State shares 2004

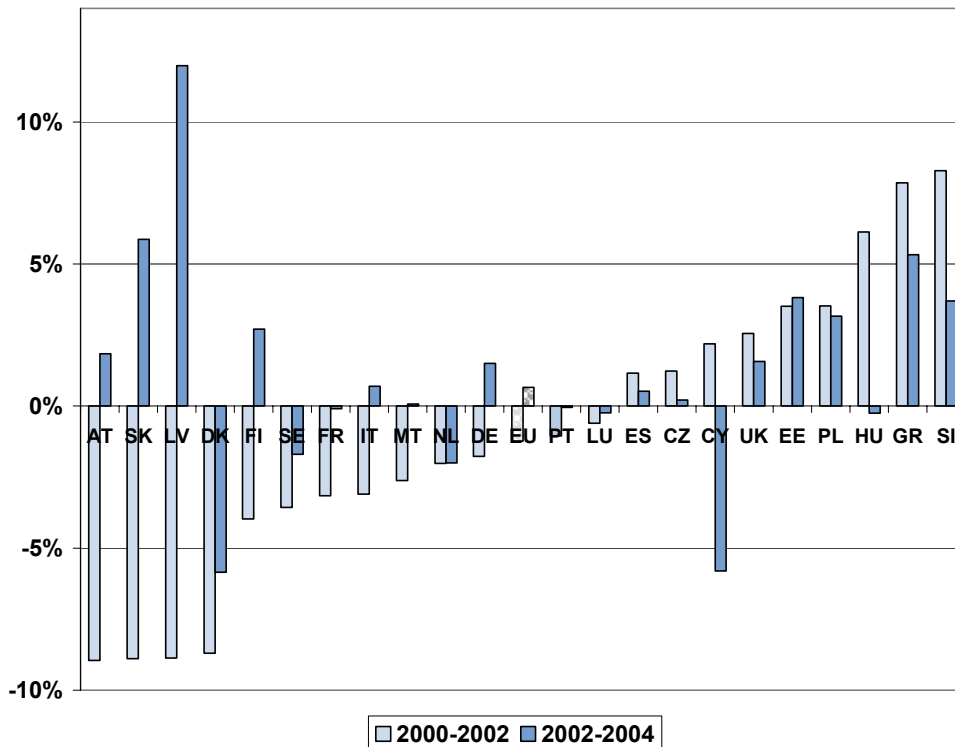


Notes: Letter volumes of competitors included to the extent possible (DE, NL, SE, UK, ES).

Figure 4.3.2 presents the USP shares on domestic letter post. It is still dominated by the big postal operators Royal Mail (UK), Deutsche Post (DE), and La Poste (FR) which have each about 20 percent of the volumes.²⁵⁰ Collectively, they controlled 62.6 percent of the letter post in 2004, a percentage that is essentially unchanged from 2002 (62.2 percent). Except for Poland the new Member States are still very small in terms of letter post volume. Twelve USPs share about 5 percent of the Community domestic letter post.

²⁵⁰ Postcomm published figures on total letter post compared to figures of letter post which are part of the licensed area (up to 350 g). According to their estimations total letter post is about 24 billion items (licensed area comprises about 20 billion items), see Postcomm (2006b), Postal market factsheet.

Figure 4.3.3 MS domestic letter post: average annual growth, 2000-2002 and 2002-2004

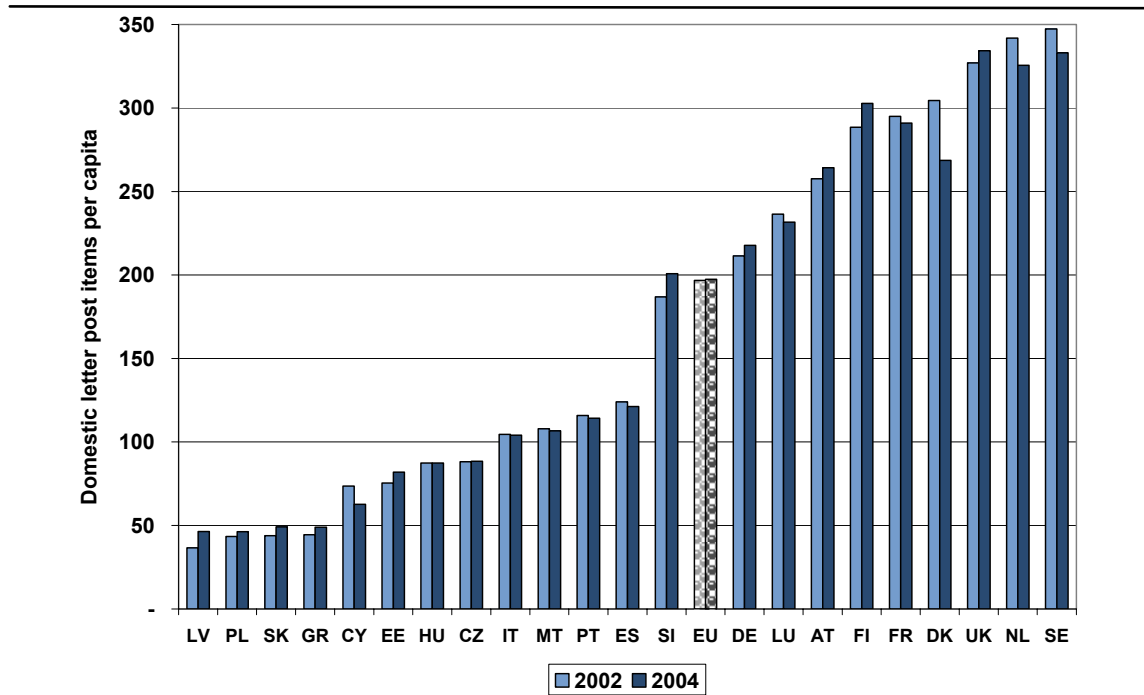


Notes: BE, IE, LT - confidential

Even when Community letter post volume appears rather stable, the development within the Member States varies a lot (see Figure 4.3.3). When looking at average annual growth rates of domestic letter post volumes per Member State. DK, NL, and SE are the only Member States having negative growth rates during the period 2000 to 2002 as well as between 2002 and 2004. Especially the decrease in Denmark is surprising because the reserved area has been reduced after 2004. While in Sweden the decline has weakened, it appears that TNT (NL) faces an ongoing decrease. 2005 figures of TNT indicate that mail volume has decreased more than 3 percent compared to 2004 figures.

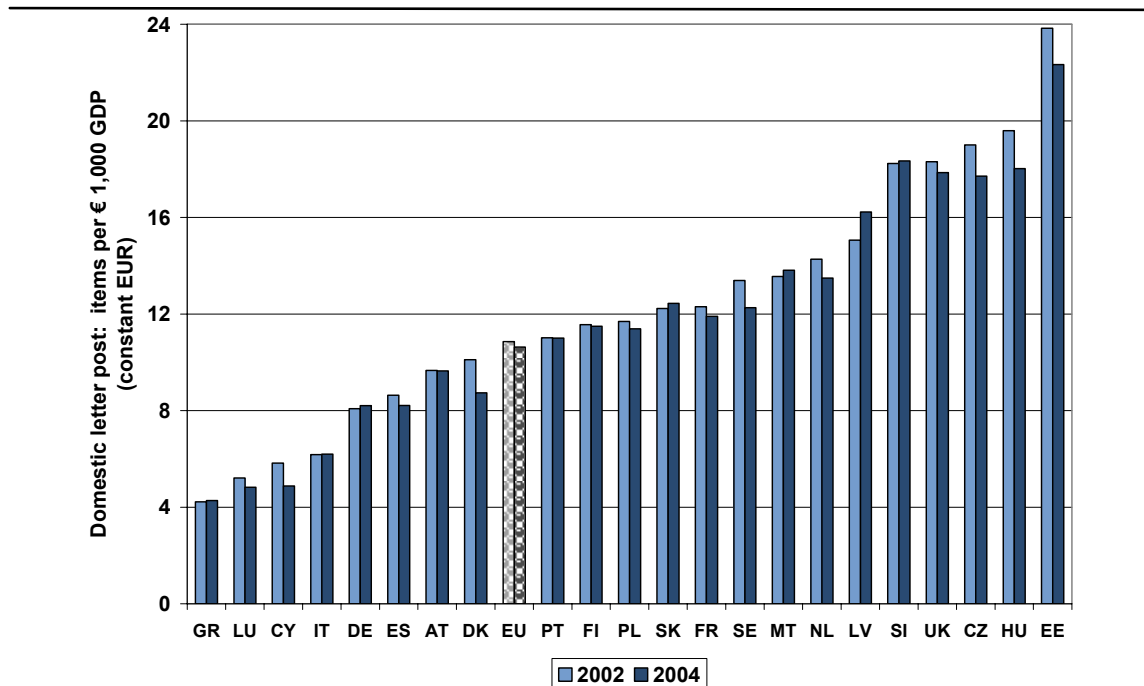
As the position of the large postal operators reflects the size of their national markets, we normalised letter post figures in relation to population and real GDP. Population as well as economic capacity is very different within the Community. These differences have been enforced after its enlargement in May 2004 and must be taken into consideration. Nonetheless, economic growth rates of new Member States were impressively high. While the EU-15 grew with an average annual rate of 2 percent the NMS grew about 4 percent per year (2002-2004). The Baltic countries have even realised growth rates of more than 7 percent per year.

Figure 4.3.4 MS domestic letter post: items per capita, 2002 and 2004



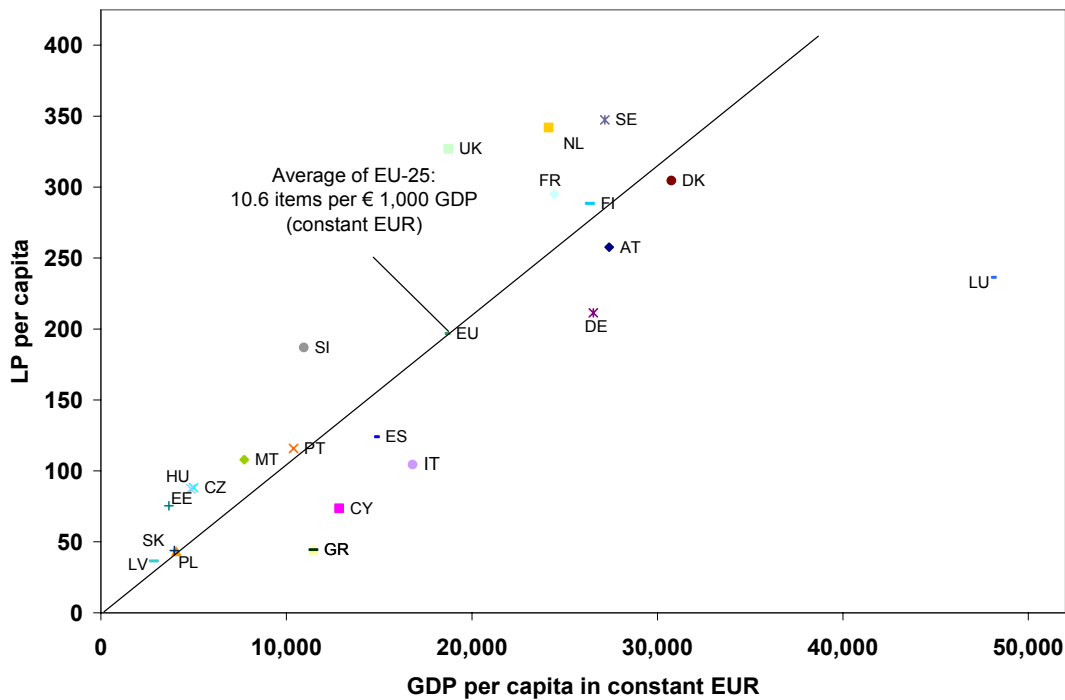
Notes: BE, IE, LT - confidential

Figure 4.3.5 MS domestic letter post: items per €1,000 GDP in constant EUR, 2002 and 2004



Notes: BE, IE, LT - confidential

Figure 4.3.6 MS domestic letter post: LP per cap v. GDP per cap, 2004

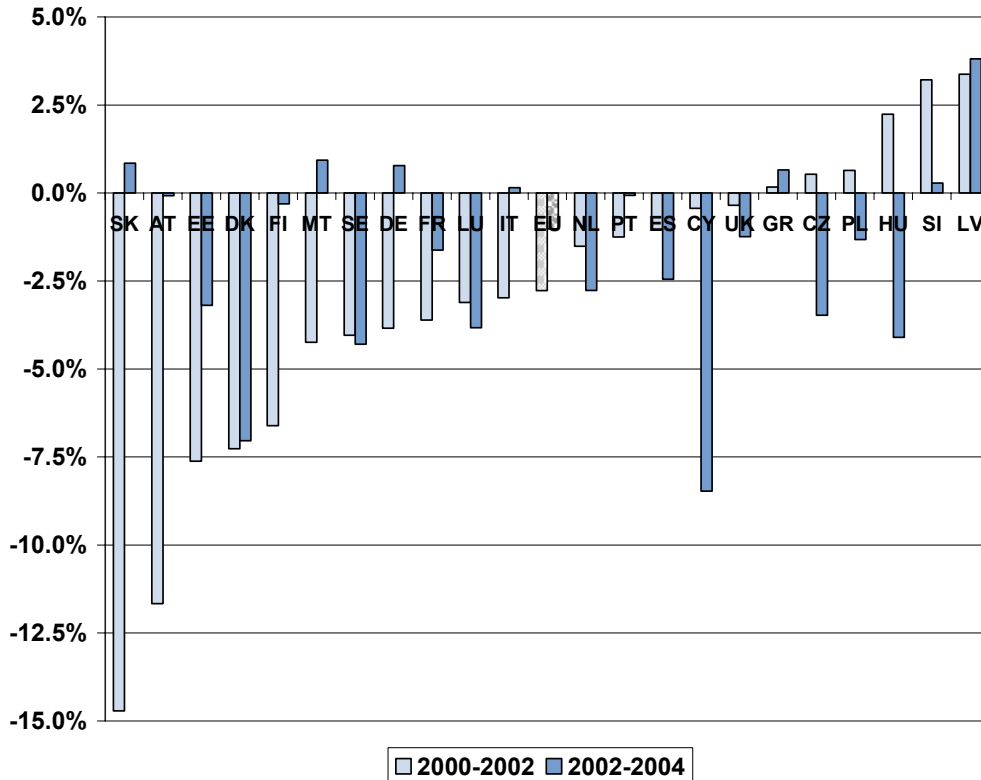


Notes: BE, IE, LT - confidential

The intensity of use of postal services still differs significantly between Member States. In nine Member States, the average number of domestic letter post items per year is less than 100 per person (including LT); in six, it is equal or less 50 (incl. LT). In eight Member States (including BE) the national postal operators deliver more than 250 letter post items per year per capita (see Figure 4.3.4). From the new Member States SI has achieved letter post volume per capita higher than the Community average.

If the number of letter post items per capita is divided by real GDP per capita, the result is an index expressing the number of letter post items per unit of real GDP. When considered in this light, most of the low volume Member States achieve as high figures as high volume Member States. The majority of Member States fall within a range between 8 and 14 letter post items per 1,000 euros of real GDP (see Figure 4.3.5). Figure 4.3.6 shows the intensity of letter post usage in scatter chart format that takes into account both population and economic activity. Member States positioned below the line indicate that average letter post volume per capita related to GDP per capita is lower than the Community average.

Figure 4.3.7 MS domestic letter post per GDP: average annual growth, 2000-2002 and 2002-2004



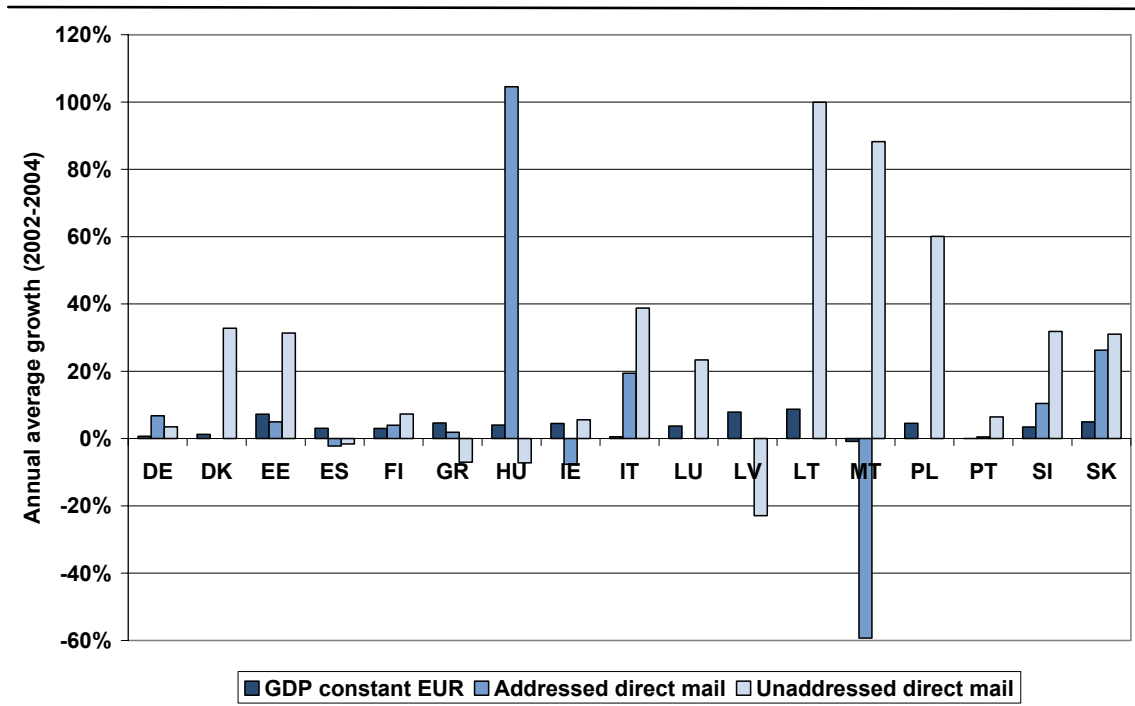
Notes: BE, IE, LT - confidential

Figure 4.3.7 shows that in the great majority of the Member States letter post volume grew less than the economy in real terms. This is especially true for the new Member States which economies are more quickly growing than the economies of the old Member States. Remarkable exceptions are GR, LV, and SI; their letter post volume has achieved higher growth rates than the economy. This outcome also illustrates that letter post volumes are increasingly less related to GDP growth, even in the new Member States.

Addressed and unaddressed direct mail

In the view of the respondents direct mail is the segment with the most promising growth possibilities. We have analysed the development of direct mail volumes, addressed and unaddressed, distributed by 17 USPs which represent about 40 percent of EU domestic letter post.

Figure 4.3.8 Average annual growth rates of USPs' direct mail (addressed and unaddressed) 2002-2004



Sources: WIK survey (EE, ES, FI, GR, HU, IE, IT, LT, PT, SI, SK)
 UPU (unaddressed and addressed: GR, LU, LT, LV, MT, PL, PT);
 DE, DK: Annual Reports,
 Eurostat (GDP at constant EUR);
 DK, LT, LU, LV, PL: no figures for addressed direct mail.

About one third of total unaddressed items are distributed by these USPs or by their subsidiaries. The number of unaddressed items achieved an average annual growth rate of about 30 percent per year between 2002 and 2004. This figure is much higher than average annual growth rate of addressed direct mail (about 6 percent), of letter post (less than 1 percent) or of the economy (about 1.5 percent). Furthermore, the development of direct mail volumes strongly differs between the USPs considered (see Figure 4.3.8). While some USPs distributed more addressed and unaddressed items (DE, EE, FI, GR, IT, SI, and SK), others experienced opposed developments. Only the Hungarian USP achieved high growth in addressed direct mail while losing unaddressed volume. The Spanish USP is the only one who loses volumes in addressed and unaddressed direct mail. This might be due to competition because direct mail is completely liberalized in Spain. Italy has also liberalized direct mail even so Poste Italiane achieved considerably high growth rates in both categories. Generally, it appears that the importance of USPs in the distribution of unaddressed items is increasing assuming lower market growth rates in these countries. Actually, in some Member States the USPs already have a dominant position in this segment, i.a. the Austrian and the Danish USP.

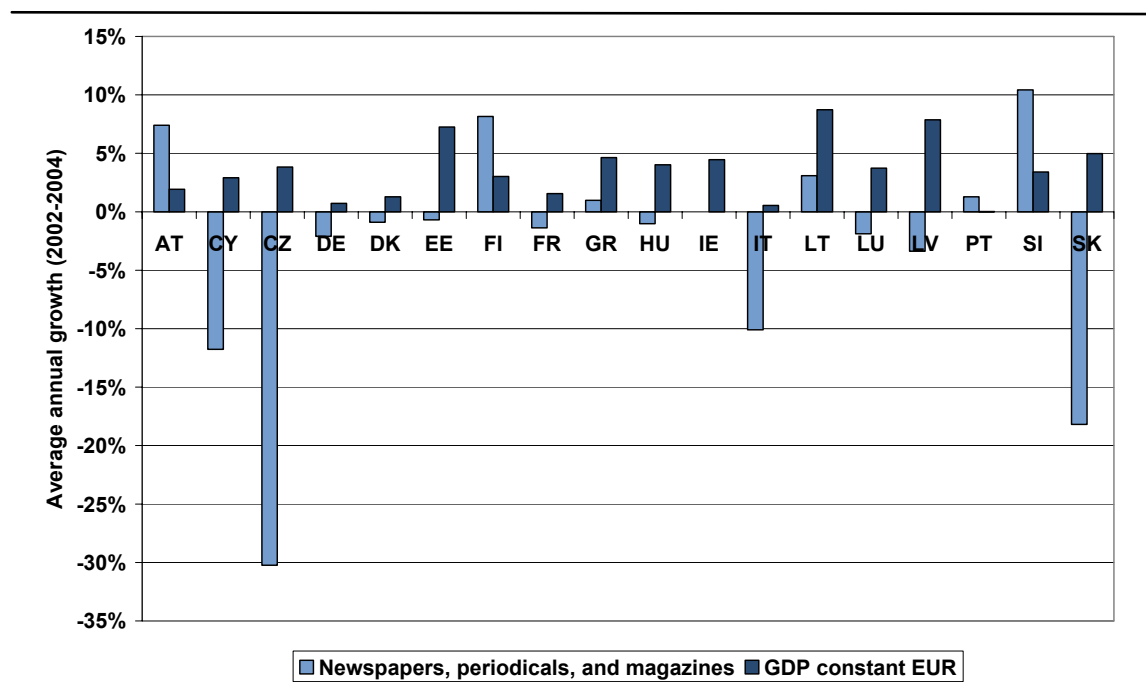
First and second class mail

The substitution of first class by cheaper second class services where available is another often cited common trend. So far, we do not have enough information to provide a representative picture but the general indications are as follows:

- In the Scandinavian Member States the share of second class letters is steadily increasing and has achieved about half of total letter mail.
- In the Southern Member States the share of 2nd class letters is considerably higher (between 60 and 80 percent) but the development is mixed. Notably in IT the share of first class letters is slowly increasing.
- In some of the new Member States first class services have recently been introduced (e.g. HU and PL, LV has introduced a first class service on Jan 2006). Second class letters still account for more than 95 percent of letter volume. Additionally, it appears that first class mail is mainly used for cross-border letters. This indicates that the first class services are not yet established for domestic mail.

Newspapers, magazines and periodicals

Figure 4.3.9 Average annual growth rates of newspapers, magazines, and periodicals delivered by USPs, 2002-2004



Sources: WIK survey and UPU
BE, ES, MT, PL, SE, UK – no figures available.

In all Member States the distribution of newspapers, periodically, and magazines is free for competition. In half of the Member States this service is even not part of postal universal service. On the other hand in some Member States governments still pay for guaranteeing cheap delivery of newspapers and magazines. Most USPs are active in this business but the developments are very different. While some USPs experience volume growth (AT, FI, GR, LT, PT, SI) others face considerable losses in volumes, notably CY, CZ, IT, and SK. Overall, the volumes delivered by USPs have decreased by an average rate of less than 2 percent per year between 2002 and 2004.

Cross-border letter post

Due to incomplete data we can only summarize the development of mail volumes for a subset of Community USPs. The subset consists of 17 USPs.²⁵¹ Especially USPs of Member States with large letter post markets did not provide adequate information. These 17 USPs account for about 20 percent of the Community letter post in 2004. It is not clear, whether they represent a similar percentage of the Community cross-border letter post. For these 17 USPs, the volume of outgoing cross-border letter post was about 0.72 billion items in 2004, or 3.7 percent of the domestic letter post. Overall, the outgoing cross-border letter post declined about 3.8 percent from 2002 to 2004. Domestic letter post declined about 0.7 percent. The volume of incoming cross-border was about 0.8 billion items in 2004 or 4.1 percent of domestic letter post. Incoming cross-border mail strongly decreased by about 7 percent from 2002 to 2004.

Generally, it appears that ingoing and outgoing cross-border mail delivered/collected by USPs has further been going down, but the figures are far from being representative for the Community. Competition and increasing use of direct access may further mask the actual development of cross-border letter post.

Conclusions

- The domestic letter post volume in the EU rose from roughly 89 billion items in 2002 to 90 billion items in 2004. The three largest USPs have still more than 60 percent of the EU letter post.
- The growth of letter post is much weaker than GDP growth. This is most obvious in the new Member States, where letter post grew at a lower rate than the economy.

²⁵¹ CZ, CY, EE, ES, FI, GR, HU, IE, IT, LV, LU, LT, MT, PL, PT, SI, SK;
WIK Survey: CZ, EE, ES (02/03), FI, GR, HU (02/03), IE, LT, LU (02/03), LV, MT, PL (02), PT, SI, SK (03/04); UPU information for CY (2003/04), ES (2004), HU (2004), IT, LU (2004), PL (2003/04), SK (2003).

- The Scandinavian USPs (except for FI), and the Dutch and the Cypriot USP have been losing considerable volumes between 2000 and 2004 while other USPs achieved at least after 2002 positive growth rates.
- USPs' addressed direct mail has been growing faster than the economy (6 percent per year) while the growth rate of unaddressed items distributed by USPs has been impressively high with more than 30 percent per year.
- About one third of total unaddressed items are distributed by USPs or by their subsidiaries.
- There are no common trends in the development of first and second class postal items. It appears that in Scandinavian Member States the share of second class items is increasing, while it is decreasing in Southern Member States. In Southern Member States and in the new Member States first class services have by far not the same importance as second class services.
- The volume development of newspapers, magazines, and periodicals distributed by USPs is mixed as some achieved high growth rates and others lost considerable volumes.

4.3.2 Demand structure and development

Over the last decades, demand for postal services has undergone fundamental changes. In the past, public discussion of changes in demand have focused more on what is good for the USP rather than what is good for the mailer. More recently however, NRA in some Member States have begun to study the composition of mail demand as well as customers' expectations towards postal services in order to inform regulatory policy. There are, however, no equivalent studies at Community level. This section presents the result of our questionnaire survey with respect to the structure of demand for letter post services. The estimates presented in this section are based on assessments by NRAS and USPs in the Member States; backed by national studies in some cases.²⁵²

²⁵² They appear robust in the sense that they are based on a reasonably complete set of Member States representing. However, the extent to which information provided by NRAs and USPs is based on objective studies or intuitive guesses is not entirely clear, so softness in the underlying data may limit the accuracy of the results obtained.

Table 4.3.1 Sender and receiver per segment

		Receiver			
		Business		Consumer	
Sender	Business	EU-25:	25.6%	EU-25:	61.9%
		Hi vol:	27.3%	Hi vol:	60.3%
		Lo vol:	17.5%	Lo vol:	69.6%
	Consumer	EU-25:	5.4%	EU-25:	7.1%
		Hi vol:	5.4%	Hi vol:	7.0%
		Lo vol:	5.3%	Lo vol:	7.6%
EU-25: N=19 (BE,CZ,DE,DK,EE,ES,FI,FR,UK,HU,IE,IT,LU,MT,NL,PT,SE,SI,SK,) Hi vol: N=10 (BE, DE, DK, FI, FR, UK, LU, NL, SE, SI,) Lo vol: N=9 (CZ, EE, ES, HU, IE, IT, MT, PT, SK,)					
Notes: Weighted estimates were calculated using information from individual Member States (NRAs and USPs), and domestic letter post volumes as weight factors.					

One feature of demand that can be gleaned from available resources is the breakdown of senders and receivers of the letter post between organizations and businesses (“Business”), on the one hand, and individual persons or consumers (“Consumer”), on the other. Using information provided by respondents to this survey, Table 4.3.1 presents WIK’s estimates of this four-part division: customarily denominated “BtoB”, “BtoC”, “CtoB”, and “CtoC”. In this table, the average value for the EU is shown as well as separate values for Member States with high and low letter post volumes.²⁵³

As Table 4.3.1 shows, almost nine in tens letter sent in the EU originate from business senders. Overall, the BtoC flow accounts for almost two thirds total letter post volume in the EU-25, the next important mail flow being BtoB with another 26 percent. It generally appears that the structure of postal demand does not vary significantly between countries that have high and low volumes of letter post. However, the BtoB segment appears to be relatively less important in those Member States with per capita volumes below EU average (“Lo vol” countries). Consequently, the BtoC and CtoC segments are relatively more important in these countries. Compared to the results of the main developments report in 2004, the shares of each mail flow appear to have remained largely stable. Perhaps, the share to the B2B segment has decreased very slightly (from 27 to 26 percent); but this change may as well be a result of the fact that information was available from a few more countries for this report that was in 2004.

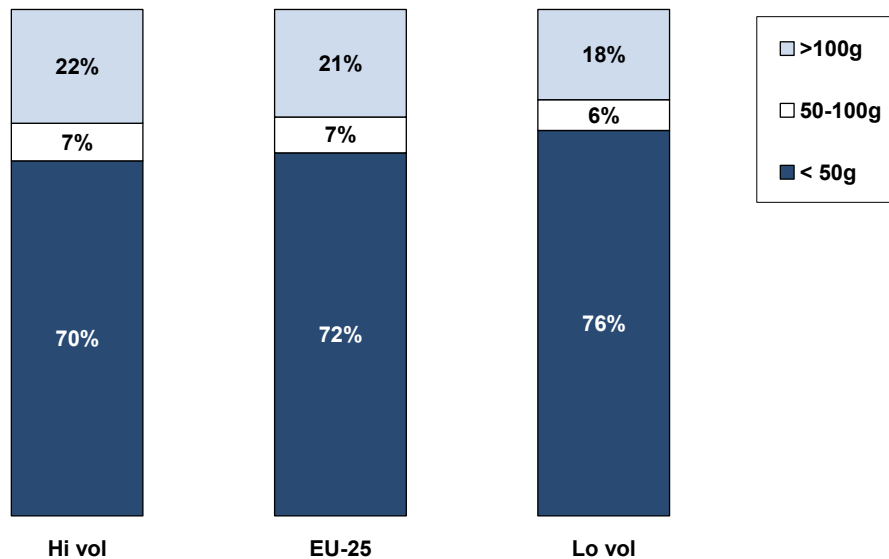
²⁵³ Each value was derived by consolidating information for each Member State in a first step: either the mean value of answers provided by NRA and USP was used where information was available from both parties or the answer from either party was used if both were not available. In a second step, the shares of the four mail streams (per country) were weighted according to the share of a country’s LP volume in total EU volume (or in total volume of all “Hi vol”/“Lo vol” countries). Weight factors per country were calculated according to “domestic letter post” volumes for 2004.

Table 4.3.2 Most important customer groups of letter post

Industries named as most important customers of		
Letter post services	Correspondence	Direct mail
<ul style="list-style-type: none"> • Banks & Insurance (named in 16 MS) • Public sector (named in 12 MS) • Telecoms / Utilities (named in 7 MS) • Industry/Manufacturing (named in 7 MS) 	<ul style="list-style-type: none"> • Banks & Insurance (named in 17 MS) • Public sector (named in 13 MS) • Telecoms / Utilities (named in 6 MS) • Industry/Manufacturing (named in 6 MS) 	<ul style="list-style-type: none"> • Banks & Insurance (named in 14 MS) • Retail trade (named in 9 MS) • Industry (named in 6 MS) • Distance selling (named in 5 MS) • Industry/Manufacturing (named in 5 MS)
Based on answers from USPs and/or NRAs in 19 Member States to the following question: "What are the most important customer groups of letter post by volume?"	Based on answers from USPs and/or NRAs in 18 Member States to the following question: "What are the most important customer groups for items of correspondence by volume?"	Based on answers from USPs and/or NRAs in 16 Member States to the following question: "What are the most important customer groups for direct mail by volume?"

Table 4.4.2 sheds some light on the most important customer groups for letter post services in the EU. The table presents consolidated answers by NRAs and USPs that were asked to name the most important customer groups for three sets of services: (i) total letter post, (ii) correspondence, and (iii) direct mail. It confirms that banks & insurance companies as well as industry/manufacturing are among the most important customers for all types of letter post across the EU. By contrast, the public sector and utilities appear as major customer primarily for correspondence; while retail trading services (retail and distance selling) are relatively more important customers of direct mail.

Figure 4.3.10 Distribution of letter post volume by weight

**Notes:**

“Hi vol” refers to all Member States with per capita LP volumes above EU average; “lo vol” to those with lower per capita volumes.

Estimates are based on consolidated information from NRAs and/or USPs in the following Member States:

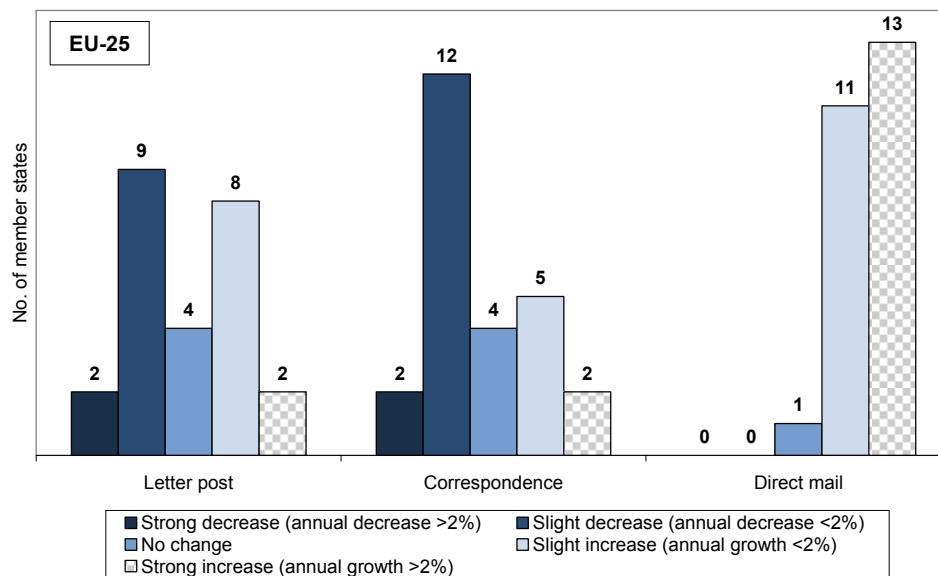
EU-25: N=17 (CZ, DE, EE, ES, FI, FR, GR, HU, IE, IT, LT, LU, MT, NL, PT, SI, SK)

Hi vol: N=6 (DE, FI, FR, LU, NL, SI)

Lo vol: N=11 (CZ, EE, ES, GR, HU, IE, IT, LT, MT, PT, SK)

The distribution of the letter post among weight steps is of particular importance to the Postal Directive because the strategy for introducing more competition has been to gradually withdraw the reserved area weight step by weight step. Since January 2006, delivery of mail weighing between 50 and 100 grams was opened to competition; leaving only items below 50 gram in the reserved area. Our survey indicates that this most recent reduction of the weight limit of the reserved area has liberalised about seven percent of letter post volume. More than 70 percent of the volume continues to be reservable (i.e. can be reserved by Member States; but need not be reserved in practice). The share of reservable volumes appears slightly higher in countries with lower per capita volumes than in those with higher volumes.

Figure 4.3.11 Expected volume development in EU-25 until 2011



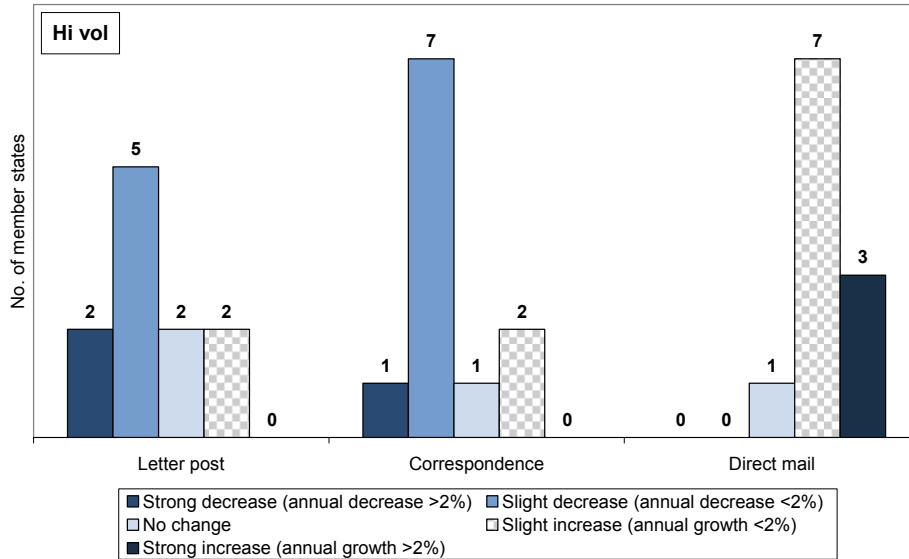
Notes:

For each Member State, consolidated expectations about future volume development were derived from the assessments provided by USPs and/or NRAs.

The figure above summarises the expectation on future development of letter post volumes in the 25 Member States; separately for total letter post, correspondence and direct mail. In each country, and for each mail segment, NRAs and USPs were asked to estimate the average annual growth rates over the next five years (2006-2011), using five categories: (i) strong decrease of more than two percent per year; (ii) slight decrease of less than two percent per year; (iii) no change; (iv) slight increase of less than two percent per year; or (v) strong increase of more than two percent per year. For each Member States, expectations of NRAs and USPs were combined (in fact, NRA and USP expectations were identical in almost all Member States).

Regarding total letter post, expected decreases and increases are almost equally spread: While decreases in letter post volumes are expected in eleven Member States, four Member States expect volumes to remain stable and ten Member States expect increasing volumes. Compared to expectations reported in the first Main Developments study, expectation toward future volume development appear slightly more optimistic today. As described in section 4.3.3, this might be a hint that mail substitution by electronic services is not regarded as damaging to mail volumes as it was two years ago. For correspondence, decreasing volumes are expected in a slight majority of Member States (14 of 25). By contrast, direct mail is expected to continue to grow in virtually all Member States.

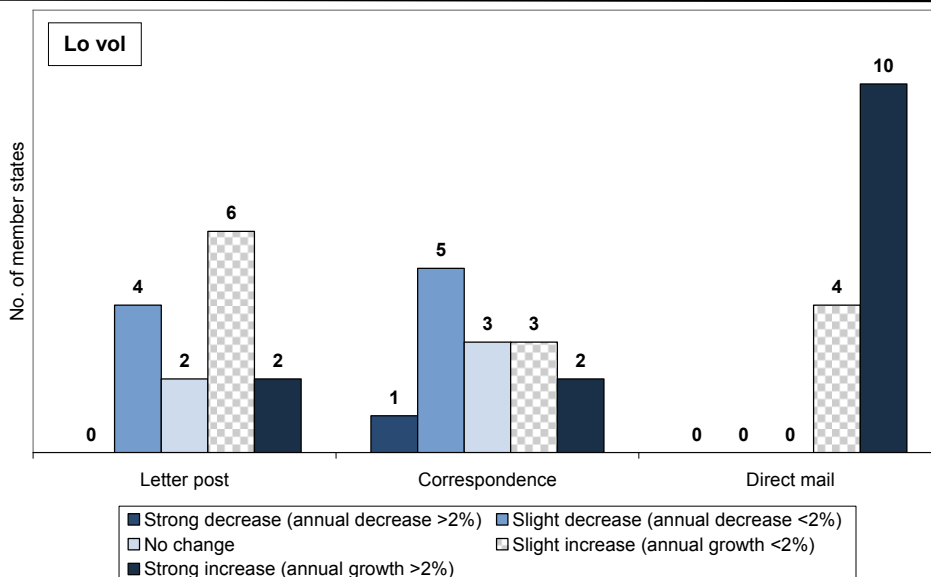
Figure 4.3.12 Expected volume development in high volume Member States until 2011



Notes:

The chart refers to 11 Member States with volumes above EU average (AT, BE, DE, DK, FI, FR, LU, NL, SE, SI, UK). For each Member State, consolidated expectations about future volume development were derived from the assessments provided by USPs and/or NRAs.

Figure 4.3.13 Expected volume development in low volume Member States until 2011



Notes:

The chart refers to 14 Member States with volumes below EU average (CY, CZ, EE, ES, GR, HU, IE, IT, LT, LV, MT, PL, PT, SK). For each Member State, consolidated expectations about future volume development were derived from the assessments provided by USPs and/or NRAs.

Figure 4.3.12 and Figure 4.3.13 above present expectations concerning future development of mail volumes separately for two sets of Member States: those with per capita volumes higher than EU average today (Hi vol) and those with current volumes below EU average. The figures exhibit clear differences between “Hi vol” and “Lo vol” countries: In Member States with low current volumes, expectations are decidedly more positive than in Member States with high volumes. Letter post volumes are expected to decline rather than grow in most (but not all) high volume countries, whereas only a handful of Member States with low volumes share this view (four of 14 “lo vol” Member States). In the majority of the latter countries, growth is expected for both correspondence and direct mail. In all but two Member States, the development of direct mail volumes is expected to be positive.

Conclusions

On average, NRAs and USPs expect letter post volumes to remain largely stable over the next five years. Direct mail volumes are expected to grow by virtually all parties. Expectations concerning correspondence vary substantially between Member States but are generally less optimistic than for direct mail. For all segments, expectations are remarkably more optimistic in Member States with lower current volume levels than in more developed postal markets.

As direct mail volumes constantly grow, the role of letter post continues to shift away from two-way communications and towards one-way distribution. The business to consumer (BtoC) segment of the letter post accounts for 62 percent of total volume, up from 60.5 percent estimated in 2004. In total, more than 87.5 percent of letter post items are sent by businesses/organizations rather than individuals.

About 72 percent of letter post items weigh less than 50 grams, and only about 7 percent weigh between 50 and 100 grams. These findings imply that the reduction of the weight limit for the maximum reservable area to 50 gram has had a relatively minor effect in terms of volumes.

4.3.3 Evolution of postal services

4.3.3.1 The impact of electronic communications on postal demand

As electronic alternatives to mail emerged, some parties feared that strong substitution of physical mail posed a significant threat to the postal sector. Especially at the beginning of the “Internet Hype” era at the end of the 90s, forecasts were extremely

favourable to electronic services at the expense of mail. Looking back, this fear appears to have been exaggerated. Neither has substitution taken place to the foreseen extent, nor have physical mail volumes declined severely. On average, domestic letter post volumes have remained stable since 2002 (see section 4.3.1). Yet, electronic services have an impact on mail services.

Fears at the beginning of the development of electronic services that mail would partly vanish (keyword “paperless society”) now seem to have been mistaken. Strong decreases of total mail volumes predicted by some Posts, like Finnish Post which predicted a decline between 16 to 39 % due to electronic substitution until 2004, have not occurred.²⁵⁴ Although total domestic letter post volumes have declined slightly since 2000 (see section 4.3.1), the extent to which single mail streams have been affected by substitution differs considerably. It is likely that communication sent between households has been subject to the strongest substitution.

- Several interviews with consumer organizations²⁵⁵ have indicated a trend: consumers’ use of postal services has declined and been substituted by electronic and phone services.
- Market studies²⁵⁶ confirm this consumer behaviour: consumers are less and less using postal services for individual communication.
- Consumers now use mail because of its high social and emotional value (e. g. greeting cards). Further decline may thus be weak.²⁵⁷

It must be noted, however, that the explosive development of electronic messaging services is partially independent from the decline of communication mail. Email volumes exceed mail volumes by a multiple, showing that electronic services have created their own demand and are far from serving as a one-to-one substitute.²⁵⁸ Instead, email has encouraged new ways of communicating which were not possible before the creation of electronic services.

In contrast to personal correspondence of private users, direct mail volumes have risen in most countries and thus compensated most of the decline in other mail streams. In

254 Nikali, H. (1995), Replacement of letter mail by electronic communications to the year 2010. Nikali estimated that „one third of the volume of letters sent in 1993 will have been replaced by electronic communications by the year 2000“ (p. 232).

255 Consumer associations in DE, HU, PL, UK.

256 Market research in Sweden showed that consumers are less often going to a post office to buy stamps, send letters or parcels, see SE TEMO (2006). In the USA, US Postal Services’ research on mail use has shown a strong decline of personal correspondence, see US Postal Service (2005), The household diary study.

257 See for example NL TNS Nipo Consult (2004), Betekenis en belang van postdienstverlening: Kwantitatieve Consultatie van de Nederlandse Bevolking. [Meaning and importance of the postal services].

258 Nader, F., Jimenez, L. (2005), Substitution patterns, background paper No. 5.

section 4.3.1 it was shown that direct mail has considerably grown in most Member States while growth rates for letter post are lower and sometimes negative. Direct mail – addressed and unaddressed – appears to have advantages compared to other advertising media. For consumers, direct mail is one of the most preferred advertising channels while Internet or emails as advertising medium are not welcome to most consumers.²⁵⁹

- Consumers' preference for email advertisements in Finland has even declined since 1999, although access to email almost doubled during that period.²⁶⁰ This development might be caused by spam advertisements. Since Finns are generally more up to adapt new technologies than other nations, these results are of great significance to the European market.
- Consumers attribute privacy and security to paper-based media and appreciate the characteristics of paper which allow them to move mail around the house, browse and show it to others.²⁶¹ It has thus a strong social component as it is integrated in a family's daily life whereas email is bound to a computer.

Interviews with business mailers and direct marketing associations confirmed that direct mail is a means of communication advantageous to senders:²⁶²

- Direct access to consumers: the attention of the receiver of letter advertisement can be much more easily evoked, as direct mail competes only with other pieces of mail at the mailbox and poses a value in itself for the receiver.
- Personalization: direct mail can be personalized, unlike TV or magazine advertisement.
- Reliable access: success of direct mail campaigns is much easier measurable than customer reaction to other media.
- The positive attitude of consumers towards mail poses another advantage for senders.

259 Elkelä, K. (2004), Paper or electronic? Desired and undesired reception channels for direct marketing; and Szeto, C.; Jimenez, L. (2005), consumer preferences for communication media, background paper No. 4. Elkelä based her results on research of the Finnish market. 55 % of the respondents preferred letter mail as advertising medium. In contrast, one third rejected advertising by email compared to 12 % who rejected advertising by letter mail.

260 Elkelä, K. (2004), Paper or electronic? Desired and undesired reception channels for direct marketing, p. 14.

261 NL TNS Nipo Consult (2004), Betekenis en belang van postdienstverlening: Kwantitatieve Consultatie van de Nederlandse Bevolking. [Meaning and importance of the postal services], and Szeto, C., Jimenez, L. (2005): Consumer preferences for communication media, background paper No. 4.

262 For a literature-based view of this aspect, see e. g. DE Deutsche Post (2005b), Direkt Marketing Monitor; and Elkelä, K. (2004), Paper or electronic? Desired and undesired reception channels for direct marketing.

Even if consumers continue to welcome mail as advertising channel, it is important to note that their use of media and especially mail is influenced by social factors as age, income, and generation. Market research²⁶³ shows that receipt of direct mail is tied to age and income: the older consumers are and the more they earn, the more mail they receive. As consumers become older, they finish their educational life stage and enter the workforce, thus have more income. More income is directly tied to enhanced spending and leads to increased reception of direct mail. The same pattern can be observed for other mail streams like transaction mail and correspondence. High-income households both send and receive more mail than households with lower income and households whose head is older than 35 send and receive more mail than households with a younger head.

Another factor contributing to reduced use of mail by younger people is their faster adaptation of new technologies. It could be shown for the Finnish, Dutch and the US markets that consumers under 35 years prefer relatively more often emails as means of communication or advertisement.²⁶⁴ Generations of the 90s which are the first to grow up with omnipresent electronic messaging technologies are likely to use mail differently in the future as they enter life stages of education and working life. Although in the past, young people of every generation have used less mail than older people of the same generation, the growing-up of the “internet generation” could widen the gap between young and older people’s mail use.²⁶⁵ Indeed, a Swedish survey recently published by Swedish Post comes to the result that the Swedish population still wants to be able to receive bills, tax returns, insurance information and medical documents by mail independent on age.²⁶⁶

The impact of electronic services on mail is not only substitutional. In interviews, representatives of mail order associations said the evolution of e-commerce has fostered their business. In this respect, value-added services are becoming more and more important since consumers want to be able to track and trace their ordered goods and mail ordering companies need to rely on high-quality delivery. Figures from European distance selling organizations support this finding. EMOTA, the European Distance Selling Trade Association, reported growing online orders in most European countries.²⁶⁷ The Netherlands are leading the statistics with more than 50 % of total

263 See US Postal Service (2005), The household diary study; and UK DMIS (2004), Consumer direct mail trends 2004. Extensive market research on the interdependencies of mail and social factors has not been accomplished yet for EU. The US Postal Service household diary is the only comprehensive publication available for this purpose. Although the US and EU markets are different in many respects, the general correlation of social factors and mail use seems to be valid for all Western societies.

264 Elkelä, K. (2004), Paper or electronic? Desired and undesired reception channels for direct marketing, p. 14; US Postal Service (2005), The household diary study; and NL TNS Nipo (2004), Betekenis en belang van postdienstverlening: Kwantitatieve Consultatie van de Nederlandse Bevolking. [Meaning and importance of the postal services].

265 US Postal Service (2005), The household diary study, p. 18.

266 SE Posten (25.4.2006), The paperless society hasn't arrived yet, Press Release.

267 EMOTA (2005): 2004 figures, press release of 17 May 2005.

distance sales being made online in 2004.²⁶⁸ Although distance sales in PL, CZ, EE, HU, SI and SK are still much behind sales levels in Western Europe, online sales have already reached a share of 25 percent in PL and 35 percent in CZ. EMOTA expects this trend to continue.²⁶⁹

For the US market, research undertaken by USPS has shown that the impact of electronic services has been positive on mail.²⁷⁰ As internet penetration has increased in the US during the last years, one could think (at first sight) that businesses and consumers would increasingly substitute their mail. USPS research suggests, however, that households with internet access both receive and send more mail. In particular, households with internet access receive much more direct mail than households without. More surprisingly, it seems that these households send and receive more correspondence and transaction mail also.

This might lead to the surmise that Internet access is directly correlated with mail use. This assumption, however, is only partly true. Enhanced mail use is one consequence of higher income, as high-income households have different spending patterns requiring increased use of mail (e. g. credit card payments, financial assets, insurance policies, home ownership) and they are perhaps more socially active, as regards memberships in clubs and associations which are connected to more frequent mail use.²⁷¹ Internet access is mainly related to income, as high-income households have more disposable income to spend on communication technology. Although there are no data to quantify the effect, Internet use influences mail use: Internet users regardless of income probably buy more, order more product information and catalogues via Internet, thus triggering larger mail amounts than consumers with the same income but without Internet access.

There are other research results confirming this. Consumers, especially younger people, show mixed media preferences for some applications like catalogues. They increasingly use different media (e. g. online and paper catalogues) simultaneously.²⁷² Since consumers value the characteristics of paper catalogues and direct mail to read, browse, and mark it at a place of their convenience instead of in front of the computer, paper advertising media are used not only to enhance retail sales but also to increase online sales.²⁷³ The penetration of Internet does thus not appear to reduce catalogue mail use. In contrast a complementary relationship between online services and catalogue and direct mail exists.

268 See also Thuiswinkel (2005), Continued growth for distance selling expected in 2005, press release of 16 December 2005.

269 EMOTA (2005): 2004 figures, press release of 17 May 2005.

270 US Postal Service (2005), The household diary study, p. 39.

271 US Postal Service (2005), The household diary study.

272 Szeto, C., Jimenez, L. (2005), Consumer preferences for communication media, background paper No. 4, p. 5-7; and Diakova, E. (2005), Remote shopping: Role of mail, catalogs and the internet, p. 11.

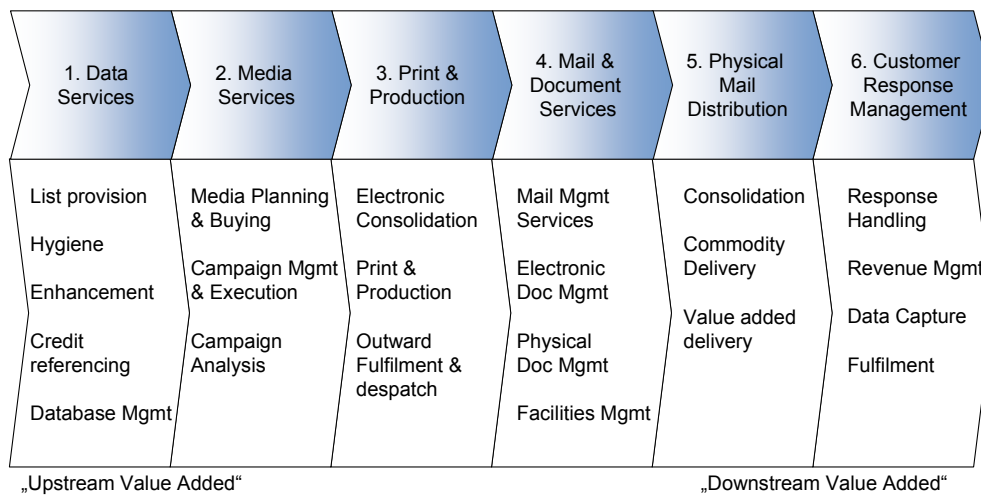
273 Diakova, E. (2005), Remote shopping: Role of mail, catalogs and the internet, p. 11.

Conclusions

Substitution of physical mail takes place much slower than forecasted. For consumer correspondence, mail has already been substituted to a large extent in the past and will probably not be subject to much further reduction due to substitution. It is possible though that future generations will use electronic services much more intense than former generations. Currently, it appears that electronic and paper-based mail services were used simultaneously and complementarily.

4.3.3.2 Postal services and upstream activities

Figure 4.3.14 The mail industry value chain



Source: Walsh, T. (2006), The European mail manifesto, Figure 1.1.

In the introduction of this report we referred to an extended postal value chain. Technological development in the areas of electronic communications and printing technologies has not only affected the demand of postal services as such but also their characteristics and most importantly, the production process of mail. Nearly unperceived by the public an industry has emerged dealing with mail production, document and response management.

Figure 4.3.14 illustrates this wider view of the industry:²⁷⁴

- The **data services** element of the market has two core components: list brokerage and data management. List brokerage is primarily concerned with the development, cleaning and provision of addressed lists. Data warehousing management and mining are at the heart of most customer relationship management processes, customer loyalty programmes and transactional systems. Postal operators have a key role to help mailers by providing up-to-date lists of “gone aways”, address changes, etc.
- The **media service** sector is dominated by major direct marketing agencies who drive the planning and development of direct marketing campaigns. Direct marketing applications are growing in scope, sophistication and user numbers, as smaller companies are now using direct marketing techniques with increased customisation of both message and media to individual consumers.
- The **print and mail production** segment is critical to USPs and is a significant influencer of much of the core postal traffic in both transactional and advertising mail. There is a wide range of services within this sector from typical bill processing and printing to complex advertising printing through to the newer but rapidly growing print-on-demand services, which have the potential to significantly impact the way in which physical mail communication develops.
- The **mail and document services** sector includes both traditional physical handling operations and the technologically sophisticated outsourcing sector. The traditional part of the mail services market involves the preparation and finishing of mail. The other part of the market is the development of an outsourced document management service, including the digitisation, archiving and management of documents and their integration into workflow systems.
- The **physical mail distribution** consists of the traditional postal activities (collection and consolidation, sortation, transport and delivery). It is obvious that the activities can partly be substituted by service providers active in print and mail production.
- The **customer response management** area has many of the same characteristics as the mail and document services area.

The development of this industry is strongly related to the development of national postal markets and, especially, the behaviour of postal service provider. In all national markets the universal service provider is still the dominant supplier of postal services. Therefore, its customer orientation and its openness with regard to ways of flexibly designing access to its network strongly influences the business opportunities of the

²⁷⁴ Walsh, T. (2006), The European mail manifesto, sec. 3.

“upstream industry”. An obvious example is France. In France, La Poste has provided downstream access since the early 1980ies (at the latest), and a market for consolidation has developed for more than 20 years. Downstream access was provided by La Poste in the absence of a requirement to do so. The French market for upstream service in France was estimated to approx. € 1 billion in 2004. It thus appears clear that consolidators play a significantly more important role in France than in most other Member States. As regards the market share of consolidators, estimations provided by La Poste confirm that approximately half of all letter post items delivered in France are handled by consolidators.²⁷⁵ Recent changes to La Poste’s product portfolio and tariff structure has changed the dynamics in the French upstream market. Inter alia the number of consolidators has been reduced (only the major/bigger players seem to survive the change) and they are moving further upstream in data manipulation and preparation.²⁷⁶ Similar developments in the upstream markets may emerge in UK and Germany after allowing for downstream access for consolidators.²⁷⁷

275 See Case study 3.8.

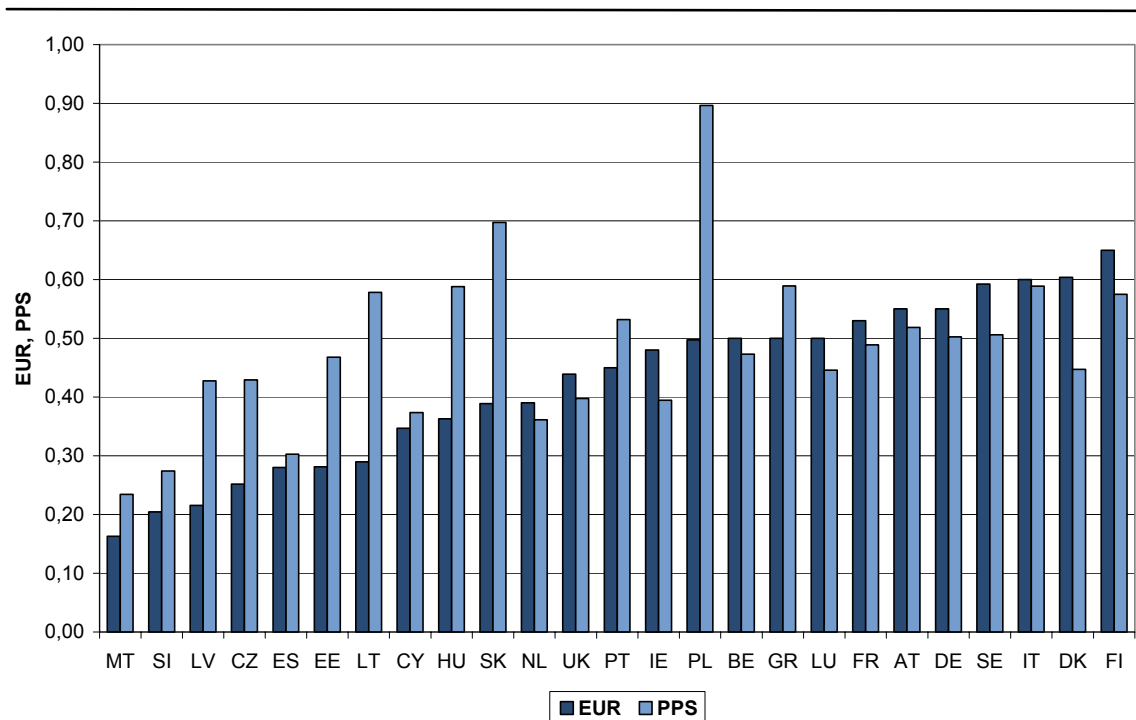
276 Walsh, T. (2006), The European mail manifesto, case study 2.

277 See section 4.2.1.2 for a more detailed discussion of downstream access.

4.4 Price performance

4.4.1 Public tariffs for letter post

Figure 4.4.1 USP tariffs for domestic 20g letter of fastest standard category, 2005, in EUR and PPS



Notes:

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

The most basic measure for postal prices is the public tariff charged by the USP for collection and delivery of a postal item of the lowest weight step transmitted by the fastest standard category of service (FSC). Figure 4.4.1 presents this charge for each Member State, expressed in both normal Euros and PPS, a standardized adjustment for differences in purchasing power among Member States.²⁷⁸ As this figure shows, nominal tariffs range from a low of € 0.16 in Malta to a high of € 0.65 EUR in Finland.²⁷⁹

²⁷⁸ One PPS equals € 1.00 at average purchasing power in the Eurozone. The postage rate in PPS indicates of how the price of basic postal service compares to the general domestic price level.

²⁷⁹ Price includes VAT in Finland.

With respect to affordability, the PPS columns in this figure suggest that, despite nominal tariffs close the EU average, postal service is relatively costly to consumers in several Member States; including Poland, Slovakia, Hungary, Greece, and Lithuania.

A simple comparison of 20 gram first FSC prices does not tell the whole story. In many Member States, a second class, lower priority service is also offered for letters. In some of these Member States, the fastest standard category appears to be relatively unimportant in terms of volume: In at least five Member States (HU, IT, PL, PT, SK) second class letters account for more than two thirds of letter post volumes.²⁸⁰

Moreover, postal tariffs that include VAT are hardly comparable to those that do not, although presenting tariffs exclusive of VAT would also be misleading since many customers cannot reclaim the tax; including consumers. A further hindrance to the comparability of tariffs is the fact that an increasing number of USPs set out format requirements for reduced “standard letter” rates. For example, a large-sized letter of 20 grams may be carried at the basic 20 gram rate by one USP and surcharged by another. A complete benchmark that assesses overall price levels from a consumer perspective would take into account public tariffs for all services as well as the shares of each weight step (basic letter product) sent by consumers. However, such detailed information is not available.²⁸¹

280 According to USP information. Second class mail may be equally very important in a few more Member States where such information was not available to WIK-Consult. In total, we had information (or indications) about second class volumes from 9 EU USPs out of 12 offering second class service.

281 For a limited number of countries, such an approach is used by the German NRA (BNetzA, formerly RegTP) in the price comparisons published in its annual reports.

Figure 4.4.2 USP tariffs for 20g letter of fastest standard category and second fastest standard category, 2005, in EUR

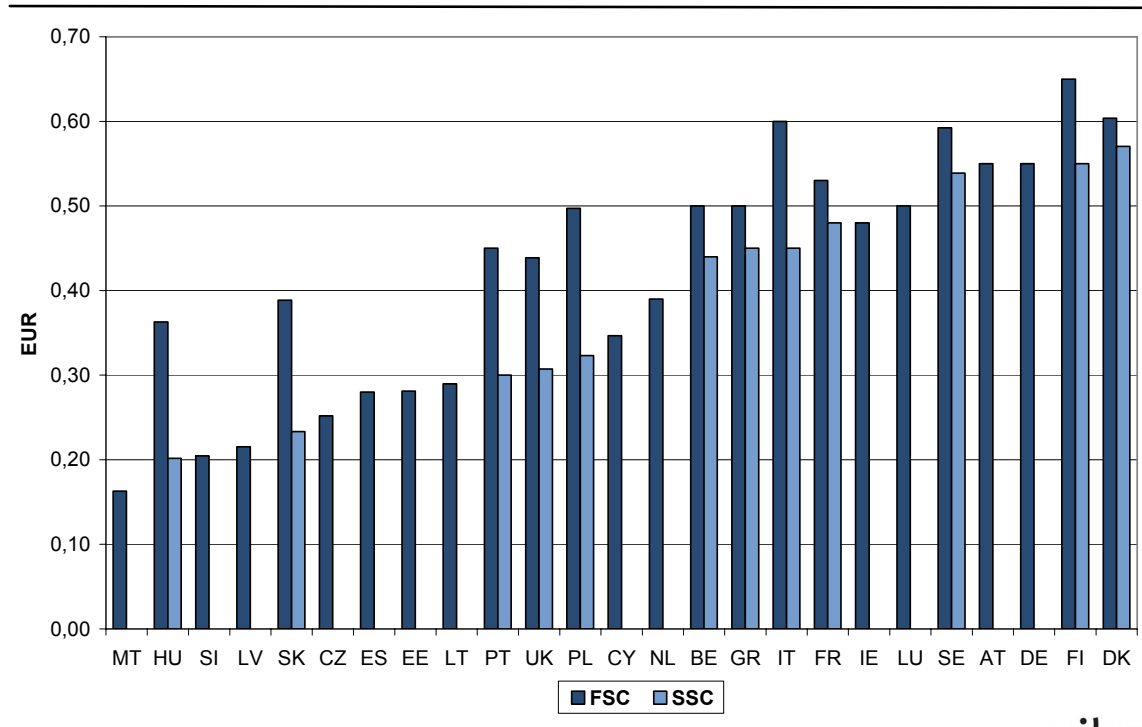


Figure 4.4.2 compares the tariff levels for both first and second class service. The chart displays, for the USP in each country, public tariffs for a 20 gram letter sent by the fastest standard category; and by the second fastest standard category—where such product exists. In this graph, countries are ordered by the lower price (SSC where this product is offered; FSC else); i.e. the more a country is to the right in the figure, the more expensive is the lowest public tariff available in this country.

In addition, Figure 4.4.2 indicates the price differentials between priority and non-priority mail: Tariffs for first class mail are more than 1.5 times higher than the second class in four countries: HU, SK, PT, and PL. Judging from price differentials as well as from available volume information, it appears likely that in these countries, the second fastest standard category is considered as the “regular service” by consumers.

As regards public offerings of second class service, we note that a number of USPs have introduced different product categories for priority/non-priority in recent years. For example, such categories were introduced by the Polish USP in 1999, the Belgian USP in 2002, the Romanian USP in 2004, the Hungarian USP in 2005, and the Latvian USP in early 2006. In all these cases, an additional “priority” category was introduced; thus downgrading the formerly standard service to become a “second class” service. Typically, tariffs for the traditional category remained steady while the new priority

product was introduced at a higher price. Ceteris paribus, an increase in the overall price level for the whole mail stream results.²⁸²

Figure 4.4.3 Average annual increase of USP tariffs for 20g letter of fastest standard category, 2000-2005

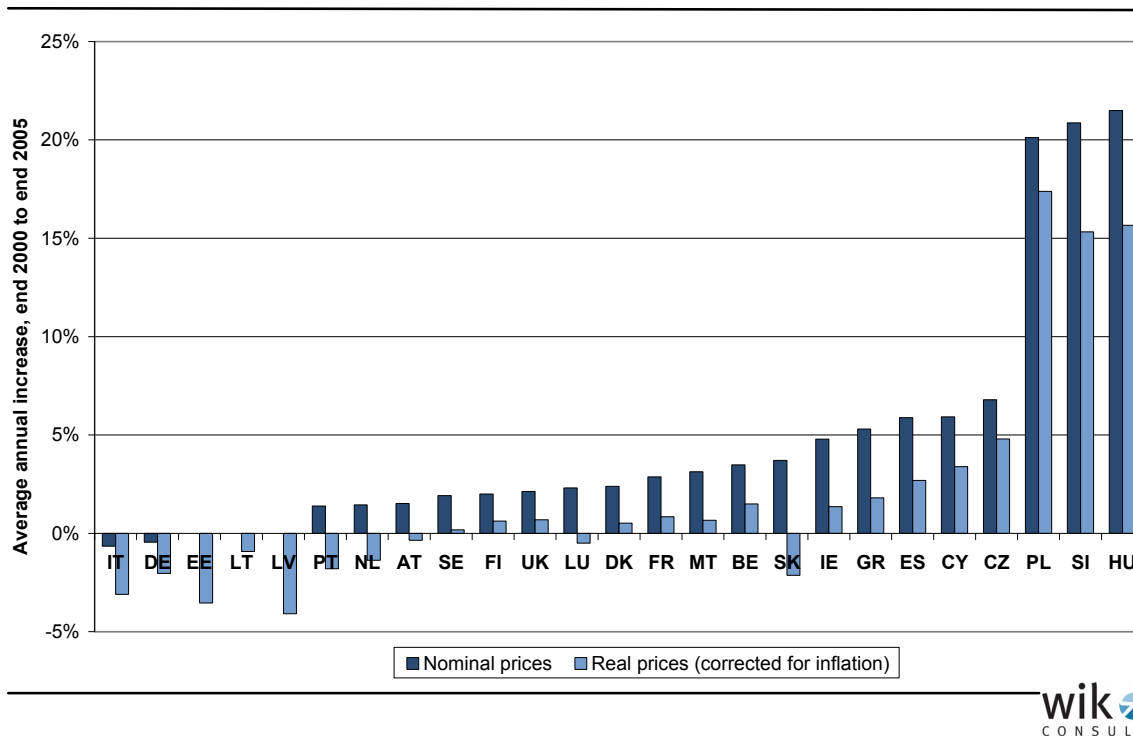


Figure 4.4.3 illustrates the development of the 20 gram FSC tariff in each Member State from December 2000 to December 2005. In this period, basic letter post tariffs increased in 20 Member States (and decreased or remained stable in Estonia, Germany, Italy, Latvia,²⁸³ and Lithuania). In Italy, the tariff for a 20 gram letter sent by FSC slightly dropped from 0.62 € to 0.60 € in 2004; and in Germany, the USP was required by the NRA to reduce rates in 2003.

In real terms (after adjusting for inflation), the basic letter post rate remained largely stable, or declined slightly, in most members states. By contrast, public postal tariffs rose very sharply in three Member States, raising concerns among large customers as well as other stakeholders in the sector:²⁸⁴ Hungary, Slovenia, and Poland. (For the

²⁸² There are many potential reasons for the introduction of these new priority categories. In particular, they serve USPs to justify more easily increases in the overall price level. In addition, however, introduction of priority services allows USPs to be abide by regulatory quality of service standards not for all letter post, but only for the (small) fraction sent as priority service. As in some of these countries quality of service standards are set and monitored only for the fastest standard category, USPs have de facto managed to reduce regulatory control for an important share of universal services.

²⁸³ In Latvia, public tariffs were raised by 46% in the beginning of 2006; from 0.15 to 0.22 Lats.

²⁸⁴ See e.g. price comparisons by FFPI.

case of Slovenia, one should note the comparably low base price in 2000. Even after significant price increases in 2003 and 2004, tariffs are still the second lowest in the EU).

Tariff hikes in some of the “new” Member States (2004 accession round) raise concerns. Increased efficiency and USP cost savings—to the extent they occurred—have not resulted in lower public tariffs in the EU overall. Public tariffs, however, may mask reductions in the average price of postal services, realized in the form of deeper and more abundant discounts for large users. A reduction in average prices would, if achieved, ultimately benefit the consumer as well, but this survey did not yield sufficiently detailed information to assess this possibility.²⁸⁵

Figure 4.4.4 USP tariffs by weight: tariffs for 50g, 100g, and 350g as % of lowest weight step, 2005

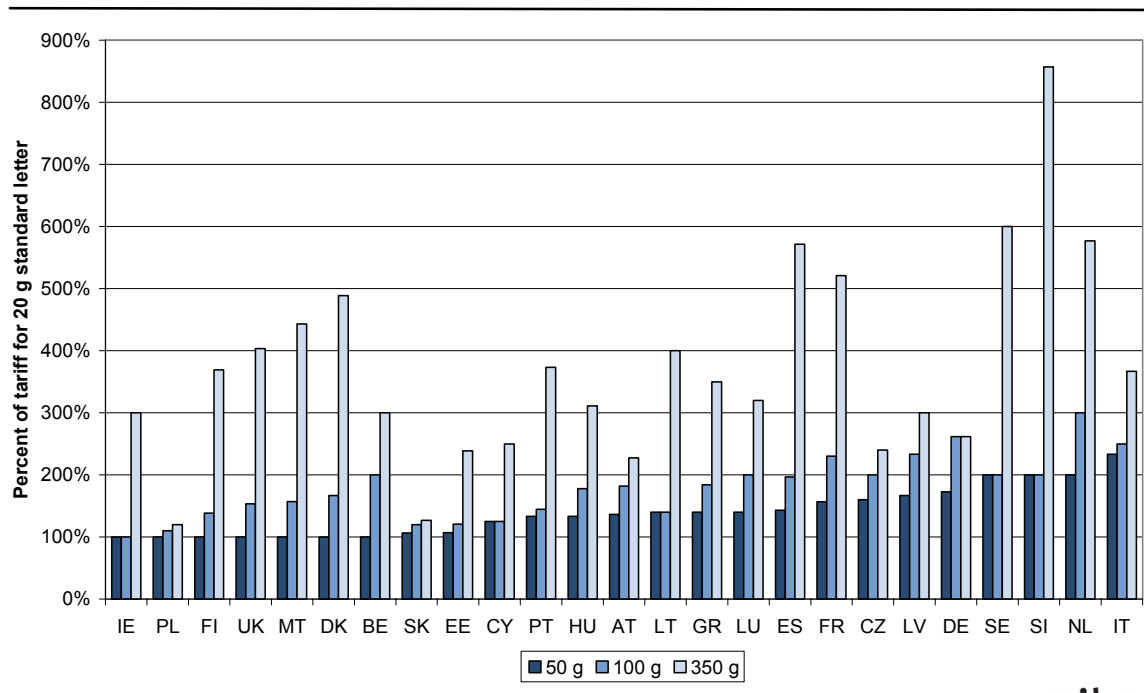
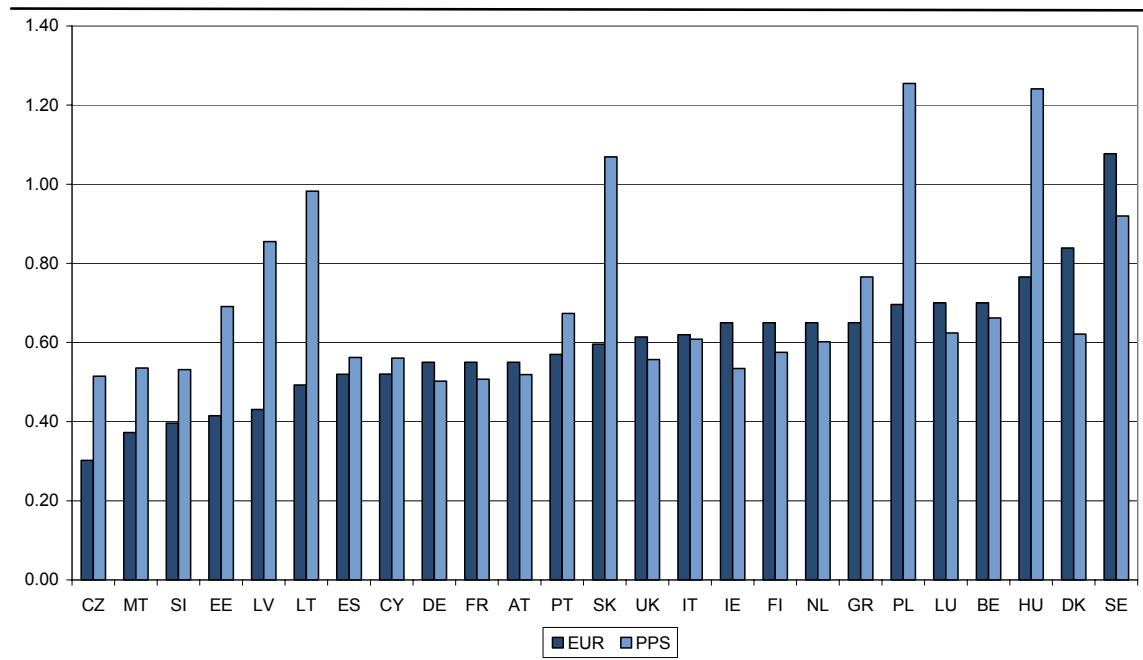


Figure 4.4.4 shows how postal tariffs rise with the weight in different Member States. For FSC letters weighing 50, 100, and 350 grams, this figure indicates the relation of the tariff to the first weight step. In Ireland, for example, the charge for a 350 gram letter is three times the tariff for a 20 gram letter.

²⁸⁵ In the questionnaire survey, WIK-Consult specifically requested information of average revenues per piece for the letter post segment. Such information was withheld by the majority of USPs on grounds of confidentiality, or was reported not to be available.

The figure also shows that in seven countries (BE, DK, FI, IE, MT, UK), the USP’s first weight step goes up to 50 grams (i.e. the ratio for the 50 gram rate is 100 percent). Indeed, in Ireland, the tariff for the first weight step applies to letters up to 100 grams. By contrast, USPs in eight Member States charge more than 150% of the tariff for first weight step for a 50 gram letter (CZ, DE, FR, IT, LV, NL, SI, SE). Assuming the distribution of letter volume among weight steps does not vary substantially among Member States, the average public postage rate is higher than a comparison of 20 gram tariffs implies in those countries where heavier letters are relatively more expensive.

Figure 4.4.5 USP tariffs for cross-border 20g letter of fastest standard category, 2005, in EUR and PPS



With regard to public tariffs for international intra-Community letters, a first observation is that the great majority of USPs charge uniform (public) tariffs for outbound cross-border letters regardless of the country of destination (within the EU or the European continent). Only very few USPs offer lower public tariffs for letters sent to neighbouring countries; e.g. from Ireland to the UK or from a Estonia and Latvia to other Baltic countries. Figure 4.4.5 displays tariffs for a 20 gram letter sent by fastest standard category to other EU Member States.

Comparing public tariffs for cross border letters, these tariffs appear to vary between Member States slightly less than domestic tariffs. However, there are significant price differences between the Member States. Comparing cross border tariff to domestic tariff

in the originating country, the price premium for cross border tariffs is generally larger where domestic tariffs are relatively low.

Public tariffs for letters to other EU countries are particularly high in Sweden and Denmark as well as in Hungary and Poland, when taking into account differences in purchasing power.

4.4.2 Special tariffs

Both USPs and competitive operators seek to differentiate between different customers in the pricing of products for understandable reasons. One consideration is that the cost of providing postal services may vary among different senders. For example, sorting machines can process printed letters better than handwritten letters. Some senders reduce sorting costs by presorting their mail. The cost of mail processing also depends on the way postage has been paid (e. g. stamp, metered, or postage paid impression). In addition, cost of delivery will depend on the destination, e.g. the share of mail sent to urban/suburban or rural areas. Another consideration is that senders have distinct demand patterns. Customers may be more or less sensitive to variations in price, routing time, or other product characteristics. By developing products tailored to the demand characteristics of different customers, postal operators can stimulate overall demand.

European USPs have developed a variety of products and discount schemes. This section presents information collected from USPs and NRAs regarding two types of reduced tariffs: discounts for correspondence (related to volume, pre-sorting and/or transportation to specific USP facilities), and direct mail tariffs as well as discounts on these direct mail tariffs. Special tariffs were analysed separately for correspondence and direct mail since the latter is considered more competitive (either directly liberalised; or subject to more competition from other advertising media).

All information presented in this section is based on a consolidation of USP and NRA answers to our questionnaire survey. In the survey, WIK-Consult has asked both USPs and NRAs for the same information on special tariffs/discounts.²⁸⁶

286 In some countries, however, we received information only from one party: Some USPs refused to provide detailed information about special tariffs on grounds of confidentiality. Some NRAs, while generally co-operative, reported not to have information about special tariffs. For example, the Polish NRAs reported that “practically, the NRA [URTiP] is not able to influence the level of prices for universal service, including special tariffs. [...] There is no procedure to approve special charges. The special tariffs are determined by the USP in each case individually and are strictly confidential.

Table 4.4.1 Overview discounts for bulk correspondence offered by USPs

Maximum discount for bulk correspondence			Share of discounted items in total correspondence delivered by USP		
	No. of USPs	% of total EU volume (USPs)*		No. of USPs	% of total EU volume (USPs)*
No discounts for correspondence	2	7%	No discounts	2	7%
< 15%	6	6%	< 20%	4	2%
15-30%	8	27%	20-40%	4	26%
30-45%	3	48%	40-60%	3	20%
> 45%	1	0.1%	> 60%	3	9%
N=20 (CY, DE, DK, FI, FR, UK, GR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, SE, SI, SK,)			N=16 (EE, FR, UK, GR, HU, IE, IT, LT, LU, MT, NL, PL, PT, SE, SI, SK,)		
Notes:					
* This column indicates the share of total EU (domestic) letter post volume that is carried by the USPs in each row.					

Table 4.4.1 summarizes the discounts offered by EU USPs for bulk correspondence. The columns on the left show the survey results with respect to the highest discounts available for bulk correspondence. These highest discounts typically require, e.g. huge volumes of a tender, substantial pre-sorting, or early announcement of the mailing. As the table shows, the maximum discount for correspondence ranges from zero to roughly 50 percent; and typical values would be around 20 to 35 percent. This is particularly true in larger Member States; while some smaller Member States either offer no or very minor discounts on correspondence or—by contrast—very high discounts around 50%. Though information was not available from all Member States, it seems that large discounts for bulk mail are more prevalent in Western and Northern Member States. In two Southern European Member States, USPs were reported not to offer any discounts for bulk correspondence.

The share of correspondence carried by USPs at discount rates rather than at public tariffs appears to vary from 10 to more than 90 percent, depending on the Member State. With the exception of three of the most advanced Member States in terms of volume, where special tariffs apply to about 80% of all correspondence; it appears that most USPs deliver less than half of all correspondence at special tariffs.

Table 4.4.2 provides an overview of price levels and discounts for direct mail. On the left, the level of tariffs for a mailing of 1,000 direct mail items is compared to the public tariff for the fastest standard category.²⁸⁷ As the table shows, direct mail products are offered at rates between 55 and 85 percent of the FSC tariff by 9 USPs (that account for 75 percent of all EU letter post volume). Four smaller USPs offer direct mail at even lower tariffs; while six USPs do not offer specific direct mail products at all—or charge almost the same tariffs for direct mail and correspondence (DM tariff < 85 % of FSC tariff).

²⁸⁷ In large countries, substantially lower tariffs are usually available for larger mailings (say, for tenders of more than 50,000 items).

Table 4.4.2 Overview of direct mail tariffs and discounts for direct mail offered by USPs

Direct mail tariff* as % of FSC tariff			Maximum discounts for direct mail			Share of discounted direct mail in total direct mail delivered by USP		
	No. of USPs	% of total EU volume (USPs)**		No. of USPs	% of total EU volume (USPs)**		No. of USPs	% of total EU volume (USPs)**
No direct mail products	2	0.1%	No discounts on direct mail tariffs	3	0.2%	No discounts on direct mail tariffs	1	0.1%
> 85%	4	5%	<15%	5	29%	< 70%	3	3%
70-85%	6	50%	15-30%	4	6%	70-90%	2	1%
55-70%	3	25%	> 30%	4	43%	> 90%	5	31%
< 55%	4	4%	N=16 (DE, DK, EE, FR, UK, GR, HU, IE, IT, LT, LU, LV, MT, PT, SE, SK,)			N=11 (CZ, FR, GR, HU, IE, IT, LU, MT, SE, SI, SK,)		
Notes: * Tariffs for 20 gram direct mail items in a tender of 1,000 pieces. ** This column indicates the share of total EU (domestic) letter post volume that is carried by the USPs in each row.								

The middle columns of Table 4.4.2 present information on discounts for pre-sorting, volume, or preparation of direct mail. As regards these special tariffs for direct mail, it appears that larger USPs (from larger Member States) tend to offer higher discounts for pre-sorting of preparation of direct mail.

Finally, the three columns in the right side of Table 4.4.2 show the share of discounted direct mail as a percentage of all direct mail delivered by the USPs. Although such information was available only from 11 Member States, it is apparent that usage of discounts and special tariffs is much more prevalent for direct mail than for correspondence (see Table 4.4.1 above): many USPs deliver more than 90 percent of all direct mail at special tariffs.

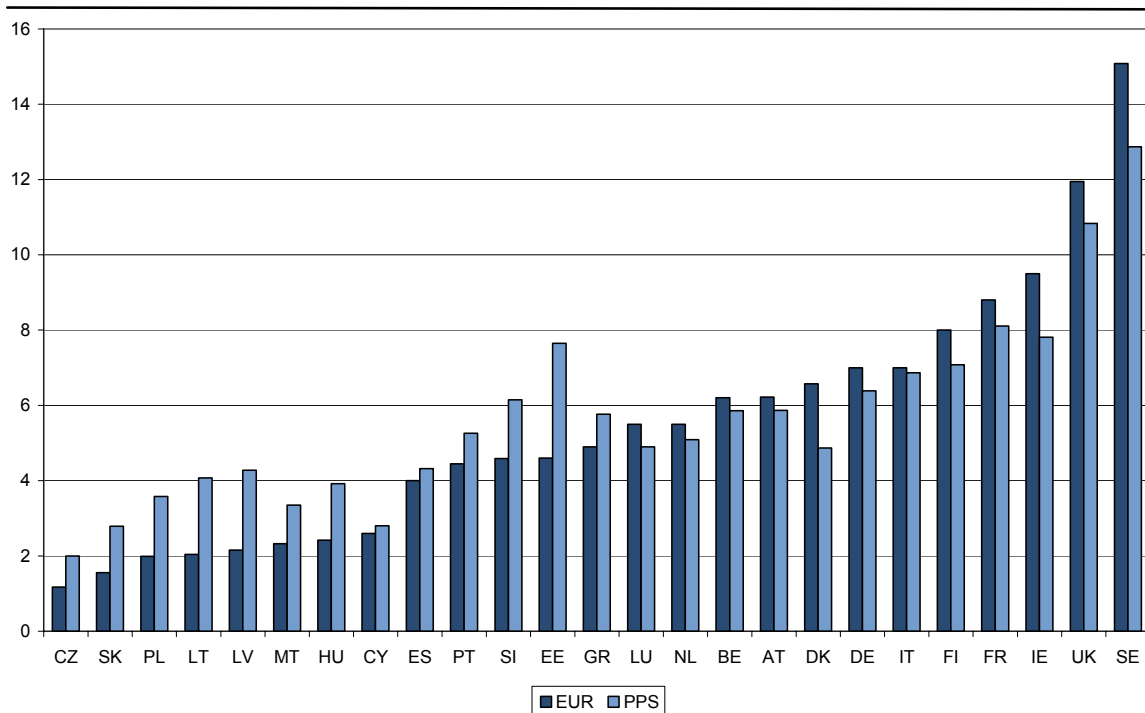
From the tables above it appears that almost all USPs apply prices that are significantly below first class letter rates to a substantial share of mail. These “discounts” or “special tariffs” are granted in different ways and using different products. It may be noted that, despite the Directive’s insistence on cost orientation and transparency of special tariffs, information on discounts was regarded as commercially sensitive by a number of USPs and provided in confidence only by others. In some cases, this information was apparently unavailable to NRAs. It further appears that USPs in Member States with high volumes per capita offer higher discounts (of relatively low special tariffs) for direct mail.

All information presented in the two sections above relates to public and special tariffs offered by USPs. With regard to tariffs charged by competitive postal operators (CPOs), very limited quantitative information was available for this study. From discussions with stakeholders as well as from information provided by CPOs and from reports by NRAs, however, it is apparent that all CPOs in the letter post segment provide their services at lower tariffs than the USPs they compete with.

4.4.3 Public tariffs for parcels

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

Figure 4.4.6 USP tariffs for a 5 kg domestic parcel (lowest available public tariff), 2005, in EUR and PPS



Notes:

Tariffs relate to the lowest public tariff available for a 5 kg parcel. Characteristics of the products offered by different USPs may vary. Tariffs converted to EUR using average exchange rate for 2005. Tariffs converted to purchasing power standards (PPS) using purchasing power parities (PPP) for 2005 from Eurostat. Public tariffs used for this figure include VAT for some countries.

Given the Directive’s emphasis on affordable universal services, this survey focused on the lowest available public rate for parcels. Figure 4.4.6 illustrates the lowest rate available to the general public in the various Member States for domestic delivery of a 5 kilogram parcel. Tariffs presented in this figure should be compared with caution since they may relate to very different products. Some tariffs include universal delivery while others do not.²⁸⁸ Routing times for parcels also vary substantially. These differences in

²⁸⁸ See requirements for home delivery of universal service parcels in section 3.2.2 above.

service have a significant effect on the cost of parcel delivery that may explain some of the variation in parcel tariffs. Other explanations, however, include a re-balancing between public tariffs for parcels on the one hand and special tariffs offered to businesses on the other.

Figure 4.4.6 clearly shows that, among different Member States, there is wide variation in the lowest available public tariffs for parcels. It is surprising that tariffs differ so significantly even between Member States that may be considered quite similar in terms of cost parameters such as for, for example, between Finland and Sweden or between Germany and the UK. The figure also shows clearly that parcels tariffs are substantially lower in the new Member States in Central Europe and the Baltic countries than in other Member States.

Figure 4.4.7 Average annual increase of USP tariffs for a 5 kg domestic parcel (lowest available public tariff), 2000-2005

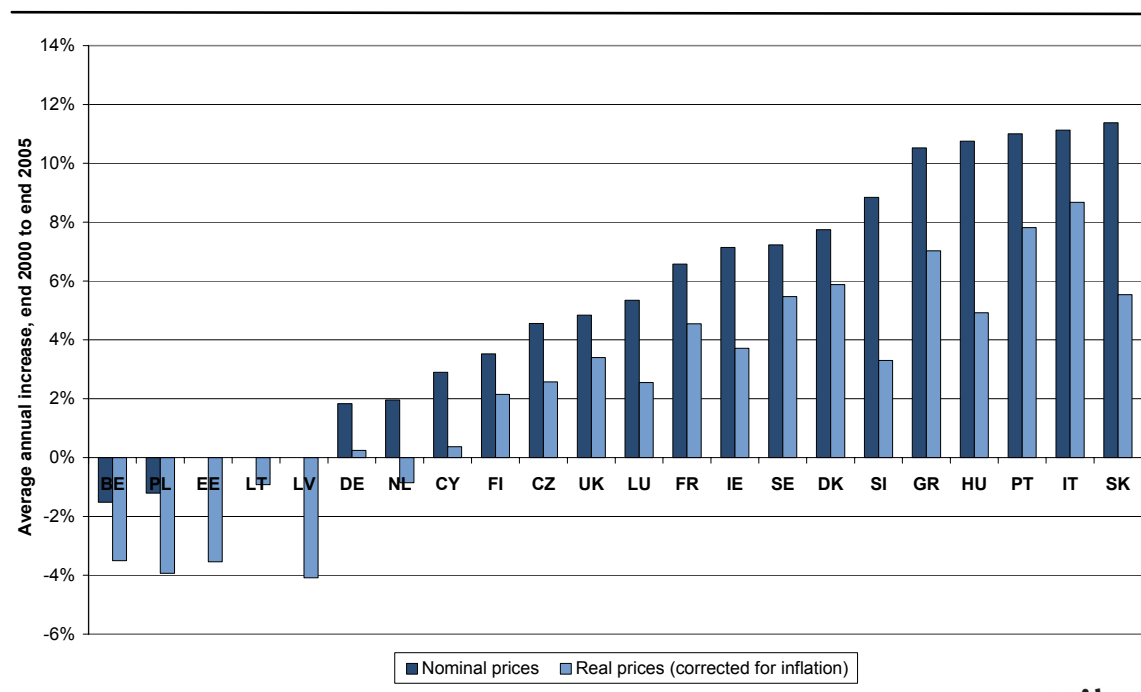
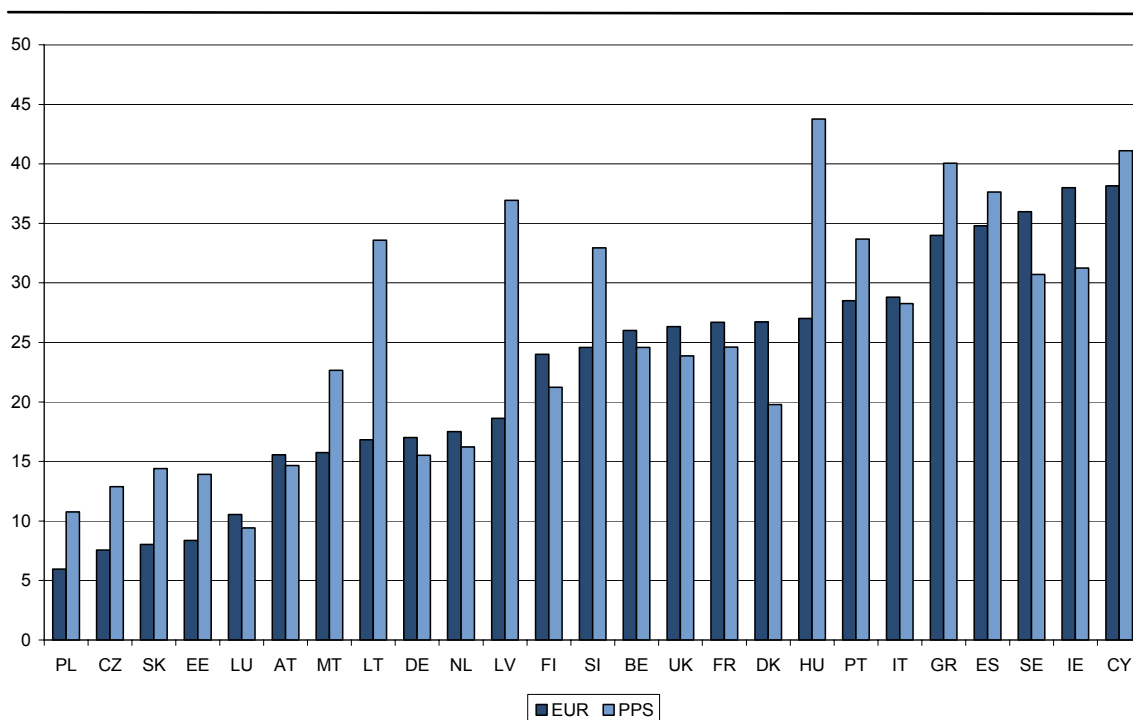


Figure 4.4.7 presents the average annual increase of the lowest parcel tariffs available over the six year period from December 2000 to December 2005. Complete time series for parcel tariffs were available only for 22 Member States (not for AT, ES, MT). The graph shows that there have been significant tariff increases in a number of countries. Many USPs offering high public tariffs for parcels compared to other Member States have significantly raised their parcel tariffs over the last years; e.g. FR, IT, IE, SE, UK.

As for domestic parcels, tariffs for cross border parcels are hard to compare as there is a great variety of products offered by European USPs. Some of these offerings are express products rather than universal service parcels, reflecting the blurring boundaries between the parcels and express segments. For final delivery, many USPs have contracted operators other than the USP in the Member State of destination—or have parcels delivered by their own subsidiaries in that Member State (e.g. DHL or GeoPoste/DPD).

Figure 4.4.8 USP public tariffs for a 5 kg cross border parcel (lowest available public tariff), 2005, in EUR and PPS



Notes:

Tariffs converted to purchasing power standards (PPS) using purchasing power parities (PPP) for 2005 from Eurostat. Public tariffs used for this figure include VAT for some countries. Tariffs relate to the lowest public tariff available for a 5 kg parcel (for the least expensive country of destination inside EU-25 and/or the least expensive speed category). For seven USPs (from AT, ES, IE, IT, SE, SI, UK), tariffs in the figure are as of April 2006, all other tariffs were reported for December 2005.

Figure 4.4.8 shows the lowest rates available to the general public in the various Member States for delivery of a 5 kilogram parcel addressed to other EU Member States. While many USPs charge identical public tariffs for universal service parcels to any Member State, some divide EU Member States to different pricing zones: for example, Irish An Post charges lower tariffs for parcels to the U.K. than for parcels to continental Europe; or parcels from Sweden to Scandinavia are less expensive than to other parts of Europe.

The figure immediately show that parcel rates differ substantially between member States. However, the tariffs presented in this figure should be compared with caution since they may relate to products with quite different routing times. This said, it appears questionable how universal service tariffs for cross border parcel can be cost-oriented in all Member States; even though different product characteristics certainly explain some of the variation in parcel tariffs. Moreover, we note that USP public tariffs for cross border parcels are significantly more uneven within the Union than public tariffs for cross border letters: As presented in figure 4.4.5 above, public tariffs for cross border letters range from 0.30 to 1.08 EUR in different Member States. This spread is considerably greater for the lowest available parcel tariffs (6 to 38 EUR).

Conclusions

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

The basic tariff for a 20 gram letter sent by the fastest standard category of universal service ranges from € 0.16 to € 0.65. Adjusting for differences in purchasing power, tariffs range from € 0.23 to € 0.90.

In nominal terms, the basic letter rate increased in 20 Member States from 2000 to 2005. In inflation-adjusted terms, rates increased in 15 Member States. Substantial tariff increases took place in the new Member States; most importantly in Hungary, Poland, and Slovenia.

Public tariffs levels, however, may mask reductions in the average price of postal services, realized in the form of deeper or more abundant discounts for large users. Discounts for direct mail, and to lesser extent for bulk correspondence, are widely used in most Member States and appear to be largest in Western and Northern Member States. By contrast, some USPs in Central Eastern Europe have recently introduced a first class category to increase average revenue per piece—thus downgrading existing standard service to become second class.

Public tariffs for parcels have continued to increase substantially. In the period 2000 to 2005, public parcel tariffs increased in 17 of 22 Member States for which information is available. In 11 Member States, public parcel tariffs increased by more than 5 percent per year on average. Here too, increases in public tariffs do not necessarily indicate increasing overall price levels since decreasing tariffs for business senders may have had an opposite effect. For both domestic and cross border universal service parcels, public tariffs vary very significantly between Member States.

4.5 Provision of universal service

4.5.1 Access to universal service

Access points includes street letter boxes and postal outlets. Postal outlets include post offices operated by USP's employees and postal agencies operated by third parties (e.g., in the way of franchising). Third parties can be every kind of retail business, e.g. supermarkets, gas stations, or stationery shops.

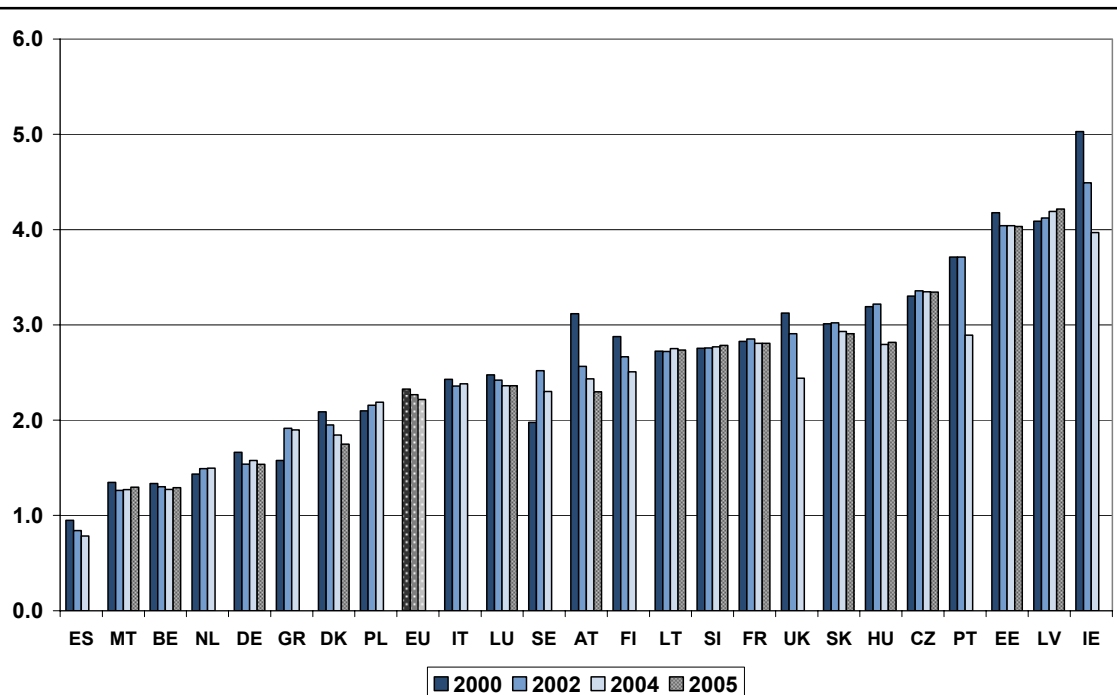
Table 4.5.1 Development of the postal network - EU-25 (2002-2004)

	2000	2002	2004	CAGR (2002-2004)
Postal outlets	104,844	102,944	99,073	-1.9 %
Post offices	63,226	60,536	59,566	-0.8 %
Share of total	60.3 %	58.8 %	60.1 %	
Post agencies	41,723	42,144	39,600	-3.1 %
Share of total	39.7 %	41.2%	39.1%	
Postal outlets per 10,000 inhabitants	2.33	2.27	2.16	
Notes: Difference to 2002 figures comes from correction of Spanish figures (they included postmen providing postal services (mobile post service) and not only postal outlets)				

In the Community as a whole, the overall number of postal outlets decreased by 1.9 percent between 2002 and 2004 on average (see Table 4.5.1). The number of postal agencies has decreased more than the number of post offices, mainly driven by closures of postal agencies in DE and UK.

Access to universal service via postal outlets is required by consumers and small and middle sized enterprises (SMEs) sending rather small amounts of mail. For consumers, not only density but also opening hours of contact points is important to allow them access outside working hours. Larger business customers typically hand in their mail volumes in sorting centers and thus do not depend on postal outlets.

Figure 4.5.1 Number of postal outlets per 10,000 inhabitants



Notes:

- CY: not included due to its extremely high number of postal outlets per 10,000 inhabitants²⁸⁹
- 2002: UPU data for FR, UK
- 2004: UPU data for GR, HU, MT, SI

Especially in EU-15 Member States, customers seeking access to postal outlets show growing dissatisfaction.²⁹⁰ The most probable explanation is the closure of postal outlets in many EU-15 Member States (see Figure 4.5.1, e. g. AT, FI, IE, PT, UK). ES is the Member State with the less dense network of postal outlets. The Spanish USP makes use of mobile post offices, meaning that the postman offers postal services at the premises of the customer to improve the coverage. The number of postal outlets per 10,000 inhabitants has increased in GR, LT, PL and SE. In Sweden, the increase of postal outlets per inhabitant is caused by the restructuring programme of the Swedish USP strongly enhancing the number of postal agencies in 2001/2002. After that step, Sweden Post did not alter the share of agencies much.

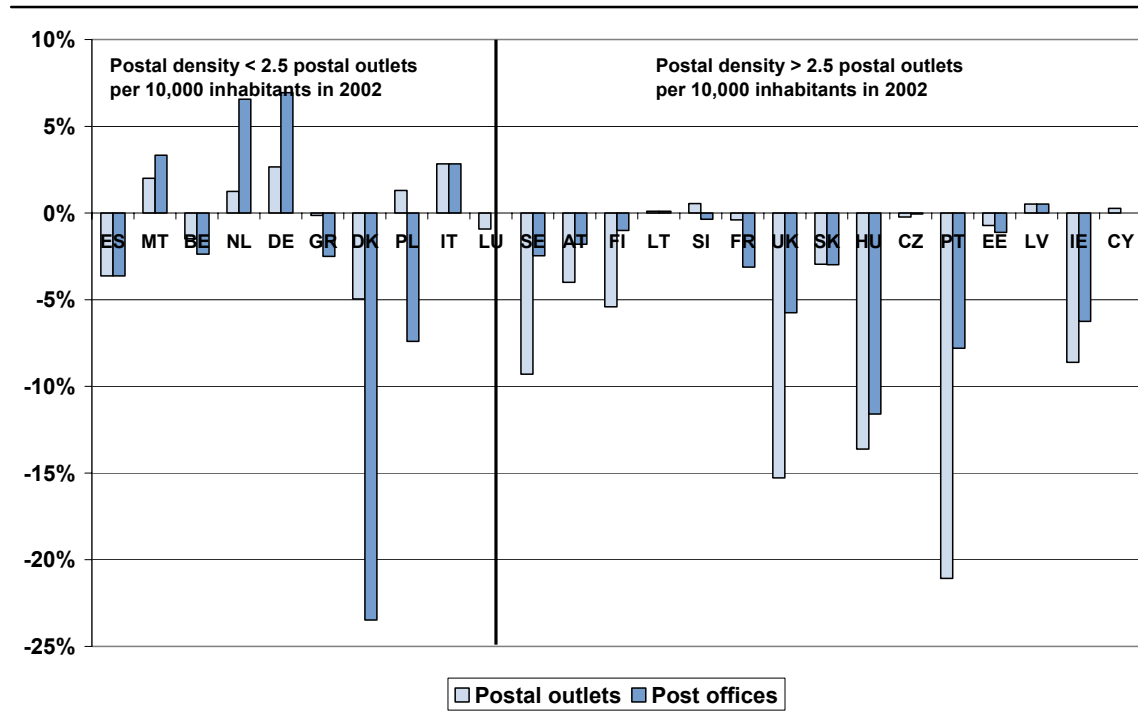
In a majority of the ten new MS, the number of postal outlets per 10,000 inhabitants has stagnated or even increased (CZ, LT, LV, MT, PL, SI), decreases can be observed in

²⁸⁹ Cyprus is a special case. About 95 percent of the postal outlets are so-called agents owning small businesses. Besides providing basic postal services these agents are also responsible for delivery and collection of mail in the respective village. This is the reason why Cyprus has the by far highest number of postal outlets per 10,000 inhabitants (15.5 in 2004).

²⁹⁰ Special Eurobarometer 219 (2005). Compared to Eurobarometer results from 2000, the share of customer rating access as difficult has increased by 5 percentage points.

EE, to large extent in HU, and SK. This might be one of the reasons why customer satisfaction with access has not deteriorated in the new MS since 2000.²⁹¹

Figure 4.5.2 Development of postal outlets and post offices between 2002 and 2004 in relation to postal density in 2002

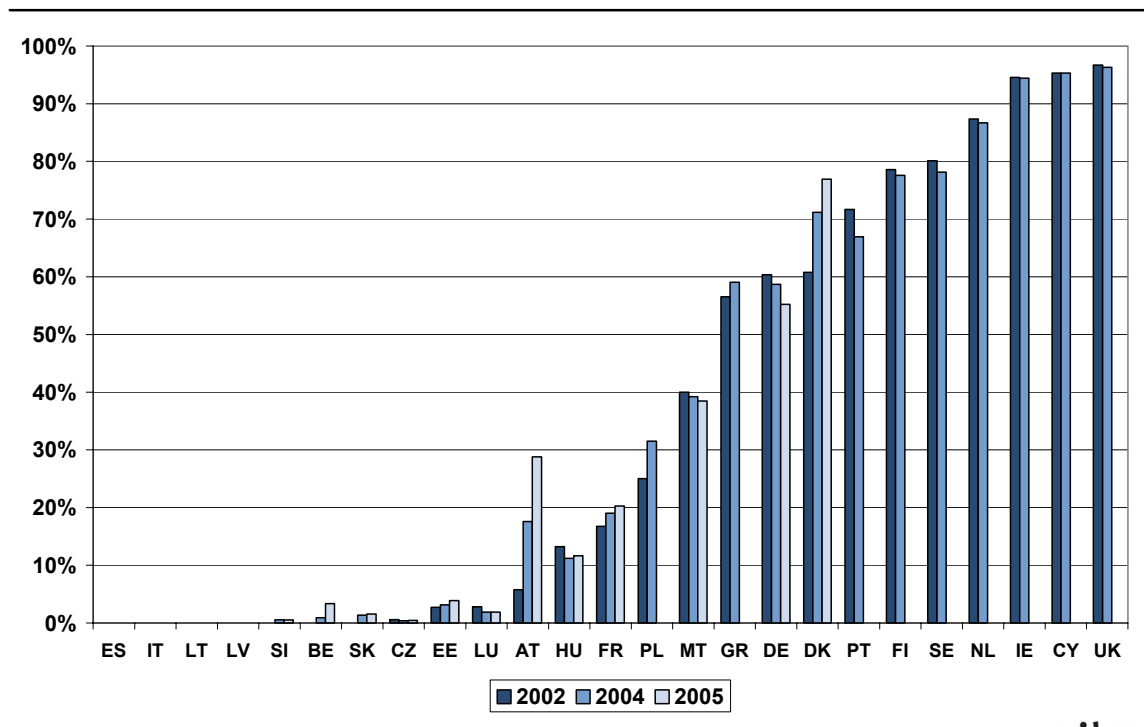


Reduction of postal outlets and especially of post offices is stronger in those countries whose provision with postal outlets per inhabitant is relatively high. In Member States with an initial value of more than 2.5 postal outlets per 10,000 inhabitants in 2002, decreases were stronger than in countries with lower initial values.

The negative trend of post box development which could be observed from 2000 until 2003 in at least 10 Member States seems to have stopped. Post box numbers are stagnating (only HU and IT show declines but figures are incomplete).

²⁹¹ Special Eurobarometer 219 (2005).

Figure 4.5.3 Share of postal agencies in 2002, 2004 and 2005



Comparison of total number of outlets (per 10,000 inhabitants) and share of agencies presents a trend towards reduction of total number of postal outlets (see Figure 4.5.1). Surprisingly, this does not yield an overall increase of the share of agencies: the share of postal agencies has risen in some countries where post offices have been closed but has also decreased in others (see Figure 4.5.3). Even though the share of postal agencies has not undergone much change in recent years, residential customers show dissatisfaction with substitution of post offices by agencies.

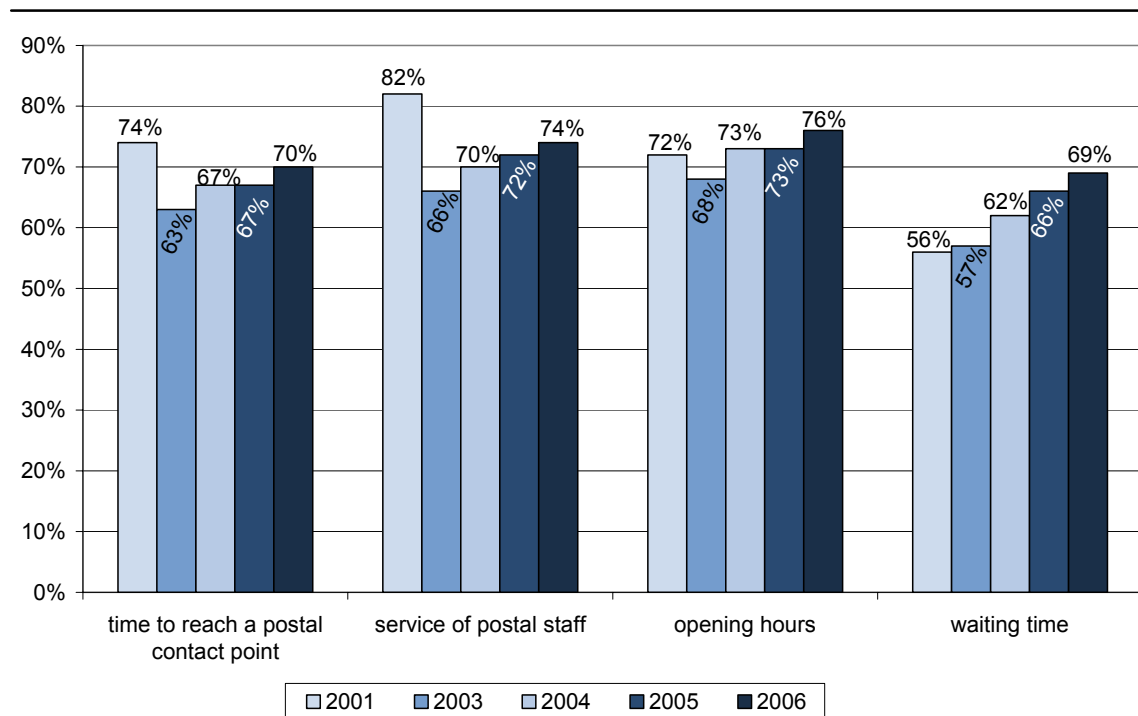
However, the number of postal outlets per 10,000 inhabitants has only altered slightly since 2002 compared to changes during the 2000-2002 period. Only Austria Post shows considerable changes, having strongly increased its number of postal agencies since 2002. This development in recent years may reflect largely completed restructuring processes in many Member States, especially among EU-15.

Competitors in the EU letter markets have not built up access points for private customers yet. Consumer associations do not see any improvements of the access situation by competitive operators up to date but hope that new market entrants might start to focus on private customers when full market opening will be accomplished. Competitive parcel operators have already begun to built up access points for private users (for more information see Case study 4.9).

Case study 4.7 Rebuilding the post office network in Sweden

In 2001/2002, Sweden Post rebuilt its post office network by closing many post offices and setting up agencies in supermarkets, gas stations and stores. Although considerable access improvements arose from these changes, mainly due to prolonged opening hours, Sweden Post had to face strong declines of consumers' satisfaction with access to its services. Customer surveys conducted by Swedish NRA showed that shortly after the reform of the post office network, satisfaction dropped severely.²⁹² In addition, there have been many complaints of users with reduced mobility about difficult access to the new agencies. Both Swedish USP and NRA were concerned how the gap between actual improvements and customer perception could be bridged. Now it seems that time is a great healer. In recent customer surveys, satisfaction with access in Sweden is rising again (Figure 4.5.4), however, satisfaction levels before rebuilding the network have not been reached yet.²⁹³ With respect to opening hours and waiting times, satisfaction of customers is even higher than it was before the reform process started. After lots of service points have improved their accessibility for elder and handicapped persons, complaint numbers are back to the old level. These results indicate that postal users value continuity and take time to get used to changes despite all alterations already undergone. Once they have familiarized with the new situation, they are willing to adapt to the changes.

Figure 4.5.4 Satisfaction with access to postal outlets



²⁹² See SE TEMO (2005).

²⁹³ See SE TEMO (2005) and Special Eurobarometer 219 (2005).

Case study 4.8 DE – Improving access by Postpoint and Packstation

Deutsche Post AG is implementing innovative contact points to postal services, especially aiming at private customers: Packstation and Postpoint. Packstation is a fully automated parcel sending and receiving station customers can use round the clock. Packstations are installed near busy places like train stations or shopping centres. To use Packstation, customers must register and possess a mobile phone or have Internet access. Receivers are then informed via SMS or email that an item arrived at a Packstation. In 2001, "Packstation" was introduced in two German cities and after positive feedback of customers DPAG decided to enlarge Packstation to other cities. Today, there are over 600 Packstations in Germany.

The most recent idea to improve access of private customers to postal services is "Postpoint". Postpoints are, similar to agencies, located in small shops and offer a limited scope of services. Customers can send letters and parcels, buy stamps, parcel stamps and pre-franked envelopes and parcel wrappings but not send or receive items with value-added services (e. g. insured items). Postpoints are tested as a pilot project from November 2005 until presumably mid-2006 on 300 locations.²⁹⁴

DPAG is until full market opening legally obliged to provide 13,000 postal contact points providing the full scope of universal services. Since neither Packstation nor Postpoint offer all universal services, these access points do not count as postal contact point as defined by German postal legislation. DPAG provides them additionally.

Case study 4.9 Access points of CPOs

Competition in the letter services market has not yet reached private customers, or only locally. For parcel services, consumers can already choose among different operators. Some competitors have recently begun to build up networks of contact points in their home countries and in other European markets as well.

- Deutsche Post company DHL has already established 15,000 access points for private and business customers inside and outside DE and will double this figure until 2008, thereof e. g. 2,000 in UK and 1,200 in IT.²⁹⁵
- US-based company UPS is building up a worldwide network of access points for small and middle sized enterprises and will enforce its presence in Europe.²⁹⁶
- Royal Mail subsidiary GLS will establish 50,000 to 60,000 parcel shops in Europe in the next five years. The company plans to establish an area-wide network for private and business users.
- German parcel service operator Hermes has up to date build up around 10,000 contact points.²⁹⁷

Except for UPS who wants to establish company-owned designated stores all other operators offer contact points in supermarkets, gas stations or other retail shops. These contact points have advantageous opening hours for customers and are accessible for senders with very low volumes.

²⁹⁴ DE Deutsche Post (2005a), Postforum November 2005.

²⁹⁵ DE Handelsblatt(20. Oct 2005), Post steckt Milliarden ins Vertriebsnetz [Deutsche Post invests one billion Euro in distribution network].

²⁹⁶ DE Handelsblatt (20. Feb 2006), UPS zieht weltweites Paket-Shop-Netz auf [UPS builds up worldwide parcel shop network].

²⁹⁷ See company website <http://www.hermes-logistik-gruppe.de>

Case study 4.10 Post office network UK

Full market opening in UK has presented an opportunity for Postcomm to think about giving access to post offices to competitive postal operators to promote competition.²⁹⁸ Other operators could then sell their services in post offices currently exclusively offering services of Royal Mail. Subpostmasters managing post offices are bound by their contracts to sell only Royal Mail's products. As post offices of Post Offices Ltd. are highly in deficit expanding the scope of services available would be a business opportunity for subpostmasters in these offices to increase their income. Consumers would be given a broader choice of services. Giving access to post offices would considerably ease entry into consumer segments, given the nationwide coverage and the size of the post office network. The alternative for competitors would be to build up own networks of access points, e. g. in supermarkets or gas stations. According to Postcomm, UK Mail would start to establish "its own variation of the post box in thousands of public places from the end of the monopoly in January 2006".²⁹⁹

Conclusions

Reduction of the number of postal outlets has predominantly taken place in EU-15 Member States. USPs in the new Member States have not reduced their postal outlets much (except for PL). Customer satisfaction in the latter countries is higher, probably due to minor changes in the access network. Compared to developments prior to 2002, reduction of postal outlets has slowed down.

Although customers are in general dissatisfied if post offices are substituted by agencies: in Sweden customer surveys show that after a transition period giving customers time to get used to the changes their satisfaction with agencies is high. Increasing competition has not yet led to the establishment of alternative access networks in the letter market for private users. However, there are some operators beginning to build up access points for parcel services open to small and medium-sized mailers and consumers.

²⁹⁸ See UK Postcomm (2005c), Postcomm's Fifth Annual Report on the network of Post Offices 2004-2005.

²⁹⁹ UK Postcomm (2005c), Postcomm's Fifth Annual Report on the network of Post Offices 2004-2005, p. 38.

4.5.2 Quality of Service

Quality of Service comprises many different quality aspects which are weighted differently by private and business users. Apart from transit time performance (see Section 4.5.3), customers value also transparent and clear service information, short waiting times in postal access points, good customer service and value for money.³⁰⁰

The overall picture is not unanimous. From consumer organizations' point of view in the new Member States, the general quality of service of universal postal operators has improved much. However, some consumer organizations and consumer surveys in the EU-15 countries are not entirely positive, claiming that there are highlights of improved quality of service but the overall quality still needs improvement (e. g. IE, DE, UK). Contrarily, consumer surveys in some Member States (e. g. NL, MT)³⁰¹ show that satisfaction levels of consumers are quite high.

Business customers' satisfaction with overall quality of service is lower than consumers' since business customers use services more often and demand more sophisticated services.³⁰² Business as well as private users expect very high reliability of services but especially senders in the financial sector stressed this aspect. Some business customers even said reliable services are more important than fast delivery as long as transit times are calculable.

Product information becomes more important the more and the more different services customers use. Results of Eurobarometer indicate that there may be potential for improvements concerning transparent product information. According to the study, dissatisfaction with information is varying widely, being as high as 25 % of respondents in IT and as low as 3 % in EE. In a consumer survey in DE of consumer association vzbv, consumers admonished unclear price and product information.³⁰³ According to vzbv, Deutsche Post AG provides more than 90 different terms and conditions for products and services, this variety being intransparent for consumers. Customer surveys in IE and MT also showed that business users are quite dissatisfied with clarity of information received.

As unclear product information enhances the need for advice by postal staff, good customer service becomes more important. Improvements of customer service can be

300 The findings in this Section are based on interviews with business customers, business associations and consumer organizations conducted by WIK-Consult if no other source is mentioned.

301 MT Malta Communications Authority (2005): Postal Services Customer Perception Survey; and NL TNS Nipo Consult (2004), Betekenis en belang van postdienstverlening, Kwantitatieve consultatie van de Nederlandse bevolking [Meaning and importance of the postal services: Quantitative Consultation of the Dutch Population]. See also Special Eurobarometer 219 (2005) which showed that fewer users are dissatisfied with postal services than in 2002.

302 See e. g. MT Malta Communications Authority (2005), Postal Services Customer Perception Survey; IE Millward Brown IMS (2005), Business Postal Services Survey, and IE Amárach Consulting (2005): ComReg Residential Postal Survey 2005.

303 DE WIK (2004), Post-Universaldienst: Kundenzufriedenheit und Beschwerdemanagement [Postal universal service: customer satisfaction and complaints management].

observed in SE: after Sweden Post had transformed many post offices into agencies, satisfaction with customer service has risen considerably and is now higher than ever. Transposition of post offices into agencies has had other positive aspects: waiting times for customers are much shorter in SE. It must be noted that Sweden is an exception: consumer associations in other countries (e. g. CZ, DE, FR, HU) admonish insufficient opening hours, especially for employed persons.³⁰⁴ Insufficient opening hours clearly lessen the accessibility of postal services.

As another aspect of customer service, consumer associations and business users report increasing flexibility and customer orientation of USPs in many Member States in recent years. This development has been strongly influenced by market opening and EU provisions from their point of view. Appreciating this improvement, business users require even more customer orientation and flexibility of USPs. Especially regarding direct entry of international mail, problems seem to be huge for business senders who are facing different format, packaging and sorting requirements in different countries. These problems may be solved by more flexibility of USPs.

Quality is just one side of the story. Users expect not only good quality but also reasonable pricing and value for money. Again, the dividing line runs between private and business customers. Consumers send on average only a handful of letters per year and thus spend very little money on postal services. Average expenses of households, though, are varying widely. Households in CZ, HU and PT spend on average less than 1 € per month on postal services, whereas households in DE, FR and FI spend more than 4 € monthly.

According to Eurobarometer statistics, their satisfaction with prices is quite high even though consumers tend to overestimate their postal expenditures: 81 % of consumers in the EU find prices affordable.³⁰⁵ Nevertheless, there are countries like IT and FI where about one third of customers think that postal services are priced excessively or are not affordable. Countries with advanced market opening like UK and NL have highest price satisfaction levels among consumers but almost half of consumers in Sweden think letter or parcel prices are not reasonable.³⁰⁶ This contrast could be explained by the fact that competition in Sweden takes place almost only in business customer segments.

Business customers spend much more on postal services than consumers and are able to use discounts for presorting or franking. Heavy business users even have individual contracts with postal operators allowing them to negotiate price, quality and features comprised. Prices and value for money seem to be quite satisfactorily in IE and UK, as

304 Results from interviews with consumer organizations. See also FR *Que choisir* (2003), *Menaces sur la poste*.

305 See Special Eurobarometer 219 (2005), *Services of General Interest*, p. 30 and p. 36. Regarding overestimation of expenditures, see NL TNS Nipo (2004), *Betekenis en belang van postdienstverlening, Kwantitatieve consultatie van de Nederlandse bevolking* [Meaning and importance of the postal services: Quantitative Consultation of the Dutch Population].

306 See SE TEMO (2006): *Undersökning av befolkningens Post- och Kassavanor 2006*, 13 februari 2006.

indicated by business customer surveys.³⁰⁷ In interviews with business customers, however, interview partners highlighted price as one of the most inadequate features of postal services. It became clear that business users expect prices to sink when the markets will be fully opened.

Conclusions

Quality of Service is improving, in some Member States faster than in others. Especially customer orientation and flexibility of USPs have developed positively, driven mostly by competition and regulatory requirements. However, much remains to be done in this area, too. Business customers expect further steps forward when postal market opening will be accomplished. It is important, however, not to forget consumers' needs, especially if competition in their segments remains rather low.

4.5.3 Transit time performance

Cross-border transit time

Measurement of cross-border transit times is performed by means of a monitoring system called UNEX whose results are published by IPC. Until 2004, only the USPs of EU-15 MS had fully implemented the system while six USPs in the new MS had implemented a light version of UNEX, "UNEX-Lite" providing statistically less precise data but being much less costly.³⁰⁸ At the beginning of 2005, the original UNEX and the UNEX-Lite system have merged into a single system which shall be able to generate much more comprehensive data and represent country-to-country mail flows with greater accuracy. All 25 USPs in the EU MS are participating in the new system called UNEX 2005. The UNEX monitoring does not include all flows, yet. IPC plans to reach full coverage in 2007.³⁰⁹

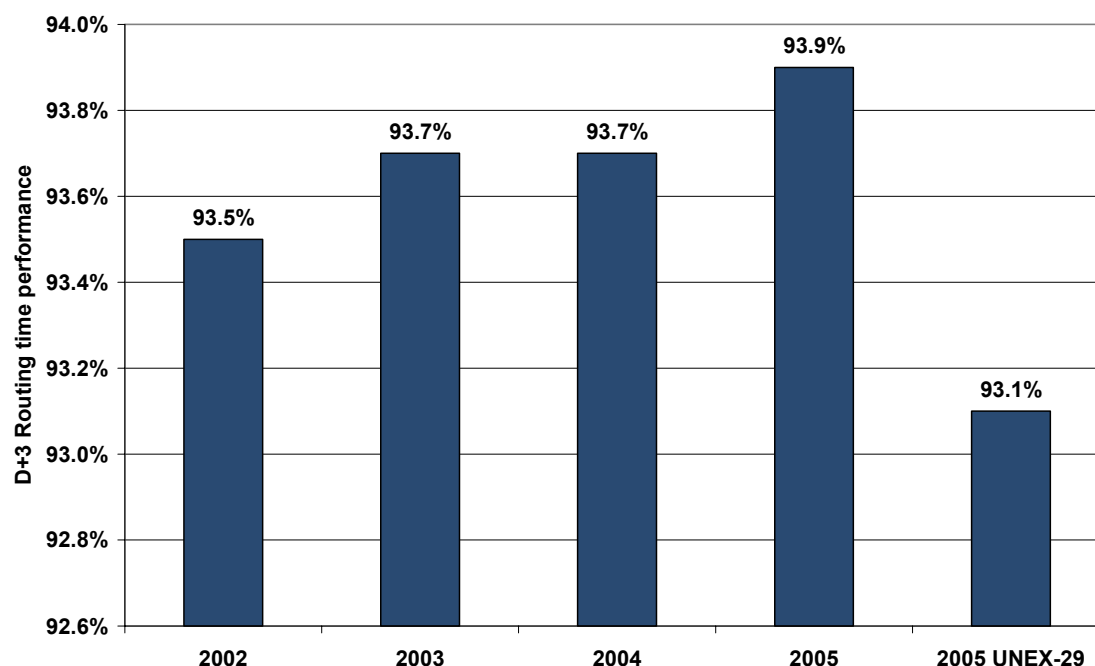
In 2005, the share of cross-border mail delivered D+3 has slightly increased (UNEX-18 results, see Figure 4.5.5). In 2005 the routing time performance of the USPs in the new Member States has been integrated into the UNEX measurement system resulting in a lower overall performance of 93.1 percent compared to 93.9 percent based on UNEX-18.

³⁰⁷ See UK LECG (2005), Business customer survey, and IE Millward Brown IMS (2005), Business postal services survey.

³⁰⁸ WIK-Consult (2004), Main developments in the postal sector.

³⁰⁹ IPC (2006), Improving the quality of international mail, 2005 year results.

Figure 4.5.5 Intra-Community overall performance D+3 in EU 15



Source: IPC, different years;

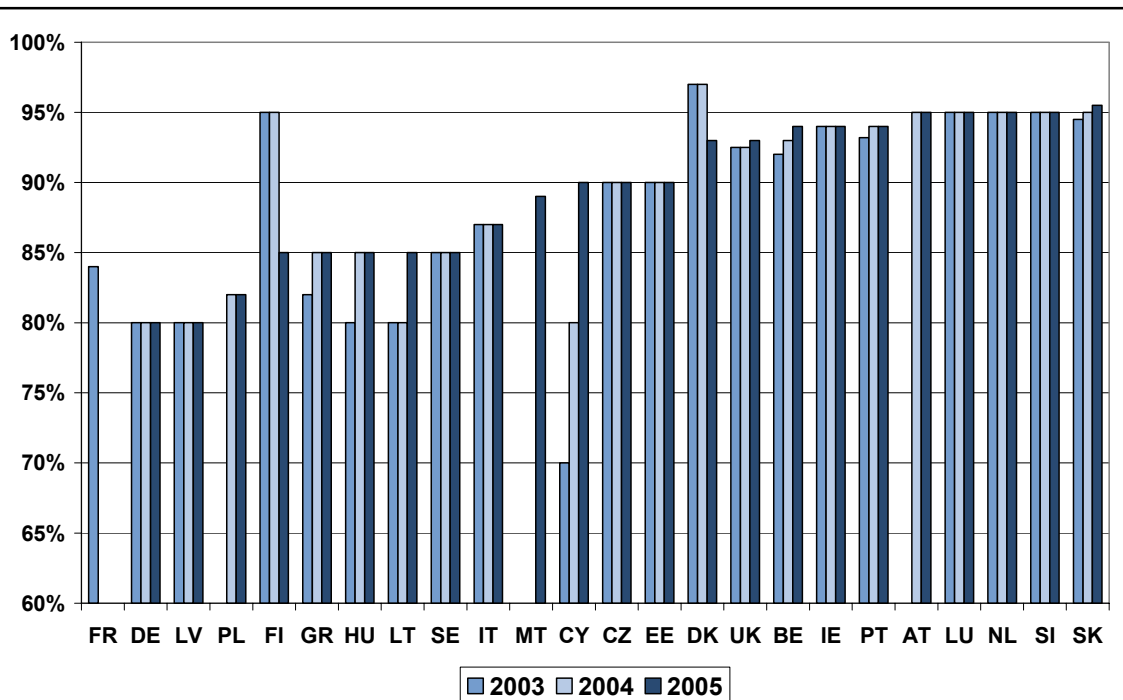
Results 2002-2005 based on UNEX-18 (AT, BE, CH, DK, FI, FR, DE, GR, IS, IE, IT, LU, MT, NL, NO, PT, SE, UK); 2005 UNEX-29 (plus CY, CZ, EE, HU, LV, LT, MT, PL, RO, SK, SI).

Domestic transit time

In general, transit time targets have been set up at a higher level in 2005 than in previous years. No Member State has defined a target lower than 80 % (see Figure 4.5.6) and 12 MS have defined targets of 90 % or more. DK and FI have lowered their targets for 2005 compared to 2003. In DK, targets of 97 % for D+1 delivery have proven to be overambitious after the USP has not been able to fulfill the target for subsequent years. In FI, the target was lowered because of market entry by the USP in the segments of newspaper delivery.³¹⁰ As the USP aims at realizing economies of scale and scope, newspapers and letters have to be delivered on the same delivery round. Newspaper delivery during the day being not acceptable for newspaper subscribers, delivery for both kinds of items has to take place early in the morning at least in less densely populated area and as a consequence, D+1 delivery for letters can not be maintained. As no Member State except for SK has defined a target above 95 %, this seems to be a level regarded as satisfying.

³¹⁰ FI Finland Post Corporation, Annual Report 2004.

Figure 4.5.6 D+1 transit time targets 2003, 2004, and 2005

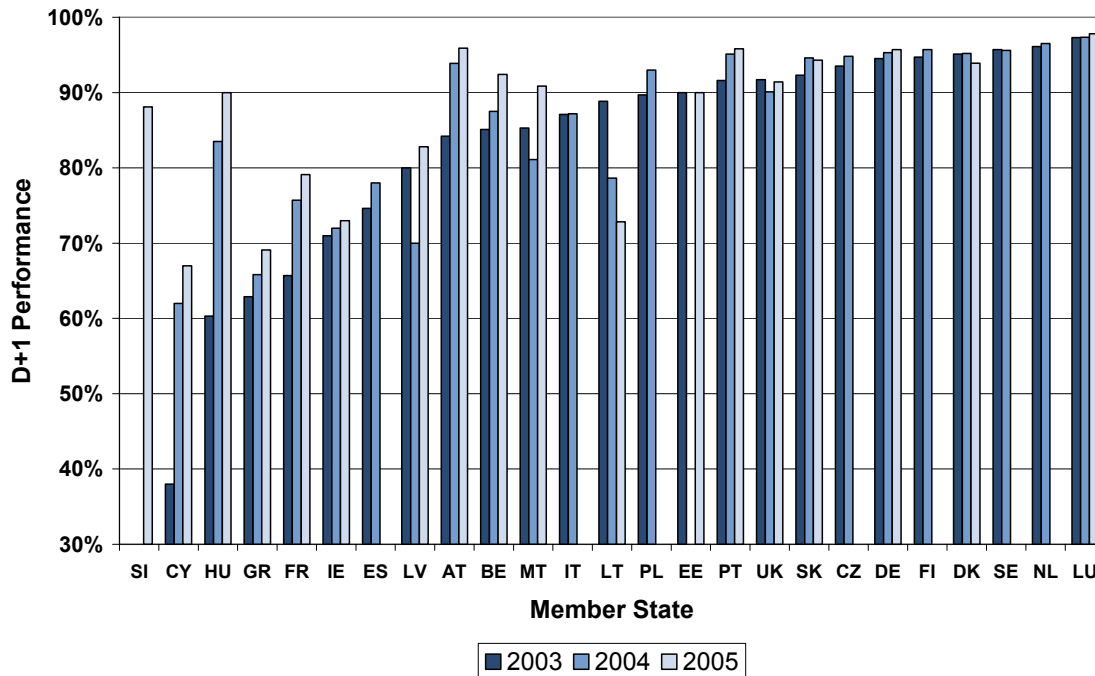


Notes:

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

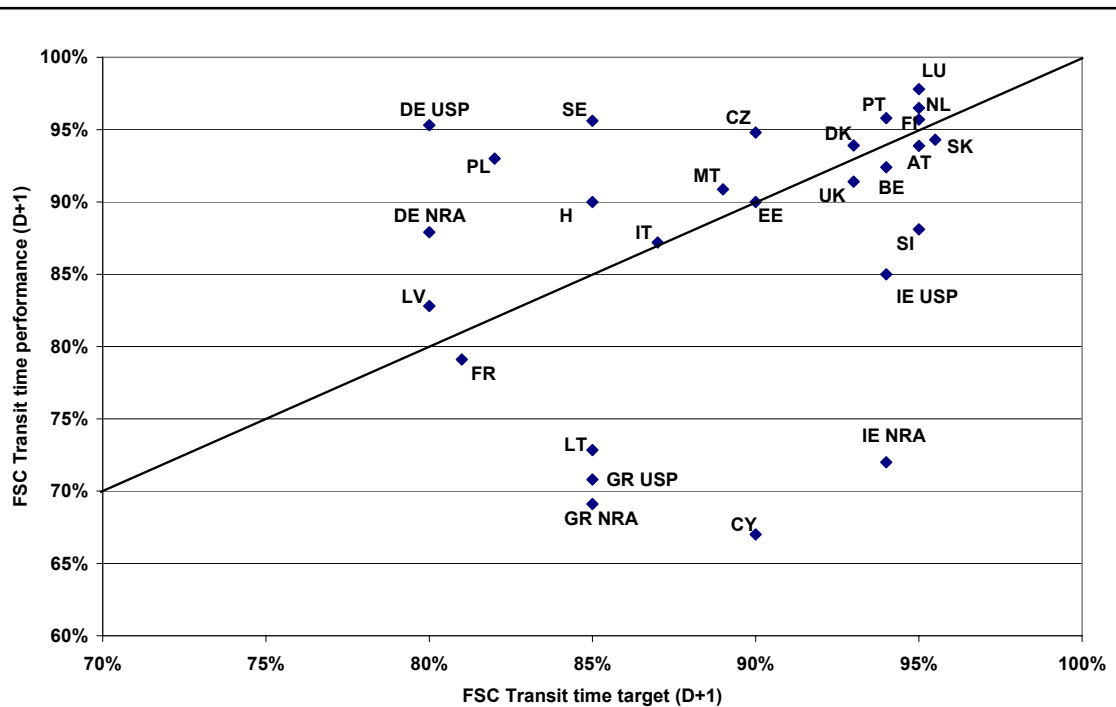
More than half of respondents reported delivery of at least 90 % of letter mail one day after posting, two more Member States than in 2003. One quarter of respondents stated delivery of less than 80 % of letter mail one day after posting. Juxtapositioning of transit time targets and actual performance yields mixed results. Whereas USPs in 13 out of 23 Members fulfil their targets, some even overly, USPs in AT, BE, CY, FR, GR, IE, LT, SI, SK and UK have not been able to achieve the targets set for 2005 respectively 2004.

Figure 4.5.7 Transit time performance D+1 (2003-2005)



Measurement of transit time performance is conducted in IE and GR both by NRA and USP independently of each other, in DE transit times were measured by both institutions until the end of 2004. Since 2005, transit times in DE are measured by the USP only. Wherever transit time performance was quantified by NRA and USP, results are differing fairly. These gaps are caused by differences in measuring methods. The Irish USP includes bulk mail in its measurement procedure whereas the NRA observes only single piece mail. In DE, different definitions of transit time by USP and NRA are responsible for different results (see Case study 4.11): the NRA understands transit time as end-to-end performance from the postal user’s point of view while the USP starts measuring transit time from the moment when an item enters its network (which is actually general practice and also consistent with the measurement standard EN 13 850).

Figure 4.5.8 Comparison of FSC targets and performance



Notes:

- 2004 AT, CZ, DE, FI, IE, IT, NL, PL, SE
- 2005 BE, CY, DK, UK, GR, HU, LT, LU, LV, MT, PT, SI, SK
- ES no D+1 service/target
- FR 2006 target, no targets defined for 2005

Regardless of whether targets have been fulfilled, overall transit time performance has greatly improved. With the exception of USPs in DK, and LT whose transit time performance showed major drawbacks, all other USPs have at least maintained or improved their performance. Especially some UPSs in the new Member States have made major steps forward (CY, CZ, GR, HU and MT) but also AT, BE, FR and GR have improved their performance. CY has forced up its D+1 transit time target from 70 % in 2003 to 90 % in 2005 but could in spite of considerable improvements not achieve this ambitious target.

In interviews with business customers, consumer associations and from survey results in IE, NL, MT and UK it became clear that customers regardless of customer group expect D+1 delivery. The longer it takes to deliver a letter, the less attractive postal services become to users. In IE, satisfaction of business customers with transit times has sunk significantly since 2003 and therefore mirrors low transit time performance of

An Post whereas consumers' satisfaction has not changed much.³¹¹ However, business users reported significant improvements of transit time, e. g. in CZ, HU, SK.

As regards choice between different letter classes, the picture is clearly divided between business and private customers. While business customers expect choice between letter classes with different transit time, it is interesting to note that consumer organizations value choice between classes highly only in those countries where such a choice already exists.

Case study 4.11 Transit time from consumers' point of view

Recent research on customers' perception of postal services showed that consumers value D+1 delivery but find longer transit times unattractive.³¹² Beyond this background, transit times from consumers' point of view need a closer look. Consumers send typically no bulk mail but single piece mail which a majority of consumers addresses in handwriting. However, measured transit time refer to a mix of different mail streams, consumer and business mail. The characteristics of business originated mail (computer generated address, barcoded and presorted mail) facilitates to process the mail for postal operators. Addresses on consumer originated mail can often not be read by sorting machines and must be treated differently. Research of Dutch consumer association Consumentenbond showed that probability for mail items with hand-written addresses to be delivered the next day after posting (D+1) is 10 % lower.³¹³

Another aspect of transit time viewed by consumers is the different understanding of transit time: consumers are interested in how long it takes to deliver a mail item after they placed it in a public postbox while USPs usually measure transit time starting with clearance of postboxes. The period of time between deposit and delivery may be much longer from consumers' point of view than measured transit times. Thus, it is important for consumers to know whether the postbox will be cleared on the same day or not. Postwatch, the consumer watchdog for postal services in UK, is currently pressing the USP to re-introduce signs on public postboxes indicating the next clearance day.³¹⁴ In Germany, transit time measurement covers both views. While the German USP usually publishes the results based on the end-to-end from the operator's point of view, the regulatory authority also requires measurement from the postal user's point of view, i.e. measurement of transit time starts with the deposit of a letter at a public post box or at a post office. Not surprisingly, the transit time performance published by the German NRA is considerably lower than the one published by Deutsche Post: In 2004 the D+1 performance was 87.9 percent (NRA) compared to 95.3 percent (USP).

311 See IE Millward Brown IMS (2005), Business postal services survey, and IE Amárach Consulting (2005), Residential postal survey 2005.

312 See MT Malta Communications Authority (2005), Postal services customer perception survey; and NL TNS Nipo Consult (2004), Betekenis en belang van postdienstverlening, Kwantitatieve consultatie van de Nederlandse bevolking [Meaning and importance of the postal services: Quantitative Consultation of the Dutch Population].

313 NL Consumentenbond (2005), p. 37.

314 UK Postwatch (2005), Annual report and accounts 2004-2005, p. 12.

Conclusions

Intra-community transit times between EU-15 Member States seem to have reached a ceiling. The UNEX 2005 system needs to be fully implemented and will provide reliable data on transit times for cross-border mail between all Member States. Considerable progress has been made concerning D+1 transit times. At the same time, transit time targets have also been enhanced, especially in some of the new Member States. This is one of the reasons why not all USPs achieved their targets in 2005 and/or 2004.

4.5.4 Complaints and redress procedures

Customers' complaint behaviour seems to be strongly influenced by the existence of well-known, widely accepted and trusted independent organizations. Where there are well-established institutions (Postwatch in UK, Ombudsman of La Poste/De Poste in BE), the number of customers seeking mediation services due to unsatisfactory complaint handling is highest. It is striking that the number of complaints (if they were published) is very low in some new Member States (EE, LT, LV, SK). The lack of an established "complaint culture" may serve as an explanation: consumers are not aware of their possibilities to complain and the authorities responsible are not commonly known. Exceptionally strong increases of complaints in some new Member States (CZ, HU, LT, LV, SK) may indicate, however, that consumers are more and more getting aware of their economic rights.

Although information about type and number of complaints is lacking in some MS, some major trends concerning number and type can be identified.³¹⁵ Since 2000, complaint numbers have risen in almost all publishing MS.³¹⁶ As the market opening progresses, complaints about competitors are increasing, too. Consumer organization and ombudsman in AT and BE report a growing number of complaints about competitors. Especially in countries with third party access but also where end-to-end competition exists, consumers may not be aware that their problem is caused by a competitive operator.³¹⁷

Complaint issues which are most common are:

- Lost items

³¹⁵ Results from interviews with consumer organizations. See also UK Postwatch (2005), Annual report and accounts 2004-2005; BE Service de Mediation (2004), Annual report 2004; DE BNetzA (2005b), Activity report 2004-2005; MT Malta Communications Authority (2005), Postal services customer perception survey; and 2004 annual reports of An Post, the Estonian NRA, and Latvian NRA.

³¹⁶ This result of the internet survey is corroborated by Special Eurobarometer 219 (2005), p. 101.

³¹⁷ It became clear from interviews with consumer organizations that consumers' awareness of competition is low.

- Damaged items
- Delayed delivery
- Delivery to a false address
- In two MS, international mail is also a major complaint issue: lost or damaged international items, or breaching of the integrity of international mail (EE, LV).

Whether these issues are more regarding parcels or letters becomes not entirely clear from complaint statistics. It can be assumed from detailed complaint statistics and information of customer organizations in BE and UK though that lost and damaged items refer mostly to parcels.

The evaluation of complaint handling differs widely throughout all MS. Some consumer associations admonish unclear complaint procedures, imprecise responsibilities for complaint access and “not-in-my-backyard”-attitudes of service staff.

- Consumer access to complaint is deemed easy and comprehensible in UK, AT, FI.
- Complaint access is thought to be opaque and complicated in CZ, DE, HU and PL.
- A positive development is stated by almost all interviewed consumer associations concerning complaint handling and obligingness (BE, DE, HU, PL) whereas AT reported no change. This development is mirrored by the share of complaints resulting in reimbursement or compensation of customers: since 2000, this share has risen.

Despite of these developments, the way how complaints are treated seems to need improvement in most Member States. Results of Eurobarometer research show that more than half of all users having made a complaint recently in the EU are dissatisfied with the way how their complaint was handled.³¹⁸ Also national ombudsman and consumer organizations speak the same language. They report that complaint handling needs to be improved, e. g. in BE, DE, FR, MT and UK.³¹⁹

A major obstacle for consumers is the burden of proof, being for some services almost impossible. There is no proof of posting for standard letter services and in some countries neither for small packages, proving non-receipt of an item that is not registered and needs not to be signed for by the recipient is equally impossible. Consumer organizations therefore take the viewpoint that burden of proof should be reverted and operators should partly be made liable to prove correct provision of the service.³²⁰ Although reimbursement figures are rising, it is highly difficult for customers to achieve compensation in case of loss. Consumer associations also stressed the time

³¹⁸ See Special Eurobarometer 219 (2005), p. 105.

³¹⁹ For an overview, see BEUC (2006): Postal Services - Public consultation – BEUC's comments.

³²⁰ See BEUC (2006): Postal Services - Public consultation –BEUC's comments.

and effort of consumers necessary to achieve compensation even in cases where postal operator are doubtlessly at fault. This might prevent customers from addressing a complaint to a postal operator, even if their problem is well proven. Customer organizations experienced that customers only complain to operators if items with considerably value are concerned, prevailing parcels, and customers avoid the effort of complaining if “only” items of minor value are concerned. In cases of lost or damaged parcels sent by mail order companies, the issue is often handled by goodwill of the mail order company rather than by the postal operator.

Conclusions

Postal users are getting more and more aware of their economic rights as expressed in rising complaint figures in most Member States. As a consequence of increasing pressure from customers, USPs become more customer oriented, simplify complaint handling procedures and become more flexible. Although complaint handling procedures have improved much in the past, much remains to be done as well.

4.5.5 Implementation of CEN standards

The CEN Standard EN 13850 on measurement of transit time of end-to-end services for single piece priority and first-class mail is the only standard that is mandatory since 2004 for all Member States. This standard has now been implemented by a majority of Member States (19) whereas in 2004 only half of all MS had implemented it. Among those having not already implemented the standard, only LT and PL plan to implement it later than 2006 (see Table 4.5.2).

The implementation of EN 14012 on the measurement of complaints and redress procedures has also made progress. In 2004, only 6 countries reported implementation of EN 14012. This figure has risen to 12 Member States.

Table 4.5.2 CEN Standards³²¹

Standard	Description	Implemented in
EN 13850	Measurement of transit time of end-to-end services for single piece priority and first-class mail	AT, BE, CZ, DE, EE, ES, FI, FR, GR, HU, IE, IT, LU, MT, NL, PL, PT, SE, UK (IS, NO) CY, DK, SK: implementation was planned for 2005/is in progress MT, SI, RO: implementation in 2006 LT, HR: implementation later than 2006
EN 14012	Measurement of complaints and redress procedures	AT, BE, EE, DK, FI, FR, HU, MT, SE, SI, SK, UK (IS, NO, HR)

³²¹ Input from internet survey and CERP (2005), Implementation of CEN Quality of Services Standards.

From the answers received in the WIK internet survey, it became clear that implementation of a standard, especially concerning EN 14012, does not always mean that both USP and NRA apply the standard. Due to varying publishing requirements (see also section 3.8), publication and thus also application CEN 14012 of complaint information is performed by either USP or NRA.

A TC 331 report from 2005 analysed in detail how CEN Standards have been implemented in Member States.³²² Compliance of the implementation with the standard is only partly audited by an independent organization as regards EN 13850 and even less so regarding EN 14012. Although auditing EN 13850 is mandatory, not all respondents to the CERP Project Team Report indicated that this condition was fulfilled.³²³ Some respondents in the CERP report also indicated that the implementation of EN 13850 is voluntary in their country and thus does not comply with the requirements of the standard. For measurement of transit time of end-to-end services for single piece priority and first-class mail (EN 13850), in most cases named by CERP Project Team the USP is responsible.³²⁴

The implementation of existing standards and the development of new standards is judged controversially by USPs and other stakeholders such as consumer associations. As regards EN 13850, most countries are satisfied with the standard but there are also critical voices in the CERP report. Especially USPs criticise the standard as too costly and very complicated. In contrast, other stakeholders criticise that the standards are not comprehensive enough and do not cover essential aspects, e. g. last time of collection, number of public post boxes.³²⁵

Developing new standards is not unanimously seen among USPs. Some USPs, especially the Swedish, reject the idea of new standards and hint that standards would have long been implemented by USPs on a voluntary bases if they had proved to be “vital success factors of a competitive market”.³²⁶ This attitude is also mirrored in statements that standardization should not be misused as side-regulation and should not impose unfair burdens on USPs.³²⁷

There are also positive statements on new standardization and those proposing new working fields for standardization are not only NRAs but also USPs (e. g. EE, FR, HU, SK). Most proposals deals with quality of service measurements or even quality of

322 CERP (2005), Implementation of CEN Quality of Services Standards.

323 CERP (2005), Implementation of CEN Quality of Services Standards, p. 10.

324 CERP (2005), Implementation of CEN Quality of Services Standards, p. 18.

325 CERP (2005), Implementation of CEN Quality of Services Standards, p. 37-38.

326 CEN (2005a), Questionnaire on the future of postal standardization 2005, p. 1/11.

327 CEN (2005b), Synthesis report on the answer received to a questionnaire on the future of postal standardization, p. 4.

service requirements, there are also singular proposals dealing with address standardization.³²⁸

Conclusions

Implementation of CEN 14012 and 13850 has made considerable progress. Given the fact, though, that EN 13850 is mandatory since 2004, work remains to be done in some Member States. Regarding development of new standards, there do not seem to be pressing issues.

328 CEN (2005a), Questionnaire on the future of postal standardization 2005 and CEN (2005b), Synthesis report on the answer received to a questionnaire on the future of postal standardization, p. 11.

5 Specific Policy Issues

The Postal Directive has followed two objectives: to safeguard postal universal service at good quality and to establish an internal market for postal services. The second objective is reflected in the stepwise opening of national letter post markets for competition. Achieving the first objective – safeguarding a postal universal service of good quality – is challenged by changes in the communication behaviour of consumers and businesses. These changes have an impact on mail volume development and on volume structure but especially on the importance of postal services for the society in general. Both developments – the complete market opening in sight and changing demand patterns – may create opportunities and threats to postal service providers as well as to the postal universal service.

This chapter considers the extent to which the recent market and regulatory developments identified in the report shed light on some specific questions:

- How has market opening effected the operations and financial position of USPs? (see section 5.1)
- How have USPs responded to a changing regulatory and market environment? (see section 5.1)
- Has universal service developed differently in those Member States that have liberalised their markets beyond the requirements of the Postal Directive? (see section 5.2)
- What is the impact of volume development on universal service? (see section 5.3)

All conclusions of this chapter are exclusively based on (recent) past experience we observe in the EU postal market. These relations between different sector developments are meant to inform EU postal policy. However, we stress that our conclusions do not attempt to make predictions about the future: such analysis would be beyond the scope of our report.

5.1 Market opening and the development of the USPs

The decision for a step-wise market opening procedure has partly been driven by the insight that the former postal administrations (together with their owners) need time to prepare themselves for competition. They have had to tackle problems and restrictions stemming from their former status as postal administrations. The most obvious example are the numerous civil servants which still represent more than 20 percent of USPs' employees in the Community. In addition, many USPs have undertaken significant efforts to re-structure their networks and operations, and to enhance customer orientation.

In the following we would like to provide an updated picture of the progress USPs made on their way to a competitive environment. For this purpose, we have assembled information from various previous chapters of the report. In particular, we pay particular attention to those USPs that are confronted with the most intense competition; in those Member States that have opened postal markets beyond the minimum required by the Directive.

On their way to a competitive marketplace USPs have faced two important challenges: First, how to improve service provision, cost efficiency and profit margins? And second, how to meet changing customers needs?

Table 5.1.1 Market opening and profitability of USPs

Level of profit margins in 2004	Degree of market opening	Member States	Notes
High	Letter mail markets more or completely opened to competition	IT, NL, DE, EE, ES, FI	Direct mail: DE, EE, ES, IT, NL Items of correspondence: DE, ES No substantial competition: FI
	Market opening according to the minimum requirements of the Directive	DK (second market opening step in 2005), PL, PT, SK	
Medium	Letter mail markets more or completely opened to competition	AT, CZ, SE	Direct mail: AT, CZ, SE, UK Items of correspondence: SE, UK
	Market opening according to the minimum requirements of the Directive	GR, HU, LT, MT	
Low	Letter mail markets more or completely opened to competition	SI, UK	Direct mail: SI, UK Items of correspondence: UK
	Market opening according to the minimum requirements of the Directive	BE, FR, IE, LV	
Notes: Market opening according to the minimum requirements of the Directive: reserved area includes direct mail; the market opening of outgoing cross-border mail is not considered separately; CY, LU – no 2004 figures; Profitability (2004): High: >5%; 2 – Medium: 2-5%; Low <2%. Profit margin= [total revenues – operating expenses]/total revenues.			

The level of profitability appears not to be negatively related to the degree of market opening. In contrast, USPs of Member States with more opened or completely opened letter post markets have achieved higher profit rates than USPs in less opened markets. In the group of USPs facing more competition, the Slovenian USP and the British USP are less successful in terms of profitability. In SI this might be a result of the very low price level for public postal services. In UK low profit margins are mainly resulting from restructuring and modernizing their letter business. Compared to other USPs in more opened markets Royal Mail has started relatively late with this process. Generally, it appears that USPs confronted with significant market opening have put lot of efforts in improving cost efficiency. Simultaneously, competition is emerging very slowly thus harming the USPs' revenues and profitability less than maybe expected.

Between 2002 and 2004 some USPs, namely those from AT, BE, HU, IT, PT, and UK, improved their profitability by more than four percentage points. Moreover, 2005 figures indicate that Austrian Post and Sweden Post achieved profit rates of more than five percent (qualifying for the “high level group”). The 2005 profit rates of the German, Dutch, and Danish USPs were stable or have even increased; the Finnish USP achieved a slightly decreased profit rate of still more than five percent.

Table 5.1.2 Profitability and costs of USPs

Profit margin 2004 (1)	USP	Cost structure		Employment		Postal outlets	
		Share of employment expenses on total expenses (2)	Change in share (2002-04) (3)	Change in headcount (2002-04) (4)	Change in FTE (2002-04) (5)	Change in number of postal outlets (2002-04) (6)	Change in share of postal agencies (2002-04) (7)
High	DE	Low	Decrease	Increase	Increase	Increase	Decrease
	DK	High	Decrease	Increase	Strong decrease	Decrease	Strong increase
	EE	Medium	Increase	Decrease	Decrease	Decrease	Increase
	ES	High	Strong decrease	Increase	NA	Decrease	NA
	FI	Low	Increase	Increase	Increase	Decrease	Decrease
	IT	High	Strong decrease	Decrease	NA	Increase	NA
	NL	Low	Increase	Increase	Increase	Increase	Decrease
	PL	NA	NA	Decrease	NA	Increase	Strong increase
	PT	Low	Strong decrease	Strong decrease	Strong decrease	Strong decrease	Decrease
	SK	Low	Strong decrease	Decrease	Strong decrease	Decrease	Increase
Medium	AT	Medium	Decrease	Strong decrease	Strong decrease	Decrease	Strong increase
	CZ	High	Decrease	Decrease	Decrease	Decrease	NA
	GR	NA	NA	Increase	NA	Decrease	Increase
	HU	Low	Increase	Strong decrease	NA	Strong decrease	Decrease
	LT	Medium	Decrease	Increase	Increase	Increase	NA
	MT	Low	Strong decrease	Strong decrease	NA	Increase	Decrease
	SE	Low	Strong decrease	Strong decrease	NA	Decrease	Decrease
Low	BE	High	Strong decrease	Strong decrease	Strong decrease	Decrease	Increase
	FR	Medium	Decrease	Decrease	Decrease	Decrease	Increase
	IE	High	Decrease	Decrease	Decrease	Decrease	Decrease
	LV	Low	Strong decrease	Increase	NA	Increase	NA
	SI	Medium	Decrease	Increase	Increase	Increase	Increase
	UK	Medium	Strong decrease	Decrease	NA	Strong decrease	Decrease

Notes:
 CY, LU – no 2004 figures (profit margin)
 (1) Profit margin (EBIT, 2004): High: >5%; Medium: 2-5%; Low: <2%;
 (2) Share of employment expenses on total expenses (2004): Low: <60%; Medium: 60-65%; High: >65%; GR, PL: no 2004 figures.
 (3) Change in share of employment expenses on total expenses (measured in percentage points 2002-04): Strong decrease: < -2 %; decrease: -2 to 0 %; increase: >0%; GR, PL: no 2004 figures.
 (4) Change in headcount (2002-04): Strong decrease: <-5 %; decrease: -5 % to 0 %; increase: >0 %;

Profit margin 2004 (1)	USP	Cost structure		Employment		Postal outlets	
		Share of employment expenses on total expenses (2)	Change in share (2002-04) (3)	Change in headcount (2002-04) (4)	Change in FTE (2002-04) (5)	Change in number of postal outlets (2002-04) (6)	Change in share of postal agencies (2002-04) (7)
(5) Change in full time equivalents (FTEs, 2002-04): strong decrease: <-5 %; decrease: -5 % to 0 %; increase: >0 %; (6) Change in number of postal outlets (2002-04): strong decrease: <-10 %; decrease: 0 % to -10 %; increase: >0 %; (7) Change in share of postal agencies (2002-04, in percentage points): 1 – strong increase: > 5 %; 2 – increase: -2 to 0 %; 4 – Decrease: <0 %.							

USPs have made considerable progress in increasing cost efficiency which is one of the reasons for improved profitability (see Table 5.1.2). But the pace differs between USPs. Not surprisingly, the USPs of the new Member States have started later to catch up while some of the USPs from the EU-15 appear to be leading the quest for high levels of cost efficiency (e.g. DE, DK, NL). Nonetheless, most of the USPs, including those from the new Member States have accepted the challenge and have considerably improved their situation. The USPs of CZ, HU, and SK are good examples illustrating this progress. Especially, the Slovakian postal operator has improved his cost structure by reducing employment and has saved costs by slightly decreasing the number of postal outlets while making more use of postal agencies.

The Portuguese USP, Correios, has also significantly improved profitability by using the same instruments as the Slovakian postal operator. In contrast, USPs which have already achieved a relatively high level of cost efficiency are characterised by minor changes in cost structure, employment and postal outlet development. Post Danmark appears to have replaced full-time by part-time employment to large extent: while headcount employment has increased the number of FTEs has strongly decreased. Nonetheless, the level of employment expenses is still high at Post Danmark, although it has one of the highest profit rates.

The group of USPs with weak profitability needs closer consideration. La Poste/De Post (BE) and La Poste (FR) are both modernising their networks whereby French La Poste started this process later. This requires considerable investments which reduce the profits in the short term. The situation of the Irish USP appears more difficult even after a recent reduction of the number of postal outlets (starting from a very high level) and investments in sorting technology. The Latvian USP experienced declining revenues between 2002 and 2004 despite strong growth of letter post volumes. Furthermore, the Latvian USP was the only one who made losses in 2004. (In 2006, the Latvian USP has increased public tariffs significantly; for the first time since 1999).³²⁹

³²⁹ For 2004, no information was available from the USPs in CY, GR, and PL.

Table 5.1.3 Development of postal revenues

Country group	Average change in USP postal revenues (2002-2004)	Average CAGR of USPs' letter post volume (2002-2004)	Average price change (20g FSC tariff, national currency, 2002-2005)	USPs
Scandinavia	2.9%	-1.6%	10.3%	DK, FI, SE
IE, UK	2.5%	0.2%	14.1%	IE, UK
Western and Central Western	12.9%	0.3%	8.6%	AT, BE, DE, FR, LU, NL
Central Eastern	9.1%	0.8%	55.4%	HU, PL, SI, SK
Southern	7.2%	0.3%	1.1%	ES, IT, MT, PT
Baltic	-10.9%	6%	0.0%	EE, LT, LV
Notes: CY, CZ, GR – not included because of missing 2004 figures for postal revenues				

While the growth of postal revenues in Scandinavia and on the British islands was limited, strong growth could be observed in the other European regions except for the Baltic countries. Despite of letter post volume growth the USPs of all Baltic Member States faced a strong decline in postal revenues between 2002 and 2004 (see Table 5.1.3); except for the Latvian USP they were able to compensate decreasing postal revenues by other revenues. In contrast to the USPs from Central Eastern Europe, the Baltic USPs were not able to improve their financial situation by increasing postal tariffs.

Main source of revenue increases in the Central Eastern countries have been strong price increases for first and – if offered – for second class letter services and slight increases in mail volumes. Increases of postal revenues in the Western and Central Western Member States are resulting from intensified activities in express and parcel services and to less extent price and volume increases. The Dutch USP is even facing strong volume losses mainly due to competition.

The Scandinavian Member States also have safeguarded their postal revenues by increasing activities in parcel and express segment. Besides, the Finnish USP have increased letter post volume by extending its activities in the delivery of newspapers and magazines. Due to these efforts the Finnish USP was able to overcompensate volume losses in items of correspondence.

5.2 Market opening and universal service requirements

Table 5.2.1 Degree of market opening and access to the public postal network

Market opening	Universal service requirements	Share postal agencies (2004, weighted average)	Postal outlets per 10,000 inhabitants (2004, weighted average)	Area of EU-25 covered	Population of EU-25 covered	Member States
Market opening according to minimum requirements of Directive	Low	51.2%	4.60	1.9%	1.0%	CY, LT, MT
	High	27.6%	2.68	36.2%	34.5%	BE, DK, FR, GR, HU, IE, LU, LV, PL, PT, SK
Letter mail markets more or completely opened to competition	Low	7.9%	1.92	35.6%	28.0%	AT, CZ, ES, IT, SE
	High	76.5%	1.94	26.3%	36.5%	DE, EE, FI, NL, SI, UK
Notes: Market opening according to the minimum requirements of the Directive: reserved area includes direct mail; the market opening of outgoing cross-border mail is not considered separately. Universal service requirements: <ul style="list-style-type: none"> • low – no specific requirements (density of postal outlets or special confirmation from government/regulator before closing a postal outlet); • high – specific requirements existing; all USPs except for the Latvian one are allowed to make use of postal agencies.						

Generally, in Member States with more opened letter mail markets relatively more Member States have decided to establish low requirements regarding access to the public postal network. Although, it appears that specific regulatory requirements do not effect the density of postal outlets. In Member States with less opened letter mail markets the density of postal outlets per 10,000 inhabitants is in average higher than in the Member States with more opened postal markets (see Table 5.2.1). Moreover, they make less use of postal agencies. Consequently, costs generated by postal outlets appear to be higher in Member States with less opened letter markets than in Member States with more opened postal markets. Nonetheless, independent of the degree of market opening all USPs have fulfilled the legal requirements with respect to access to universal service. Additionally, it has to be taken into account that changes in number or organization of postal outlets are often subject to public and political pressure which is not reflected in the regulatory requirements.

Table 5.2.2 Degree of market opening and quality of service requirements

Market opening	Quality of service requirements	Average, D+1 targets	Average, D+1 performance	Average change in D+1 performance since 2002	Weight LpDom	Member States
Market opening according to minimum requirements of Directive	High 14 Member States	89.0%	85.1%	3.1%	30.6%	BE, CY, DK, FR, GR, HU, IE, LT, LU, LV, MT, PL, PT, SK
Letter mail markets more or completely opened to competition	Low 6 Member States	87.0%	92.2%	0.9%	36.7%	DE, EE, ES (no D+1 target, lowest D+1 performance), FI, NL, SE
	High 5 Member States	92.0%	91.1%	2.5%	32.8%	AT, CZ, IT, SI, UK
<p>Notes: Market opening according to the minimum requirements of the Directive: reserved area includes direct mail; the market opening of outgoing cross-border mail is not considered separately. Quality of service requirements:</p> <ul style="list-style-type: none"> • low – only part of universal service is subject to quality of service requirements (NL is included because of limited scope of universal service); • high – substantial part of universal service is subject to quality of service requirements. 						

Generally, Member States with less opened letter markets have relatively high quality of service requirements in terms of postal services subject to routing time targets (see Table 5.2.2). The average D+1 routing time performance is lower than the average targets: Some of the USPs have not yet achieved the regulatory targets; but almost all have improved routing time performance between 2002 and 2004/2005. However, it is unclear to what extent improving performance was driven by regulation (most likely in countries with a link between quality of service and price regulation like in BE and PT) or by (threat of) competition. Usually, investments in measures to get better control on mail streams (i.a. investments in automation and in quality management) are positively effecting routing time performance. The share of mail automatically sorted has been increasing at most USPs. Only USPs with low mail volumes like the ones of LT and LV are still using manual sorting exclusively. Finally, it appears that routing time performance is higher in those countries where USPs face more intense competition. It is also worth noting that the regulatory routing time targets in DE, FI, and SE are below 90 percent while their performance is still above 90 percent. This also indicates that high quality levels are also result of commercial decisions of USPs and a positive side effect of modern and well-structured logistical networks. The Spanish USP is still an exception: While facing fierce competition in their domestic letter post markets the Spanish USP has not decided to establish a nationwide high quality D+1 network. On the other hand the USP made considerable progress in automation the last years indicating that they aim at improving the reliability of their services.

Table 5.2.3 Degree of market opening and uniform tariff requirements

Market opening	Uniform tariff requirements	Weight LpDom	Member States
Market opening according to minimum requirements of Directive	Low	21.2%	FR, HU, IE
	High	9.4%	BE, CY, DK, GR, LT, LU, LV, MT, PL, PT, SK
Letter mail markets more or completely opened to competition	Low	60.8%	CZ, DE, FI, IT, NL, SE, UK
	High	8.6%	AT, EE, ES, SI
Notes: Market opening according to the minimum requirements of the Directive: reserved area includes direct mail; the market opening of outgoing cross-border mail is not considered separately. Uniform tariff requirements: <ul style="list-style-type: none"> • low – only part of universal service is subject to uniform tariff requirement (NL is included because of limited scope of universal service); • high – all universal services are subject to uniform tariff requirements. 			

In Member States with more opened letter markets the uniform tariff requirements are less restrictive than in Member States with less opened letter markets (see Table 5.2.3). Therefore, the USPs have means to react on selective market entry. However, the scope of price setting is still limited by the application of competition rules and by regulatory requirements on non-discrimination and cost orientation of postal tariffs. Generally, it appears that those Member States that have liberalised letter markets more rigidly than others are mandating uniform tariffs only for a smaller set of key universal services, compared to other Member States.

5.3 Mail volume development

Table 5.3.1 Mail volume development, internet penetration and price developments

USPs' letter post volume	Letter post volume per capita	USP	CAGR for USPs' LP volume, 2002-2004	Internet penetration 2005	20g FSC tariff, 2002-2005	20g SSC tariff, 2002-2005
Increasing	High	AT	1.8%	56.8%	7.8%	
		DE	1.5%	59.0%	-1.8%	
		FI	2.7%	62.5%	8.3%	10.0%
		SI	3.7%	48.5%	58.1%	
		UK	1.6%	62.9%	11.1%	10.5%
	Low	EE	3.8%	50.0%	0.0%	
		GR	5.3%	33.7%	11.1%	12.5%
		LT	confidential	28.3%	0.0%	
		LV	12.0%	35.3%	0.0%	
		SK	5.9%	42.3%	15.4%	50.0%
Stable	High	BE	confidential	48.7%	19.0%	7.3%
		FR	-0.1%	43.0%	15.2%	17.2%
		LU	-0.2%	58.9%	11.1%	
	Medium	ES	0.5%	38.7%	2.9%	
		IT	0.7%	48.8%	-3.2%	9.8%
		MT	0.1%	78.1%	0.0%	
	Low	PT	-0.1%	58.0%	4.7%	7.1%
		CZ	0.2%	47.0%	17.2%	
		HU	-0.2%	30.3%	136.8%	
Decreasing	High	DK	-5.8%	69.4%	12.5%	13.3%
		NL	-2.0%	65.9%	0.0%	
		SE	-1.7%	74.9%	10.0%	0.0%
	Medium	IE	confidential	50.7%	17.1%	
	Low	CY	-5.8%	31.0%	0.0%	
		PL	-6.0%	27.8%	11.1%	18.2%
Notes:						
USPs' letter post volume (development):			Increasing – CAGR 2002-2004 >1%;			
			Stable – -1% < CAGR 2002-2004 < 1%;			
			Decreasing: CAGR 2002-2004 < -1%;			
Letter post volume per capita:			High - >200 items per capita;			
			Medium – 100-200 items per capita;			
			Low - <100 items per capita;			
Internet penetration: Percent of population.						
FSC: fastest standard category, change in postal tariff (20g, national currency);						
SSC: second fastest standard category, change in postal tariff (20g, national currency).						

Development of total mail volumes and internet penetration generally appear unrelated. Only in high volume Member States (especially in the Scandinavian Member States and perhaps in the Netherlands) it appears that volumes of items of correspondence and internet penetration have been negatively correlated. However, Finland Post saw considerably increasing letter post volume despite a high degree of internet penetration. According to Finland Post this increase is mainly due to growth in direct mail and subscribed newspapers and magazines. The volume of items of correspondence (or first class letters) is continuously decreasing. In some Member States evolving

competition becomes a more and more important reason for stagnating or even decreasing letter volumes of USPs. The decline in mail volumes of the Dutch USP, for example, seems to be more driven by increasing competition in its domestic market: in 2005 the main competitors of TNT, Sandd and Selektmail, have significantly increased their mail volumes while TNT lost about 3 per cent.³³⁰ Internet penetration might still have an effect on Dutch letter volumes, but on the other hand postal tariffs have been stable at a relatively low level compared to other EU 15 USPs.

In Member States with low mail volumes per capita the situation is mixed. While the USPs of EE, LT, LV, and SK have increased letter post volumes, others have been confronted with volume decreases, notably CY and PL. In CZ and HU letter post volumes have been stagnating. Price increases appear to be one important reason for restricted growth, especially in HU.

Table 5.3.2 Age structure, internet penetration and mail volume development

Age structure (share of pop. younger than 30 years)	Internet penetration (2005)	LpDom Average CAGR (2002-04)	Share of population younger than 30 years	Change in real GDP (2002-04)	Member States
>40 %	High	0.1%	40.6%	-1.7%	MT
	Medium	2.3%	44.0%	9.7%	IE, SK
	Low	-5.9%	42.7%	7.6%	CY, PL
35 – 40%	High	-1.1%	36.6%	4.3%	DK, FI, NL, SE, UK
	Medium	1.2%	37.6%	6.3%	BE, CZ, EE, FR, LU, PT, SI
	Low	4.0%	36.8%	11.7%	ES, GR, HU, LT, LV
< 35%	Medium	1.3%	33.0%	2.1%	AT, DE, IT
Notes: Internet penetration: High >60 %; Medium: 40-60%; Low: <40% of population have access to internet.					

Another reason might be that these postal markets still need more time to develop. Firstly, communication behaviour might be significantly different because of a considerably younger population compared to the EU-15, this might restrict growth in items of correspondence (see Table 5.3.2). Secondly, direct mail and mail ordering business is still underdeveloped due to limited purchasing power. Furthermore, making use of target oriented direct mailings requires well-developed address databases with a lot of additional information (on income, consumer behaviour and so on). The establishment of high-quality address databases also needs time similar to the modernization and restructuring of the existing postal service providers. The common use of unaddressed direct mail in CZ, HU, SI, and SK indicates considerable growth potential.

³³⁰ Sandd claimed an increase of 100 Mln. items in 2005 (growth rate of more than 75% compared to 2004, see website www.sandd.nl) while TNT lost about 163 Mln. If Selektmail was at least as successful as Sandd then volume increase of the main competitors would have outweighed TNT's volume losses.

Table 5.3.3 Mail volume development and universal service provision

USPs' letter post volume	Letter post volume per capita	USP	Change in postal outlets	D+1 performance (2004/2005)	Change in D+1 performance (from 2002)
Increasing	High	AT	-4.0%	93.9%	9.7%
		DE	2.6%	95.3%	0.8%
		FI	-5.4%	95.7%	1.0%
		SI	0.5%	88.1%	0.0%
		UK	-15.3%	91.4%	1.3%
	Low	EE	-0.7%	90.0%	0.0%
		GR	-0.1%	69.1%	3.3%
		LT	0.1%	72.8%	-5.8%
		LV	0.5%	82.8%	12.8%
		SK	-3.0%	94.3%	-0.3%
Stable	High	BE	-1.5%	92.4%	4.9%
		FR	-0.4%	79.1%	3.4%
		LU	-0.9%	97.8%	0.4%
	Medium	ES	-3.6%	78.0%	3.4%
		IT	2.8%	87.2%	0.1%
		MT	2.0%	90.9%	9.8%
		PT	-21.1%	95.8%	0.7%
	Low	CZ	-0.2%	94.8%	1.3%
		HU	-13.6%	90.0%	6.5%
Decreasing	High	DK	-5.0%	93.9%	-1.3%
		NL	1.2%	96.5%	0.4%
		SE	-9.3%	95.6%	-0.1%
	Medium	IE	-8.6%	72.0%	1.0%
	Low	CY	0.3%	67.0%	5.0%
		PL	1.3%	93.0%	3.3%
Notes: Letter post volume (development): Increasing – CAGR 2002-2004 >2%; Stable – -1% < CAGR 2002-2004 < 1%; Decreasing: CAGR 2002-2004 < -1%; Letter post volume per capita: High - >200 items per capita; Medium – 100-200 items per capita; Low - <100 items per capita.					

Decreasing mail volumes may put additional pressure on USPs to provide services less costly. This might be reflected in less densely distributed postal outlets or lower transit time performance (quality of service). The reduction and reorganization of postal outlets appears to be independent from mail volume development. This is insofar a logical result as bulk mailers usually hand over their items at special access points while consumers and small mailers who mainly use postal outlets represent a lower share of postal volume. Correspondingly, independent on mail volume development USPs are always anxious to reduce or restructure the network of postal outlets or to extent services offered in postal outlets in order to become more profitable and competitive.

Additionally, the USPs still put a lot of efforts in increasing quality of service (especially the USPs of the new Member States) independent from mail volume development. Denmark is an interesting exception. After relaxing the routing time target from 97 to

93% the Danish USP has reduced its performance from 95.2% to 93.9%. Generally, there is no clear indication that decreasing mail volumes put universal service provision at risk.

5.4 Conclusions

This chapter has considered the extent to which the recent market and regulatory developments identified in the report have effected the development of USPs, universal service requirements, and universal service provision:

- So far, liberalization (or the threat of liberalization) appears to have had positive effects on the financial position of USPs. USPs have considerably increased cost efficiency. Most common measures include changes in the public postal networks as well as employment reductions following network re-structuring.
- The modernization process was accompanied by considerable improvements in quality of service enhancing the reliability of postal services. Especially the USPs of the new Member States—that had started later with the modernization process—made considerable progress in increasing transit time performances. Furthermore, they have significantly increased postal tariffs which have allowed these USPs to become profitable.
- Postal legislation appears to provide for more commercial flexibility in those Member States that have liberalised their postal markets more vigorously.. Particularly, this flexibility for USPs relates to access requirements and the use of postal agencies as well as less strict uniform tariff requirements and quality of service targets.
- Less strict regulation of universal postal services in these Member States, however, appears not to have had a negative impact on quality of service. USPs are looking for ways to tackle the challenges arising from competition but also from electronic substitution. It appears that saving on quality of postal services is counter-productive to USPs competitiveness. This appears to be the reason that a relationship between mail volumes and quality of service could not be detected.

6 Recommendations

As we have observed, the Postal Directive has been a notable success.³³¹ Member States have introduced a long list of new postal laws and regulations to implement the requirements of the Directive. Since 1997, Member States have made great strides in bringing their practices in line with the norms of the Directive. On the ground, there have been "a number of significant improvements notably as regards quality of services, improved business efficiency, and the separation of regulators from operators".³³² The European Union has become a world leader in the modernization of postal markets.

Since the last report on main developments in the European postal sector (2004) the Postal Directive has not changed. Thus, the recommendations provided in that study have been widely confirmed in this report. Taking into account the findings of this study, we respectfully offer the following recommendations for consideration as possible improvements in the regulatory framework for postal services:

- 1) *Confirm January 1, 2009, as the date for full liberalization.*

In the last decade, actual and complete liberalization, not price and weight ceilings, have been, in our view, proved to be the best stimulus for improved service and efficiency. Given the success of liberalization so far, the emerging consensus in favour of liberalization among Member States, and the absolute barrier to the Single Market created by national reservations, we believe the best course is to implement full liberalization in 2009 as envisioned in the Postal Directive.

- 2) *Require Member States to create a "level playing field" for all providers of postal services.*

Providers of universal services should be treated equally under the law. All operators should be afforded an equal opportunity to participate in government contracts or subsidies, if any, that sustain non-commercial universal services. None should be designated as "the" universal service provider. Authorisation procedures, if any, should apply equally to all. VAT, customs, and other laws that significantly affect universal postal services should apply equally. A necessary corollary to full liberalization is that public postal operators must be allowed to adapt to the new business environment. Member States should not be permitted to impose on public postal operators, without adequate compensation, universal service obligations which make it difficult or impossible for them to succeed in a competitive market.

³³¹ WIK-Consult (2005b), The evolution of the regulatory model for European postal services, p. 172.

³³² Commission of the European Communities (2005a), Report from the Commission to the Council and the European Parliament on the application of the Postal Directive, p. 2.

- 3) *Limit authorisation procedures to general authorisations for postal services within the universal service area and define more clearly the types of conditions that may be attached.*

Authorisation procedures are not needed outside the universal service area. Within the universal service area, there is no evidence that new service providers pose such a threat to the public interest that the NRA needs to exercise ex ante control over entry. Unnecessarily restrictive conditions on authorizations should be clearly prohibited.

- 4) *Clarify the purposes and requirements of a universal service fund and other measures necessary to ensure universal service.*

If postal services are liberalized, the burden of sustaining universal service, if any, will likely fall on a universal service fund that is sustained by a levy on all postal operators providing of universal services. Provisions in the current Directive related to a "compensation fund" are ambiguous and based on "fairness" to a specific postal operator rather than the cost of universal service per se. So far, Member States have made little use of the concept. The new directive should specify clearly the basis of such a fund and the permissible means of funding. Moreover, to supplement the universal service fund, it may also be necessary to authorize the NRA to order postal operators to provide universal services on an interim basis while contractual arrangements are being organized.³³³

- 5) *Sector-specific price and accounting regulation should be carefully focused, clearly justified, and reduced to the minimum necessary to meet public interest objectives—but no further.*

Where universal service postal markets are not sufficiently competitive to exclude the possibility of abuse of dominant position, it is necessary to clarify precisely what sort of regulation should be required and why. It must be recalled that in the economy generally, dominant operators are controlled by the competition rules not sector-specific regulators. Why is this not appropriate in the postal sector? A recent report by a government committee in Sweden concludes that administering a price cap for postage rates is not worth the effort since maintaining cost accounts is a heavy burden on Sweden Post while the amount that an individual mailer spends on postage is little. The committee suggests that the NRA should limit itself to promoting transparency, limiting discrimination, and preventing cross-subsidy.³³⁴ Without necessarily accepting the

³³³ The German Postal Law provides one model for a universal service fund system.

³³⁴ SE, Ministry of Industry (2005), Employment and Communication, "Postmarknad i förändring [The changing postal market]" (2005), p. 41 ("It must be considered clear that postage costs for households and small companies, both in absolute figures and in relation to other costs, are so small that they do not justify the imposition of a price ceiling. The real reason of those actors demanding price regulation is rather to prevent Posten AB from cross-subsidising between different services.").

conclusions of this report (which the Swedish government has not acted on), we believe that it raises worthwhile questions that need to be answered clearly.

It is for policymakers to decide, based on particular policy objectives, precisely what level of sector-specific regulation is appropriate for universal service markets where competition is limited. Without prejudging such issues, we suggest the following factors are pertinent:

- Detailed, objective, activity-based product accounts are burdensome, but they need not be inadministrable or unacceptably expensive.
- As a technical matter, regulation of economic discrimination between different retail rates, or between a specific retail rate and a discounted special tariff,³³⁵ requires much the same detailed cost accounts as required to ensure that prices are geared to cost.³³⁶
- The fact that the dominant position of universal service providers has been created by government and that most universal service providers are still owned by government distinguishes the postal sector from other economic sectors and could be considered to reinforce the case for sector-specific controls.
- The fact that the source of anticompetitive cross-subsidies may be a very large number of very small transactions may likewise enhance the case for sector-specific regulation since after-the-fact remedies may be impractical.
- As a practical matter, it has proved difficult to apply the competition rules to universal service providers that have not maintained appropriately detailed accounts.³³⁷
- Where price regulation and detailed cost accounts are considered necessary, the duties of the NRA should be specified more clearly. NRAs need to take responsibility for the details of costing systems, the quality of data collection systems, the conduct of audits of regulatory accounts, and other technical matters.

³³⁵ For example, by application of the "cost avoided" standard embodied in Article 12 of the Postal Directive.

³³⁶ However, if bulk mail rates are set by the competitive market, it may be possible to adopt guidelines for the relationship between bulk mail rates and individual mail rates.

³³⁷ Compare the situation in Australia where regulation of the public postal operator is committed to the competition authority, the Australian Competition and Consumer Commission (ACCC). In addition to general authority to enforce the competition laws, the ACCC is responsible for specific regulation of postal services in three areas: (1) overseeing prices of Australia Post's reserved services; (2) resolving disputes about the terms and conditions on which Australia Post provides bulk mail services; and (3) monitoring for cross-subsidy between reserved and non-reserved services. The ACCC may require Australia Post to keep records to assist it in fulfilling its roles in the regulation of postal services. In 2004, government strengthened the ACCC's specific regulatory powers over the public postal operator in response to complaints about unfair competitive practices. Australia, Postal Services Legislation Amendment Act 2004, No. 69 (2004).

A summary of regulatory accounts should be published annually, not merely a 'statement of compliance'.

- Where it is necessary to keep detailed cost accounts, they should be reported to the NRA on a regular basis. Moreover, NRAs and the Commission should consult with one another on a regular basis to ensure that NRA accounting controls are comparable and compatible.
 - If the European postal sector of the future is to be considered a single market and if the primary concern from uncontrolled postage rates is the threat of anticompetitive cross-subsidies, then it appears appropriate to limit detailed price and accounting controls to postal operators that pose a realistic threat to distort competition in the European market as a whole. As a practical matter, very large postal operators pose a greater threat than very small ones.
- 6) *Transparency and financial penalties for inadequate service quality should be continued or even extended.*

Independent monitoring of the quality of universal postal services and publication of performance results appear to have improved the overall quality of service. The financial penalties associated with slow delivery of cross-border mail also seem to have been valuable. These regulatory tools should likely be continued and even extended if possible.³³⁸

- 7) *Consumer protection provisions should be extended to give the NRA authority to address multi-operator environments.*

The prospect of multi-operator environments raises a number of issues relating to the integrity of the mail and the appropriate level of access to post office boxes, address databases, and the ability of the USP to ensure the return of misaddressed mail to the sender. Some NRAs, notably but not only the UK's Postcomm, have already begun to address these issues. Nonetheless, it would be useful to make clear that NRAs should address such issues to protect the rights of the users in multi-operator environments.

338 On the other hand, we are reluctant to recommend that NRAs regulate quality of service by setting specific service targets. There is no reason to believe that NRAs have a better understanding than USPs when it comes to the trade off between price and service. As some Member States (with previously very high routing time targets and outstanding performance by USPs) have begun to realize, it may be wasteful to set quality of service too high. Of course, a Member State, as owner, has every right to insist on good performance from a public postal operator and should do so.

- 8) *The powers, duties, and institutional arrangements of NRAs should be more clearly specified, and the overall regulatory burden in the Community should be shared more equitably by encouraging cooperation among NRAs and establishing a Community-level committee of NRAs.*

The sparse provisions of the current directive relating to the establishment of NRAs have left the door open to reasonable concerns about the independence and enforcement powers of some NRAs. Moreover, regulatory resources of the Community are not evenly or efficiently distributed among Member States. A better definition of the role of NRAs and more cooperation among NRAs should help alleviate these problems.