

# Main developments in the postal sector (2006-2008)

## Final report

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

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# Preface

It has proven an enormous task to collect all the relevant data for the broad range of topics and the large set of countries included in the Terms of Reference of this study. Competition in the European postal markets is in its infancy stage. Moreover information that used to be available in the public domain is now considered confidential commercial information. This has not made the task of the project team any easier.

ECORYS has been in close contact with a large variety of stakeholders whose input has been vital for this study. The development of the 33 country reports has to a large extent been an interactive process with substantial inputs from a variety of stakeholders, but also various sections in the Final Report benefited from the information, opinions and the feedback received from many people. The project team would therefore like to thank all postal operators, policy makers, postal sector regulators, customers, industry experts and other organisations that have contributed to this study. With regard to the web-questionnaire on customer needs, ECORYS highly appreciated the support from FEDMA, EMOTA, the VGP (the Netherlands) and the NRAs in Ireland, Belgium and France to encourage postal customers to fill in the questionnaire.

ECORYS is also grateful for the constructive cooperation with the entire Postal Unit within the European Commission, DG Internal Market and Services. We want to thank Mr. Jörg Reinbothe, Mr. Hughes de la Motte and the other members of the Postal Unit for their detailed comments and support.

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Nick van der Lijn, Team Leader  
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## List of abbreviations

b (as in € 8b)	Billion
B2B	Business to business (sender and receiver of mail, respectively)
B2C	Business to consumer
B2X	Business to either business or consumer
C2B	Consumer to business
C2C	Consumer to consumer
C2X	Consumer to either business or consumer
C3 (etc)	The combined market share of the three (etc) largest market players
CPO	Competitor postal operator
CSR	Corporate social responsibility
EC	European Commission
FMO	Full market opening
GDP	Gross domestic product
GNP	Gross national product
m (as in € 10m)	Million
NRA	National regulatory authority (the organisation that fulfils the role of postal sector regulator)
NPO	National postal operator; used by ECORYS to denote the incumbent/ current USP
OPA	Other postal agent
QoS	Quality of service
PPP	Purchasing power parity
USP	Universal service provider
VGP	<i>Vereniging Grootverbruikers Post</i> (association of large mailers in the Netherlands)



## Country abbreviations

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
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	the Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom



# Executive summary

## Objective and outline of the study

On behalf of the European Commission, DG Internal Market and Services, ECORYS has carried out this study from November 2007 to August 2008. The objective of the study is to identify, quantify and assess the main developments of the postal sector in relation to the application of the Postal Directive, in particular with regard to regulatory, economic, social, consumer and employment aspects, as well as quality of service and technology developments.

Apart from this Final Report, a key deliverable of our study is Annex II to this report, which includes country sheets for the 27 EU Member States as well as for six non-EU countries (Australia, Iceland, Japan, New Zealand, Norway and the US). The analysis in the Final Report is based on the country sheets for the 29 European countries, while in some sections of the report reference is made to the developments in the other countries, putting European developments in an international perspective.

The ECORYS study will be an important input for a European Commission report to the Council and the European Parliament on the application of the Postal Directive (Directive 97/67/EC as amended by Directive 2002/39/EC), due before the end of 2008.

## Structure of the report

Chapters 2 and 3 presents the main regulatory developments, where we discuss the definition of the universal service obligation (USO), the reserved area, licensing requirements, the quality of service regulation, the transparency of the accounts of the universal service provider, price regulation, the mandate and practices of the NRAs and the cost and financing of the USO. Chapter 4 analyses mail volume developments in European postal markets including factors that influence the developments such as e-substitution. Chapter 4 also includes a discussion on developments in the market structure and competition.

The focus in Chapter 5 is on customer needs. The main topics are customer satisfaction, customer needs regarding the quality of service and the universal service, the actual and expected benefits of competition and the main (other) topics brought forward by customers that warrant attention at national or EU level. Chapter 6 turns the attention to technological developments focusing on corporate restructuring and automated sorting, hybrid mail, and the development of value added services. Reference is made to corporate social responsibility (CSR) and/or environmental policies developed by NPOs. Employment and social developments are discussed in Chapter 7, with particular

attention to employment levels and developments in remuneration; and type of contracts (including the role of social partners) and working conditions.

In Chapter 8 we analyse the relationship between postal sector regulation and market developments. In particular, we examine to what extent regulation, the level playing field and the development of competition are interrelated; and provide an assessment of the effect of EC and national regulation on developments in the postal sector. We also describe the risk for regulatory asymmetry and the possible impact that this may have on the internal market.

### Structure of the Executive Summary

Below, we summarise the main trends and developments, followed by a presentation of the main regulatory developments and market developments, the analysis of the relationship between these developments and examples of best practice. Furthermore, we provide our assessment of the contribution of the EC postal directives and national policies on developments in the EU postal markets and discuss which issues may create regulatory asymmetry and have a negative impact on the internal market. Finally, we present our recommendations.

## Main trends and developments

### *A slow down in the liberalisation process*

- There is a slow down in the liberalisation process. Apart from DE which has fully liberalised its postal market as from 1 January 2008, several countries have postponed their plans to liberalise ahead of the European time table (NL, NO) and most likely no country will fully open up its postal market before December 2010 (with the possible exception of NL). Moreover, there have been various attempts to broaden the scope of the reserved area and the EC had to intervene to stop this from happening.
- Progress has been mixed in reducing barriers to entry and levelling the playing field. The distortive effect of the VAT exemption of the NPOs on competition has largely remained; lack of access to letterboxes by CPOs is still an important issue in a number of countries (AT, PL) and the definition of the USO and its future financing leads to uncertainties for market players.
- Competition in the addressed mail market is developing in those countries that have either fully liberalised their postal market or entire market segments, provided that there were no major factors distorting competition (such as licence conditions in FI and a combination of factors in AT). The development of competition in two of the most advanced countries in the EU (DE and NL) is hampered by political decision making: the adaption of minimum wage legislation in DE and the postponement of full market opening in NL.

### *Customers want full market opening and to become partners of postal operators*

- The customers that responded to the ECORYS web-questionnaire and participated in the ECORYS opinion survey are very outspoken about the need to strengthen the competitive pressure on the NPOs and the importance of full market opening. Customers expect to benefit from competition because of lower prices, more choice and a better customer orientation.

- With regard to choice, customers very clearly believe that there is a trade-off between speed and price and desire products that reflect this trade-off. Delivery of promise is seen as important – in NL the association of large mailers (VGP) has taken the initiative to develop a QoS monitoring instrument, which will allow customers to benchmark the performance of the various operators in the Dutch market.
- Senders of large volumes of mail are particularly interested in company specific solutions rather than a standard set of products and services.

#### *Changes in legal status and corporate restructuring of NPOs*

- According to ECORYS, the implication of the trends in customer demand is that business development in the mail market will be mainly focused on innovations along the value chain. Providing value chain solutions and dedicated solutions will become the key focus of competitors, to which the NPOs will need to react.
- The development of new and value added services is also a reaction to the threat of e-substitution and the opportunities arising from the development of technology. Hybrid mail services have traditionally been part of the business model of various CPOs (most notably in Sweden, the Netherlands and more recently in Bulgaria) and are increasingly offered by NPOs. Increasingly, physical delivery will be supplemented by multi-channel delivery with tailor made solutions.
- The European liberalisation process has encouraged postal operators to increase efficiency of mail processing resulting in cost control and QoS improvements. In most of the countries, NPOs undertake major corporate restructuring programmes in the period 2004-2010.
- The process towards incorporation (CZ, PL) and privatisation (MT, reduced government shareholdings in DE and NL) has continued. According to ECORYS, there are both push (labour unions opposing restructuring and the need for capital) and pull factors (the commercial opportunities in liberalised postal markets) that will lead to an intensification of the current trend of increased private shareholding in NPOs after full market opening.
- Although the postal market will predominantly remain a national market, the importance of national borders is diminishing because of the internationalisation of customers, leading postal operators and technological developments (e.g. hybrid mail).

#### *Profound country differences with regard to mail volume developments*

- There are profound differences with regard to mail volume developments between Member States. The twelve Member States that joined the EU in 2004 and 2007 experienced 6.5% growth in addressed mail volumes in 2004-2006 and further growth is anticipated. In the other Member States, addressed mail volumes have grown slightly, stagnated or declined (the latter applies to LU, NL, SE and UK). In countries with mature postal markets, a further decline of addressed mail volumes is expected.

#### *Mandatory access to the delivery network is becoming more common*

- Although still applicable to a minority of the Member States, a trend towards mandatory access can be observed where the NPO has the obligation to provide access against appropriate terms and conditions and the NRA has the power to establish these terms and conditions in case of disputes. With the exception of the UK

(where prices are geared to the delivery costs and a minimum percentage difference is regulated between the access prices and comparable bulk retail prices), countries with mandatory access adopted the principle that (downstream) access prices should be based on the retail prices minus the avoided cost of the NPO.

#### *Main impact on employment is yet to be felt*

- Corporate restructuring including increased automation of mail processing leads to increased specialisation of employees engaged in mail processing and mail delivery. Together with competitive pressures, this may give rise to downward pressure on job requirements and wages.
- This can be observed in NL and to a lesser extent DE, but in most of the countries this development has not yet become established because of limited competition, opposition from the labour unions (UK), or the existence of a collective labour agreement (SE).
- On the other hand, the development of new value added services and the wish to improve QoS performance increases the demand for well qualified staff and training.
- Improving the efficiency of operations (through corporate restructuring) leads to a reduction of employment levels within NPOs. In addition, there is a transfer of employment from NPOs to CPOs in countries where competition is developing.

#### *A clear interrelation between regulatory developments and market developments*

- There is a clear interrelation between regulation and market developments as elaborated upon below and discussed at length in Chapter 8 of this study.

#### *Main challenges for NRAs*

- In the opinion of ECORYS, the main challenges for the NRAs are arranging interoperability in a multi-operator market; price regulation that stimulates NPOs to improve efficiency and incorporates an analysis of competition effects; taking action against strategic entry barriers; and the ability to assess whether prices are actually geared to cost requiring increased transparency of NPO accounts as well as expertise and sufficient staffing on the side of the NRAs.

## Regulatory developments

With the transposition of Directive 2002/39/EC into national legislation by Bulgaria and the transposition of both Directives 97/67/EC and 2002/39/EC by Estonia, all countries examined in this study (the 27 Member States, Norway and Iceland) have by now transposed the Directives into national legislation. There are however marked differences in the choices that have been made with regard to the reserved area and other aspects of the regulatory framework. In some countries regulation in effect mainly deals with price and quality regulation of a (near) monopolist and safeguarding the universal service while in other countries regulation has shifted its attention to stimulating sustainable competition, improving the efficiency of the NPO and the promotion of customers needs.

The most important regulatory developments are in our view related to:

- changes in the reserved area;
- access to the public postal network;

- transparency of NPO accounts;
- price regulation;
- the cost and financing of the USO; and
- the regulatory powers and challenges of the NRAs.

### Reserved area

As from 1 January 2008, Germany fully liberalised its postal market bringing the number of countries that have fully liberalised their postal market to four (DE, FI, SE, UK). In other countries plans for early liberalisation have been halted:

- Estonia was already fully liberalised, but reinstated a reserved area for items of correspondence to protect the provision of the USO after changing the legislation on the provision of the universal service.
- Norway planned to liberalise in advance of the European timetable, but has decided to postpone full market opening as a result of a change in government.
- The Netherlands also postponed full market opening. The reasons provided for this postponement by the policy maker are the labour conditions of mail deliverers of the main competitors of TNT (Sandd and Selekt Mail); and the absence of a level playing field for operators in the Netherlands, Germany and the UK regarding VAT exemption and wage conditions (the minimum wage legislation in Germany), political considerations also seemed to have played an important role.
- At the time of writing this report, none of the countries that have not yet liberalised (with the possible exception of the Netherlands) have plans to fully liberalise their postal market ahead of the timetable included in Directive 2008/6/EC.

Eight countries have liberalised a relatively large part of the addressed mail market. AT, CZ, EE, NL and SI do not have direct mail and outbound cross-border mail in the reserved area (although there are some restrictions to direct mail in Austria), while direct mail is not reserved in BG, ES and IT but outbound cross-border mail is. Furthermore, hybrid mail services are not part of the reserved area in BG and intra-city mail is not reserved in Spain. In Italy, there is an arrangement that part of the intra-city mail in the reserved area is delivered by CPOs.

### Access

The Postal Directive requires users to have access to the public postal network under conditions that are transparent and non-discriminatory. A distinction can be made between *access to the postal infrastructure* and *access to the postal delivery network*.

Lack of access to the postal infrastructure is an important barrier to the development of competition in the postal market. Best practice of arranging access to the postal infrastructure can be found in France, whereas in Ireland competition is hampered by the absence of a national postal code system (see the text box below).

#### Access to the postal infrastructure in France<sup>1</sup>

Since May 2005, access to the postal infrastructure is guaranteed under the French Postal Act. The Act identifies the following four essential facilities to which access has to be guaranteed:

<sup>1</sup> See Annex II, country sheet France and country sheet Ireland.

- A delivery service to PO boxes installed in post offices for customers opting for this particular type of delivery;
- The postcode directory supplemented by the link between these codes and the geographical information about streets and addresses;
- Information collected by La Poste about addressees' changes of address; in the past, this information was notified to the operator that held the postal monopoly. Its retransmission to new postal market entrants, in accordance with economic procedures yet to be specified, is an obvious prerequisite for balanced competition;
- A redirection service in the event of change of address. This type of service cannot be taken on by an authorised operator when the addressee's new address is outside the geographical area covered by that operator. In this case, La Poste will perform this service on behalf of the authorised operator.

#### **Absence of a national postal code system in Ireland**

In nearly all countries, there are no issues regarding access to the postal code system. In Ireland, however, there is no nationwide postal code system, let alone access to it. ECORYS agrees with the many customers and CPOs in Ireland who have stressed the importance of developing a postal code system, but does not have an opinion about who should bear the costs.

With regard to access to the delivery network, a trend towards mandatory access can be observed where the NPO has the obligation to provide access against appropriate terms and conditions and the NRA has the power to establish these terms and conditions in case of disputes. Apart from DE, DK, FR, HU, PT, SI and UK, also BG, ES and MT have instigated a mandatory access regime. Since 1 January 2008, DE replaced ex-ante determination of the access prices by ex-post control.

Most countries with mandatory access adopted the principle that (downstream) access prices should be based on the retail prices minus the avoided cost of the NPO. Apparently, only Postcomm in the UK is in favour of linking the access prices to the cost of downstream delivery (the difference between the two methods is that in the latter no compensation for the fixed costs upstream of the point of injecting the access mail is included). Moreover, the UK is the only country that has regulated the minimum price difference between the bulk retail prices and the access prices with the aim to prevent margin squeeze of access competitors rather than to reflect the avoided costs of Royal Mail.

#### *Transparency of NPO accounts*

The level of transparency (in particular level of detail) of NPO's cost data and accounting is still extremely varied and therefore very inconsistent across Member States. The transparency referred to here applies to that of sight by the NRA, as regulatory accounts are usually not published in the public domain.

In particular, ECORYS assesses that the level of focus from NRAs on cross-border remunerations is minimal. Based on the information available to ECORYS, it appears that the main requirements of Article 14 are being met (separate accounts at least for each of the services within the reserved area on the one hand and for the non-reserved services on the other), but it is very unlikely that in many cases the requirements of Article 12 are met

(in particular, ensure that the tariffs for each of the services [and hence also international mail] under the USO are geared to costs).

In conclusion, the following extract from WIK-Consult (2006) still remains valid:

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

Directive 2008/6/EC re-iterates and goes further than Directive 97/67/EC as amended by Directive 2002/39/EC in that the NRAs will require detailed cost data at product level in order to meet the needs of the Directive, but in the view of ECORYS could have been more prescriptive on how the NPOs report to the NRAs

### *Price regulation*

The vast majority of countries still appear to control prices in terms of affordability rather than any other feature. However, considering the varying price movements and the substantial price rises in some Member States, this type of control may not suit the interest of consumers. Only three countries stimulate efficiency improvements through using an RPI minus regime for (part of) the prices that are regulated (DE, PT, UK). Uniform tariffs remain the norm across countries for USO services.

In countries where a reserved area is retained, the most frequent form of control is that of cost based, ex-ante price regulation. In the opinion of ECORYS, the accuracy of data and level of detail available from the NPO and the expertise of the NRA in analysing the data make it a challenge for the NRA to assess whether prices are actually geared towards costs. This also holds true for ex-post price controls based on costs.

One of the major factors influencing cost allocation at a product/service level is traffic volumes, for which the postal industry is unable to record certain types of mail accurately.

The consequence of the fact that many NPOs have a price cap linked to RPI or face cost based price regulation is that in most Member States price regulation provides little or no incentive for the NPOs to reduce costs in real terms.

In the build up to full market opening, the powers of NRAs in terms of pricing may need to be strengthened considerably in order that, prior to competition developing, the NRA is in a position to model the impact of competition on the NPO's pricing. Simply controlling prices by linking it to a RPI cap is unlikely to be sufficient. It is important to note that data accuracy will play a key role in the NRA's ability to understand and analyse the NPO's cost data.

### *Cost and financing of the USO*

Enabled by the fact that the Postal Directive includes a minimum definition of the USO, there are many and varied definitions of the USO across Member States, Iceland and Norway.

The cost of the USO is an issue that has created much debate within Member States between the NRAs and the NPOs and depending on the scope of services included may or may not result in a net cost of its provision. So far, very few NRAs appear to have taken an economic view of the cost and benefits of the provision of the USO. Without access to the regulatory accounts of all NPOs, it is not possible for this study to comment on the relative levels of cost compared to the scope of the service provided by each NPO.

Various CPOs have expressed concern that the USO will be too broadly defined and that funding the cost of the USO through contributions to a compensation fund may in effect become a barrier to the development of competition in the addressed mail market.

### **Main challenges for the NRAs**

As indicated above, according to ECORYS the main challenges for the NRAs include arranging interoperability in a multi-operator market; price regulation that stimulates NPOs to improve efficiency and incorporates an analysis of competition effects; taking action against strategic entry barriers drawn up by NPOs; and the ability to assess whether prices are actually geared to cost requiring increased transparency of NPO accounts as well as expertise and sufficient staffing on the side of the NRAs.

The importance of price regulation and the ability to assess whether prices are geared to costs becomes less (and may ultimately lose its significance) if there is effective end-to-end competition, as shown in the example in relation to Germany in the textbox below.

#### **Access prices in Germany: from ex-ante regulation to ex-post control**

In parallel with full market opening on 1 January 2008, Germany decided to no longer regulate the price difference between bulk retail prices and access prices (which was based on the principle of avoided cost). Given the development of end-to-end competition in the German mail market, the risks associated with ending ex-ante are small because:

- Consolidators, customers and competitors making use of access also have the possibility to negotiate access with alternative end-to-end competitors;
- There is an incentive for the NPO (DPAG) to establish efficient access prices. If access prices were set too high, their competitive position vis-à-vis end-to-end competitors would worsen and if access prices were set too low this would worsen the financial performance of the company (note that the power of the NRA to obtain all contracts concluded by DPAG enforces the principle of non-discrimination is applied).

With regard to interoperability, the situation in the UK can serve as a benchmark.

#### **Interoperability in the UK**

In a multi-operator market, it is important to ensure that postal operators have reciprocal processes for dealing with each other's mail when found in their systems. In the UK, the Common Operational Procedures govern this in detail, including prices to be charged for retrieval and repatriation. The procedures are designed to deal with any off-course mail and cover all mail carried pursuant to a licence by any licensed operator. Procedures are in place such that if a competitor's item of mail is found in a Royal Mail letterbox or elsewhere within its network, or within the network of another licensed operator, there are processes established for that item to be returned to the operator with whom the item was posted.

## Market developments

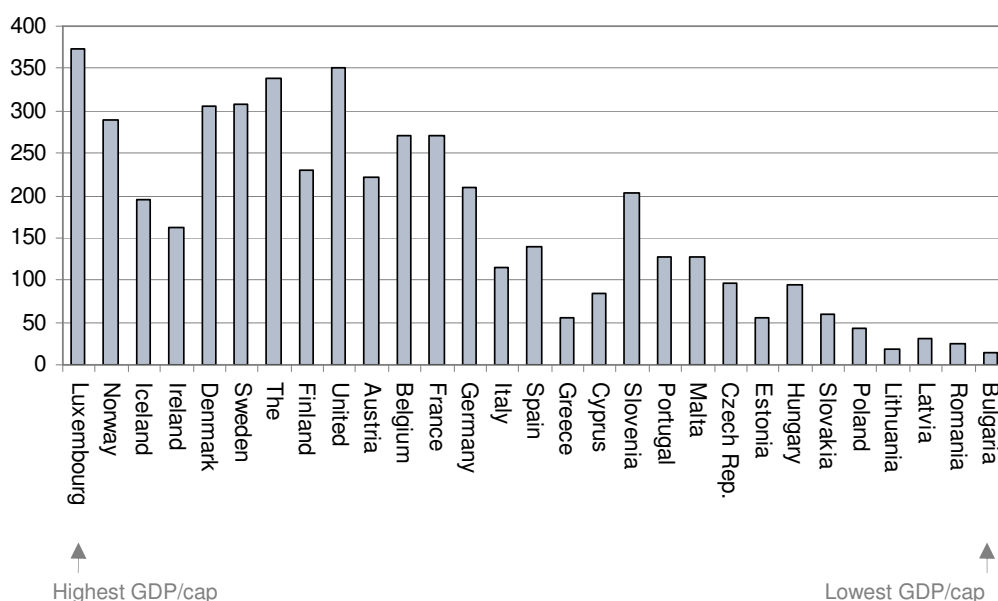
### Development of mail volumes

Despite the existence of e-substitution, addressed mail volumes have continued to grow from 2004-2006. In this two-year period, mail volume growth was stronger on average in the twelve countries that joined the EU in 2004 and 2007 (+6.5%) than in the other fifteen Member States (+1.5%), reflecting the still existing relationship between economic activity and mail volumes (the twelve new Member States experienced higher GDP growth rates). Figure I shows the per capita addressed mail volumes for each country in 2006.

In countries with a less developed mail market and relatively rapid growth in GDP, it is to be expected that notably B2C addressed mail volumes will continue to grow in the coming years. This growth potential relates in particular to direct mail and to a lesser extent to transactional mail. In countries with mature postal markets and moderate GDP growth the picture is different. Contrary to DE where there has been moderate growth (1-1.5% annually) in addressed mail volumes, DK, LU, NL, SE and UK have already experienced declining addressed mail volumes in recent years. In the coming years, the UK, SE and NL expect a decline in the range of 1-3% per annum. The textbox below shows the impact of e-substitution in FI.

With regard to postal product groups, the (negative) impact of e-substitution is expected to be strongest on transactional mail, although it remains speculative as to when and to what extent the impact of e-substitution will be. Parcels and packets clearly benefit from e-selling and represent a potential for rising revenues even if the total letter mail volume would decline.

Figure I Addressed mail volumes per capita in the EU, Iceland and Norway<sup>2</sup>



Note: Addressed mail includes items of correspondence, addressed printed matter (direct mail, catalogues and for most countries also magazines and periodicals), small packets and literature for the blind, as applicable in the domestic service. It covers both ordinary items and items given special treatment (registered items, insured letters) and includes domestic and inbound cross border items.

Source: Chapter 4, Figure 4.1

### E-substitution in Finland

In Finland there is a relatively high Internet penetration and relatively much use of e-mail. Almost 90% of e-mail traffic in Finland today uses broadband. The utilisation of broadband has multiplied tenfold during the last four years, and the price of broadband services halved in Finland from 2003 to 2006.

The volume of consumer mail continued to increase in Finland until 1999, after which volumes began to decrease because of e-substitution. The speed of the decline in mail volumes varied during this period, in the last four years the decline was relatively steep (on average -9% per year).

The volume of B2C letters, including financial sector mail, has increased in Finland in recent years, despite the fact that financial institutions actively reduce the number of physical bank statements sent to their clients. Sending electronic invoices is not yet common in the B2C segment. The Finnish government has however planned to receive all invoices electronically by the end of 2009 or at the latest during 2010. Electronic invoices will be sent by the government by the year 2008.

E-substitution has taken place despite the fact that the real price of letters has fallen by 2%. Because of sharp decreases in the cost of electronic communication, including labour costs, the cost of a physical invoice is estimated to be three times more than the price of an electronic invoice.

<sup>2</sup> Excluding newspapers.

## Development of competition in the addressed mail market

### *Market shares of CPOs*

The development of competition in the addressed mail market has been uneven across countries. In most of the countries there is no competition of any significance in the addressed mail market. End-to-end competition has however further developed in ES, SE, and most notably, DE and NL, where the joint market share of CPOs reached 9-14% of the addressed mail market. In the new Member States, developing end-to-end competition can be observed in particular in BG (where hybrid mail is not part of the universal service, see the textbox below), and to a lesser extent in CZ, EE and RO where CPOs have an estimated market share of 3-5% in the addressed mail market.

#### **Hybrid mail competition in Bulgaria**

Competition in the addressed mail market through hybrid mail services is developing rapidly in Bulgaria. Amongst others, CPOs have telecommunication companies amongst their clients who are generating large mail volumes. Data on market shares in volume are not available. Based on available data on market shares created by revenues, ECORYS estimates that the combined market share of CPOs is ca. 30% in 2006.

A licence condition for providing universal services is that a full universal service should be provided with requirements to the national postal network. To support the creation of nationwide delivery networks, legislation on mutual access to the networks of postal operators with a licence to provide universal services has recently been adopted. The three main CPOs providing hybrid mail services have obtained a licence in 2007 and 2008. Although these operators started their operations fairly recently and developments are hence still uncertain, an explanation as to why competition in Bulgaria appears to be developing despite this licence condition may be the low service level of Bulgaria Post (as compared to the NPOs in mature postal markets) in combination with the attractiveness of postal activities given the relatively low level of GDP and relatively high unemployment.

In the UK competition has developed fairly rapidly in the upstream part of the market. There are 20 licensed postal operators other than Royal Mail who may provide access services and are entitled to deliver mail in the licensed area (mail items weighing less than 350g or costing less than £1). Access volumes have grown to circa 20-22% of the licensed area in 2007/8 (year from April to March) and are continuing to grow. Approximately 40% of the access volume comes from contracting with customers directly (*customer direct access*), with the remaining 60% coming from other postal operators. End-to-end competition remains insignificant, with DX as the most important CPO focusing on B2B document exchange and niche B2C markets.

### *Barriers to competition*

Over the last couple of years, very little progress has been made with resolving the VAT issues; whilst progress has been mixed in relation to access to letterboxes. In AT, the problem has been addressed in legislation but this was later annulled in court. In PL a start has been made with putting new letterboxes in place, while in FR following a public consultation conducted by ARCEP a solution has been found allowing access to letterboxes on equal terms.

According to ECORYS, the most important main barriers to competition requiring attention at EC and/or national level of are:

- the VAT exemption of many of the NPOs;
- access to letterboxes, most notably in Austria and Poland;
- strategic barriers, in particular arising from (alleged) exclusivity contracts, price discrimination, loyalty bonuses, and bundling and tying;
- barriers that may arise from collective arrangements of labour conditions;
- barriers arising from how the USO will be defined, its net cost established and the cost of financing of the USO shared between market participants.

#### Parcel mail and express

There is a dynamic development of both the parcel and express markets. Competition is intensifying and innovations include new networks for parcel collection and delivery and automated pick-up by customers.

An interesting development is that the gap between the parcel and express markets is getting smaller in terms of quality and value for money; while parcel operators also increase their range of products in the key growth markets of B2C and international services. There is an increasing “grey” zone between express and parcel services, as traditional parcel services become more “express” in nature and a trend that clients become more cost-conscious and are willing to trade down the speed of transit times as long as the shipment arrives at pre-determined intervals.

In Eastern European countries it appears that courier services that operate at the lower end of the CEP market (in terms of price) offering value added letter mail services experience substantial growth and some customers switch from what is perceived as a low price low quality service (addressed letter mail) to a higher price, better service (courier services). Operators active in this market are considered to be more creative and more focused on customer needs than the NPO operating in the universal service area.

#### Legal status of NPOs

The process towards incorporation and privatisation of NPOs has continued, albeit not at a very rapid pace:

- The German government reduced its shareholding in DPAG and the Dutch government sold their remaining 10% of the shares in TNT and, under pressure of the Court of Justice, gave up its ‘golden share’ in TNT.
- MaltaPost has been fully privatised.
- In CZ and PL the process to transform the state enterprise into a joint stock company started in 2007. In PL, the partial privatisation of the NPO is under consideration.
- The NPOs of BG and RO are both public limited companies and RO is currently preparing for privatisation.

Furthermore, Posten AB and Post Danmark/CVC announced that they intend to merge. Subject to approval of the competition authorities, the merger is planned to be realised by the end of 2008.

According to ECORYS, there are both push and pull factors that will lead to an intensification of the trend of increased private shareholding in NPOs after full market

opening. Examples of *push factors* are the worsening financial performance of the NPO and the sustainability of the universal service, as state aid regulation puts clear limitations with regard to what the government as shareholder is able to do. Also it may be easier to negotiate a corporate restructuring programme with the trade unions if the NPO is (partly) privatised (or agreement with the trade unions will be a condition for the private sector to take a stake in the NPO). More freedom and better access to external capital in order to seize the commercial opportunities in a fully liberalised postal market are *pull factors*.

#### **Potential privatisation of Royal Mail**

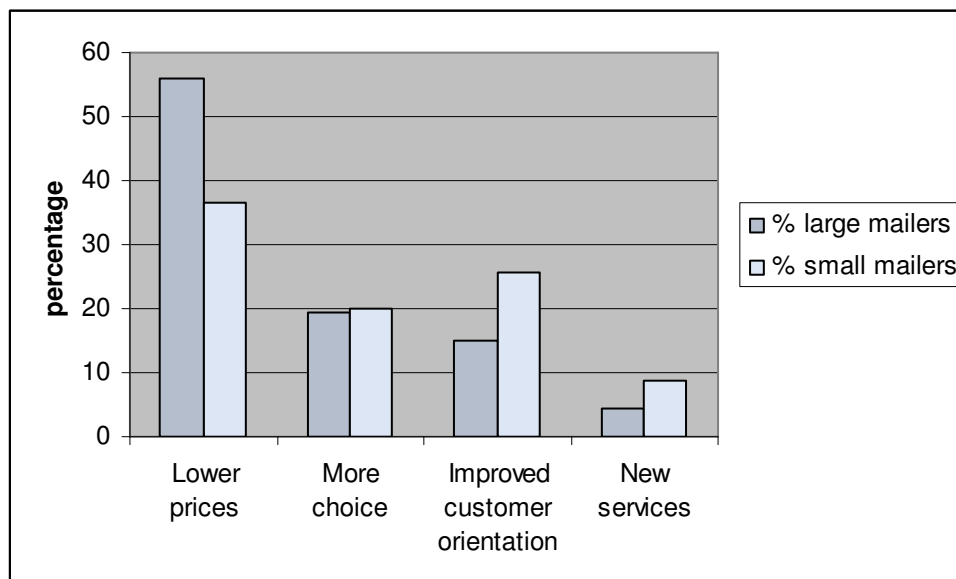
Both types of arguments are present in the current debate about the ownership structure of Royal Mail in the UK. In a contribution to the independent review of the UK postal sector that is currently being undertaken in the UK, Postcomm expressed the view that Royal Mail's ownership and structure must be reviewed and an injection of private capital in Royal Mail would be needed.

#### **Customer needs**

The 267 customers across the EU that responded to the ECORYS web-questionnaire and the 25 customers that participated in the ECORYS opinion survey are very outspoken about the need to strengthen the competitive pressure on the NPOs and hence improve the dynamics in the postal market. The issues that are mentioned most often are the importance of full market opening, resolving unequal VAT treatment, and ensuring fair access to the delivery network of the NPOs.

The most important (actual or expected) benefits of competition are lower prices; more choice and an improved customer orientation of postal operators (see also Figure II). There is a difference between large mailers and small mailers in this respect. Although both customer groups mention lower prices most frequently, small mailers appear to regard improved customer orientation and the offer of new services more important than large mailers, whereas large mailers more often point at lower prices as the main benefit of competition. In countries where competition has taken off, there are indications that the behaviour of the NPO has become more customer oriented and that the service has improved, albeit that the competitive pressure to change behaviour is not yet regarded as very strong.

Figure II Actual and expected benefits of competition ranked as most important by large and small mailers (n=203)



Source: Chapter 5, Figure 5.8.

Note: n is the number of respondents that answered this particular question. N=113 for large mailers and n=90 for small mailers.

Country specific surveys highlight that customers are reasonably satisfied with the services of the NPO. The respondents to the ECORYS web-questionnaire were rather critical about the performance of the NPO. Around 35% of the respondents (small mailers and large mailers alike) indicated that they are not really, or not at all, satisfied with the services provided by the NPO in question. The respondents to the ECORYS web-questionnaire were also fairly negative about treatment of complaints by the NPO: 25% had rather or very negative experiences and another 49% answered that complaints are dealt with, but that it takes a lot of time and effort from the customer's side. Information on the most frequent issues and wishes of customers is provided in the following textbox.

#### Most frequent issues with the NPO and wishes of customers

An issue raised very frequently by customers that are critical about the performance of the NPO is that the NPO still acts as a monopolist and are supply oriented rather than customer oriented. More specifically, 50-70% of large and small mailers indicate that pricing and quality are dominant or most frequent issues in their relationship with the NPO. Also lack of attention for their specific wishes (relatively important to large mailers) and the way recipient customer complaints are being handled (relatively important for small mailers) are important issues for 10-30% of the respondents. This feedback is by and large confirmed by country specific surveys.

The opinion survey and interviews with customers and postal operators show that business customers would like to see postal operators becoming partners of medium and large mail senders, jointly trying to generate new business (recognising that the traditional postal market is shrinking), rather than act as providers of standard services. In other words business customers are increasingly looking for (company specific) solutions rather than a standard set of products and services. According to ECORYS, this implies that business development in the mail sector will be mainly focused on innovations along the value chain and providing value chain solutions as much as dedicated solutions will become the key focus of competitors, to which the NPOs will need to react.

Information from country surveys and the ECORYS web-questionnaire shows that customers believe that there is a trade off between speed and price and desire product differentiation. Instead of speed of delivery, 'delivery of promise' has become of prime importance to customers: "if I buy a D+3/D+5 product, can I be sure that my mail will be delivered within three to five days?"<sup>3</sup>

Various large cross border mailers that use direct entry in the country of destination mentioned that there is a need for harmonisation and standardisation in mail requirements, in particular with regard to local address formats, barcodes, and the definitions used to distinguish a letter from a parcel. Also, the local requirements are often only available in the language of the country in question. Streamlining export formalities are important too. According to ECORYS, the issue of harmonisation and standardisation will become (even) more important in future, given the continued internationalisation of business activities of certain postal customers and the fact that national borders will diminish in importance as a result of liberalisation and technological developments (for example hybrid mail, see Chapter 6).

### Technological developments

Ongoing market liberalisation has encouraged postal operators to increase efficiency of mail processing resulting in cost control and QoS improvements. This has also given rise to major restructuring of mail handling and sorting operations. Although some countries have reviewed the mail infrastructure and sorting processes in an early phase (DE, NL), most countries have developed their plans in the period after 2004, anticipating planned full market opening (at the time in 2009) and the reduction of the reserved area to mail items below 50 grams. Implementation of major corporate restructuring programmes for mail processing is currently underway (in the period 2004–2010 in most countries). Increasingly, technology is applied that enables deeper sorting up to the delivery walk and new (value added) products and services.

Restructuring of mail handling processes has often resulted in or was induced by the development of new products and concepts. Physical delivery of mail will remain to be one of the main options, but will be increasingly supplemented by multi-channel delivery with tailor-made solutions in segmented postal markets. An example of this development is the increasing development of hybrid mail services by most of the postal operators, which generate innovation in specific postal products and services for different business sectors. The EU NPOs are in different phases of development, but all report increasing hybrid mail volumes with the exception of some countries that lack the proper economics of scale for such development. Countries such as Finland and Sweden go a step further and are entering adjacent markets through developing IT services for their customers.

The main postal operators show specific interest and responsibility for environmental policies, with a main focus on transport and use of natural resources and materials, but increasingly also covering other fields (innovation in transport, mail delivery, etc.). The increasing environmental awareness of customers may eventually have a negative effect on mail volume developments, although this effect cannot be observed in practice yet.

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<sup>3</sup> In the Netherlands the association for large mailers (VGP) has expressed the desire to develop a QoS monitoring instrument that is common to all postal operators in the Dutch market.

## Developments in employment and social aspects

### *Developments in employment levels*

Corporate restructuring and the application of new technology has a clear impact on employment levels, while developing competition causes a transfer of employment from NPOs to CPOs. As discussed above, corporate restructuring is taking place at a different pace in different Member States and at different periods in time, meaning that the dynamics of the employment effects vary from country to country and over time.

Different data sources provide different estimates for the level of employment in the postal sector. ECORYS estimates EU-27 direct employment (headcount) at 1.6 million in 2006, which accounts for 0.7% of total EU employment for this year.

According to data collected by ECORYS, NPOs in EU-27 employed around 1.38 million people in 2006. Most of the NPO staff is employed in the mail segment. In comparison to 1997, NPO employment decreased by 7.7%. This decline is observed in the majority of the Member States and reflects the impact of ongoing corporate restructuring on NPO employment. The decline in NPO staff seems larger in the new Member States (EU-12) than in the old Member States (EU-15), 9.2% and 7.3% between 1997-2006 respectively.

CPO employment amounted to (at least) 219,000 people in 2006. Rising CPO employment appears to be either fully (for example in DE, ES, NL) or partially (BE, SE) offsetting declines in NPO employment.

The absolute figure of civil servants employed in the postal sector has declined from 407,000 in 2002 to 314,000 in 2006, a 23% decrease. The share of civil servant staff in total employment is expected to decline further as ongoing liberalisation will add further pressure on the corporatisation and privatisation of (former) state-owned NPOs and on improving efficiency.

### *Labour productivity*

Important factors that have an impact on productivity include mail volumes per capita and letterbox density. Ongoing liberalisation, increasing competition and corporate restructuring are also drivers for developments in efficiency and, hence, productivity.

Although available productivity data should be interpreted with care in terms of accuracy, some general observations can be made:

- Between the Member States large variations in productivity levels can be observed ranging from 186,000 mail items per employee in Sweden to 4000-5000 mail items per employee in Bulgaria.
- From the seven countries with the highest productivity levels according to the available data, six (UK, SI, DE, FL, NL, SE) have fully liberalised their postal markets or important segments of it, albeit that in Finland there is no actual competition in the addressed mail market because of the licence conditions.

Although data on productivity levels in CPOs are hardly available, it is to be expected that productivity in the upstream activities is relatively high because of the focus on (pre-

sorted) business mail and that productivity in delivery is lower than of the NPO due to lower mail volumes and lower economies of scale.

#### *Developments in contracts and wages*

The ratio between full time and flexible employment in NPOs has stabilised in the period from 2002 to 2006. The evidence suggests that the ratio of flexible employment is (substantially) higher in CPOs than in NPOs. The largest share of flexible staff is observed in postal markets that are relatively open to competition.

Different developments in wage levels can be observed in the Member States. In some countries (NL and to a lesser extent DE) wages are under pressure because of the development of competition. In particular, competition seems to put wage pressure on lower skilled jobs for sorting and delivery. TNT in the Netherlands is so far the only NPO that has introduced a new job profile, that of a mail deliverer working on a part-time basis, who earn less than (traditional) postmen who are still employed by TNT. In most countries however, wages tend to follow wage developments in the national economy.

In the majority of the Member States, formalised industrial relations almost exclusively concern the NPO, while they are either absent or not very significant amongst the majority of the CPOs. Also trade union density is particularly strong in NPOs and often low in CPOs.

In some of the countries where competition is developing, the issue of labour conditions within the CPOs have received a lot of attention. In Sweden there is a collective labour agreement, applicable to both Posten AB and its main competitor CityMail, and it seems that CityMail can operate under this condition. In Germany, the wages for mail deliverers included in the minimum wage law are circa 30% higher than the wages that were actually paid by CPOs. CPOs have filed a law suit (which they won; the German government subsequently made an appeal to the court's decision) arguing that the minimum wage legislation is not proportionate and would distort competition to an unfair degree.

#### *Development in working conditions*

With regard to working conditions the majority of the European countries have national labour regulations applicable to both the NPO and the CPOs in the postal sector. Generally speaking, working conditions tend to be better for staff with a civil servant status (in terms of social benefits, job security, etc.) than for contractual staff.

We observe an increase in the provision of training, driven by liberalisation and developments in technology. Competition exerts pressure on the NPOs and requires that NPOs improve their customer orientation. The application of new technologies demands for investments in specialised and qualified staff. Consequently, many postal operators are increasingly focusing on the valorisation of human resources, which means that there is a demand for highly qualified staff, which reinforces recruitment and investments in training.

## Contribution of EC directives and national policies on developments in the postal markets

The analysis presented in this study shows that there is a clear interrelation between postal regulation and market developments.

### *Impact of regulation (and the downstream access regime) on competition*

Considering the impact of regulation on the development of competition we conclude that:

- Reducing the reserved area from below 100 grams to below 50 grams has had very little impact on the development of competition in European postal markets.
- Rather than reducing the (general) weight limit, the liberalisation of distinct segments of the addressed mail market has been conducive to the development of competition. The liberalisation of direct mail (CZ, EE, IT, NL), intra-city mail (ES), hybrid mail (BG) and the issuing of “D-licences” (DE) has enabled competition to develop, in particular if there have been no major barriers to the development of competition other than the reserved area.
- The access regime influences the pattern of competition. According to ECORYS, a number of aspects of the access regime and access regulation have been conducive to the development of access competition rather than end-to-end competition in the UK.

### *Impact of market opening on addressed mail volumes per capita*

A series of regression analyses using a dataset constructed by ECORYS containing data for addressed mail per capita volumes suggest that market opening and competition (including through lower bulk mail prices) have a positive effect on addressed mail volumes. Amongst others, the expectation that liberalisation of the direct mail segment is conducive to business development and increasing mail volumes is empirically confirmed for the subset of countries for which we had sufficient data.<sup>4</sup> Moreover, both QoS performance and GDP per capita have a positive impact on the addressed mail volume per capita.

### *Other effects of EC directives and national policies on developments in the postal market*

For establishing the contribution (or the *effect*) of EC directives and national policies on developments in the postal market it is necessary to examine the influence of external factors on market developments and assess how the market would have developed under alternative policies (the *counterfactual*). The effect of EC and national policies is the difference between the observed market development and the expected development under the counterfactual.

#### **Counterfactual**

As *counterfactual* we have chosen to regard a situation in which Directive 97/67/EC would not have been enacted and the (gradual) liberalisation of the addressed mail markets would not be aimed at. In short, in the counterfactual a monopolist postal operator is regulated through QoS (quality) regulation and price regulation focused at maintaining the prices at ‘affordable’ level (cost plus or price cap) and demanding transparency and non-discrimination.

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<sup>4</sup> These countries are: Bulgaria, Greece, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Portugal, Slovakia, and Slovenia.

According to ECORYS, the main driver of competition is the (development of the) regulatory framework in specific countries. For most countries (with the possible exception of Sweden), the Postal Directives can be regarded as a necessary, but not a sufficient condition for the development of competition given the level of freedom that Directives 97/67/EC and 2002/39/EC allow for the transposition into national legislation and the subsequent differences in the development of competition between Member States.

Furthermore, the assessment of ECORYS of the contribution of EC directives and national policies to developments in the postal markets is as follows:

- The EC directives have a direct effect on the corporate restructuring programmes that are currently undertaken by most of the NPOs, strengthen the trend towards incorporation and act as a catalyst for privatisation.
- Moreover, the EC directives have a direct effect on market developments in countries that without the intervention of the EC would have worsened the prospects of competition (through reversing policies already implemented).
- Most of the effects are generated through the threat of and, more importantly, actual competition in postal markets and hence by national policies rather than by EC directives as argued above. In many countries the EC directives are a necessary, but not a sufficient, precondition for these effects.
- The available evidence indicates that competition has contributed to growth (or less decline) in addressed mail volumes, improved customer orientation, more product differentiation, the development of new (value added) services (including hybrid mail services) and a downward pressure on bulk mail prices.
- The recent attention by many of the NPOs to developing and implementing environmental and CSR strategies is largely driven by external factors, whereas the observed improvements in QoS performance would also be partially achieved if QoS regulation would be effectively enforced under the counterfactual (the situation without the directives).
- The overall effect on employment is not clear. NPOs are engaged in corporate restructuring, leading to reductions in employment. When competition has taken off, the positive employment effect through new employment within (at least in delivery less productive) CPOs, diminished economies of scale and business development (lower prices, new products) probably outweighs the negative effect of corporate restructuring. Changes in job qualifications seem mostly driven by the development of competition.

## Regulatory asymmetry and the potential impact on the internal market

With the adoption of Directive 2008/6/EC, the dates for *de jure* full market opening have been set. The developments in the EU Member States however show that in practice there may be a variety of barriers to entry that may ultimately result in a *de facto* continuation of limited competitive pressure on the NPOs and the absence of real competition in the addressed mail market. In this respect, the (legitimate) requirements that may be attached to the provision of services of general economic interests and to issues such as the labour conditions in the postal sector have to be taken into account together with their impact on

competition. This approach must be taken to avoid unnecessary distortion of the functioning of the internal market.

According to ECORYS, the following issues may create regulatory asymmetry and have a negative impact on the internal market:

- The profound differences between Member States with regard to the services for which the NPO is exempt from charging VAT.
- The different requirements that have to be met for obtaining a licence or authorisation to provide postal services (Directive 2008/6/EC provides further guidance in this matter, but attention as to the application of the Directive is required).
- The varying extent to which access to the postal infrastructure has been regulated and/or arranged for in practice, including how interoperability has been taken care of at Member State level.
- The diverse mail requirements in the Member States, in particular with regard to local address formats, barcodes, and the definitions used to distinguish a letter from a parcel (relevant to internationally operating postal operators and customers).
- Labour legislation and in particular collective labour agreements applicable to all operators (the NPO and CPOs alike) if these would in fact pose unfair restrictions to the business model of competitors.
- The definition of the USO in combination with its cost and financing. If the large differences in the definition of the USO across Member States would remain and if this would result in (large) differences in the net cost of the USO between Member States, the functioning of the internal market, including the development of competition, would be hampered if CPOs are forced to participate in the funding of the net cost of the USO.

## Recommendations

The developments in the various countries show that the development of effective competition cannot be taken for granted. Also, there is no clear political commitment for liberalisation and competition in all of the Member States. The EC will need to continue its activities to ensure that the directives are properly implemented and that the development of effective competition will not be blocked by measures taken by Member States that in effect cause the perseverance of very limited competitive pressures on the NPOs.

With regard to transparency we recommend that:

- The EC may further wish to consider strengthening Article 15 of Directive 97/67/EC regarding financial accounts of universal service providers to the extent that minimum levels of detail are provided in published accounts with regards to postal services within the USO (pre-defined) sphere. The cost of providing the USO would be more transparent to both customers and competitors if summary details were included within the NPOs published accounts. Alternatively, it could be investigated whether the Transparency Directive could be used for the same purpose.<sup>5</sup>

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<sup>5</sup> Commission Directive 2007/14/EC (March 2007).

- The EC and NRAs stipulate that proper attention is given to the accuracy of volume recording (of postal product mail flows) as this has a significant impact on the accuracy of product costs, and the importance of this accuracy is growing.
- Finally, the EC may wish to consider a more detailed specific study on the extent to which the terminal dues accurately reflect costs.

In ECORYS' opinion there are various reasons, including mitigating the distortive impact of the VAT exemption in many countries and the potential distortive effect of financing the USO, why it would be good to have narrower and more uniform definition of the USO across countries:

- We recommend policy makers and NRAs to clearly define the USO and to limit the USO to those services that may not be provided in a free market environment and are seen as essential to society (for instance limit the USO to a five day service and to individual item mail, etc.).
- The method to calculate the net cost of USO provision, as well as the funding mechanism should be transparent for market participants.
- The net cost calculation should be based on an efficient provision of universal services and include both the costs and the economic benefits.
- ECORYS recommends policy makers and NRAs to use public procurement for funding non-profitable elements of the USO as much as possible. For example, commercial contracts could be realised between the NPO and the State with payment by the State for the provision of those services that are a net cost (as in Sweden). Public procurement could also offer the potential for other postal operators to tender for the work and may remove the need for an independent body to administer a compensation fund.

Given the challenges of the NRAs, the powers and resources of various NRAs need to be strengthened to allow competition to develop. ECORYS recommends that:

- The powers, expertise and staffing of NRAs are strengthened in terms of pricing and with a view to increase the transparency of NPO accounts, as well as the ability of NRAs to assess whether prices are actually geared to cost;
- Attention is paid to the effects of (price) regulation on competition and efficiency improvements by NPOs are stimulated;
- Attention is paid to arranging effective interconnection in the postal sector, as this is an important issue in a multi-operator market (for example agreements on standards for mail processing, maintaining address databases and mail exchange between NPOs and CPOs).

With regard to downstream access, it appears to ECORYS that the main argument (and justification) underlying choices by the policy maker and/or the NRA with regard to the regulatory regime should be based on the longer term policy objective (the end-game) that the policy maker and/or the regulator would like to accomplish:

- If this end-game is stimulating upstream competition and preserving economies of scale in delivery (through a near monopoly), then (low) access prices geared to the cost of delivery can be justified.
- If the desirable end-game is end-to-end competition (with access competition playing an additional role), then using the principle of retail price minus avoided cost makes more sense.

- If the goal is end-to-end competition with upstream consolidation activities, it is probably sufficient to apply the principle of transparency and non-discrimination and ensure that consolidators have the same access conditions (prices, terms) as large customers.

Finally, ECORYS regards that harmonisation and standardisation in mail requirements will contribute to the further development of competition. This holds in particular for local address formats, barcodes, and the definitions used to distinguish a letter from a parcel.

# 1 Introduction

## 1.1 Introduction and objective of the study

On behalf of the European Commission, DG Internal Market and Services, ECORYS completed the study - *Main developments in the postal sector (2006-2008)*. Work on the study started on 14 November 2007 and concluded in August 2008.

The Terms of Reference contains the following objectives and results:

### Objectives

- The study will aim at identifying the main developments of the postal sector in relation to the application of the Postal Directive;
- It will aim at identifying, quantifying and assessing the main developments in the European postal sector in relation to regulatory, economic, social, consumers, and employment aspects, as well as quality of service and possible impact of technology developments.

### Results to be achieved

- Provide an insightful overview of the status and evolution of postal regulation and markets and analyse the main developments;
- Perform a more in depth description and analysis of customer needs (notably end consumers as sender and receiver of mail) and analyse changing customer demand;
- Draw appropriate conclusions and recommendations in terms of areas where improvements are needed, best practice in the Member States and potential appropriate Community harmonisation measures.

The main deliverables of the study are country sheets for the 27 EU Member States and six non-EU countries (Australia, Iceland, Japan, New Zealand, Norway and the USA), relevant case studies highlighting developments, trends or best practices and a final report describing the main developments and trends in the European postal sector.

## 1.2 Policy context

The purpose of Community policy in the postal sector is to complete the internal market for postal services and to ensure, through an appropriate regulatory framework, that efficient, reliable and good-quality postal services are available throughout the European Union to all its citizens at affordable prices.

The ECORYS study will form an important input for a European Commission report to the Council and the European Parliament on the application of the Postal Directive

(Directive 97/67/EC as amended by Directive 2002/39/EC), due before the end of 2008. The application report will be issued at an important moment in time in the liberalisation process of the European postal market, given the full market opening as laid down in Directive 2008/6/EC at the end of 2010 or 2012 (applicable to Cyprus, Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia).

### 1.3 Sources of information and activities undertaken

ECORYS followed a two pillar approach geared at interaction with and involvement of stakeholders. The *first pillar* consisted of the interactive development of the country sheets through allocating the 30 European countries to six team members (five countries per project team member).<sup>6</sup> The preparation of the brief country reports for the four non-European countries was allocated to one team member, who was supported by a research assistant.

In the *second pillar* we have allocated the EU-wide analysis of four horizontal themes to five different team members:<sup>7</sup>

- Regulatory developments, mail market developments and developments in market structure and competition;
- Customer needs analysis;
- Technological developments;
- Employment and social aspects.

The analysis of regulatory developments, mail market developments and developments in market structure and competition is mainly based on the country by country analysis in the country sheets. For the other horizontal issues the analysis is based on specific activities undertaken as well as information from the country sheets (see below).

The following activities have been undertaken:

- Desk research of relevant EC studies, country specific reports and documents, annual reports of postal operators, press articles, press releases, websites, etc.;
- Interviews with the main stakeholders in the postal sector (including a number of country visits), both by the team member responsible for the country sheet and on more specific issues by the team member responsible for one of the horizontal issues;
- Web-based questionnaires on customer needs (in English, French and German, focusing on end-users) and on technological developments (focusing on incumbents);
- A short questionnaire with four key questions on employment and social developments focusing on the NRAs;
- Opinion surveys regarding technological developments and customer needs;
- Two stakeholder workshops in Brussels (in December 2007 and April 2008; a third workshop is scheduled for September 2008).

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<sup>6</sup> Ultimately, no separate country sheet was prepared for Lichtenstein.

<sup>7</sup> Two experts were responsible for analysing regulatory developments, mail market developments and developments in market structure and competition.

## 1.4 Structure of the report

A description of the main regulatory developments is given in *Chapter 2*. The focus of this chapter is on the factual situation in EU Member States, Norway and Iceland with respect to issues such as the definition of the universal service, the USO, the reserved area, access to the postal infrastructure and the delivery network, licensing requirements and quality of service regulation.

Discussion of the regulatory developments is continued in *Chapter 3*, where there is a particular focus on the activities of the NRAs and issues emerging from the implementation of the regulatory framework. The main topics addressed are the transparency of the accounts of the universal service provider, price regulation, the mandate and practices of the NRAs and the cost and financing of the USO.

*Chapter 4* analyses mail volume developments in European postal markets as well as the main factors influencing these developments including e-substitution. Chapter 4 goes on to review developments in the market structure and competition is discussed. The review pays particular attention to the developments in the UK where the postal market was fully liberalised on 1 January 2006 and is one of the largest mail markets in the EU (in terms of revenues, mail volumes and employment). The chapter also examines the main business models used by CPOs. Finally, we present an assessment of the main barriers to the development of competition in European postal markets and discuss the changes in the legal status of the NPOs that have taken place over the last two years.

The focus in *Chapter 5* is on customer needs. The analysis is based on a review of existing studies on particular countries and on new EU wide empirical findings which have been generated by the web-questionnaire and the opinion survey. The main topics discussed are customer satisfaction, customer needs regarding the quality of service and the universal service, the actual and expected benefits of competition and the main (other) topics highlighted by customer groups as warranting attention at either national or EU level.

In *Chapter 6* we turn our attention to technological developments and the actions that are taken by NPOs to develop and implement environmental policies. With regard to technological developments, we focus our discussion on corporate restructuring and automated sorting, hybrid mail, and the development of value added services.

Employment and social developments are discussed in *Chapter 7*. Particular attention is paid to employment levels and developments in remuneration, working conditions and type of contracts (including the role of social partners). The likely impact of full market opening on employment, wages and working conditions is also discussed.

In *Chapter 8* we analyse the relationship between postal sector regulation and market developments. In particular, we examine to what extent regulation and the development of competition are interrelated, and provide an assessment of the effect of EC and

national regulation on developments in the postal sector.<sup>8</sup> We also describe the risk for regulatory asymmetry and the possible impact that this may have on the internal market.

The main findings of this study and our conclusions and recommendations are presented in the Executive Summary.

This report includes two annexes. Annex I contains appendices with overviews of price regulation and on NRAs, summary results of the opinion survey on customer needs, a summary table showing the percentage share of labour cost of total cost within the NPOs and a table describing the broad structure of industrial relations in the postal sector for each country.

*Annex II* contains the country sheets for each of the EU Member States, as well as the country reports for Iceland, Norway, Australia, Japan, New Zealand and the USA. The aim of the country sheets and country reports is to summarise in a meaningful way the available information and feedback from postal sector stakeholders in each country. The country sheets use a uniform format.

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<sup>8</sup> Methodologically, it is important to make a distinction between developments and effects. To establish effects (e.g. of the implementation of the postal directives), the actual (observed) developments (actual outcomes) need to be compared with the expected developments (expected outcomes) under a counterfactual. Part of the analysis is to determine the influence of external factors (such as technological developments) on the actual developments (actual outcomes). In a simple formula the methodology reads as:

$E = (O \text{ corrected for EF}) \text{ minus } (\text{expected } O \text{ corrected for EF under the counterfactual});$

where E = effect of policies/regulation, O = outcome (actual development of the relevant indicator), EF = external factor.

## 2 Developments in the regulatory framework

### 2.1 Introduction

All EU Member States, Norway and Iceland have transposed the Directives 1997/67/EC and 2002/39/EC into national legislation. Compared to the situation described in WIK-Consult (2006) two years ago, Bulgaria has transposed Directive 2002/39/EC into their national legislation, whereas Estonia transposed both Directives. There is a certain degree of freedom at Member State level in transposing the Directives into national legislation and regulatory practice. It is hence interesting to analyse the similarities and differences between countries; and to assess which changes have occurred in the respective regulatory regimes since the previous Main Developments study prepared by WIK-Consult (2006). It is also important to see whether best practice can be identified.

The developments and implementation of the regulatory framework in the Member States, Iceland and Norway are described in chapters 2 and 3. The discussion in this chapter starts in section 2.2 with the definition of the universal service in the various countries. Section 2.3 then gives an overview of the reserved area per country, while section 2.4 presents the rules with regard to licensing and authorisations. Subsequently, access regulation is presented in section 2.5 and quality of service regulation and performance in section 2.6. Finally, we present a summary of our key findings and conclusions in section 2.7.

### 2.2 The universal service

According to Directive 97/67/EC, Article 3 (1),

“Member States shall ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users.”

The Directive also sets out the minimum requirements of this service.<sup>9</sup> In the next sections, we describe the minimum requirements and analyse to what extent these requirements are met. A list of universal service providers is given in section 2.2.4.

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<sup>9</sup> Directive 97/67/EC, articles 3-6.

### 2.2.1 Collection and delivery

Directive 97/67/EC, Art. 3 (3) provides that:

“[Member States] shall take steps to ensure that the universal service provider(s) guarantee(s) every working day and not less than five days a week, save in circumstances or geographical conditions deemed exceptional by the national regulatory authorities, as a minimum:

- One clearance;
- One delivery to the home or premises of every natural or legal person or, by way of derogation, under conditions at the discretion of the national regulatory authority, one delivery to appropriate installations.

Any exception or derogation granted by a national regulatory authority in accordance with this paragraph must be communicated to the Commission and to all national regulatory authorities.”

All countries comply with the minimum requirements for the number of collections and deliveries, obliging the universal service provider(s) to collect and deliver at least five days a week. Six countries (DE, DK, FR, NL, NO, UK) have exceeded the minimum requirements of the Directive and are obliging the universal service providers to collect and deliver six days per week. In all other countries, the universal service includes collection and delivery five days per week. An overview is provided in Table 2.1. Compared to the situation described in WIK-Consult (2006) two years ago, no changes have occurred.

The difference in the number of weekly collection and deliveries between countries, in addition to the fact that the standard in the Directive is a minimum requirement, can be partly explained by the use of the term ‘working day’, which is not defined in the Directive. Because the term is not defined, countries can decide for themselves whether or not to define Saturday as a working day.

On the other hand, it is also possible that, mostly for commercial reasons, postal operators who are designated to provide a universal service, exceed the minimum number of delivery days on a voluntary basis. For example in Slovenia, the USP Pošta Slovenije provides delivery six times per week to 67.71% of the households, while the minimum requirement is five days per week. See Table 2.1 for an overview of countries where the universal service providers exceed the minimum number of days of delivery.

#### *Exceptions*

As mentioned above, the Directive allows for an alternative to delivery at the home or premises of a natural or legal person. A number of countries have made use of this exception. For an overview, see Table 2.1.

Compared to the situation described in WIK-Consult (2006) two years ago, a significant change has taken place in Spain, where a change to the requirements of Correos with regard to delivery was recently adopted. Under the new regulations Correos will no longer be obliged to deliver to houses that are more than 250 metres from a main road.<sup>10</sup>

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<sup>10</sup> The rural areas of Galicia are expected to be the most affected. According to the 2001 census, for some 445,000 people in the region the postal delivery service will change (but according to the Spanish NRA this will not lead to lower quality).

Correos suggested that in such areas the homeowners should in future collect their post from a community letterbox which Correos will locate at a place to be decided upon in agreement with the local town hall and neighbourhood associations.

Also several countries make use of the possibility given in the Directive to exempt the universal service provider from daily collection and delivery in areas with difficult geographical conditions or in certain circumstances (see Table 2.1). Compared to the situation described in WIK-Consult (2006) two years ago, no changes have occurred.

Table 2.1 Delivery requirements under the USO

Country	# collections required	# collections in practice	Exceptions to home delivery possible?	Exceptions to delivery frequency possible?
AT	5	5	Y	N
BE	5	5	N	N
BG	5	5	NA	Y
CY	5	5	N	N
CZ	5	5	Y	N
DE	6	6	N	N
DK	6	6	Y	Y
EE	5	6	Y	Y
ES	5	5-6	Y	N
FI	5	5	N	Y
FR	6	6	N	N
GR	5	5	Y	Y
HU	5	5	Y	N
IE	5	5	N	Y
IT	5	6	NA	NA
IS	5	5	NA	NA
LT	5	5-6	N	N
LU	5	5	N	N
LV	5	5-6	N	N
MT	5	6	N	N
NL	6	6	NA	N
NO	6	6	NA	NA
PL	5	5	N	N
PT	5	5	N	N
RO	5	5	NA	NA
SE	5	5	N	Y
SI	5	5-6	Y	N
SK	5	5	Y	Y
UK	6	6	Y	Y

Source: Annex II, country sheets.

Note: N.a. is not available.

### 2.2.2 The postal network

In addition, article 3 (2) of the Directive requires Member States to ensure that the density of points of contact and of access points takes account of the needs of users. As the Directive does not set specific requirements to the network of universal service providers, countries formulate their own standards.

Countries can transpose the obligation to provide a sufficiently dense network without establishing additional requirements. In those countries that have established more detailed requirements, three categories of standards to the network can be observed:

- First, a minimum number of access points can be required. This requirement can be formulated as a specific number of outlets or as the necessity to provide at least a postal outlet per certain number of inhabitants;
- A second standard, linked to the first standard, is the availability of an access point in each municipality or in each municipality with a minimum number of inhabitants;
- A third standard is the requirement that (a certain percentage of) the population only has to travel a maximum distance to reach an access point.

An overview is provided in Table 2.2.

Table 2.2 Requirements to the postal network

Requirements	Countries*
No specific requirement	CY, ES, GR, IT, LU, MT, NO, RO, SE
Minimum number of access points	CZ, DE, DK, FR, LV, NL, PL, SI
One access point per municipality	BE, BG, DE, FI, HU, LT, LV, SK
Maximum distance to an access point	AT, CZ, DE, DK, EE, FR, HU, IE, LT, NL, SK, UK

Source: Annex II, country sheets.

Note: \* We have no information for IS.

Compared to the situation described in WIK-Consult (2006) two years ago, the following changes can be noted.

In Austria there are guidelines set for street letterboxes. In densely settled residential areas there must be a sufficient number of mail boxes so that as a rule, a customer living in a closed settlement area can access a mail box within a maximum distance of 1,000 metres from his home.

In the Czech Republic the licence conditions for the universal service provider include requirements concerning the network of the USP. These conditions include one street letterbox for every 1,000 inhabitants (for areas up to 10,000 inhabitants). In each residential district with more than 10,000 inhabitants, the maximum distance to the nearest letter box must not exceed 750 metres. In addition, in each residential district a post office must be established. If the post office is not available by means of public transport, the distance from any part of the residential district to the post office must not exceed 2 km.

In France a maximum distance requirement and for part of the country, a requirement on the minimum number of post offices has been introduced in January 2007. The universal service provider is required to locate post-office branches in such a way, that at least 99% of the national population and at least 95% of the population of each 'département' is less than 10 kilometres from a post-office branch. In addition, all communities with over 10,000 inhabitants should have at least one post-office branch per 20,000 inhabitants.<sup>11</sup>

In the Netherlands there is no obligation to provide one access point per municipality, just a minimum number of service points and a maximum distance of 5 kilometres to a 'full service point'.

### *Access points*

Access points can be divided in:

- Postal offices, operated by the universal service providers;
- Agencies, operated by contractors; and
- Street letterboxes.

The Directive does not give directions on what a point of access should consist of. That means that countries are free to decide what the minimum standard for an access point is.

This freedom can be illustrated by comparing the requirements to the postal network in Bulgaria and in Belgium. In Bulgaria, part of the universal service obligation includes the obligation to provide *offices* across the country, covering all population centres with more than 800 residents. In Belgium, the universal service obligation demands that in every municipality there is at least one *street letterbox* for collecting mail. An interesting situation can be found in the Netherlands, where a distinction is made between 'regular' service points and service points that provide 'full service'.

### *Future developments*

In Sweden, the universal service provider Posten AB currently still has an obligation – outside the USO – to provide a daily and basic counter service. This obligation will be abolished by 31 December 2008.

## 2.2.3 Postal products in the universal service

According to Directive 97/67/EC, article 3, sections 4 and 7, the universal service should include the following minimum facilities for both national and cross border services:

- The clearance, sorting, transport and distribution of domestic and cross-border postal items up to two kilograms;
- The clearance, sorting, transport and distribution of domestic postal packages up to 10 kilograms;
- The clearance, sorting, transport and distribution of cross-border (intra-Europe) postal packages up to 20 kilograms;
- Services for domestic and cross-border registered items and insured items.

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<sup>11</sup> Art. R. 1-1 Decree 2007-29 of 5 January 2007.

Article 3 (7) further stipulates:

“The universal service as defined in this Article shall cover both national and cross-border services.”

Table 2.3 shows which services are included in the definition of the universal service across Europe beyond regular letter mail and parcel mail.

Table 2.3 Scope of the universal service beyond regular letter mail and parcel mail

Country	Courier Services	Counter Services	Newspapers	Private Boxes	Magazines	Printed Matter	Addressed Direct Mail	Money Orders	6 day service	Bulk Mail	Compensation Fund	1ST & 2ND Class
Austria		X		X						X		
Belgium			(X)		X		X				X	X
Bulgaria						X	X	X			X	
Cyprus			X		X		X				X	X
Czech Republic		X						X		X		
Denmark		X	X		X		X		X		X	X
Estonia	X				X		X					
Finland							X					X
France			X		X	X	X		X	X	X	X
Germany		X	X		X			X	X			
Greece			X		X		X					X
Hungary			X		X	X	X					
Iceland			X		X	X	X					
Ireland				X			X	X		X		
Italy			X		X		X				X	
Latvia						X						X
Lithuania						X	X				X	X
Luxembourg			X		X					X		
Malta		X	X		X	X	X					
The		X				X			X		X	

Country	Courier Services	Counter Services	Newspapers	Private Boxes	Magazines	Printed Matter	Addressed Direct Mail	Money Orders	6 day service	Bulk Mail	Compensation Fund	1ST & 2ND Class
Netherlands												
Norway			X		X		X		X		X	
Poland		X		X				X		X		X
Portugal			X		X	X	X	X			X	X
Romania			X		X		X					
Slovakia					X		X	X		X		X
Slovenia			X		X						X	
Spain						X	X	X			X	
Sweden		X	X		X		X					
United Kingdom							X		X	X		X

Source: Annex II, country sheets.

Notes:

- Latvia: Compensation scheme to be established;
- The Netherlands: Netherlands use different definition of addressed direct mail;
- Norway: Alternative compensation scheme: system of state purchasing of non-profitable services;
- Sweden: Counter services to be abolished as of 31 December 2008  
Compensation not for USO, but for social services.





As can be seen in Table 2.3, the composition and scope of the universal service varies considerably between Member States. For example, in BG, CZ, DE, and a number of other countries money orders are part of the universal service and newspapers are part of the universal service in for example NO.<sup>12</sup>

#### *Provisions for mail and literature for the blind*

All countries except Germany have made special provisions for mail and literature for the blind. The most common weight limit for mail for the blind is 7 kilograms with only Iceland having a weight limit of 2kg. Usually, the universal service also requires mail and literature for the blind to be delivered for free, as can be observed in at least ten countries (AT, CY, FR, IE, IT, LT, LV, MT, NO, PL). In the UK, there is a free service for audio tapes. In the Netherlands, delivery of literature for the blind will be for free under the new postal act.

#### *Weight limits of parcel mail*

With regard to inbound postal packages, Directive 97/67/EC (Art. 3 [5, second part]) reads:

“Notwithstanding the weight limit of universal service coverage for postal packages established by a given Member State, Member States shall ensure that postal packages received from other Member States and weighing up to 20 kilograms are delivered within their territories.”

Nineteen countries (AT, BG, CY, DE, DK, EE, FR, GR, HU, IE, IT, IS, MT, NO, PT, SI, SK, SE, UK) have broadened the universal service by adding domestic postal packages above 10 kilograms to the universal service. Out of these 19, Slovakia and the Czech Republic have set the weight limit for domestic parcels at 15 kilograms, while the other countries have set the weight limit for domestic parcels under the universal service at 20 kilograms.

As to cross-border parcels, four countries have weight limits that differ from the Directive. These countries are Finland, which included outbound cross-border mail up to 30 kilograms in the universal service, and Spain, Luxembourg and Lithuania, which have limited the universal services for cross-border mail to 10 kilograms.

### 2.2.4 Designated postal operator

In Table 2.4, an overview is given of the (incumbent) postal operators that are designated to provide the universal service. In this report we mostly refer to these operators as national postal operators (NPOs).

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<sup>12</sup> In Belgium, there is also an obligation for the universal service provider to deliver newspapers. However, this is a separate obligation and not part of the universal service.

Table 2.4 Designated postal operators

Country	
AT	Österreichische Post AG
BE	De Post/La Poste
BG	Bulgaria Post Plc
CY	Cyprus Post
CZ	Czech Post S.E.
DE	Deutsche Post AG
DK	Post Danmark
EE	Eesti Post Ltd
ES	Correos
FI	Itella Corporation
FR	La Poste
GR	Hellenic Post
HU	Magyar Posta
IE	An Post
IT	Poste Italiane
IS	Iceland Post
LT	Lithuanian Post
LU	Entreprise des Postes et Télécommunications (EPT)
LV	Latvia Post
MT	MaltaPost plc
NL	TNT
NO	Norway Post
PL	Polish Post
PT	CTT - Correios de Portugal, S. A.
RO	Posta Romana
SI	Pošta Slovenije
SK	Slovenská pošta, a.s.
SE	Posten AB
UK	Royal Mail plc

Source: Annex II, country sheets.

### 2.2.5 Future of the USO

In several countries, the scope of the USO is a topic of discussion.

Two examples, the discussion in Finland and the discussion in the UK, are elaborated in the text boxes below.

#### Future of the USO in Finland

In Finland, the universal service provider, Itella Corporation, receives no explicit compensation for the universal service provided. However, the licensing regime supports a *de facto* monopoly (see section 2.4) for addressed mail for the USP in the *de jure* liberalised postal market. According to Itella, this system will come under pressure under the new Directive 2008/6/EC, as competing postal companies

other than the universal service provider, can no longer be required to deliver mail five days per week. According to Itella, this opens the possibility for cherry picking by competitor postal operators and as a result, Itella Corporation foresees the possibility that the funding base for providing basic postal services may become significantly narrower, possibly leading to a regional segregation of prices. As the Finnish national legislation needs to be revised in the coming years to incorporate the new Directive, Itella Corporation calls for a social discussion on how the role of postal services is seen in the future.

#### **Future of the USO in the UK**

In the UK, the universal service contains more than the minimum requirements of the Directive. Royal Mail, the universal service provider, is of the opinion that the USO should be narrowed. More specifically, Royal Mail wants the USO to be reduced as much as possible, taking into account the minimum legal requirements of the Postal Directive, to products where there is currently less competition provided for in the marketplace. The products that should be included in the USO suggested by Royal Mail would include stamped mail, standard parcels, a registered and insured product and international surface and airmail. Royal Mail also argues for the reduction of the number of days of collection and delivery from six to five in the UK.

The postal consumer organisation Postwatch indicate that they would be perfectly happy to see automated solutions introduced (in supermarkets, railway stations or wherever) if these could effectively provide the services. According to Postwatch, Post Offices play a much wider role in society, with offerings far beyond these universal postal services and Postwatch is concerned that their existence/funding should not be justified by the small (but important) volume of postal service they provide.

This discussion is part of a larger discussion on the financing of the USO after full market opening. After the publication in July 2006 of the PWC study “The Impact on Universal Service of the Full Market Accomplishment of the Postal Internal Market in 2009,” incumbent postal operators of nine countries (BE, CY, ES, FR, GR, HU, IT, LU, PL) expressed their concerns about the study results and pleaded for a well-balanced approach for the future regulation (the third Directive) in a common press release.<sup>13</sup> For a discussion of the cost and financing of the USO, see Chapter 3, section 3.4.

#### *Current practices and future expectations*

In the two other liberalised markets, Germany and Sweden, no problems with the provision of the universal service are foreseen.

The Swedish legislator did not deem it necessary to provide Posten AB with a generic compensation mechanism for the universal service. The idea behind this decision is that Posten AB, the only operator capable of offering universal services, has a great competitive advantage in this respect. An exception is made for social services provided by the rural postmen to the aged and disabled and for the dispatch of audio cassettes and similar items to the visually handicapped. For these, Posten AB receives financial compensation from the government through procurement of these services by the postal regulator PTS.

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<sup>13</sup> “Nine European Postal Service Providers jointly call for caution in the 2009 reform of postal services”, press release, Brussels, July 27, 2006.

After full market opening from 1 January 2008, Germany took the approach of still having a universal service (as obliged under the Postal Directive), but no longer a designated universal service provider. The NRA, Bundesnetzagentur, has the task to ensure that the universal service is provided in the German postal market. At the moment, Deutsche Post (DPAG) has accepted to provide all services under the universal service. If DPAG decides not to continue to provide all the universal services, for example, it decides not to deliver in a certain city or region, then a six months notice period must be given and the NRA has the obligation to start a procedure ensuring that the universal service is provided. Firstly, efforts would be made to find a postal operator willing to deliver this specific part of the universal service free of charge. Secondly, if this proves not possible, the NRA may oblige an operator with a dominant market position or, if this is not feasible without compensation, launch a tender procedure for delivering this specific part of the universal service.<sup>14</sup>

In Belgium, a lot of attention is paid to the universal service in relation to the full liberalisation of the postal market. In January 2008, a spokesman of the Belgian minister of Civil Service and Public Enterprises suggested that in the near future alternative postal operators may have to deal with additional licence conditions in order to ensure the universal service.

In most of the countries, the discussion on the future scope and financing of the USO has still to take place.

## 2.3 The reserved area

Directive 97/67/EC (Art. 7) allows countries to reserve services to universal service providers ensuring the maintenance of universal service to the extent necessary. As a rule the reserved services have to be limited to items of domestic correspondence weighing less than 50 grams; and with a price less than two and a half times the public tariff for an item of correspondence in the first weight step of the fastest category. Direct mail and (inbound and/or outbound) cross-border mail may continue to be reserved within the same weight and price limits to ensure the provision of universal service.

In Table 2.5, an overview of the reserved services in Europe is given.

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<sup>14</sup> See article 13 and 14 of the German Postal Act.

Table 2.5 Services reserved for the USP in the Member States, Iceland and Norway

Countries	Domestic & inbound cross-border reserved?	Outbound cross-border reserved?	Direct mail reserved?
DE, FI, SE, UK	-	-	-
AT, CZ, EE, NL, SI (1)	Yes	-	-
BG, ES, IT (2)	Yes	Yes	-
BE, DK, FR, IE, LT, NO (3)	Yes	-	Yes
CY, GR, HU, LU, LV, MT, PL, PT, RO, SK (4)	Yes	Yes	Yes

Source: Annex II, country sheets, feedback from NRAs.

(1) CZ and EE: incoming cross border mail is not reserved; NL: printed matter is not in the reserved area.

Printed matter is a bit broader than direct mail as it refers to letters with identical content apart from name and address information.

(2) BG: hybrid mail is not in the reserved area; ES: intra-city mail is not in the reserved area.

(3) DK: If the packaging of mail items is transparent, mail is considered unaddressed mail and open for competition.

(4) SK: incoming cross-border mail liberalised under the condition that such an item is distributed within the domestic service by a postal company that has collected this item abroad.

Since the WIK-Consult (2006) study, we have seen full liberalisation of the postal market in Germany as from 1 January 2008 and the introduction of a reserved area for domestic items of correspondence up to 50 grams in Estonia from 2006.

#### Re-introducing the reserved area in Estonia

Before 2006, a company providing universal service had to provide all of the identified universal services. It was also the case that the number of companies which could provide the universal service was not limited. Since 2006, there must be only one universal service provider, although other companies may provide non-universal services. The reason for introduction of the reserved area was to protect the provision of the USO.<sup>15</sup>

Other changes compared to the situation described in WIK-Consult (2006), is the situation in Latvia where direct mail has not been liberalised, and Spain is not fully liberalised.

The Directive does not provide clear guidance as to the inclusion of hybrid mail services in the reserved area.<sup>16</sup> In most countries hybrid mail falls under the definition of letter-post items and is thus part of the reserved area. In Bulgaria, hybrid mail, including the final delivery of the physical item is not included in the universal service (and neither in the reserved area), allowing for a rapid expansion of competition with hybrid mail services. In Slovakia unclarities with regard to the status of hybrid mail gave rise to a

<sup>15</sup> Annex II, country sheet Estonia.

<sup>16</sup> See Chapter 6 for a definition of hybrid mail.

revision of the Slovak Postal Act in February 2008 (see Chapter 4 for more information on developments in Bulgaria and Slovakia).

#### *Exceptions and additions to the reserved area*

One of the most important exceptions to the reserved area is the liberalisation of intra-city mail in Spain. Although formally part of the reserved area, in Italy there is an arrangement that part of the intra-city mail in the reserved area is delivered by CPOs.

A number of countries have included certain postal items in addition to regular letter mail in the reserved area. In Belgium, Italy and Slovakia, delivery of (registered) items used as part of administrative and legal procedures, is part of the reserved area. Portugal has included registered and insured items in the reserved area, including the serving of summons of judicial notifications by post. Cyprus has added postal services for the blind and people with partial sight to the reserved area.

### 2.3.1 Future steps

Nearly all countries that have not yet fully liberalised are planning full market opening in accordance with the time frame set out in Directive 2008/6/EC, meaning full market opening by 31 December 2000 or by 31 December 2012 (which is an option available to CY, CZ, GR, HU, LT, LU, LV, MT, PL, RO and SK).

#### *Postponement of liberalisation plans*

In the Netherlands, the expected date of liberalisation is still unclear. Initially full market opening was planned for April 2007, but liberalisation was postponed several times (see the textbox below) and it is unclear at the time of writing this report as to what the liberalisation date will be.

##### **The road to liberalisation in the Netherlands**

The planned liberalisation of the Dutch postal market has been postponed several times. Initially, full market opening was planned for April 2007. One of the conditions for full market opening was that a 'level playing field' would exist between the countries that were heading to early liberalisation of the postal market, most notably between Germany, the Netherlands and the UK.

In 2005, TNT argued that no level playing field existed between the Netherlands, Germany and the UK. Subsequent studies - one commissioned by TNT and another commissioned by the policy maker - showed that the key difference in the playing field between the Netherlands, Germany and the UK boiled down to the different VAT exemptions of the respective universal service providers – the exemption in the Netherlands being small in comparison to Germany and the UK. The political outcome was that the Dutch parliament agreed with the proposal of the policy maker to postpone full market opening until 1 January 2008, while urging the policy makers in Germany and the UK to narrow the VAT exemption of DPAG and Royal Mail, respectively.

In autumn 2007, the VAT issue was not yet resolved. In addition, two other issues emerged. First, there was the adoption of a minimum wage law for postal deliverers in Germany and, secondly, the (legal) position of the mail deliverers in the Netherlands became a point of attention (see Chapter 7 for more details on these issues). As a result, full market opening has been postponed to (at the earliest) 1

January 2009, pending the expected outcome of the legal procedures against the minimum wage law in Germany and the outcome of negotiations between CPOs and labour unions in the Netherlands.

Plans for early liberalisation also existed in Norway. In 2006, the Norwegian parliament decided to liberalise the Norwegian postal market as from 2007. The new government later reversed this decision, deciding not to liberalise the Norwegian postal market as they were not convinced that the universal service could be maintained at the current level after full liberalisation of the postal market. Currently, the NRA expects full liberalisation of the Norwegian postal market as from 31 December 2010.

## 2.4 Licensing and authorisation

Directive 97/67/EC identifies two kinds of authorisations: individual licences and general authorisations (Art. 2 (14)):

- “‘general authorisation’ means an authorisation, regardless of whether it is regulated by a ‘class licence’ or under general law and regardless of whether such regulation requires registration or declaration procedures, which does not require the undertaking concerned to obtain an explicit decision by the national regulatory authority before exercising the rights stemming from the authorisation;
- ‘individual licence’ means an authorisation which is granted by a national regulatory authority and which gives an undertaking specific rights, or which subjects that undertaking’s operations to specific obligations supplementing the general authorisation where applicable, where the undertaking is not entitled to exercise the rights concerned until it has received the decision by the national regulatory authority.

The Directive allows Member States to introduce general authorisations for non-reserved services which are outside the scope of the universal service to the extent necessary in order to guarantee compliance with the essential requirements.<sup>17</sup>

For non-reserved services which are within the scope of the universal service, Member States may introduce authorisation procedures, including individual licences, to the extent necessary to guarantee compliance with the essential requirements and to safeguard the universal service.<sup>18</sup>

An overview of the licensing and authorisation regime in the various countries is given in Table 2.6.

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<sup>17</sup> Directive 97/67/EC, Article 9.

<sup>18</sup> Ibid.

Table 2.6 Overview of licensing and authorisation

Country	Licence requirement			General authorisation requirement		
	Licence?	Services allowed	Number of licences	General authorisation	Services allowed	Number of auth.s
AT	No			yes	US, non-res	[unknown]
BE	Yes	US, non-res	11	yes	non-US	168
BG	yes (1)	all	9	yes	non-US	74
CY	Yes	US, non-res	1	yes	non-US	17
CZ	Yes	all	1	yes	non-all	38
DE	No			yes	all	1409
DK	Yes	all	1	yes	non-all	1409
EE	Yes	US, non-res	2	yes	non-US	38
ES	Yes	US, non-res	444	yes	non-US	2682
FI	Yes	US	2	no		
FR	No			yes	non-all	20
GR	Yes	US, non-res	6	yes	non-US	341
HU	Yes	US, non-res	0 (2)	yes	non-US	137
IE	No			yes	non-all	32
IT	Yes	US, non-res	211	yes	non-US	1145
IS	Yes	US, non-res	2	yes	non-US	1
LT	Yes	postal services	11	yes	courier services	77
LU	No			yes	non-all	23
LV	Yes	US, non-res	1	yes	non-US	44
MT	Yes	US, non-res	2	yes	courier & express	14
NL	No			yes	postal services	[unknown]
NO	Yes	all	3	no		
PL	Yes	US, non-res	6	yes	non-US	159
PT	Yes	US, non-res	18	yes	non-US	55
RO	Yes	all	1	yes	non-US	300(+)
SI	Yes	US, non-res (3)	12	no		
SK	Yes	all	1	yes	US, non-res	21
SE	Yes	postal services	34	no		
UK	Yes	all	19	no		

Source: Annex II, country sheets.

Note: All = universal services, including the reserved area; US, non-res = universal services, excluding the reserved area; non-US = postal services outside the universal service.

(1) In Bulgaria, there are two different licences: a) a licence for all postal services under the universal service, including money orders, b) a license for part of the services under the universal service. Three licences have been granted for the provision of a full universal service and six licences have been granted for part of the universal services. Of these 6 partial licences, 5 licences are given for postal money orders and 1 licence is given for all universal postal services excluding postal money orders.

(2) The NPO Magyar Posta is not the object of a licensing process because it is designated by the Postal Act as the USP.

(3) In Slovenia, there are four different licences: a) parcels under the universal service, b) parcels and letter mail items under the universal service, c) parcels, letter mail items and registered and insured items under the universal service, d) parcels, mail and registered and insured items under the universal service, including mail for the blind.

#### 2.4.1 Licence conditions

According to Directive 97/67/EC, article 9, section 2:

The granting of authorisations may:

- Where appropriate, be made subject to universal service obligations,
- If necessary, impose requirements concerning the quality, availability and performance of the relevant services,
- Be made subject to the obligation not to infringe the exclusive or special rights granted to the universal service provider(s) for the reserved postal services under Article 7(1) and (2).

An overview of the licensing conditions, grouped in the categories used by WIK-Consult (2006), is given in Table 2.7.

Table 2.7 Conditions for licences and general authorisations

Country	Licence			General authorisation		
	Ess. Req.	USO	Other	Ess. Req.	USO	Other
AT				Yes	No	No
BE	Yes	No	No	Yes	No	Yes
BG	Yes	Yes	Yes	Yes	No	Yes
CY	Yes	Yes	Yes	Yes	No	No
CZ	Yes	Yes	Yes	Yes	No	Yes
DE				Yes	No	Yes
DK	Yes	Yes	No	Yes	No	No
EE	Yes	Yes	No	Yes	No	Yes
ES	Yes	No	No	Yes	No	No
FI	Yes	Yes	Yes			
FR				Yes	No	Yes
GR	Yes	No	Yes	Yes	No	Yes
HU	Yes	Yes	Yes	Yes	No	No
IE				Yes	No	No
IT	Yes	Yes	Yes	Yes	No	No
IS	Yes	Yes	Yes	Yes	No	Yes
LT	Yes	Yes	Yes	Yes	No	Yes
LU				Yes	No	No
LV	Yes	Yes	No	Yes	No	Yes
MT	Yes	Yes	No	Yes	No	No
NL				No	No	No
NO	No	No	Yes			

Country	Licence			General authorisation		
	Ess. Req.	USO	Other	Ess. Req.	USO	Other
PL	Yes	No	Yes	Yes	No	No
PT	Yes	No	Yes	Yes	No	Yes
RO	Yes	Yes	No	Yes	No	No
SI	Yes	No	Yes			
SK	Yes	Yes	No	Yes	No	Yes
SE	Yes	Yes	No			
UK	Yes	No	Yes			

Source: Annex II, country sheets, WIK (2006).

Note: Ess.Req. = Essential requirements, consisting of:

- Confidentiality of correspondence;
- Restrictions on dangerous goods;
- Data protection requirements;
- Environmental protection requirements.

USO = Safeguard universal service, consisting of:

- Obligation to provide all or part of universal service;
- Quality, availability, performance, or price standards;
- Proper response to complaints;
- Non-infringement of reserved area of USP;
- Contribution to universal service fund.

Other = Other requirements, consisting of:

- Minimal capital or financial guarantees;
- Technical or operational competence;
- Other restrictions.

A large number of countries (BG, CY, CZ, DK, EE, FI, IT, IS, MT, RO, SK, SE) have decided to make use of the option to make granting of a licence subject to universal service obligations.

In most countries such as CY, CZ, DK, IT, IS, MT and SK, only one licence is granted to the designated postal operator.

In some cases, the universal service obligations are merely formalities, such as in Sweden, where licensed operators can formally be required to provide universal services, but in practice it is most likely that Posten AB will continue to be the only universal service provider in the coming years.

However, in some countries, there is a real obligation to provide a full universal service if one wants to obtain a licence to provide services within the universal service. This is the case in Bulgaria, Estonia, Finland, Hungary and Romania.

An alternative to the obligation to provide a nationwide universal service can be observed in Hungary (see textbox). No postal operator has applied for a licence yet, but this may also be related to the existence of the reserved area (that includes direct mail) and to the VAT exemption of Magyar Posta for universal services.

### Geographic licence requirements in Hungary<sup>19</sup>

In order to avoid delivery companies concentrating on conurbations, which promise large profits, the Hungarian legislation has come up with a special solution: a delivery company acquiring, for example, a license for the national capital of Budapest, must also offer its services in at least two other, less profitable, public administration areas.

A license may be requested for the provision of one or more postal services in one of the following public administration areas:

- a) one or more towns except cities;
- b) at least one county except Pest county;
- c) Pest county plus at least one more county;
- d) Budapest and at least two more counties except Pest county;
- e) the whole territory of the country.

Licensed postal operators are obliged to meet quality standards, such as pre-defined transit times, for the products and the public administration areas for which they have received their licence. In this way, the Hungarian policy maker wants to establish a basis for fair competition among all service providers and hopes that customers may benefit from uniform quality standards.

In addition to the essential requirements and those to safeguard universal service, countries have posed additional requirements that are not sanctioned by the Directive. These usually concern minimal capital or financial guarantees, applicable in seven countries (CY, CZ, FI, HU, IS, SI, UK) and/or technical or operational competence, to be found in eight countries (CY, CZ, FI, HU, PL, PT, SI, UK).

## 2.5 Access to postal networks

Directive 97/67/EC, Article 11 requires users to have access to the public postal network under conditions that are transparent and non-discriminatory.

A distinction can be made between the parts of the network to which access applies. In this study, we make a distinction between:

- Access to the postal delivery network;
- Access to the postal infrastructure.

Access to the postal delivery network is either upstream or downstream and consists of access to inward or outward sorting centres or delivery offices and potentially to the street letterboxes for the collection of mail. Access to the postal infrastructure consists of access to the letterboxes of individual consumers and businesses, PO boxes, the address database (change in address notifications), the postal code system and the possibility to redirect (wrongly addressed/returned) mail.

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<sup>19</sup> Annex II, country sheet Hungary. Note that this licence requirement is no longer allowed under Directive 2008/6/EC. ECORYS considers that policy makers should be reluctant to strive for uniform quality standards, as there is a need for product differentiation and delivery of promise rather than a set of uniform products and services (but the 'promise' can be either D+1, D+3 or D+7, etc.; see Chapter 5).

## 2.5.1 Forms of access

The Directive does not determine how access should be provided. Three (main) kinds of access and access regulation can be discerned in practice:<sup>20</sup>

- Mandatory access with ex-ante regulation of the access conditions (access points, terms, prices);
- Mandatory access with market participants negotiating the terms and conditions and potential interference of the NRA if no access agreement can be reached;
- Freely negotiated access (with dispute settlement based on general competition law).

Table 2.8 provides an overview of the countries that have mandatory access to (parts of) the postal delivery network and the P.O. Boxes.

Table 2.8 Mandatory access to the delivery network and PO boxes

Country	Street letterbox	Outward sorting centre	Inward sorting centre	Delivery office	PO box
BG	-	Yes	Yes	Yes	Yes
DE	-	Yes	Yes	-	Yes
DK	-	Yes	Yes	Yes	-
ES	-	Yes	Yes	Yes	Yes
FR	-	Yes	Yes	Yes	Yes
HU	-	Yes	Yes	Yes	Yes
IE	Yes	Yes	-	-	-
IS	Yes	-	Yes	Yes	Unclear
MT	Yes	Yes	Yes	Yes	Yes
NL	-	-	-	-	Yes
PT	-	Yes	Yes	Yes	Yes
SI	-	Yes	Yes	Yes	Yes
SE	-	-	-	-	Yes
UK	Yes	Yes	Yes	Yes	Yes

Source: Annex II, country sheets.

Note: Access to street letterboxes means that CPOs are entitled to place street letterboxes of their own.

Compared to the situation described in WIK-Consult (2006) two years ago, a number of changes have occurred.

- First, Germany switched from ex-ante regulation of access conditions to ex-post control since 1 January 2008. Germany was the only country to regulate the access prices to the delivery network ex-ante;
- Second, mandatory access regimes have been instituted in Bulgaria, Malta and Spain.

In the Netherlands, access will be mandatory under the (not yet enacted) new postal act. Currently, TNT is not obliged to provide third-party access, although third parties can negotiate access. The new postal act states that when a postal operator owns a national

<sup>20</sup> Classification based on ECORYS (2005a).

five day per week delivery network (only TNT Post currently provides this service) and delivers postal items against special conditions and tariffs, this postal operator must also deliver postal items for all other postal operators if so required.

Access to letterboxes for delivery was (FR), and partly still is (AT, PL, SK and to a lesser extent DE) a problem in a number of countries. In these countries, part of the private letterboxes in urban areas in closed apartment buildings is not freely accessible by mail deliverers.

For example, in Austria, Austrian Post is the only provider that holds the key to the apartments required to obtain access to private letterboxes. CPOs are unable to obtain access to these areas. Legislation stipulated the conversion of private letterboxes and access to apartment buildings by CPOs, but the constitutional court annulled this legislation in 2006.

In Germany, the same problem with in-house letterboxes that are not publicly accessible can be observed, albeit for a relatively small number of the delivery addresses. These boxes can mainly be found in large apartment buildings. It is up to the inhabitants of the apartment building to provide a key to gain access to the letterboxes. In practice, the postmen of Deutsche Post have a key, while CPOs do not often have a key and consequently lack access.

A similar problem existed in France. According to the regulator ARCEP, granting access to letterboxes has raised several legal and technical issues, like the security of the building and the existing law on private property. A public consultation has been conducted by ARCEP, resulting in a compromise by which all licensees will be given access to the access codes (managed by La Poste) in order to be able to reach the letterboxes.

A best practice of arranging access to the postal infrastructure can be found in France (see the text box below).

#### **Access arrangements in France<sup>21</sup>**

Access to the delivery network of the national postal operator, La Poste, has existed for many years. Upstream activities have for a long time been liberalised in France. Large customers, mailing houses or mail consolidators can deliver their mail at different level sorting centres of La Poste at prices that are lower than the retail prices.

Since May 2005, access to the postal infrastructure is guaranteed under the French Postal Act. The Act identifies the following four essential facilities to which access has to be guaranteed:

- A delivery service to PO boxes installed in post offices for customers opting for this particular type of delivery;
- The postcode directory supplemented by the link between these codes and geographical information about streets and addresses; it is important for reference work like the postcode directory, or any other geographical reference work used for addressing mail, to be transparent;

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<sup>21</sup> Annex II, country sheets (France).

- Information collected by La Poste about addressees' changes of address; in the past, this information was of course notified to the operator that held the postal monopoly. Its retransmission to new postal market entrants, in accordance with economic procedures yet to be specified, is an obvious prerequisite for balanced competition;
- A redirection service in the event of change of address. This type of service cannot be taken on by an authorised operator when the addressee's new address is outside the geographical area covered by that operator. In this case, La Poste will perform this service on behalf of the authorised operator.

### *The postal code system*

In nearly all countries, there are no issues regarding access to the postal code system.

In Ireland, there is no nationwide postal code system, let alone access to it. Some competitors to An Post believe that this should be instigated by the NPO and other postal operators should then get access to the database. ECORYS agrees with the many customers and CPOs in Ireland who have stressed the importance of developing a postal code system, but does not have an opinion about who should bear the costs.

### *Transparency and non-discrimination*

Most countries have a clause in their national legislation transposing the non-discrimination and transparency requirements of Directive 97/67/EC in their national legislation. However, a few exceptions can be observed.

In Belgium, the NRA (BIPT) has no specific role to play concerning access regulation but ask for more transparency. In Greece, the transparency of the pricing mechanisms for access is not yet regulated. In Poland, it appears there is no requirement on transparency of access prices and conditions.

## 2.6 Quality of service

Directive 97/67/EC, Article 16, requires Member States to ensure that QoS standards are set and published in relation to universal service in order to guarantee a postal service of good quality. In particular, focus should be given to routing times and on the regularity and reliability of services.

### 2.6.1 Transit time for priority mail

#### *Regulation*

According to article 16 of Directive 97/67/EC, countries set their own standards for national services. The European Parliament and the Council set the standards for cross-border mail within the EU.

#### *Domestic routing times*

An overview of the routing times for domestic priority mail as set by the different countries covered in this study is given in Table 2.9. In addition, this table also contains

the actual routing times realised by the universal service provider in 2006. If the performance is worse than required the actual routing times are presented in bold.

Table 2.9 Regulation and performance of routing times - domestic priority mail (2006)

Country	Regulation			Performance		
	D+1	D+2	D+3	D+1	D+2	D+3
AT	95	98	100 (1)	96.1	[unknown]	[unknown](1)
BE	95	97		<b>92.0</b>	98.3	
BG (2)	78	90	95	88.7	98.0	99.8
CY	90	97		<b>63.6</b>	<b>93.6</b>	
CZ	90			94.1		
DE	80	95		[unknown]	[unknown]	
DK	93			94.0		
EE	90			90.5		
ES	[unknown]	93	99	56.1	89.9	[unknown]
FI	85	98		95.7	99.2	
FR	85	95		<b>81.2</b>	97.2	
GR	86		98	<b>80.0</b>		<b>97.4</b>
HU (3)	95	97		<b>91.8</b>	99.6	
IE	94		99.5	<b>77.0</b>		<b>97.0</b>
IT	88			88.1		
IS	85		97	89.0		100.0
LT	85		97	<b>67.8</b>		97.6
LU	95	99		97.3	99.9	
LV	97			<b>95.6</b>		
MT	92			94.9		
NL	95			96.6		
NO	85			85.1		
PL	82	90	94	<b>68.0</b>	<b>87.0</b>	94.4
PT	93.5			94.7		
RO	85	97		[unknown]	[unknown]	
SI	95	99.5		<b>88.0</b>	<b>98.4</b>	
SK	96			96.5		
SE	85		97	95.4		[unknown]
UK	93			94.0		

Source: Annex II, country sheets.

Notes: (1) D+4; (2) Bulgaria has different standards for different mail items. Standards can be observed for the following mail products: transit time for domestic items of correspondence; transit time for domestic postal parcels up to 10 kg; transit time for domestic postal money orders; transit time for international items of correspondence (separate targets for four groups - international non-registered items of correspondence with priority and without priority and either from geographical areas within Europe or outside Europe); (3) Hungary has different standards for different mail items. Standards can be observed for the following mail products: single piece priority mail; single piece non-priority mail; bulk priority mail; bulk non-priority mail; postal packages; cross-border priority mail.

As can be observed from Table 2.9, the NPOs have difficulties to reach all the set routing times in ten countries (BE, CY, ES, FR, GR, HU, IE, LT, LV, SI). In five of these cases, only the standard for the fastest routing time (usually D+1) is not met, while the slower routing times (for D+2 or D+3) are met. In five other cases (CY, GR, IE, PL, SI), the slower routing times are also not met.

### *Cross border routing times*

The standards for routing times of intra-Community cross border mail have been set at 85% for D+3 and 97% for D+5.<sup>22</sup> The routing times for cross border mail as set by the various countries is given in Table 2.10. In addition, this table also contains the actual routing times as realised by the NPOs in 2006. As in the table above, if the performance is below the standard, the actual routing times are presented in bold.

One Member State (BG) has set standards that are below the requirements included in Directive 97/67/EC, while five countries (AT, BE, EE, LV, MT) have set standards that are higher than those of the Directive. With respect to performance, the NPO in three countries (BG, CY, LT) did not meet the standards for the routing times for cross border mail.<sup>23</sup>

Table 2.10 Regulation and performance of cross-border routing times (first class mail, inbound, intra-Community, 2006)

Country	Regulation			Performance		
	D+1	D+3	D+5	D+1	D+3	D+5
AT	95			96.4		
BE	95	97 (1)		92.8	98.7 (1)	
BG (2)		60	80		<b>59.3</b>	<b>84.0</b>
CY		85	97		<b>58.1</b>	<b>91.7</b>
CZ		85	97		92.5	99.0
DE		85	97		96.0	98.0
DK		85	97		[unknown]	[unknown]
EE		90			90.8	
ES		85	[unknown]		87.7	[unknown]
FI		85	97		Varies	varies
FR		85	97		94.0	99.3
GR		85	99		86.1	97.7
HU (3)		85	97		[unknown]	[unknown]
IE		85	97		85+	97+
IT		85			91.3	
IS		85	97		90.0	97.0
LT		85	97		<b>79.2</b>	<b>95.3</b>
LU		85	97		94.1	99.0
LV		85	100		[unknown]	[unknown]
MT	92			94.1		

<sup>22</sup> Directive 97/67/EC, Annex 1.

<sup>23</sup> Although De Post/ La Poste (BE) did not reach the Belgian routing time standard for cross-border mail, the performance of the De Post/ La Poste is sufficient to meet the European standards set by the European Parliament and Council. The same conclusion is valid for the Greek NPO ELTA for the D+5 delivery standard.

Country	Regulation			Performance		
	D+1	D+3	D+5	D+1	D+3	D+5
NL		85	97		96.1	99.2
NO		85			94.3	
PL		85			85.5	
PT		85	97		94.4	99.0
RO		85	97		[unknown]	[unknown]
SI		85	97		[unknown]	[unknown]
SK	[unknown]	[unknown]	[unknown]	[unknown]	[unknown]	[unknown]
SE		85	97		95.8	99.3
UK		85	[unknown]		93.2	[unknown]

Notes: (1) D+2.

Source: Annex II, country sheets.

## 2.6.2 Monitoring

The Directive requires independent monitoring of routing times, to be carried out at least once a year by an external body having no links with the universal service provider.

All countries have set the legal obligation to have independent monitoring of the routing times, apart from Estonia.

All countries comply with the CEN-standards EN 13850 and EN 14508 (as far as applicable) with the exception of Estonia, where measurement of routing times is not (yet) in compliance with EN 13850. In Cyprus, the confirmation with CEN standards has only occurred recently, with quality measurements being compatible with relevant CEN standards since 2007.

In the Netherlands, the association of large mailers (VGP) has taken the initiative to develop and implement a QoS monitoring instrument themselves. On the one hand, this will allow the VGP to compare the results of their own monitoring instrument with the results of the current monitoring carried out to check QoS performance of TNT, while on the other hand this will allow the members of VGP (large customers) to benchmark the performance of the various operators in the Dutch market.

## 2.7 Summary of main findings, analysis and conclusions

### *Universal service obligation*

With regard to the USO, all countries comply with the requirement of daily delivery or have made use of the exemptions provided for in the Postal Directive. Six countries (DE, DK, FR, NL, NO, UK) have exceeded the minimum requirements of the Directive and require collection and delivery six days per week. Also the requirements with regard to the postal network are in line with the Directive.

A majority of the countries have made use of the option to increase the universal service by adding domestic postal packages above 10 kilograms to the universal service. For

cross-border parcels, three countries have weight limits that differ from the Postal Directive (20 kg.), being Finland which included outbound cross-border mail up to 30kg in the universal service, Luxembourg and Lithuania who have limited the universal service for cross-border mail to 10kg. Finally, the definition of the universal service varies considerably between the Member states, Iceland and Norway as to the postal products that are included in the universal service (such as newspapers, printed matter, direct mail, money orders and bulk mail).

### *Reserved area*

As from 1 January 2008, Germany fully liberalised its postal market bringing the number of countries that have fully liberalised their postal market to four (DE, FI, SE, UK). Estonia was already fully liberalised, but reinstated a reserved area for items of correspondence to protect the provision of the USO after changing the legislation on the provision of the universal service. Two other countries (NO, NL) planned to liberalise in advance of the European timetable, but have decided to postpone full market opening. In Norway, the decision to postpone liberalisation was the result of a change in government. In the Netherlands, the reasons provided for postponing liberalisation are the labour conditions of mail deliverers of the main competitors of TNT (Sandd and Selekt Mail) and the absence of a level playing field for operators in the Netherlands, Germany and the UK regarding VAT and wage conditions (the law on minimum wages in Germany, see Chapter 7). At the time of writing this report, all countries that have not yet liberalised are expected to fully liberalise their postal market according to the timetable of Directive 2008/6/EC (by either 31 December 2010 or 31 December 2012).

Eight countries have liberalised a relatively large part of the addressed mail market. AT, CZ, EE, NL and SI do not have direct mail and outbound cross-border mail in the reserved area (although there are some restrictions to direct mail in Austria), while direct mail is not reserved in BG, ES and IT but outbound cross-border mail is. Moreover, hybrid mail services are no part of the reserved area in BG and intra-city mail is not reserved in Spain. In Italy, there is an arrangement that part of the intra-city mail in the reserved area is delivered by CPOs.

A number of countries have included certain postal items in addition to regular letter mail in the reserved area. In Belgium, Italy and Slovakia, delivery of (registered) items used as part of administrative and legal procedures, is part of the reserved area. Portugal has included registered and insured items in the reserved area including the serving of summons of judicial notifications by post. Cyprus has added postal services for the blind and people with partial sight to the reserved area.

A number of countries have made exceptions to the reserved area by including for example registered items used in the case of administrative and legal procedures without weight limit in the reserved area (BE, IT, SI) or included postal services for the blind in the reserved area (PT).

### *Licensing and authorisation*

Directive 97/67/EC as amended by Directive 2002/39/EC identifies two kinds of authorisation: individual licences and general authorisations. Licensing may be applied for non-reserved services that are within the scope of the universal service, while general

authorisations may be introduced for services which are outside the scope of the universal service. In both cases, authorisation has to be limited to the extent necessary to guarantee compliance with the essential requirements and, in the case of licensing, to safeguard the universal service.

A large number of countries (BG, CY, CZ, DK, EE, FI, IT, IS, MT, RO, SK, SE) have decided to make use of the option to make granting of a licence subject to universal service obligations. In most cases these obligations are merely formalities. In other countries, however, licence requirements include the obligation to provide a universal service (BG, EE, FI, RO) or delivery of services in at least two distinct geographical regions (HU).

In addition to the essential requirements and the requirements to safeguard the universal service, countries have posed additional requirements that are not sanctioned by the Postal Directive. These requirements usually concern minimal capital or proof of financial and technical or operational competence.

#### *Access*

The Postal Directive requires users to have access to the public postal network under conditions that are transparent and non-discriminatory. All countries have formally transposed this requirement into national law. In a majority of the countries, access to the delivery network of the NPO could be negotiated between market players, without any power of the NRA to set prices and/or conditions. A trend towards mandatory access can be observed where the NPO has the obligation to provide access against appropriate terms and conditions and the NRA has the power to establish these terms and conditions in case of disputes. Apart from DE, DK, FR, HU, PT, SI and UK, also BG, ES and MT have instigated a mandatory access regime. From 1 January 2008, DE replaced ex-ante determination of the access prices by ex-post control.

Most countries with mandatory access adopted the principle that access prices should be based on the retail prices minus the avoided cost of the NPO. It seems that only Postcomm in the UK is in favour of linking the access prices to the cost of downstream delivery. The difference between the two methods is that in the latter no compensation for the fixed costs upstream at the point of injecting the access mail is included.

Access to letterboxes in closed apartment buildings was an important problem in AT, FR, PL, and SK, but has been resolved in FR and is improving in PL.

#### *Quality of service*

Directive 97/67/EC only sets QoS standards for European cross-border mail, leaving the definition of QoS standards for domestic mail to the national authorities. Nearly all countries confirm to the standards for cross-border mail set in the Directive. Five countries (AT, BE, EE, LV, MT) have set standards that are higher than those of the Directive, while one country (BG) has set standards that are below the requirements of the Directive. As to performance, the NPO in three countries (BG, CY, LT) did not meet the standards set for routing times for cross border mail.

With regard to domestic QoS standards, the NPOs have difficulties to reach all the set routing times in ten countries (BE, CY, ES, FR, GR, HU, IE, LT, LV, SI). In five of these cases, only the standard for the fastest routing time (usually D+1) is not met, while the slower routing times (for D+2 or D+3) are met. In five other cases (CY, GR, IE, PL, SI), the slower routing times are also not met.

As far as is known to ECORYS, all countries comply with the CEN-standards EN 13850 and EN 14508 (as far as applicable) with the exception of Estonia, where measurement of routing times is not (yet) in compliance with EN 13850. Also, independent monitoring is carried out in all countries except Estonia.

## 3 Implementation of the regulatory framework

### 3.1 Introduction

The discussion of the regulatory developments in Chapter 2 is continued in this chapter, with a particular focus on the activities of the NRAs and issues emerging from the implementation of the regulatory framework. In section 3.2 we discuss the transparency of the accounts of the universal service provider and price regulation, whereas section 3.3 deals with the mandate and practices of the NRAs. Section 3.4 continues the discussion of the universal service and the USO in section 2.2 with a discussion about the cost and financing of the USO, an issue that will gain in importance after full market opening by 31 December 2010 or 31 December 2012. A summary of the main findings and conclusion is presented in section 3.5.

### 3.2 Transparency of NPO accounts and price regulation

Chapter 5 of Directive 97/67/EC, Articles 12-15 describe the requirements of universal service providers and the role of NRAs in meeting minimum standards for tariff principles and transparency of accounts.

#### 3.2.1 Transparency of NPO accounts<sup>24</sup>

Article 13 of the Directive provides the framework for ensuring the provision of cross-border universal services, from a financial perspective, in that the NPOs are “encouraged” to ensure that:

- Terminal dues shall be fixed in relation to the costs of processing and delivering incoming cross-border mail;
- Levels of remuneration shall be related to the quality of service achieved;
- Terminal dues shall be transparent and non-discriminatory.

WIK-Consult (2006, section 3.5.6) concluded:

“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.”

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<sup>24</sup> Note that we refer to the universal service provider when we talk about the national postal operator (NPO).

ECORYS also concludes that there is little evidence that NRAs are actively involved in regulating or controlling this area of remuneration. From this study it is not entirely clear how transparent the rates are to the majority of NRAs and only one (Ireland, see below) reported any remuneration issues.

The only NRA known to have commented on remuneration issues in terms of cross border mail was ComReg of Ireland, who made the following comments:

“It should be noted, however, that the accounts for the years 2001 to 2004, which have been published, suggest that the primary reason for An Post’s losses in the past have not emanated from the provision of the universal service within the state, but rather from An Post’s failure to comply with Regulation 10 “Agreements on Terminal Dues” in respect of the charges that foreign postal operators pay for access to An Post’s delivery network.”<sup>25</sup>

In the four-year period 2001 to 2004 inclusive, the NPO for Ireland had recorded cumulative losses of € 93m against inbound international mail, which is not compensated for with low dues for outgoing cross border mail. Remuneration is an important issue in Ireland, given the relatively large share of cross border mail in the addressed mail market (inbound cross border mail constitutes ca. 15% of domestic addressed mail).

ComReg also believed that it was inappropriate that the Special Drawing Rights (SDR) rate was used between Member States that had the euro as their currency.

Given the above and the lack of clarity of remuneration issues, it may be that a separate study is required to establish the exact position between Member States and the impact on the NPOs profitability.

Article 14 provides that:

“The universal service providers shall keep separate accounts within their internal accounting systems at least for each of the services within the reserved sector on the one hand and for the non-reserved services on the other. The accounts for the non-reserved services should clearly distinguish between services, which are part of the universal service and services, which are not. Such internal accounting systems shall operate on the basis of consistently applied and objectively justifiable cost accounting principles.”

Further sections specify the method of cost allocation to be applied and, in addition provide that:

“On request, detailed accounting information arising from these systems shall be made available in confidence to the national regulatory authority and to the Commission.”

The Directive does provide that:

“Where a given Member State has not reserved any of the services reservable under Article 7 and has not established a compensation fund for universal service provision, as permitted under Article 9(4), and

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<sup>25</sup> Annex II, country sheets (Ireland).

where the national regulatory authority is satisfied that none of the designated universal service providers in that Member State is in receipt of State subvention, hidden or otherwise, the national regulatory authority may decide not to apply the requirements of paragraphs 2, 3, 4, 5, 6 and 7 of this Article. The national regulatory authority shall inform the Commission of all such decisions.”

The Directive 2002/39/EC did not change the original Articles.

WIK-Consult (2006, section 3.6.3) concluded:

“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 implementation, the new directive should specify more clearly and perhaps more carefully, precise levels of accounting separation to be required and reported to NRAs.”

As can be seen from the above, transparency in the context of the Directive appears to be only specific to the relevant NRA, it is not a requirement that the accounts be made public (published externally).

With regards to the requirement to maintain separate accounts, all Member States other than Norway require the NPO to have accounting systems. This study has not been able to establish if the accounting systems in place provide the NRAs with detailed product cost information, as will be required under the new directive.

Cyprus still seems to have problems with its cost allocation process, as reported to this study.

If the NRAs are not receiving detailed product cost information it is difficult to understand how the NRAs have transparency in how the separable accounts have been arrived at.

All NRAs have reported to this study that they have the power to demand data from the NPOs, except for the Netherlands where the situation remains unclear. Although NRAs have the power to demand data, the experiences of the UK and Irish NRAs have shown the respective NPOs to have been lacking in terms of the adequacy of that data with regards to cost allocations, particularly at product level. One of the main issues they have identified is the inaccuracy of volume recording of posted items, which is a key component of product costing.

Even if the cost allocation process, as described in the Directive, is being followed by NPOs and that process validated by the NRAs, the high proportion of common costs in a postal pipeline will necessitate the use of volumes of items to share out those common costs. Given that the Directive requires revenues and costs for the reserved area (under

50g) to be presented separately, this means that product volumes need to be analysed by weight category.

Unless the NPOs have relatively accurate methods of volume recording processes in place, the resulting cost allocations may be questionable. Therefore even if the NRAs have the transparency of the accounts at product level, the accuracy may not be as required.

In terms of the power to demand data, the exception is the Netherlands, where a law suit between the NPO and the NRA showed that the NPO is not obliged to provide all information required by the NRA. However, under the new Postal Act that was anticipated to come into force in 2008, the NRA can require all information needed. Secondary legislation on these issues that should provide more detail is still under preparation.

According to this study, neither the NRAs of Denmark or Norway require the NPO to maintain relevant accounting systems. Norway was not included in WIK-Consult (2006). However, Denmark was and it was reported as keeping separate accounts for the reserved services only (although then it was reported as not having to provide the NRA with data). Currently, Post Danmark is still obliged to provide separate product accounts for all *reserved* universal services, but these are not provided to the NRA. An independent accountant delivers a certified declaration stating whether accounts conform to the guidelines.<sup>26</sup> The situation with regard to the Netherlands is again unclear: the NPO is not required to fulfil all of the NRA's requirements, but under the new Postal Act (when enacted) the Ministry of Economic Affairs can give particular rules regarding the accounting of the net-costs of the universal service.

#### *Level of detail of reporting to NRAs*

As with WIK-Consult (2006) the issue may still remain in many Member States that the NRA does not have sufficient access to detailed accurate data that enables the requirements of Article 12 to be adhered to, that is:

“...ensure that the tariffs for each of the services forming part of the provision of the universal service comply with the following principles: [...] Prices must be geared to costs.”

The assessment of ECORYS is that the situation in terms of detailed data has not changed since WIK-Consult (2006) and, as reported in the previous section, it will be difficult for the NRAs to be in a position to ensure tariffs are geared to actual costs.

An additional consideration is that of the varied definitions that countries use for the USO (cf. section 2.2). Some include the provision of money orders, some the provision of post office counter services (which themselves will be very diverse across countries), some have a six day service, some include newspaper delivery, etc.

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<sup>26</sup> Annex II, country sheets (Denmark), Order on the Concession Section 22.1.

This makes comparisons of USO accounting costs across Member States difficult, and becomes an issue for the future when determining the net cost of the USO for the purpose of any state funding.

#### *Publication of regulatory accounts*

It is understood that only three NPOs actually publish (make publicly available) their “regulatory accounts” in any form, these being Denmark, Iceland and the UK, although a number do publish statements as to the conformity of the cost accounting process.

Article 15 provides:

“The financial accounts of all universal service providers shall be drawn up, submitted to audit by an independent auditor and published in accordance with the relevant Community and national legislation to commercial undertakings.”

Given that many NPOs undertake a diverse range of services other than postal services (banking, financial services, consultancy, etc) the requirement to publish the accounts as above may not add value in terms of understanding the financial performance of the postal services in isolation and certainly not the financial performance of the USO.

To this end, it may be a future consideration that all NPOs be required to publish their regulatory accounts, at least to the level of detail as prescribed in the Directive (at USO level, analysed between reserved and non reserved).

#### *Transparency of NPO accounts and the third Postal Directive*

Directive 2008/6/EC re-iterates the need for transparent accounting by the USO providers:

“(41) In view of the transition towards a fully competitive market, and in order to prevent cross-subsidies from adversely affecting competition, it is appropriate to continue to require Member States to maintain the obligation on universal service providers of keeping separate and transparent accounts, subject to necessary adaptations.”

It further goes on to say:

“Keeping separate and transparent accounts should provide Member States and their national regulatory authorities with accounting information of sufficient detail to:

- adopt decisions related to the universal service;
- be used as an input when determining whether the universal service obligations imposed entail a net cost and represent an unfair financial burden on the universal service provider;
- ensure that the tariffs applied to the universal service comply with the principles on tariffs as set out in this Directive;
- ensure compliance with the principles on terminal dues as set out in this Directive; and
- monitor fair market conditions until competition becomes effective.”

Article 14, paragraph 2 has been amended to read:

“The universal service provider(s) shall keep separate accounts within their internal accounting systems in order to clearly distinguish between each of the services and products which are part of the universal service and those which are not. This accounting separation shall be used as an input when Member States calculate the net cost of the universal service. Such internal accounting systems shall operate on the basis of consistently applied and objectively justifiable cost accounting principles.”

The key change here (other than the move away from “reserved”) is that the Directive now clearly states that separate accounts are required on a product basis.

It will be imperative that NRAs have the necessary powers prior to full liberalisation to ensure they are provided with transparent accurate product cost details in order that price/cost relationships can be meaningfully analysed and that the requirements of the new directive in terms of USO net costs can also be met.

As already discussed above, the accuracy of volume recording has a significant impact on the accuracy of product costs, and NRAs will need to be confident of the accuracy.

### 3.2.2 Price regulation

Article 12 provides that:

“Member States shall take steps to ensure that the tariffs for each of the services forming part of the provision of the universal service comply with the following principles:

- Prices must be affordable and must be such that all users have access to the services provided;
- Prices must be geared to costs; Member States may decide that a uniform tariff should be applied throughout their national territory;
- 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;
- Tariffs must be transparent and non-discriminatory.”

As can be seen from the above, no mention is made of any form of price control, nor is a distinction made between the reserved area and the universal service.

The Postal Directive’s definition of the universal service provides for a minimum requirement that many Member States have extended to cover a more diverse range of services. However, the definition of the reserved area is more precise in that domestic mail is specified and with a weight/price limit. The reservation of services is provided for to the extent that the provision of the universal service is safeguarded, meaning that, under certain strict circumstances, excess funds (generated from providing services with a relatively high profit margin) from the reserved area could be used to subsidise the wider provision of the universal service. In principle, cross-subsidisation of universal services outside the reserved sector out of revenues from services in the reserved sector is prohibited except to the extent to which it is shown to be strictly necessary to fulfil specific universal service obligations imposed in the competitive area (article 12 of the Directive).

Cross border and direct mail may also be reserved subject to the same weight/price limits, to the extent necessary to safeguard the universal service.

Price regulation therefore, as provided for by Directive 97/67/EC is relatively loose and is mainly aimed at ensuring a universal service is provided for and that prices are “affordable”, geared to cost and transparent and non-discriminatory.

### *Price regulation in practice*

While implementing the Postal Directive, each Member State has approached price regulation in differing ways. This was recognised in WIK-Consult (2005, p.86):

“In particular, diverging national regulatory policies can be observed in the following areas: (1) scope of services regulated; (2) methods used for price regulation; (3) competent authorities for price regulation; and the concepts used to implement the Directive’s requirements with respect to (4) affordability, (5) cost-based tariffs, and (6) uniform tariffs.”

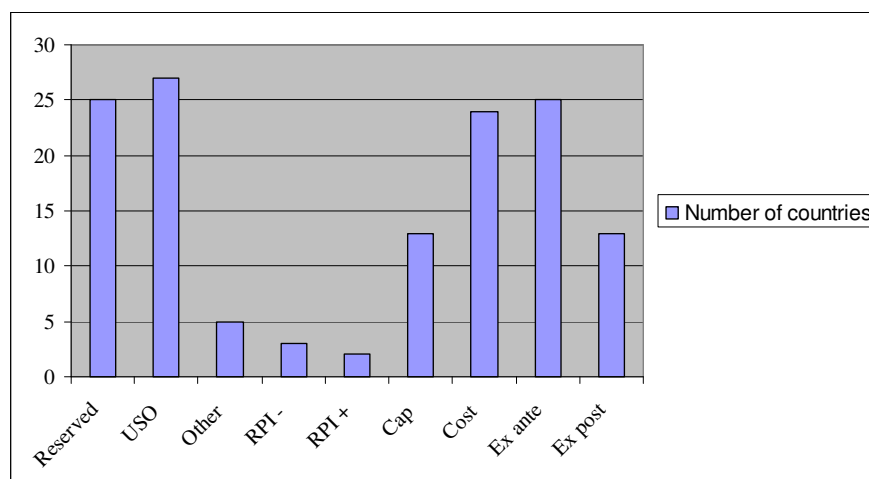
And in WIK-Consult (2006, p.86):

“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.”

According to ECORYS, little appears to have changed for those Member States that have retained the reserved area at 50 grams.

Figure 3.1 summarises the current position in terms of the number of NPOs that have a price control in each category of services, further indicating the form of control and whether price control is exercised *ex-ante* or *ex-post*. A more detailed analysis is presented in a summary table in Annex I.

Figure 3.1 Price regulation in the Member States



Source: Annex II, country sheets.

### *Price regulation of reserved services*

Of those countries that retain a reserved area, all (25) are known to have some form of price control in place. Only three have a CPI (RPI) minus regime, Germany, Poland (reserved area) and the UK. Only Poland of these three still has a reserved area. All but three (Belgium, Bulgaria and Lithuania) of the countries that retain a reserved area require pre-approval (ex-ante) by the NRA before implementing any price changes. Belgium has a price cap regime for the reserved area, with prices reviewed ex-post.

### *Price regulation of services under the USO*

Twenty-seven countries (Hungary and Luxembourg being the exception) have some form of price control on their USO services, although it should be recognised that the definition of USO services will vary by state. Sweden has just one control, this being a cap in the form of RPI on single first class items up to 500 grams.

### *Price regulation of non-reserved, non-USO services*

Five countries have price regulation on services that are neither reserved nor USO (Belgium, Cyprus, Germany, Slovakia and the UK).

Cyprus has ex-post price reviews on those services provided by the NPO that are outside the USO definition and Belgium has maximum tariffs or tariff formulas for non-USO products. In Germany, incidental services have to be verified ex-ante by the NRA whilst in Slovakia it is the postal payments system that is price regulated. Within the UK the majority of the bulk mail services (non-USO) are price regulated via a product “basket” with an RPI-minus formula.

Four of the countries are fully liberalised and therefore do not have a reserved area, but still retain a USO requirement (Finland, Germany, Sweden and the UK) with a fifth (Spain) partially liberalised (intra city mail).

In Finland, the NPO sets its own prices (geared to cost), which are subject to ex-post review by the NRA. As already mentioned, Sweden has a control on its first class service only. Bulk mail prices (over 50 items) do not require verification by the NRA in Germany (apart from ex-post control based on the principles of competition law). With regards to Spain, for those services that are non-reserved, non-USO, the NPO is free to set market prices within market conditions.

The UK has probably the most extensive range (in terms of services) of price controls within the EU, with most products, be they USO or not, price controlled under an RPI minus regime. Linked to this, the access services are controlled by linking the prices to those of a full pipeline (end-to-end) bulk mail equivalent, in the form of a fixed ratio between retail and access prices.

The importance of price regulation and the ability to assess whether prices are geared to costs becomes less (and may ultimately lose its significance) if there is effective end-to-end competition, as shown in the example about Germany in the textbox below.

### Access prices in Germany: from ex-ante regulation to ex-post control

In parallel with full market opening on 1 January 2008, Germany decided no longer to regulate the price difference between bulk retail prices and access prices (which was based on the principle of avoided cost). Given the development of end-to-end competition in the German mail market, the risks associated with ending ex-ante are small because:

- Consolidators, customers and competitors making use of access also have the possibility to negotiate access with alternative end-to-end competitors;
- There is an incentive for the NPO (DPAG) to establish efficient access prices. If access prices were set too high, their competitive position vis-à-vis end-to-end competitors would worsen and if access prices would be set too low this would worsen the financial performance of the company (note that the power of the NRA to obtain all contracts concluded by DPAG enforces that the principle of non-discrimination is applied).

### 3.2.3 VAT exemptions of the NPOs

Table 3.1 Postal services exempted from VAT

Postal services exempted from VAT	Member States	Notes
No services	FI, NO, SE, SI	
Reserved services	ES	
Universal services	AT, BE, BG, CZ, DE, DK, EE, FR, HU, IT, LU, NL, SK	
All postal services provided by USP	CY, GR, IE, LT, LV, PL, PT, UK	

Source: Annex II, country sheets.

Note: IS, MT, RO unclear.

The vast majority of NPOs still have the advantage (in terms of price) over other postal operators in that postal services are VAT exempt. The VAT exemption gives a clear competitive advantage to the NPOs with regard to customers that are also VAT exempt (for example financial institutions; in most countries the VAT exemption distorts competition in 40-50% of the addressed mail market in terms of mail volumes). For customers that are not VAT exempt, and can reclaim the VAT paid on their expenses, CPOs have a small advantage compared to the NPOs who have a VAT exemption.<sup>27</sup>

The level of distortion of competition depends however on the scope of services for which the NPO has a VAT exemption and hence, given the fact that the VAT exemption is often linked to the provision of universal services, to the definition of the universal service. For example, as in the Netherlands printed matter (and for that reason direct mail) is not included in the universal service, both TNT and its competitors have to charge VAT for the delivery of direct mail. The proposed new Postal Act that was

<sup>27</sup> This small advantage results from the fact that VAT exempt postal operators cannot reclaim VAT paid on their inputs. The latter also means that the effect of the VAT distortion with regard to customers that are VAT exempt is lower than the VAT rate that has to be applied for postal services: in the UK, the VAT exempt status of Royal Mail was seen as giving a net price advantage of 13% over CPOs in 2005 (in 2005, the VAT rate was 17.5%; Postcomm 2005).

originally planned to come into force in 2008, foresees limiting the universal service to individual item mail, further reducing the distortion resulting from TNT's VAT exemption (as for bulk mail services there will be a level playing field with regard to VAT).

In Spain, as of 1 January 2006, non-reserved postal services from the NPO became subject to 16% VAT. The new law changes the tax treatment of postal services. From that date, the VAT exemption only extends to reserved services (money orders, inter-urban and international mail under 50g, and postal communications between individuals and Government).

There is now a tax difference between local items (non-reserved, and hence subject to VAT) and non-local items (reserved up to 50g, exempt from VAT). Therefore, to keep to a single rate for all domestic mail regardless of destination, the NPO decreased the price of urban items up to 50g, such as to maintain a single price even after the application of VAT.

Within the UK, although Royal Mail's services remain exempt from VAT, the market within the access environment has been equalised by the provision of an agency contract that enables access competitors to compete for the upstream services to banks and other financial institutions without having to charge VAT on the access prices.<sup>28</sup>

#### 3.2.4 Price performance in the Member States

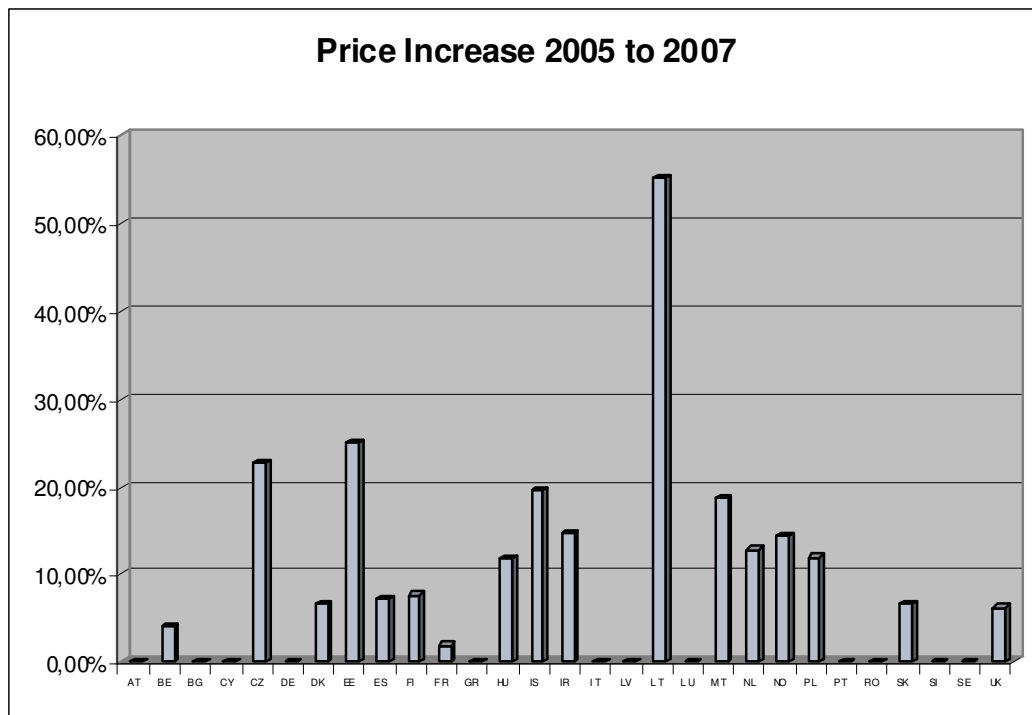
ECORYS assessed the movement in a range of service/product prices between 2005 and 2007 for each Member State. The full details can be found in Annex II within each country sheet.

In order to compare the movements on price, this section only considers the basic public tariff at the first weight step for letter post. Where a choice of class (first or second) exists, it is the first class mail product that is included.

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<sup>28</sup> But note that for end-to-end services competitors need to charge VAT (see Chapter 4 indicating the impact of the VAT exemption on the pattern of competition in the UK).

Figure 3.2 Price performance in the Member States, public tariff at first weight step



Source: Annex II, country sheets.

Note: data are missing for BG, DK (2007), GR, LV, RO, SE.

As can be seen from Figure 3.2, the range of price movements over the last three years is very significant. The extremes are Czech Republic, Estonia and Lithuania with increases of 23%, 25% and 55% respectively.

Apart from these three countries, there are seven more countries with rises above 10%, as can be seen in Table 3.2

Table 3.2 Countries with price rises above 10% (2005-2007)

Country	2005	2007	Price increase
Czech Republic	€ 0.22	€ 0.27	23%
Estonia	€ 0.28	€ 0.35	25%
Hungary	€ 0.34	€ 0.38	12%
Iceland	€ 0.41	€ 0.49	20%
Ireland	€ 0.48	€ 0.55	15%
Lithuania	€ 0.29	€ 0.45	55%
Malta	€ 0.16	€ 0.19	19%
The Netherlands	€ 0.39	€ 0.44	13%
Norway	€ 0.76	€ 0.87	14%
Poland	€ 0.50	€ 0.56	12%

Source: Annex II, country sheets.

Note: the figures refer to the basic public tariff at the first weight step for letter post (first class).

### 3.3 The practice of NRAs

Article 22 of Directive 97/67/EC provides that:

“Each Member State shall designate one or more national regulatory authorities for the postal sector that are legally separate from and operationally independent of the postal operators.

Member States shall inform the Commission which national regulatory authorities they have designated to carry out the tasks arising from this Directive.

The national regulatory authorities shall have as a particular task ensuring compliance with the obligations arising from this Directive. They may also be charged with ensuring compliance with competition rules in the postal sector.”

All Member States have some form of NRA and these appear independent of the postal operators, although in some cases the NPO and the NRA may still be under ministerial control (see Table 3.3). There has been considerable activity across the newer Member States in establishing discreet regulatory bodies, rather than ministerial departments, although these tend to be bodies with wider responsibilities than just postal, mostly for communications as a whole (the NRAs of DK, ES, HU, IT, IS remain ministerial departments). An overview of the NRAs and information on staffing is given in Annex I, Appendix 2.

Compared to the situation described in WIK-Consult (2006) two years ago, the main changes are the establishment of the Austrian Telekom-Control-Commission and the ‘Rundfunk und Telekom Regulierungs-GmbH’ (RTR) as NRA for postal affairs in Austria as of 1 January 2008. Before 2008, regulatory tasks in the Austrian postal market were governed by the Ministry of Transport (BMVIT).

In Estonia, there has been a reorganisation within a number of regulatory institutions per January 2008. Currently, the NRA is the Estonian Competition Authority (Konkurentsiamet).

Other changes may be expected in the near future, when the current postal acts will be amended to implement Directive 2008/6/EC. For example, in the draft Postal Act 2008 of the Netherlands, additional (supervisory) tasks have been attributed to OPTA. To be able to conduct these tasks, an increase in the number of staff of the postal unit of OPTA is foreseen.

### 3.3.1 Mandate of the NRAs

Table 3.3 provides an analysis of the different powers of the NRAs as provided to ECORYS as part of this study.

From analysing the individual country sheets, it appears that by far the vast majority of the NRAs concentrate their focus on ensuring the provision of the USO as defined both within the Directive and as prescribed within relevant national laws. This includes QoS targets, dispute resolution and complaints and redress procedures (although many will not deal with individual complaints).

This focus has extended in the sense that NRAs are likely to include those postal operators that operate within the non-reserved USO scope but who do not have the same obligations as the NPO. In many cases, express and courier services may also be included within the watching brief of the NRA in the sense that those operators require a general authorisation in various Member States. Those Member States not requiring either a general authorisation or a form of registration for express and courier services are BG, CY, DK, NL, SE, SK, and UK.

Table 3.3 NRA powers

Country	Require data from USP	Require accounting systems	Require new data studies	Cancel unlawful rates	Levy fines	Seek judicial order	Sets new rates for USP	Require downstream access	Require data from non-USPs	Independent (non ministerial government dept	Government Minister Dept	Licensing & General Authorisations	Comments
AT	X	X	X	X					X	X		X	Independent administrative body under the Austrian Ministry of Transport
BE	X	X	X	X	X	X			X	X		X	
BG	X	X	X	X	X	X	X	X	X	X		X	
CY	X	X	X	X	X	X			X	X		X	
CZ	X	X	X	X	X	X	X		X	X		X	(Independent) the NRA is the CZ Telecommunication Office
DE	X	X	X	X	X	X	X	X	X	X		X	Independent administrative body under the German Ministry of Economy and Technique
DK	X						X	X	X		X	X	Independent administrative body within the Danish Ministry of Transport
EE	X	X	X	X					X	X		X	
FI	X	X	X		X				X	X		X	
FR	X	X	X		X			X	X	X		X	
GR	X	X	X	X	X	X	X		X	X		X	
HU	X	X	X		X	X		X	X		X	X	Independence unclear
IE	X	X	X	X		X				X		X	
IT	X	X	X	X	X		X		X		X	X	Independent under Ministry of Communications
IS	X	X	X		X	X	X		X		X	X	Independent under the administration of

Country	Require data from USP	Require accounting systems	Require new data studies	Cancel unlawful rates	Levy fines	Seek judicial order	Sets new rates for USP	Require downstream access	Require data from non-USPs	Independent (non ministerial government dept	Government Minister Dept	Licensing & General Authorisations	Comments
													the Minister of Communications
LT	X	X	X		X	X			X	X		X	
LU	X	X		X	X	X	X		X	X		X	
LV	X	X	X			X	X		X	X		X	
MT	X	X	X	X	X	X	X	X	X	X		X	
NL		X		X	X	X				X			
NO	X		X		X		X		X	X		X	
PL	X	X	X	X	X	X	X		X	X		X	
PT	X	X	X	X	X			X	X	X		X	The President of the Office of Electronic Communications (UKE) Under the Ministry of Infrastructure
RO	X	X	X	X	X	X	X		X	X		X	
SK	X	X	X	X	X	X	X		X	X		X	
SI	X	X	X	X	X	X	X	X	X	X		X	
ES	X	X	X			X	X	X	X	(X)	X	X	The requirement for access was by Royal Decree
SE	X	X	X	X	X	X			X	X		X	
UK	X	X	X	X	X	X	X	X	X	X		X	

Source: Annex II, country sheets.

To this end, all NRA's other than the Netherlands have a responsibility for either issuing general authorisations or maintaining a register of other postal operators (see section 2.4). In those markets that are fully liberalised (Finland, Germany, Sweden and the UK) the NRA has adopted the approach of requiring all operators within certain conditions to require a licence (typically with regard to addressed letter mail, not to parcels or express). Price control though, is limited to the NPOs (or in the case of Germany to postal operators with a dominant market position which currently is the NPO).

All NRAs except in the Netherlands have the power to demand data of the NPO (see section 3.2.1 on transparency of NPO accounts). All NRAs also require data in some form from other operators, apart from the NRAs in Ireland and the Netherlands.<sup>29</sup>

As discussed in section 3.2.1, there are three NRAs that do not require accounting systems of the NPO (Denmark, Norway and the Netherlands), which given the requirements of the directive in terms of cost allocation would suggest these NRAs are not fulfilling their obligations.

Although only 20 of the NRAs appear to have the authority to cancel unlawful rates (see Table 3.3), this has to be taken into context of those NRAs that apply ex-ante price reviews compared to those with ex-post reviews, and that in those countries without the authority to cancel unlawful rates, the authority for dealing with unlawful rates will likely be vested in the competition authority or similar.

16 of the NRAs have the powers to impose new rates for the USP and 12 of these have the dual power of imposing new rates and cancelling unlawful rates.

Apart from the NRAs in AT, DK, EE, ES, IE, and LV, all NRAs have the ability to levy fines. The scope of this power differs among the Member States, but mainly focuses on violations of the Postal Act, secondary legislation by the universal service provider or alternative operators.

WIK-Consult (2006, p.64) listed seven countries that had mandatory downstream access to the public postal network under appropriate circumstances (Denmark, Germany, France, Hungary, Portugal, Slovenia and the United Kingdom). In addition to these countries, Bulgaria, Malta and Spain have made downstream access mandatory, bringing the number to ten (for a more detailed discussion, see Chapter 2, section 2.6).<sup>30</sup>

### 3.3.2 Emerging themes

Although the majority of NRAs are primarily focused on the provision of the USO (in its many guises per Member State) and of policing the NPO in its provision of those services, there are a number of themes developing that may become benchmark activities as the market heads towards full liberalisation by 31 December 2010 and 31 December

<sup>29</sup> In the new Postal Act it is envisaged that OPTA will have this power in future.

<sup>30</sup> In Spain the issue of downstream access was dealt with by Royal Decree rather than a directive from the NRA, but it is assumed that the NRA will now police this area.

2012. It should be noted however, that both the regulatory frameworks and the mandate and resources of the NRAs differ considerably from country to country, making it difficult to identify best practice. For example, in countries where the NRA has a relatively small mandate, it makes less sense to start a public consultation than in countries where the NRA has a much broader mandate.

The developments in the regulatory (legal) framework have not always been driven by the NRA in isolation, and may involve legal changes, instigated by the state, and competition authorities.

### *Regulatory framework*

In a number of Member States, there has been activity to “tidy” up the regulatory framework as it applies to the postal market in order that there is a more solid framework prior to liberalisation. In line with this, there has also been activity in establishing the NRA as a separate body, albeit that the breadth of responsibilities tend to encompass the wider communications market (i.e. telecommunication or broader electronic communication).

### *Pricing*

Since the report prepared by WIK-Consult (2006), more of the NRAs appear to be focusing on the NPO’s pricing mechanisms for the USO area with regards to setting more challenging regimes, such as RPI minus regimes, or a price cap. In many cases this may be more in line with maintaining “affordable prices” rather than preparing the market for competition. The most significant change appears to be in Poland where previously it appeared the NRA had little influence, but has now the responsibility for ex-ante approval of the NPO’s prices.

### *Consultations*

There is a definite trend developing for NRAs to consult stakeholders on major issues, such as pricing, USO requirements, etc. Consultations offer the NRA an opportunity to involve all interested parties in how the NRA should regulate the market to further consumer interests.

### *Wage rates*

Although not necessarily an NRA responsibility, the issue of wage rates has been raised in Austria, Germany and the Netherlands. It does not appear that the imposition of a minimum wage for the postal sector, over that of a national minimum wage rate (or a minimum wage rate in sectors comparable to the postal sector), will likely encourage competition either in those markets that are already liberalised, or in those to be liberalised (this issue will be discussed at length in Chapter 7).

### *Competitor complaints*

There seems to be a growing number of competitor complaints and in particular TNT appears very active in a number of Member States (for example in the UK, Germany and Belgium) in raising issues of restrictive practices or pricing issues. NRAs will need to have the resources, powers and data available to undertake relevant investigations, or, as most do, have joint responsibilities or working arrangements with the respective competition authorities.

### *Postcode address files and redirection databases*

There are differences developing in the area of postcode address files and redirection databases. Whereas the NRA for the UK has decided that the NPO has to make these available at no cost to other postal operators, other NRAs, like the NRA in the Netherlands (OPTA) has allowed the NPO to make them available on commercial terms. At the other extreme, a competitor in Ireland is of the view that the NPO should develop a postcode system for the entire country and that it should be then freely available to other operators.

### *Third party access*

There are different approaches across the NRAs and in postal legislation with regards to the access to the NPO's postal facilities by other operators. However, there does appear to be a theme developing where legislation or regulatory involvement is making this more readily available (for example, Malta and Spain have in recent years opted for a mandatory access regime and legislation regarding access is in process within Bulgaria).

### *Interoperability*

A number of NRAs have the responsibility for ensuring that postal operators have a reciprocal process for dealing with each other's mail when found in their systems. Postcomm (UK) has stipulated the rules governing this in detail, including prices to be charged for retrieval and repatriation. At full market opening this will be a significant issue (and is provided for in Directive 2008/6/EC) and the UK model may provide a benchmark.

### *Market information*

This ECORYS study has shown that many NRAs do not have data on the mail market as a whole. An emerging trend is for some NRAs to undertake market surveys in order to better understand the dynamics and extent of the postal business across the whole spectrum of mail services (not just the USO area).

### *Consumer information*

A number of the NRAs have undertaken customer surveys over the last two years, or have required the NPO to do so. As above, in order that the NRA understands the market more fully, this would appear to be a trend that offers best practice.

### *Cost of the USO*

Few of the NRAs appear to undertake any serious analysis of the cost of the USO; although Postcomm (UK) published in May 2008 work in this area.<sup>31</sup> In Denmark it was the Chamber of Commerce that commissioned a study. Assessing the net cost of the USO may be a theme that will develop in the lead up to liberalisation given the contentious nature of the (actual) burden of the USO. The next section is dealing with the cost and financing of the USO in more detail.

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<sup>31</sup> Postcomm is currently investigating the costs and benefits of changing the scope of the USO.

### 3.4 Cost and financing of the USO

As discussed in section 2.2, Article 3 of Directive 97/67/EC provides the minimum requirements of Member States in terms of the provision of universal services. With regard to the maintenance of the universal service, Directive 2002/39/EC amended Article 7 of Directive 97/67/EC to the following:

“To the extent necessary to ensure the maintenance of universal service, Member States may continue to reserve services to universal service provider(s). Those services shall be limited to the clearance, sorting, transport and delivery of items of domestic correspondence and incoming cross-border correspondence, whether by accelerated delivery or not, within both of the following weight and price limits. The weight limit shall be 100 grams from 1 January 2003 and 50 grams from 1 January 2006. These weight limits shall not apply as from 1 January 2003 if the price is equal to, or more than, three times the public tariff for an item of correspondence in the first weight step of the fastest category, and, as from 1 January 2006, if the price is equal to, or more than, two and a half times this tariff.

In the case of the free postal service for blind and partially sighted persons, exceptions to the weight and price restrictions may be permitted.

To the extent necessary to ensure the provision of universal service, direct mail may continue to be reserved within the same weight and price limits.

To the extent necessary to ensure the provision of universal service, for example when certain sectors of postal activity have already been liberalised or because of the specific characteristics particular to the postal services in a Member State, outgoing cross-border mail may continue to be reserved within the same weight and price limits.”

And further that:

“Cross-subsidisation of universal services outside the reserved sector out of revenues from services in the reserved sector shall be prohibited except to the extent to which it is shown to be strictly necessary to fulfil specific universal service obligations imposed in the competitive area; except in Member States where there are no reserved services, rules shall be adopted to this effect by the national regulatory authorities who shall inform the Commission of such measures.”

The Directive therefore prescribes minimum standards in terms of collection and delivery but is fairly broad in terms of the items of postage that can be defined as a universal service and in addition the services (within defined limits) that can be reserved to effectively finance the provision of the USO.<sup>32</sup>

The Directive also provides that universal services should be at affordable prices, although provides no guidance as to what affordable means.

Although the Directive enables Member States to reserve services there are a number of Member States where full liberalisation has been implemented. The NPOs in those

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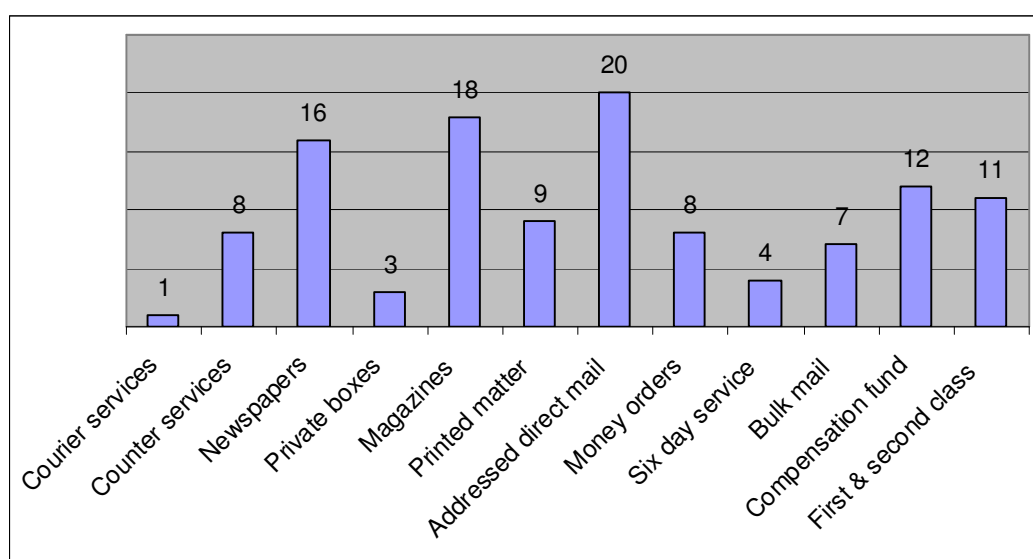
<sup>32</sup> Note that document exchange and unaddressed mail are excluded from the USO.

liberalised States do not have the facility to fund the USO from reserved services and if there would be a net cost associated with the USO there is an issue on how to finance these net costs.

### 3.4.1 USO cost estimates and funding provisions

As can be seen from Figure 3.2, the range of services over and above regular (first and/or second class) mail and parcel provision included within the USO definitions is varied.

Figure 3.2 Services included in the various USO definitions in the Member States



Source: Annex II, country sheets.

Note: There may be crossover in terms of the definitions of addressed direct mail and bulk mail. A detailed country by country overview is provided in Table 2.3, section 2.2.

From the above it can be seen that the accounting cost of the USO is likely to vary significantly between Member States simply from the definition of what is or is not included in the definition. This will also have an impact on any economic modelling that purports to calculate the net cost or benefit of the USO and cross-country comparisons.

Each NRA should have accounts provided to them by the NPO that enables the accounting cost of the USO services to be established and reviewed. Within the UK and Ireland the NRAs have raised serious concerns as to the accuracy of the NPO's cost allocation systems and also as to the relevance of the accounting cost in isolation as a measure of the actual economic cost, and perhaps even benefit of the USO obligations.<sup>33</sup> If this situation is representative of other Member States, which it seems to be to ECORYS based on the available information, then the requirements of the new Directive with regards to establishing "residual net costs" in order for external financing to be considered will become a problem for the respective NRAs to validate those requirements with any confidence.

<sup>33</sup> Postcomm and ComReg replies to ECORYS questionnaires.

In Ireland, the NRA presented a number of views on the net cost of the USO at its 2007 National Postal Conference, as presented in the textbox below.<sup>34</sup>

#### Views of the Irish NRA about estimating the cost of the USO

It appears rather difficult to calculate the net cost, if any, of the universal services obligation and it should be observed that most calculations exclude the value of benefits. Existing calculations generally show that the cost is not onerous.

The following estimates of the cost of the USO were obtained in various studies:

- NERA's study for the European Commission (1998) calculated the net cost of the Irish universal service between 0.3% and 5.4% of An Post's 1997 turnover;
- In Portugal a study by the national operator suggested that between 4% and 6% of the €15.9m losses could be ascribed to the requirements of the universal service;
- In the USA, the Postal Rate Commission estimated that the cost of the universal service represented 5% of revenues. In order to remove this obligation, the USP would have to cease deliveries to approximately 47% of addresses;
- In Sweden, the most recent estimate is €10.3m or 4% of the operator's group wide revenues. According to the Government, provision of the universal service can be considered an asset because the ability to offer a full service is a competitive advantage (it is very expensive for competitors to build a parallel nationwide delivery network);
- In Norway, the cost of the USO was estimated at 2% of Posten Norge's sales;
- Additionally, the UK NRA in 2002 published a study that estimated that the Net Avoided Cost of the USO was between 0% and 1% of turnover, and that if qualitative elements such as brand value were included there would be a net benefit to the NPO of £480 million.

However, the respective NPOs of the UK and Ireland were not of the same opinion as the NRAs and believed the USO to be a considerable burden:

In terms of accounting data, the last published results for the Irish NPO (in 2004) showed a net loss on USO services of 2.5m euro, although this included a net loss on inbound international services of 36.4m euro. Within the UK, the 2006/07 regulatory accounts<sup>35</sup> showed an operating profit (before exceptional items) of £27m (40m euro), however this figure includes the NPO's additional pension costs in terms of the funds forecast shortfall:

"Total Mails costs have increased by 2.5%, but most of this increase is because of increased contributions to the pension scheme to fund the deficit, and the impact of a pay deal agreed in previous years."<sup>36</sup>

Neither the Irish NPO nor the UK NPO receive any form of state funding, although within the UK the cost of post office counter services for the sale of stamps, acceptance of mail, etc., are charged to the relevant services. The counters business does receive state funding for the provision of rural post offices.

A number of Member States already have provisions for a compensation fund to potentially support the provision of the USO.<sup>37</sup>

<sup>34</sup> Based on an LECG report for ComReg, 18 October 2007.

<sup>35</sup> Source - Regulatory Financial Statements 2006-07 – Royal Mail Website.

<sup>36</sup> Source - Regulatory Financial Statements 2006-07 – Royal Mail Website.

- In Belgium a compensation fund may be activated to cover the “burden” of the USO. Postal operators with an individual licence may be subject to contribute to the fund based on turnover of services within the USO but outside of the reserved area, except for the first 1.2 million euro;
- Bulgarian Post obtains compensation from the state for any deficit resulting from the provision of the USO if proven to the NRA;
- In Cyprus the USO is financed from the government budget if the returns from the reserved area are insufficient;
- In France there is provision within postal legislation for a compensation fund to be activated;
- In the not yet adopted new postal law in the Netherlands, it is foreseen that the NPO can request the NRA for compensation towards the net costs of the USO. If applicable, the net USO costs will be spread between all postal operators, based on annual turnover;
- Losses from delivering to rural areas in Italy are covered by returns from the reserved area, state subsidies (state aid) and a universal service fund;
- In Portugal the costs of the USO may be covered from a compensation fund that receives income from contributions from all postal service providers offering services in the non-reserved USO area, plus profits of philatelic activities;
- In Slovenia universal postal service providers are entitled to compensation if the costs incurred by the provision of universal postal services in the first year exceed the income from these services and if the operator cannot cover these differences with income generated through the provision of reserved postal services;
- In Spain the Government allocated € 91m in the 2005 budget to the universal postal service. In 2006, the budget allocation was € 93m. In 2007 the figure earmarked to the postal service amounted to € 95m. The budgeting comes as an advance payment towards the final bill which will be agreed once the actual cost of running the universal postal service is determined at the end of each fiscal year. The NRA clears the balance between the actual and the estimated cost of the service;
- Social services (e.g. articles for the blind) are procured by the NRA in Sweden from the NPO.

Given the variety of definitions of the USO, it is assumed that the European Commission finds it difficult to quantify the reasons applicable for state funding. In particular the provision of a dual service, six day collection and delivery span will significantly increase USO accounting costs compared to those NPOs that only operate a five day single service USO. It may be argued that the calculation of the net cost/benefit of the USO should only include those services as provided for within the Directive.

A further problem will be that NPOs and NRAs may between them (for example within the UK), or the policy maker through legislation, change the scope of the USO. A prime example is that of the UK, where originally the vast majority of bulk/direct mail was included within the definition of the USO and as such, from an accounting perspective, the USO appeared to return fairly healthy profits. However, more recently (in the 2006/2007 financial year), the NRA allowed (via an amendment of the licence conditions) the majority of bulk/direct mail products to be excluded (some remain) with

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<sup>37</sup> Source – Annex II, country sheets.

the resulting drop in profits. In the 2006/2007 regulatory accounts, the results of the financial year 2005/2006 were restated to account for the change in definition of a large part of the bulk mail from USO to non-USO services. This resulted in a drop in USO operating profits from £ 210m<sup>38</sup> to £ 54m<sup>39</sup> for that financial year. The June 2008 Courier (Royal Mail's newspaper) reports "that the Universal Service recorded its first-ever loss, in the region of £ 100m" for the financial year 2007/2008.

Of course, as with all NPOs, the USO requirement for national coverage and a minimum five-day delivery will have commercial advantages in the selling of bulk/direct mail products be they within the USO definition or not.

Both the Irish and UK NPOs have the opinion that all bulk mail services should not be included in the USO definition and in response to this survey the UK NPO provided the following comment:

"Royal Mail's view is that the USO should be narrowed to reflect a range of products where there is currently less competition provided for in the marketplace and equating to the minimum legal requirements of the Postal Services Directive and Act - namely stamped mail, standard parcels, a registered and insured product (such as Special Delivery non-account) and international surface and airmail. It is the provision of these services which is the minimum required by EU and UK legislation.

Royal Mail believes that stamp prices should cover the economic costs of providing this service. Royal Mail does not propose significant degradation of the USO activities of daily collection and delivery. These are enshrined in the Postal Service Act and any changes are a matter for Parliament, but any significant degradation in perceived quality would put at risk mail's competitive position against other media"<sup>40</sup>

Currently, it is understood that only the UK, Danish and Icelandic NPOs publish regulatory accounts in sufficient detail for the accounting costs and profits of the USO services to be ascertained publicly and therefore studies such as this cannot provide a detailed comparison across countries unless the NPOs who do not publish their accounts provide the information to the consultants. This has not been the case with this study as the NRAs and NPOs have deemed the information confidential.<sup>41</sup>

However, if the UK model is representative of other countries, then it is highly likely that where business mail is included within the USO definition then this mail is likely to be subsidising individual item mail (stamp), as may be explained by the following extract:

"As set out above, the USO operating profit before exceptional items of £215m continues to be driven by 1st Class, Bulk Mail products (Mailsort, Walksort and Cleanmail) and other products such as Packetpost and Special Delivery. This continues to mask the fact that stamped products generate losses of £237m (2004-05 £281m), which are more than offset by profitable meter and account products. From April 2005, Royal Mail started to address this discrepancy by introducing a higher price

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<sup>38</sup> Source: Regulatory Financial Statements 2005-06 – Royal Mail Website.

<sup>39</sup> Source: Regulatory Financial Statements 2006-07 – Royal Mail Website.

<sup>40</sup> Source: ECORYS questionnaire to Royal Mail.

<sup>41</sup> Although it should be mentioned that calculating the net cost of the USO is beyond the scope of this study.

for 1<sup>st</sup> Class stamped mail than for metered or account products. This change has helped to reduce losses in stamped products in the year.”<sup>42</sup>

### 3.4.2 Directive 2008/6/EC

Compared to Directive 97/67/EC as amended by Directive 2002/39/EC, Directive 2008/6/EC gives more attention to the subject of the financial burden or otherwise of providing the USO and as such it is worth considering the actual text of the Directive and the implications it may have for NRAs and NPOs in the future.

Not only does Directive 2008/6/EC reiterate the methods of potential funding available, it also provides a framework (a ‘guidance’) for establishing if a net cost of the USO is present.

Additionally we present a case study for Denmark below where the application of the Directive 2008/6/EC appears to have been used in a study to ascertain if an NPO is incurring a cost or is receiving a benefit from the provision of the USO.

Directive 2008/6/EC provides the following:

“The external financing of the residual net costs of the universal service may still be necessary for some Member States. It is therefore appropriate to explicitly clarify the alternatives available in order to ensure the financing of the universal service, to the extent that this is needed and is adequately justified, while leaving Member States the choice of the financing mechanisms to be used.”

These alternatives include the use of public procurement procedures including, as provided for in the public procurement Directives, competitive dialogue or negotiated procedures with or without the publication of a contract notice and, whenever universal service obligations entail net costs of the universal service and represent an unfair burden on the designated universal service provider, public compensation and cost sharing between service providers and/or users in a transparent manner by means of contributions to a compensation fund.

Member States may use other means of financing permitted by Community law, such as deciding, where and if necessary, that the profits accruing from other activities of the universal service provider(s) outside the scope of the universal service are to be assigned, in whole or in part, to the financing of the net costs of the universal service, as long as this is in line with the Treaty. Without prejudice to the obligation of Member States to uphold the Treaty rules on State aid, including specific notification requirements in this context, Member States may notify the Commission of the financing mechanisms used to cover any net costs of the universal service, which should be reflected in the regular reports that the Commission should present to the European Parliament and Council on the application of Directive 97/67/EC”

The key term being used above is that of “net cost of the universal service.” Transparency on this subject can be used to ensure a level playing field between the traditional USPs and the CPOs due to the fact that claims and allegations can be verified. In line with

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<sup>42</sup> Source Regulatory Financial Statements 2005-06 – Royal Mail Website.

Directive 97/67/EC as amended by Directive 2002/39/EC (article 9 sub 4) the introduction of this term underlines that the NRAs have to be in a position to assess and verify the cost or benefit of the USO in situations where the NPO is claiming that by providing those services, it is incurring an “unfair burden.”

The Directive goes on to say:

“The principles of transparency, non-discrimination and proportionality, as presently provided for in Directive 97/67/EC, should continue to be applied to any financing mechanism and any decision in this area should be based on transparent, objective and verifiable criteria. In particular, the net cost of the universal service should be calculated, under the supervision of the national regulatory authority, as the difference between the net costs of a designated universal service provider operating under a universal service obligation and not operating under a universal service obligation. The calculation should take into account all other relevant elements, including any market benefits which accrue to a postal service provider designated to provide universal service, the entitlement to a reasonable profit and incentives for cost efficiency.”

From the above, we can see that Directive 2008/6/EC recognises that the NPOs may be benefiting commercially from the provision of the USO. In particular, the provision of a delivery network across a whole country may provide a benefit in terms of its attractiveness to large volume business customers as a “one stop shop” for national advertising campaigns.

Additionally the following is provided (Directive 2008/6/EC, annex I):

“National regulatory authorities are to consider all means to ensure appropriate incentives for postal service providers (designated or not) to provide universal service obligations cost efficiently. Due attention is to be given to correctly assessing the costs that any designated universal service provider would have chosen to avoid, had there been no universal service obligation. The net cost calculation should assess the benefits, including intangible benefits, to the universal service operator.

The calculation is to be based upon the costs attributable to:

- (i) Elements of the identified services which can only be provided at a loss or provided under cost conditions falling outside normal commercial standards. This category may include service elements such as the services defined in Part A;
- (ii) specific users or groups of users who, taking into account the cost of providing the specified service, the revenue generated and any uniform prices imposed by the Member State, can only be served at a loss or under cost conditions falling outside normal commercial standards. This category includes those users or groups of users that would not be served by a commercial operator that did not have an obligation to provide universal service.

The calculation of the net cost of specific aspects of universal service obligations is to be made separately and so as to avoid the double counting of any direct or indirect benefits and costs. The overall net cost of universal service obligations to any designated universal service provider is to be calculated as the sum of the net costs arising from the specific components of universal service obligations, taking account of any intangible benefits.

The responsibility for verifying the net cost lies with the national regulatory authority. The universal service provider(s) shall cooperate with the national regulatory authority to enable it to verify the net cost”

We therefore now have a requirement of the NRAs to endeavour to ensure that NPOs “provide universal service obligations cost efficiently,” (in line with article 12 of the Directive), which may mean that when NRAs are assessing any net cost of the USO may only consider efficient costs rather than actual costs incurred. Additionally the above includes the use of the term “intangible benefits” which in addition to the example previously quoted may also include the potential brand value established by the NPO in providing the USO, for example as a “trusted carrier.”

The following also provides that the provision of services such as pensions and postal orders within the USO should not be compensated for by other postal operators, if such a scheme is being considered.

“In cases where Member States decide to make accessible to the public, on their national territory, additional or complementary services, with the exception of those relating to the universal service obligations, as defined in this Directive, such as pensions and postal orders delivery in rural areas, these services should not be subject to any compensation mechanisms requiring the contribution of specific undertakings. Where appropriate, Member States may grant financing for such additional or complementary services in accordance with the Treaty rules on State aid. Except in the case of universal service provider(s), the authorisations may not be made subject to the obligation to provide such additional services.”

As can be seen from the above, Directive 2008/6/EC is far more specific in terms of defining how the net cost of the USO should be calculated than the previous Directives. In Directive 97/67/EC, Article 14 simply provides the basis of the cost allocation process in the context of the following:

“The universal service providers shall keep separate accounts within their internal accounting systems at least for each of the services within the reserved sector on the one hand and for the non-reserved services on the other. The accounts for the non-reserved services should clearly distinguish between services which are part of the universal service and services which are not. Such internal accounting systems shall operate on the basis of consistently applied and objectively justifiable cost accounting principles.”

All of these additional requirements will mean that NPOs will be required to keep very detailed product costs, if they do not already, in order that the NRAs can meet their responsibilities under the new directive. Even if the NPOs are currently undertaking relatively detailed product costing there may be issues in terms of accuracy, as discussed in section 3.2.1.

### 3.4.3 The cost of (elements of) the USO in the UK

In May 2008 Postcomm published a report (prepared by Frontier Economics and Postal & Logistics Consulting Worldwide) pertaining to *the net cost of elements of the universal*

*service*. The study focused on the impact of particular elements of the current universal service on the costs and revenues of Royal Mail, and did not estimate the total cost of the universal service.

The study identified six main universal service elements: (i) first class quality of delivery, (ii) collection and delivery times, (iii) collections and deliveries per week, (iv) class of mail, (v) bulk mail, and (vi) evening packet delivery service.

Frontier Economics (2008, p.3) observes:

“It is clear that the largest net cost arises from the requirement for Saturday deliveries and collections. If the requirement were removed, Royal Mail could be expected to save over £320m of costs, but only suffer a revenue reduction of around £55m. In contrast, there would be a significant revenue reduction associated with a switch to a two day mail product. Without a radical re-structuring of Royal Mail's operations it is unlikely that Royal Mail would be able to reduce its costs in line with the reduction in revenues, and as a consequence Royal Mail could be expected to be between £44m and £278m worse off under such a move.”

The assessment also relies on the (uncertain) behaviour of Royal Mail itself, Royal Mail's competitors and clients. The same uncertainties were identified related to the impact of the universal service on Royal Mail's operations, costs and revenues, in particular the impact on customer demand, baseline costs and volumes, cost changes, special deliveries and prices.

Frontier Economics (2008, p. 3) concludes:

“Of all the scenarios we have considered, only the universal service requirement for Saturday collections and deliveries imposes a significant constraint on Royal Mail. Maintaining first class quality of service at its current level also imposes a constraint, but if the constraint were relaxed, it is likely that Royal Mail would continue to incur many of the same costs but these would instead be driven by the requirements of the Special Delivery product. Introducing a two day service would be likely to result in increased competition and provide an opportunity and incentive for Royal Mail to reduce costs significantly by optimising its mail centre and delivery office network. If it failed to do so it is likely that there would be a significant negative impact on the profitability of Royal Mail.”

#### 3.4.4 The cost of the USO in Denmark

Recently, a study for the Danish Chamber of Commerce has been published. The study was prepared by Copenhagen Economics (2008) and was titled “*What is the cost of Post Danmark's universal service obligation?*”

The study recognises an important issue that prior to full market opening, politicians will need to know if the NPO does in fact carry a financial burden in fulfilling its USO requirements, however these are defined:

“Today, Post Danmark is compensated for the USO by a legal monopoly on the delivery of small letters. Once the postal market is liberalised, however, it will lose the monopoly. Danish politicians must

therefore consider whether and how Post Danmark should be compensated for the USO. The new EU Postal Directive acknowledges the need for USO compensation if it represents an unfair financial burden on the postal operator. It is, thus, important to determine whether this is the case for Post Danmark.”<sup>43</sup>

It also states that the methodology used is consistent with the requirements of Directive 2008/6/EC. To this end, the study not only considers the costs encountered by the NPO, but also the benefits.

Further, it provides a critique of previous methods adopted in calculating the USO cost, namely the Net Avoided Cost and the Entry Pricing approach, and provides some evidence to suggest that neither of these methods are particularly robust in meeting the overall aim of establishing the net cost as defined in the Directive.

The study considers the costs and benefits of a number of USO requirements:

1. Nationwide delivery;
2. Six day delivery versus a five day delivery;
3. Free delivery for the blind;
4. Other products;
5. Uniform prices;
6. Quality of service and compensation;
7. Letter box collections;
8. Post office outlets;
9. Competitive advantages (i.e. brand value, goodwill, etc.);
10. Accounting requirements.

Each of these have been analysed and a value established as to if it is a net cost, nil impact, or benefit.

In terms of the method used, the following extract provides a high level description (Copenhagen Economics 2008, p.23):

“In the *first step*, we will examine what Post Danmark would optimally do if not subject to a certain USO requirement. We first assess whether Post Danmark would do anything different at all, i.e. examine whether the USO requirements constitute a real constraint for Post Danmark. A requirement is not a burden if Post Danmark would do the same, regardless of whether the requirement is in place or not. As an example, the requirement for next-day delivery of 93 per cent of the letters is hardly a real constraint, because Post Danmark has voluntarily chosen to offer an even higher service level in this respect.

In the *second step*, we will calculate which costs Post Danmark could save by making other choices and thus choosing a business model not meeting the USO requirements. In order to do this, we will first describe the relevant commercial options which Post Danmark could consider in the absence of the USO.

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<sup>43</sup> Copenhagen Economics (2008, p. 6).

In the *third step*, we calculate the income that Post Danmark would lose with each of the alternative commercial options. Among other things, we will calculate how much Post Danmark's revenue would decrease if it did not deliver mail on Saturdays. This revenue is called *incremental revenue*.

The incremental revenue includes a direct and an indirect element. The direct element is the revenue on products which would disappear immediately. As an example, we expect that Post Danmark would lose its revenue on Saturday newspapers if it stopped delivering mail on Saturdays. The indirect element is the revenue that Post Danmark would lose on its other products. We expect that several newspapers would let the competitor Bladkompagniet deliver the entire week's newspapers if Post Danmark stopped delivering Saturday newspapers. This would mean that Post Danmark would also lose its revenue from newspapers on Monday to Friday.

In the *fourth step*, we add it all up and calculate Post Danmark's net cost in connection with the USO as the costs saved less the income lost."

The reports came to the following conclusions (Copenhagen Economics 2008, p.6):

*"On the one hand*, we estimate USO costs for Post Danmark to DKK 150 million, or 1.5 per cent of its total costs. The costs are primarily driven by two requirements: the obligation to deliver mail six days per week and the obligation to provide free services for the blind.

*On the other hand*, we conclude that Post Danmark also has a number of competitive advantages as a result of both the USO and Post Danmark's historic monopoly status.

These advantages have *not* been included above. However, they do have a considerable impact on competition. If Denmark follows the example of other countries in which the old monopolies have already been exposed to competition without being compensated for the USO, Post Danmark will maintain a market share of over ninety per cent for many years to come. This indicates that the USO will not weaken Post Danmark, even if it is not compensated for.

We conclude that the burden of the USO is not unfair for Post Danmark. Hence, there is no need to compensate Post Danmark for the USO, neither financially nor by imposing special obligations on other players on the market."

Although it is not for this study to comment on the robustness or otherwise of this study by Copenhagen Economics, it is reasonable to say that each Member State will need to consider how it will meet the requirements of Directive 2008/6/EC.<sup>44</sup>

The above appears to provide a reasonable benchmark for NRAs to consider if they are currently receiving cost information in sufficient detail that would enable them to undertake similar exercises. It should be mentioned that Danmark Post is disputing both the outcomes of the study and its underlying assumptions, which also points to the challenge to reach generally accepted estimations of the net cost of the USO.<sup>45</sup>

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<sup>44</sup> It is also known that Postcomm (UK) is also conducting a study in terms of the Cost of the USO and it will be of interest when that is published to compare the methodology and findings with the approach outlined above.

<sup>45</sup> Private communication with Post Danmark.

### 3.5 Summary of main findings and conclusion

#### *Transparency of NPO accounts*

The level of transparency (in particular level of detail) of NPO's cost data and accounting is still extremely varied and therefore very inconsistent across Member States. The transparency referred to here applies to that of sight by the NRA, as regulatory accounts are usually not published in the public domain (only three countries, DK, IS and the UK make some form of detail available to the public).

In particular, it seems that the level of focus from NRAs on cross-border remunerations is minimal. Based on the information available to ECORYS, it appears that in the main the requirements of Article 14 are being met (separate accounts at least for each of the services within the reserved area on the one hand and for the non-reserved services on the other), but it is very unlikely that in many cases the requirements of Article 12 are being met (in particular, ensure that the tariffs for each of the services [and hence also international mail] under the USO are geared to costs).

In conclusion, the following extract from WIK-Consult (2006) still remains valid:

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

Directive 2008/6/EC re-iterates and goes further than Directive 97/67/EC as amended by Directive 2002/39/EC in that the NRAs will require detailed cost data at product level in order to meet the needs of the Directive, but in the view of ECORYS could have been more prescriptive on how the NPOs report to the NRAs.

#### *Price regulation*

The vast majority of countries still appear to be controlling prices more in terms of "affordability" rather than any other dynamic. However, considering the varying price movements and the substantial price rises in some Member States, this type of control may not best suit the interest of consumers. Only three countries stimulate efficiency improvements through using an RPI minus regime for (part of) the prices that are regulated (DE, PT, UK). Uniform tariffs remain the norm across countries for USO services.

In countries where a reserved area is retained, the most frequent form of control is that of cost based, ex-ante price regulation. In the opinion of ECORYS, the accuracy of data and level of detail available from the NPO and the expertise of the NRA in analysing the data make it a challenge for the NRA to assess whether prices are actually geared to cost. This also holds true for ex-post price control based on cost.

One of the major factors influencing cost allocation at a product/service level are traffic volumes, for which the postal industry is notable in its inability to record certain types of mail accurately.

In the countries that have fully liberalised their postal markets, the NPO within the UK has a complicated form of RPI minus price regulation that extends beyond the USO area, analysed across two baskets, “captive” and “non-captive”, and extended to include downstream access services through regulating the minimum price difference between access prices and the prices of comparable bulk retail products. Recently, most bulk products (non-captive) were removed from the USO definition, but not from the price control. This contrasts with the liberalised market of Sweden where it is only first class single item mail that is subject to price control. In Germany, a form of RPI minus has been introduced in 2008, with prices for services provided by operators with a dominant market position (the NPO) subject to ex-ante approval. The proposed formula is RPI minus 1.8%.

Although it may be perceived as reasonable for NPOs to have a price cap linked to RPI, the consequence is that in most Member States there is little or no incentive for the NPOs to reduce costs in real terms. This is even more so for cost based price regulation.

In the build up to full market opening, the powers of NRAs in terms of pricing may need to be strengthened considerably in order that, prior to competition developing, the NRA is in a position to model the impact of competition on the NPO’s pricing. Simply controlling prices by linking it to a RPI cap is unlikely to be sufficient. It is important to note that data accuracy will play a key role in the NRA’s ability to understand and analyse the NPO’s cost data.

#### *The practice of NRAs*

The core practices of NRAs across Member States appear fairly standard. They are involved in some way in price controls and tariff setting, albeit in varying degrees of involvement. All are involved in some form or other in ensuring the delivery of the USO requirements, including QoS targets. Also, all NRAs have a role in establishing complaints and redress procedures, although few actively deal with individual complaints.

The vast majority require the NPO to maintain accounting systems and periodically review the data, but not all require the data on a regular basis. A high proportion requires data from other postal operators (all countries apart from IE and NL), but this tends to be minimal compared to the requirements of the NPO.

Various NRAs have been active in commissioning market surveys and customer perception studies (CZ, DE, FI, GR, NL, IE, LT, MT, PL, PT, RO, SE, SI, UK). Others undertake public consultations on key issues (BE, FR, IS, UK).

Only Postcomm in the UK is actively promoting competition in the mail market (and two other NRAs now refer to competition in their responsibilities). Although the UK model as such may be perceived as too extensive, much of the work undertaken to date by the NRA can serve as a relevant benchmark for most other Member States prior to full market opening, such as price regulation that mirrors competitive effects, market surveys and public consultations (provided that the powers of the NRA are sufficient to make this a relevant undertaking), interoperability arrangements, and potentially elements of the downstream access model (such as transparency).

In conclusion, prior to full liberalisation, the powers and practices of the NRAs will likely require significant enhancing in the majority of Member States to allow competition to develop.

### *Cost and financing of the USO*

Enabled by the fact that the Postal Directive includes a minimum definition of the USO, there are many and varied definitions of the USO across Member States, Iceland and Norway. These definitions reflect the situation when the USO was defined and the work the NPOs had been undertaking prior to the Postal Directives and the different social needs within those countries, such as the delivery of newspapers, the provision of money orders, etc. In many Member States the definitions may not have kept up with changing social needs.

The cost of the USO is an issue that has created much debate within Member States between the NRAs and the NPOs, and depending on the scope of services included may or may not result in a net cost of its provision. So far, very few NRAs appear to have taken an economic view of the cost and benefits of the provision of the USO.

Without access to the regulatory accounts of all NPOs, it is not possible for this study to comment on the relative levels of cost compared to the scope of the service provided by each NPO. As we discuss further in our overall conclusion below, both the issue of maintaining the universal service and the definition of the USO are important issues currently and in the coming years.

ECORYS arrives at the following conclusions and recommendations:

- We recommend policy makers and NRAs to clearly define the USO and to limit the USO to those services that may not be provided in a free market environment and are seen as essential to society (for instance limit the USO to a five day service and to individual item mail, etc.).
- The method to calculate the net cost of USO provision as well as the funding mechanism should be transparent for market participants.
- The net cost calculation should be based on an efficient provision of universal services and include both the costs and the economic benefits.
- The cost of provision of the USO would be more transparent to both customers and competitors if summary details were included within the NPOs published accounts.
- ECORYS recommends policy makers and NRAs to use public procurement for funding non-profitable elements of the USO as much as possible. For example, commercial contracts could be realised between the NPO and the State with payment by the State for the provision of those services that are a net cost (as in Sweden). Public procurement could also offer the potential for other postal operators to tender for the work and may remove the need for an independent body to administer a compensation fund.

## 4 The mail market, market structure and competition

### 4.1 Introduction

In this chapter we analyse mail volume developments as well as the changes in market structure during the last couple of years and the extent to which competition has developed. Among the interesting developments that warrant attention are the full liberalisation of the UK postal market on 1 January 2006, as the impact on developments in the UK postal market are becoming apparent, and the full liberalisation in Germany as from 1 January 2008 (although it is arguably still too early to assess the impact of the liberalisation in Germany at the time of completing this study).

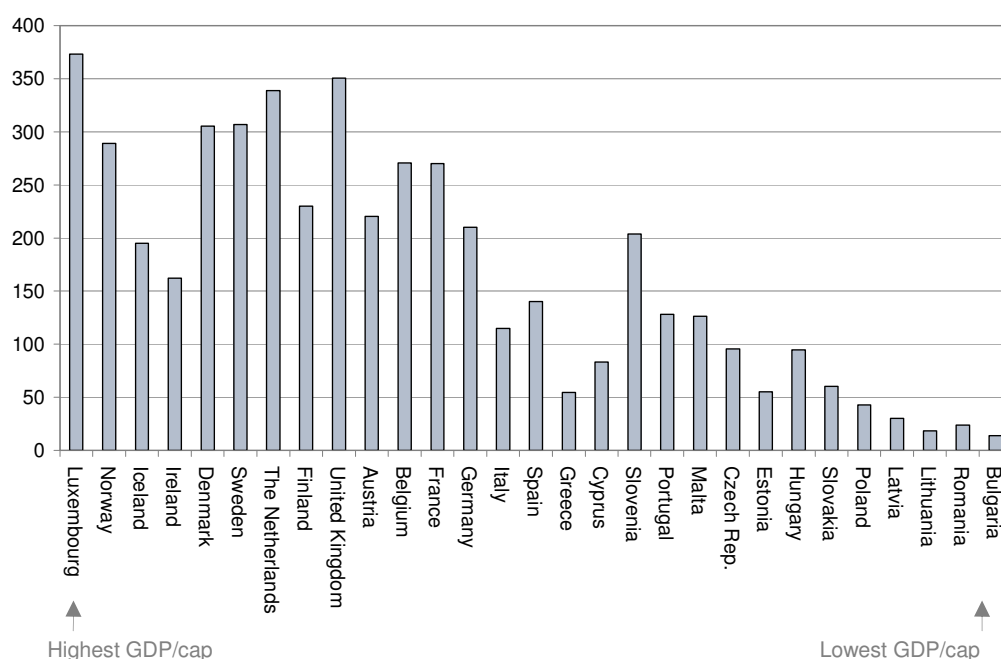
The discussion starts with an overview of addressed mail volumes per capita in section 4.2. In this section, we also review the available data with regard to the actual and expected development of addressed mail volumes (both in total and per market segment). In section 4.3 we provide a general overview of the development of competition in the main segments of the postal market in European countries: express and parcel mail, unaddressed mail, cross border mail and (domestic) addressed mail. In this section we pay particular attention to the developments in the UK and discuss the main business models used by CPOs. We discuss the main developments in the parcel and express markets in section 4.4. Section 4.5 presents an assessment of the main barriers to the development of competition, while in section 4.6 we discuss the changes in the legal status of the NPOs that have taken place the last two years. Finally, section 4.7 provides a summary of the main findings and our overall conclusions.

### 4.2 Mail volume developments

#### 4.2.1 Addressed mail volume per capita

As pointed out by Nankervis and Rodriguez (1995), Pimenta and Ferreira (1999), and Florens et al. (2002), there is a strong correlation between volumes of addressed mail per capita and income per capita (GDP/capita). This correlation is clearly shown in Figure 4.1 below and is also confirmed in regression analyses presented in section 8.3 of Chapter 8.

Figure 4.1 Addressed mail volumes per capita in the EU, Norway and Iceland<sup>46</sup> - 2006



Note: Addressed mail includes items of correspondence, addressed printed matter (direct mail, catalogues and for most countries also magazines and periodicals), small packets and literature for the blind, as applicable in the domestic service. It covers both ordinary items and items given special treatment (registered items, insured letters) and includes domestic and inbound cross border items.

Source: Annex II, country sheets, UPU.

Nader (2004) and Nader and Lintell (2008) argue that the correlation between economic activity (GDP) and mail volumes is (today) primarily due to the strong link between economic activity and advertising. In addition, it can be argued that, as household income rises, more is spent on utility and financial services which generate bills, statements and relationship mail. A second factor influencing mail volumes is the increased competition in utility markets such as energy, and telecommunication. In addition, financial markets may have also contributed to increased mail volumes (in particular transactional mail). In particular B2C correspondence from financial services is increasing - see Nader (2004), Diakovan (2005) and Nader and Lintell (2008).<sup>47</sup> Furthermore, Nader (2004) estimates that the growth in mail volumes in industrialised countries due to increased competition between postal operators is about 1% per year since 1995.

<sup>46</sup> Excluding newspapers.

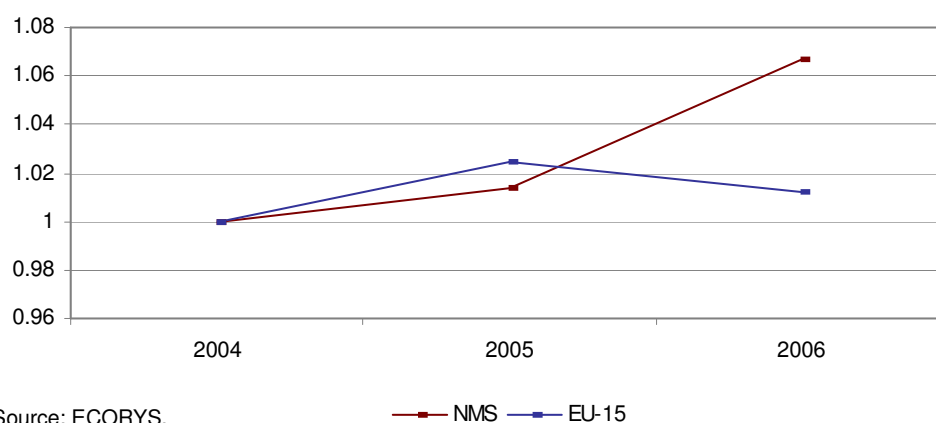
<sup>47</sup> A trend toward an increased number of accounts per households is observed in the past few decades.

#### 4.2.2 Development of mail volumes per market segment

##### *Development of total mail volumes*

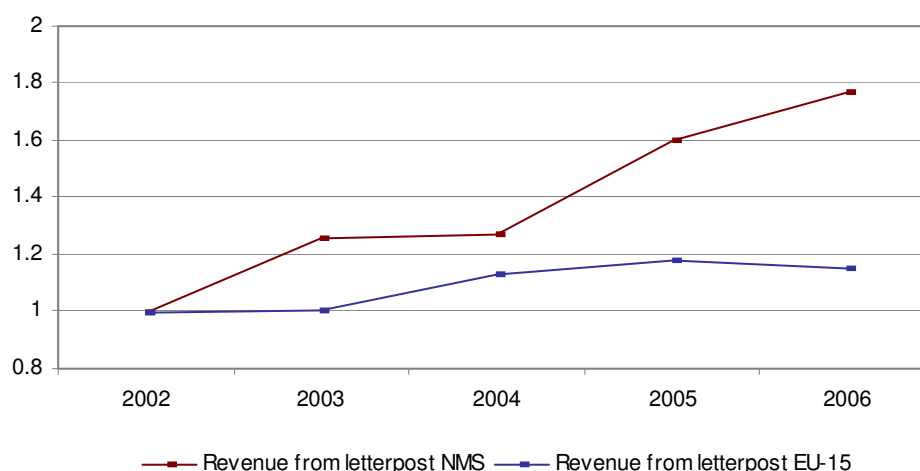
The strong link between economic activity and competition (in general) on the one hand, and mail volumes on the other, explains the larger increase in mail volumes in the twelve new Member States (which have higher GDP growth rates) compared to the development of mail volumes in the EU-15 (whose GDP growth rates were lower, see Figure 4.2).

Figure 4.2 Development of mail volumes in EU-15 and new Member States (NMS, 2004 = 1)



Along with the increased volumes, postal operators in the new Member States have also been able to increase their revenues from postal services more than their counterparts in the EU15 (see Figure 4.3).

Figure 4.3 Development of letter post revenues



Source: UPU.

Note: Extraordinary growth in turnover is observed in Slovakia, Romania and Latvia where turnover figures have (almost) doubled from 2003 to 2006. In the Czech Republic and Iceland turnover grew with more than 50% during this period. For Bulgaria (which was not in the UPU data set) the ECORYS country sheet reveals that turnover increased with 30% during the period 2005-2006. Denmark was the only country in the UPU data set that experienced declining turnovers (-5%). For the UK and the Netherlands (not included in the UPU data set), the ECORYS country sheets reveal declining turnover rates for the period 2005-2006/7 (about -2%). For the last country that was not in the UPU dataset (Sweden) we could not find information.

In light of a possible downturn of the EU economy in 2008 and beyond, the above findings indicate that a downward pressure on mail volumes may be expected in the near future, causing a slowdown of addressed mail volume growth in EU-12 and potentially stagnation or small decline in EU-15.

### *E-substitution*

In all Member States mail volumes are affected by e-substitution (such as: SMS, e-mail, Internet). E-substitution not only concerns C2C correspondence but also B2C (notably transactional and direct mail) and B2B correspondence. The exact size of the effect is, however not always clear because in many countries this trend cannot be isolated from other developments, such as: an increase in the number of addressed direct mail items (due to an increase in economic activity) and/or cutbacks in the frequency of transactional mail. Cutbacks typically result from Internet penetration and e-banking and savings in the cost of postal services (companies are now sending a bill once in two or three months instead of every month).

Some authors caution against exaggerating the effects of e-substitution (Nader and Lintell, 2008). Jimenez (2005) shows that the total number of e-mails sent increased almost exponentially over the years, while total mail volumes have remained rather stable. In the most recent Eurostat publication (*Postal Services in Europe 2006*), the results of a survey on e-substitution are presented. This shows that on average about 60% of business and consumer clients did not or only slightly substituted mail using various electronic means of communication (SMS, Internet, e-mail). In the new Member States,

there is more e-substitution among consumers (about ten percentage points) but for businesses the rate of e-substitution is comparable. On average little over 10% of all consumers across the EU has fully switched to electronic communication. For businesses, only 3% made the switch. These percentages are reflected in the results of a questionnaire used by ECORYS among large and small business mailers (see text below).<sup>48</sup>

#### ECORYS questionnaire: B2X e-substitution<sup>49</sup>

About 64% of the large mailers and 52% of the small mailers indicated not to substitute their physical mail for electronic communication. From the results of the questionnaire one can conclude that about 4% of B2X mail is substituted by forms of electronic communication. Direct mail seems more susceptible to e-substitution (13.6 % for small mailers and 5.2% for large mailers – 6.6% average) than transactional mail (6.5% and 4.5% respectively – 5.6% average). For letters and postcards, about 5% is substituted on average.

A research project by Pitney Bowes in 2004 and 2005 produced a number of insights in the phenomenon of e-substitution, which are still worth mentioning - these are summarised by Jimenez (2005):

#### Some effects of e-substitution (Jimenez, 2005)

Substitution has already happened for simple transactions where there is a direct substitute:

- Peer-to-peer correspondence (via e-mail); government services (e.g. tax forms and tax returns); mail orders (via the Internet or telephone); information requests (via the Internet).

Substitution has evolved *more gradually* than generally assumed for selected transactions:

- Electronic greeting cards; internet advertisements; electronic bill presentment and payment (EBPP); and payments from households to business; B2B mail has only recently shifted largely to electronic methods and is currently declining.

In the near future we are likely to experience increased e-substitution in the B2B market and, to a lesser extent in the B2C market (notably in transactional mail). For consumer originating mail flows little further e-substitution is expected. For more detailed analyses of mail volume developments see the background papers prepared for the Pitney Bowes research projects “Electronic Substitution for Mail: Models and Results; Myth and Reality” and “The Future of Mail.”<sup>50</sup>

#### *Development of consumer originating correspondence*

Consumer originating correspondence (C2X mail) accounts for about 15% of all mail volumes in Europe (Boston Consulting Group, 2007). C2X mail can be divided into Consumer to Consumer (C2C) correspondence and Consumer to Business (C2B) correspondence. It is not possible to produce exact figures on the developments in volumes, but some general trends and drivers can be distilled from contributions from interviews with stakeholders.

<sup>48</sup> Small mailers in this definition are mailers that send less than 250,000 mail items per year.

<sup>49</sup> 200 postal customers answered this question. The ratio large to small mailers was about 50/50. For about 20% direct mail was the most important category of mail sent, for 20% this was transactional mail, and for 15% this was letters and postcards. Other categories were newspapers (15%), catalogues (7%), magazines and periodicals (8%), parcels and packets (12%) and unaddressed mail (1%).

<sup>50</sup> For example: Jimenez (2005), Nader (2004), Diakova (2005) and Nader and Lintell (2008).

It is clear that C2C mail volumes decreased some years ago (due to substitution by telephone and later by e-mail). Today this category of mail is rather stable and mainly consists of mail that carries emotional content, such as greeting cards, which (according to Nader, 2004; Nader and Lintell, 2008) does not seem very susceptible to further a decline due to substitution effects.

C2B mail is more prone to substitution by other means of communication (telephone, Internet, SMS) as companies adjust to non-letter mail correspondence (for example by working with digital signatures or recording telephoned statements). To a certain degree, this trend is compensated for by “account proliferation” due to increased household incomes, but this effect will have a stronger influence on B2C mail volumes. Overall, changes in C2X mail flows are not considered significant.

### *Development of business originating correspondence*

The business originating mail accounts for about 85% of all mail volumes in Europe (Boston Consulting Group, 2007). Here, it is useful to make a distinction between Business to Consumer (B2C) correspondence and Business to Business (B2B) correspondence.

B2C correspondence (by far the largest category of mail) consists, for example, of addressed direct mail and transactional mail.<sup>51</sup> The account proliferation mentioned above has had a positive effect on B2C transactional mail volumes, but the overall effect is lessened because of lower frequencies and more recently by e-substitution.<sup>52</sup> The answer adopted by some postal operators is to vertically integrate backwards into printing and address management, thereby integrating the several stages of B2C communication services (see textbox below). The overall effect of these developments is apparent from the growth rates of hybrid mail volumes – about 8% between 2004 and 2006 (UPU data, see also Chapter 6).

### **Vertical integration in B2C communication services**

The Finish NPO is expanding into upstream services providing companies with printing, e-invoicing, information management and direct mail services. In Italy, competing companies such as TNT and Uniposta/Omnia Network have been investing in (future) expansion that mainly focuses on business to consumer services. The investments are in network expansion, printing capacity, integrated communication services, and mail order. Royal Mail recently made a press release giving details of a new initiative of creating a panel of “expert data partners” to improve the effectiveness of mail campaigns. The concept is to provide data solutions covering “acquisition”, “customer journey proposition (retention strategy)”, “data processing (including cleansing, suppression, management etc)”,

<sup>51</sup> Transactional mail covers a wide category of correspondence:

- Bills, statements and financial updates;
- Credit, debit and cheque guarantee cards;
- Cheque and paying-in books and Giros;
- Questionnaires and surveys;
- Event tickets;
- Policy renewals;
- Appointment reminders;
- Communications from central government and local authorities.

<sup>52</sup> About 4% for all B2X mail is substituted – ECORYS questionnaire.

“large database work (creating a single customer view from multiple corporate databases)”, and “online services for SMEs.”<sup>53</sup> Similar examples are found in other countries.

Source: ECORYS country sheets

In Europe, the volume of direct mail (or addressed advertisement) increased with about 20% from 2004 to 2006 (based on data from UPU and ECORYS). These developments are consistent with the earlier research in industrialised countries by Nader (2004), Diakovan (2005), and Nader and Lintell (2008). The volumes of direct mail have notably increased in those Member States that have liberalised this segment (see Chapter 8, section 8.3). This concerns in particular Bulgaria, the Czech Republic, Estonia, Hungary, Slovenia, Austria, Italy, the Netherlands and Spain. In these countries, the volumes of direct mail grew considerably faster than in countries that did not liberalise the direct mail segment.<sup>54</sup>

Little is known on the exact figures of B2B mail volumes. Nader (2004) states that these volumes have begun to decline after decades of growth and that this decline is due to a delayed effect of the introduction and use of alternative means of electronic communications (where the delay was due to lags in organisational adjustment). He argues that this typically concerns single item mail.

All in all, it seems that B2X mail volumes are positively affected by economic growth and the development of the mail market itself (in terms of competition, efficiency gains, an increased focus on consumer demand, etc.). Hence in mature (more developed) markets the potential for further growth of direct and transactional mail volumes is likely to be less. The expectation is hence a stagnation of direct mail volumes and a decline in transactional mail volumes in such countries causing an overall decline in total addressed mail volumes. Examples of such mature markets are the UK, the Netherlands and Sweden which already experience a decline in addressed mail volumes.<sup>55</sup>

#### *Development of parcel mail*

Contrary to letter mail, parcel mail does not appear to be negatively affected by developments in information technologies. On the contrary, mail order services have enjoyed a positive impulse from these developments (see Nader and Lintell, 2008). This growth is also the result of or has led to a high degree of competition in the market for parcel delivery services (see section 4.4).

In addition, MarketResearch (2007)<sup>56</sup> reported a large growth potential in the European market for B2C parcel deliveries, which is due to an increasing “grey” zone between express and parcel services, as traditional parcel services become more “express” in nature. There is a trend which reflects the existence of more cost-conscious clients, who are willing to trade down the speed of transit times as long as the shipment arrives at pre-determined intervals.

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<sup>53</sup> Source – Royal Mail Press Release.

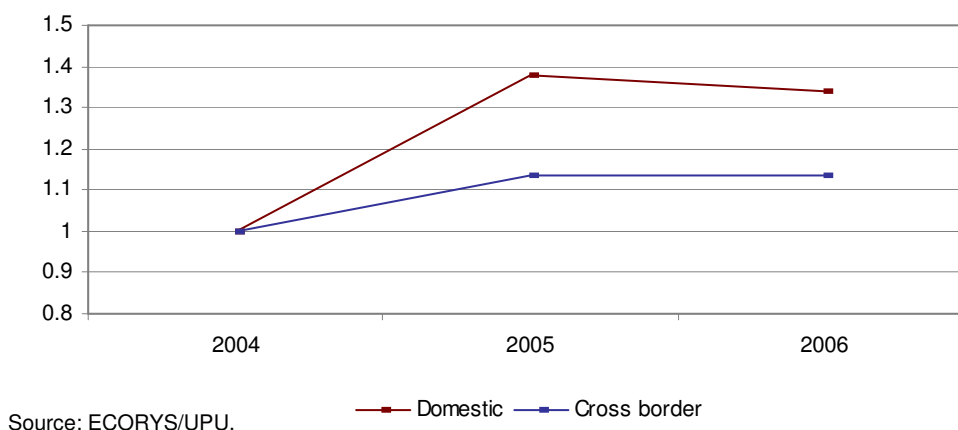
<sup>54</sup> This is statistically significant within the 5% confidence threshold, see also Chapter 8, section 8.3

<sup>55</sup> In the UK, according to information from Postcomm direct mail volumes declined by 7% in the last year, although this decline may have been influenced by the industrial actions that have taken place within Royal Mail (see Annex II, country sheet UK).

<sup>56</sup> MarketResearch (2007), “European Express Market Map 2008”, [www.MarketResearch.com](http://www.MarketResearch.com).

Across the board, all this typically affects domestic parcel deliveries more than international parcel deliveries (see Figure 4.4), but this may differ from country to country<sup>57</sup> and for insured and ordinary parcels.

Figure 4.4 Development of parcel mail in the EU (2004=1)



#### *Development of express services*

The market for express services is fully liberalised in all Member States and hence, in most Member States the market has matured considerably. There is little substitution between correspondence mail and express mail.<sup>58</sup> Exact figures on the volumes are not widely available because approximately 50% of the EU market is served by multiple (small) enterprises, while the other half is served by 6 large players with international networks (see section 4.4).

Across the board, we can state that, as a mature market with strong competition, the growth should come from exogenous factors, such as GDP growth and international trade, and endogenous factors facilitating the variety of niche clients (economy express, clinical express, international express, etc.).

### 4.2.3 Conclusions: expected developments of mail volumes per market segment

#### *B2C mail volumes*

In countries with a less developed mail market and relatively rapid growth in GDP, it is to be expected that B2C addressed mail volumes will continue to grow. This growth potential relates in particular to direct mail but also - to a lesser extent - to transactional mail. Important drivers are growth in economic activity (GDP), business and product development within the postal market.<sup>59</sup> B2C mail volumes are likely to grow less (or

<sup>57</sup> If any relation is to be made, it is that small countries typically have more and increasing inbound parcel mail. This is, for example, the case for Cyprus where the number of mail orders from other EU countries has increased considerably since the introduction of the Euro.

<sup>58</sup> With an exception for Cyprus where consumers tend to be willing to pay the much higher price for express services because of the very low quality and reliability of the postal services provided by Cyprus Post.

<sup>59</sup> Although it has been argued that the relationship between economic activity and mail volume is weaker than in the past (see Nader, 2004; Nader and Lintell, 2008), it is still undeniably a relevant factor – see Figure 4.1

even decline) in countries with more mature mail markets and moderate GDP growth rates.

The effect of GDP growth on B2C mail volumes is not so much because of the increase in wealth, as such, but as a result of the associated account proliferation, a higher degree of competition and an increased number of companies.<sup>60</sup> The first development typically leads to increased volumes of transactional mail, whereas the latter will likely affect the volume of addressed advertisements (or direct mail). Concerning the developments within the mail market itself, a shift seems to occur from direct mail to much cheaper unaddressed advertisements. The extent to which this occurs will be less likely if the market for direct mail has been (or will be) liberalised (and thus more competitive).<sup>61</sup> Furthermore, senders of transactional mail are more flexible with respect to frequency in order to save postage charges. In a more competitive market the incentives to decrease the frequency of sending transactional mail may be less.

Direct mail is prone to e-substitution, but the effect seems to be outweighed by the positive effects mentioned above; in particular in those countries that have liberalised the direct mail segment. Transactional mail may be more vulnerable to e-substitution (although it remains unclear when and to what extent this will occur in earnest)<sup>62</sup> and senders are more flexible with respect to frequency. From this one can conclude that the future growth in transactional mail will be lower or the decline faster, than direct mail. The results from the web-questionnaire amongst customers (see Chapter 5) did not however confirm this conclusion: on average, direct mail and transactional mail are each likely to increase with 2% per year – see text below.<sup>63</sup>

#### **ECORYS questionnaire: Future B2X mail volumes** <sup>64</sup>

A majority of (large and small) mailers indicated in the web-questionnaire on customer needs that their mail volumes would be the same as before (40%) or higher (39%). There was little difference between small or large mailers.<sup>65</sup>

From the results of this questionnaire, one can conclude that small mailers foresee a notable increase in direct mail volumes (9%). Big mailers do not foresee large increases in direct mail. They notably foresee an increase in the volumes of transactional mail of about 3% (for small mailers this is only 1%). Overall, direct mail and transactional mail will increase at similar rates of 2%.

Letters and postcards (a relatively small share in total B2X mail volumes) will increase by 5%. This brings the overall growth of B2X mail volumes to about 3%.

<sup>60</sup> The net increase in the number of businesses in advanced economies is predicted to be more than 1% per year – according to Nader (2004) and Nader and Lintell (2008).

<sup>61</sup> This is supported by the finding that the opening of the market for direct mail positively affects the volume growth of direct mail – this relation is statistically significant within the 5% confidence threshold (see Chapter 8).

<sup>62</sup> Nader (2004), for example, finds that because of the difference in e-substitution, advertisement mail tends to follow GDP more closely than transactional mail.

<sup>63</sup> Note however that actual growth of mail volumes is often lower than growth rates predicted on the basis of customer surveys.

<sup>64</sup> 200 mail customers answered this question. The ratio large to small mailers was about 50/50. For about 20% direct mail was the most important category of mail sent, for 20% this was transactional mail, and for 15% this was letters and postcards. Other categories were newspapers (15%), catalogues (7%), magazines and periodicals (8%), parcels and packets (12%), unaddressed mail (1%).

<sup>65</sup> Small mailers are here defined as customers who send less than 250,000 mail items per year.

### *B2B Mail volumes*

In the near future, we may experience increased e-substitution in the B2B market – this typically concerns single item mail. Nader (2004) explains that this reflects a delayed effect due to lags in organisational adjustment. Nader and Lintell (2008) conclude that “growth [in the volume of B2B mail] has now begun to slow. It has indeed been surprising that despite the introduction of electronic processes across firms the volume of B2B mail has remained remarkably resilient and relatively unaffected *until recently*.”

### *C2X mail volumes*

Little further e-substitution is expected in C2C mail volumes as this shift has already happened to a considerable extent in the past. Today, C2C mail contains high emotional value and is less prone to e-substitution. C2B mail is more prone to substitution by other means of communication but may be outweighed by the effect of account proliferation. Overall, changes in C2X mail flows are not considered significant.

### *Mature markets*

In countries with mature postal markets and moderate GDP growth the picture is expected to be different. Due to early liberalisation and past economic developments, mail volumes per capita are currently at a high level. However, as mentioned above, the Netherlands and the UK have experienced declining addressed mail volumes in recent years. In the UK the forecast is that mail volumes will decline further by 1-3% per annum the coming years. In the Netherlands, it is estimated that mail volumes will decline by 1% per year.<sup>66</sup> Also in Sweden, the expectations for future mail flows are pessimistic.<sup>67</sup> In Germany, on the other hand, there has been moderate growth of addressed mail volumes in the licensed area (1-1.5% per annum from 2003-2007).

In mature markets we hence expect stagnating addressed mail volumes and in some countries a decline. Compared to other markets, the decline in volumes is mainly due to stagnation in direct mail volumes and decline of transactional mail volumes. The lower GDP growth is accompanied by slow growth in the number of businesses and a lower level of account proliferation. These developments limit the expansion in direct mail and transactional mail, respectively. Furthermore, substitution (for electronic forms of communication and/or unaddressed mail) as well as the trend towards less frequent sending of transactional mail are not (or less) offset by increased competition in the mail market.

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<sup>66</sup> TNT expects a decline in its addressed mail in the coming years (of 3% to 4% per year), because of the increased use of electronic mail, electronic billing, reduced frequency of bank statements, competition and other factors (TNT, 2007b) – where competition accounted for almost 80% of this decline (given the volumes of Sandd and Selekt Mail: 690 million items in 2007).

<sup>67</sup> An estimate in 2005 was that mail volumes would have declined by 3% per year by 2010 (see ECORYS 2005 - Annex II). Unfortunately we did not find forecasts that were more up to date.

## 4.3 Development of competition

### 4.3.1 General developments

Table 4.1 provides a summary overview of the development of competition in the main segments of the postal market (along postal products) in the European Union, Iceland and Norway. In the next subparagraphs, some of these countries are discussed in more detail. A more detailed overview of the development of competition can be found in Appendix 7.

When interpreting the information provided in this paragraph, it should be taken into account that information is provided for the degree of competition in the licensed segment of the market. As the licensed segment of the market can differ between countries, comparison of the degree of competition is not always straightforward.

Table 4.1 Summary overview of the development of competition in the main segments of the postal market

Country	Express	Parcel	Unaddressed	Cross border mail	Addressed mail 2004	Addressed mail 2007
Austria	+++	++	+	++	-	-
Belgium	+++	+++	+++ (BD 80%)	+	-	-
Bulgaria	+++	-	+++	-	-	Unclear (ca. 30%)
Cyprus	+++	+++	-	-	-	-
Czech Rep.	+++	++	+++ (TNT 52%)	+	+	+
Denmark	+++	++ (++ in B2B)	++	-	+	++ (non-bulk)
Estonia	++	-	-	-	+	++ (direct mail: 8%), + (total: 4-5%)
Finland	+++	Unknown	++	Unknown	- (excl. newspapers)	-
France	+++	+++	++ (Adrexo 50%)	+	-	- (exit of Adrexo in 2008)
Germany	+++	+++	Unknown	+	+	++ (10.4%)
Greece	+++	Unknown	+++	+	-	-
Hungary	+++	+++	+++	+	-	-
Iceland	-	-	-	-	-	-
Ireland	++	++	+++	- (inbound) + (outbound)	-	- ++ (B2B: 10%)
Italy	+++	+++	Unknown	-	-	+/- ++ (unreliable data)
Latvia	+++	+++	+++	-	-	-
Lithuania	+++	++	+	- (inbound) + (outbound)	-	-
Luxembourg	+++	+++	+	+	-	-

Country	Express	Parcel	Unaddressed	Cross border mail	Addressed mail 2004	Addressed mail 2007
Malta	+++	-	+++	-	-	-
The Netherlands	+++	++	++	Unknown	+	++ (14%)
Norway	+++	+	++	Unknown	Unknown	-
Poland	++	+++	+++	Unknown	-	-
Portugal	++	++	Unknown	-	-	-/+
Romania	+++	+++	Unknown	+	+	+
Slovakia	+++	+	+++ (TNT 66%)	+++	-	-
Slovenia	++	+	-	-	-	-/+
Spain	+++	+++	+++	Unknown	++ (7-11%)	++ (12%)
Sweden	+++	+++	++ (SDR 30%)	Unknown	++ (7%)	++ (9.3%)
United Kingdom	+++	+++	+++	+ (inbound) +++ (outbound)	- (E2E) + (access)	- (E2E) ++ (20.2% access; 03/2007-03/2008)

Clarification of used symbols:

*For express mail, parcels, unaddressed mail and cross border mail:*

(+++) market share NPO < 40% or (when market share is not available) assessment whether market is competitive;

(++) dominance of NPO with market share 41-60%;

(+) dominance of NPO with market share 61-90%;

(-) dominance of NPO with market share above 91%;

*For addressed mail 2004 and 2007:*

(++) market share of the CPOs > 7%;

(+) market share of the CPOs 2-6%;

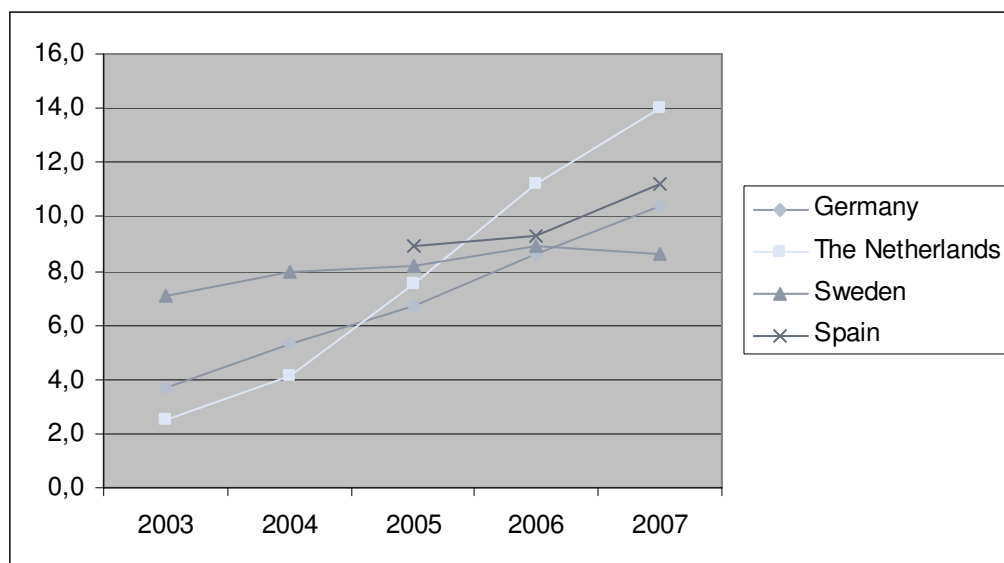
(-) market share of the CPOs < 2%;

Source: Annex II, country sheets; ECORYS (2005a, p.74-77) for market shares of CPOs in the addressed mail market in 2004 if not included in Annex II.

#### 4.3.2 Development of competition: frontrunners in Europe

Figure 4.5 gives an overview of the development of the market shares of competitors in the addressed mail market in Germany, the Netherlands, Sweden and Spain. In both Germany and the Netherlands, CPOs managed to gain/increase their market share in recent years. In the Netherlands, the main competitors Sandd (independent) and Selekt Mail (subsidiary of DPWN) experienced an increase in market share from 2.5% to circa 14% in the period 2003-2007, while in Germany the market share of the CPOs (TNT Post, PIN, many regional and local operators) in the licensed area was circa 10.4% in 2007. It should be noted that the figure for the Netherlands includes magazines and periodicals, whereas it does not include magazines and periodicals for Germany, so the actual difference in market shares of CPOs in the two countries is smaller.

Figure 4.5 Market share development of competitors in Germany, the Netherlands, Sweden and Spain (addressed mail market)



Source: ECORYS, based on Annex II, country sheets.

Note: The market shares for Spain are ECORYS estimates based on the market share of Unipost + 3% for all other CPOs in the Spanish addressed mail market. The figures exclude newspapers and the figure for Germany excludes magazines and periodicals.

### Germany

At the end of 2007 there were around 850 licensed postal operators active in letter mail, mainly operating at local level and some at regional level. Many of the larger regional postal operators are linked to German publishers who produce and deliver magazines and periodicals. The general trend is that most of the CPOs focus on transactional mail and not on direct mail. CPOs deliver direct mail in case their customers demand it. Two competitors (TNT and PIN AG) have developed (almost) nationwide delivery networks and most of the licensees have a local or regional focus.

Since 2003 the total mail volume (within the licensed area, so letters up to 1kg) of competitors nearly tripled, from 616 million items in 2003 to 1.8 billion items in 2007. The joint market share of the CPOs rose from 3.7% in 2003 to circa 10.4% in 2007 (see Table 4.2).

Table 4.2 Market share development of competitors in the German addressed mail market

Year	Total mail volume (million items)	Mail volume of competitors	Joint market share of competitors	Year on year mail volume increase of competitors
2003	16,641	616	3.7%	-
2004	17,005	910	5.4%	48%
2005	16,892	1,129	6.7%	24%
2006	17,295	1,485	8.6%	32%
2007 (expected)	17,576	1,823	10.4%	23%

Source: Bundesnetzagentur (licensed area), calculations by ECORYS.

It is uncertain how the performance of CPOs will develop in 2008. At the end of 2007 PIN AG ran into financial problems. Some 40 out of the 90 companies forming the PIN Group including the holding company have filed for insolvency and a number have gone bankrupt. The stronger companies in the group will continue their postal operations, but PIN AG will cease to exist as a Group. The effect of the minimum wage law on the CPOs is uncertain. ECORYS (2008) estimated that the application of the minimum wage law raises average unit costs of CPOs in the order of 9-12%. TNT announced that it may stop operations in Germany if they will be forced to pay the higher wages, but it is still unclear what will happen in future.

### *The Netherlands*

In the Netherlands a combination of deregulation and typical market characteristics (densely populated, high mail per capita volumes) has encouraged the development of competition. The relatively open Dutch market, combined with the other characteristics mentioned above, enabled CPOs to enter the market. In particular, levelling of the VAT regime in 2000 for printed matter and periodicals segments and the prospect of a fully liberalised market in the medium term have triggered the entry of competitors with the ambition to develop nationwide delivery networks. After 2000, competition intensified with the entry and development of Sandd and Selekt Mail, who became serious competitors of TNT. Since 2001 their joint volume has grown to 700 million addressed mail items, which comprises a 13-14% market share of the total addressed mail market (and a 25% market share of the liberalised part of the addressed mail market). Sandd and Selekt Mail found a very successful niche in the market: the market for low cost, low speed bulk mail.

The possibility of using part-time deliverers on freelance contracts (payment per item), low speed delivery and new sorting techniques enabled them to deliver with relatively low costs and to compete with TNT not only on price but also with new products. It is expected that the relevance of this service will grow over the coming years, and that product differentiation will increase further. TNT recently introduced similar low cost, low speed services (TNT Economy and Netwerk VSP Addressed with Budgetmail) in order to recover lost market share.

It is uncertain of the exact effect of the recent postponement of full liberalisation (for the second time within a year). Sandd and Selekt Mail claim that their investments are worthless because of government policy and regulatory uncertainty. They are considering taking juridical steps against the government's postponement decision. According to ECORYS it is most likely that they will show a 'normal' growth until full market opening. However, the postponement definitely slowed down their growth ambitions and limited their performance.

### *Sweden*

Compared to Germany and the Netherlands, competition has developed slowly but steadily in Sweden. After many years of operations, the main competitor of Posten AB, CityMail Sweden, has gained a substantial market share. Initially, CityMail faced many difficulties and almost had to exit the market. CityMail claims that 1999 was a crucial year as most disputes with Posten AB were resolved in a new settlement concerning address change notifications, mail redirection and use of P.O. boxes was secured.

Currently, CityMail has a market share in the bulk mail segment of approximately 13%, which equals a market share in the total addressed mail market of approximately 8.6%.

CityMail Sweden has specialised in delivering industrial mail or pre-sorted bulk mail to recipients in Sweden's largest cities and rural surrounding rural areas such as Stockholm, Gothenburg and Malmö. CityMail's distribution also covers the island of Gotland.<sup>68</sup> Since 2001, CityMail has been operating with a profit.

### *Spain*

A large number of small local and regional CPOs are active in the Spanish market. As of June 2008, 532 licenses were granted to postal operators offering services within the universal service. Founded in 2001, Unipost has become the main competitor of Correos.

Accurate estimates of the joint market share of CPOs in the addressed mail market in Spain are difficult to make. According to the NRA, the market share of Correos was 94.1% in addressed mail delivery in 2005 and 93.7% in 2006. Other sources, like Deloitte (7-8% in 2005) and WIK (10.6% in 2003) presented other estimates for the market share of the CPOs. The main reason behind these differences in reported market shares is the uncertainty about the scope of activities of the small CPOs. For 2007, the NRA reported a market share for Unipost alone of 8.2% in volume and 4.9% in turnover. As a rough estimate for the total market share of CPOs we took the market share of Unipost + 3% in Figure 4.5.

#### 4.3.3 Developing competition in a number of new Member States

In most of the 12 Member States that joined the European Union in 2004 and 2007, the development of competition is still slow and competition remains somewhat marginal. However, there are some interesting developments in Bulgaria, Czech Republic, Slovakia and Estonia.

### *Bulgaria*

In Bulgaria a distinction is made between provision of universal services, for which a licence is needed, and the provision of non-universal services. Non-universal services include the delivery of heavy parcels (above 20kg), courier services, and hybrid mail services.

Competition in the addressed mail market through hybrid mail services is developing rapidly in Bulgaria, with Tip-Top Courier, Econt express and M&BM as the main competitors of Bulgarian Post (who is mainly engaged in the conveyance of regular addressed mail and not so much in hybrid mail). Amongst others, CPOs have telecommunication companies amongst their clients who are generating large mail volumes. Data on market shares in volume are not available. Based on available data on market shares based on revenues, ECORYS estimates that the combined market share of CPOs might amount to ca. 30% in 2006.<sup>69</sup>

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<sup>68</sup> PTS, 2007b, 3-4.

<sup>69</sup> Source: Annex II, country sheet Bulgaria.

A licence condition for providing universal services is that a full universal service should be provided and there are requirements as to the national postal network. To support the creation of nationwide delivery networks, legislation on mutual access to the networks of postal operators with a licence to provide universal services has recently been adopted. The three main CPOs providing hybrid mail services mentioned above have obtained a licence in 2007 and 2008. According to the NRA (CRC), the first agreements enabling the CPOs and the NPO to access their networks will be concluded by the end of 2008.

Although these CPOs started their operations fairly recently and developments are hence still uncertain, an explanation why competition in Bulgaria appears to be developing despite this licence condition may be the low service level of Bulgaria Post (as compared to the NPOs in mature postal markets) in combination with the attractiveness of postal activities given the relatively low level of GDP and relatively high unemployment.

Also the market for courier services is growing rapidly. As a result, many new entrants are registered by the NRA annually. By the end of 2007, the number of registered companies was 74. Courier services are the most important non-universal services. Operators active in this segment are considered to be more creative and more focused on customer needs than the main operator in the universal service area, Bulgarian Post. Striving to enter new market niches, the courier companies rely on flexible managerial decisions and aim to optimise the use of technology and increase the quality of the services provided.

#### *Czech Republic*

In 2005, ECORYS concluded that Czech Post had maintained a very high market share in addressed letter mail, but lost market share to Mediaservis in the addressed advertising mail segment. In the last few years CPO market shares have further increased, to 15-20% in the direct mail segment. In the total addressed mail market (excluding newspapers and magazines) the leading CPO Mediaservis now has a market share of 3-4% (circa 30 million items), but including newspapers and magazines the market share is much higher. Mediaservis uses two dedicated delivery networks (with 100% own coverage). Newspapers and magazines are delivered seven times a week, addressed and unaddressed mail six times a week (sometimes combined, but in some areas Mediaservis operates a – third- dedicated network for addressed mail delivery). TNT Post is also active in the direct mail segment, and has expressed the ambition to become the leading competitor of Czech Post in two years time.

At present, the main barriers for the development of competition are the reserved area and the VAT exemption of Czech Post.

#### *Slovakia*

Slovenská pošta, a.s. still is the dominant postal operator with a market share of 98.1% in domestic addressed mail. The effect of the threshold reduction from 100g to 50g seems to be limited. TNT Post, Kolos, SMS and Prvá doručovacia are the main competitors in the addressed mail market. TNT Post Slovensko is one of the challengers of Slovenská pošta, a.s. and started a distribution service for addressed (bulk) mail, but in their opinion the addressed mail market still is effectively closed for alternative operators.

However, despite this dominance of Slovenská pošta, a.s., there have been important developments in relation to hybrid mail. In February 2008 the Slovak parliament revised the Postal Act 2001, because this act gave (according to them) too much room for interpretation about the scope of the reserved area. Parliament feared that the stability of the universal postal service could be endangered if the Postal Act 2001 would be ‘circumvented’ by cherry-picking competitors. The main problem was that the Postal Act 2001 gave (according to them) room for operators to deliver mail within the reserved area when this item could be defined as ‘hybrid mail’. This ‘loophole’ was closed by a revision of the Act in February 2008 (effective from 1 April 2008), which clarified some stipulations and added that the reserved area shall not apply to correspondence and direct mail items if such items are delivered by way of self delivery and document exchange.

Market players like TNT Post claim that this decision is not in line with the Postal Directive and further strengthens the position of Slovenská pošta, a.s. In June 2008 the EC announced that they have requested Slovakia to clarify the recent amendments to its Postal Law because these may infringe the EC Treaty rules. According to the EC, the amendments in question extend the monopoly of Slovenská Pošta to the delivery of so-called ‘hybrid mail’ services while this activity was open to competition before the amendments.

#### *Estonia*

Competition in Estonia is still limited to direct mail. This is partly related to the licensing regime and a number of other barriers to entry, including distribution of addressed mail other than direct mail are not very profitable in the countryside, and partly to the fact that Estonia reinstated the reserved area for items of correspondence in 2006. The lack of profitability can be illustrated by the yearly state subsidy to Estonian Post for the delivery of newspapers and periodicals in the country side.

In 2002, the delivery of direct mail became possible for CPOs without having to fulfil the tough licence criteria applicable to a universal service provider (these criteria are still applicable for the delivery of items of correspondence). This has allowed competition to develop in this market segment: in 2006 the combined market share of the CPOs Express Post, D2D and Kirilind was around 8% in the direct mail segment.

#### 4.3.4 Development of competition in the UK

Since the first access agreement was concluded between UK Mail and Royal Mail in 2004 and full market opening as from 1 January 2006, competition has developed fairly rapidly in the upstream part of the market. UK Mail and TNT have become the most important competitors amongst the 20 licensed postal operators other than Royal Mail. Access volumes have grown to circa 20% of the licensed area in 2007/8 (April-March) and are continuing to grow. Approximately one third of the access volume comes from contracting with customers directly (*customer direct access*) with the remaining two thirds coming from other postal operators. There are also non-licensed operators within the access market (other than customer direct access). These are typically “mailing houses” that provide a one stop shop of production, print and enclosing, and sorting.

Access competitors initially focused on pre-sorted bulk mail for large customers and are increasingly offering consolidation services. For example both UK Mail and TNT are offering to handle the unsorted mail of their large bulk mail customers and are actively marketing consolidation services to smaller mailers, offering collection, transportation and sorting of at least 250 mail items per day.<sup>70</sup> Targeting smaller mailers, UK Mail and TNT developed a hybrid mail service (see also Chapter 6, section 6.4 for more information).

Competition from an end-to-end perspective has been slow to develop. The main competitor is DX who focuses on B2B document exchange mail and B2C niche markets (around 70% of DX's volume is generated outside the licensed area). Also, a small number of other licensed postal operators undertake B2B delivery through their own network, often only in London and combined with other business activities (downstream access, courier or mailing house services). Recently TNT started trialling their own delivery in Liverpool.

#### **End-to-end competition in the UK: DX Network Services/SMS**

DX is a privately owned company comprising both DX Network Services and Secure Mails Services. The company did buy the Challenger business but the latter is not operative. Established in 1975 DX first established its Document Exchange Business, which now delivers over 1 million items daily. The items are predominantly business documents, parcels and pouches. DX now operates both within the UK and Ireland. DX Network Services Ireland Limited received confirmation of its authorisation on 24 March 2004 from the Irish regulator.

The business model is one of "exchanges" (4,500 across the UK) where customers deposit their mail in a secure mailbox and is collected by DX after 17.00. Inbound mail is delivered to the mailbox before 09.00 the following day after posting. The customer base is reported to be 97% of the UK's top 100 legal firms, most major banks, the big four accountancy firms; as well as government agencies and professional service companies. In total they have 27,000 members from 16,000 businesses in the Exchange Network.

In 2001 DX was issued with an interim licence by the UK regulator enabling it to compete in niche areas. During 2002/2003 the UK regulator awarded DX the first long-term licence allowing it to deliver mail direct to the door of businesses, thus creating the first true end-to-end competitor to Royal Mail outside of the reserved area in the form of *DX Network Services*. DX Network Services is a specialist at delivering mail and parcels for organisations requiring regular distribution of time critical items within a branch network or retail supply chain; located in the high street, retail parks and business intense locations. The UK regulator opened the letter market to full competition from the 1st January 2006 and in August of that year DX and Secure Mail Services joined.

Established in 1991, *Secure Mail Services* (SMS) is a specialist mail company supplying timely, secure and bespoke nationwide collection and delivery solutions for valuable mail and small parcels to a wide range of businesses. Deliveries are available nationally on a next day, 2-7 day, timed and preferred delivery basis. The goal of SMS is to set and maintain the highest standards of security and mail integrity among mail delivery companies. Security is intrinsic both to SMS' business processes,

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<sup>70</sup> Also weekly or ad hoc mailshots are offered as a service, but then the number of mail items should be higher.

premises, vehicles and depots as well as to the selection, training and behaviour of every person working for the company.

SMS undertakes in excess of 25 million secure deliveries per annum with over 90% of these to residential addresses. By volume, SMS is the second largest secure courier service, compared to Royal Mail, in terms of deliveries to domestic addresses throughout the United Kingdom. Clients include financial institutions, government agencies, educational establishments, ticket venues and secure printers. Typically, their consignments consist of enveloped credit and debit cards, cheque books, UK passports, visas and major event tickets.

Both DX and SMS have benefited (in terms of volume growth) from the Union unrest that has plagued Royal Mail. DX and SMS have a combined turnover of circa £150 million (200 million euro) and directly employ over 1,200 staff. In addition they employ nearly 2,000 subcontractors, primarily delivery agents. Union membership is limited. Although the companies are run separately (other than head office functions) a new service (Secure DX) has been recently introduced to maximise synergies between the two businesses. In terms of future strategies, DX are focusing on 1) Growing Mail Volumes, 2) Building on Customer Loyalty and 3) Efficient Network Management.

DX/SMS actively engage with Postcomm and to a lesser extent with Postwatch, the statutory consumer body for the postal sector, both formally as required under their licence, and in the wider context of policy formulation through meetings and responses to consultation documents. They have also played an active role in the formulation and subsequent activities of the Mail Competition Forum. This is the trade association set up in December 2004 to represent the interests of the new, licensed competitors to Royal Mail.

In terms of Corporate Responsibility, the following statement has been made: "DX is a geographically distributed network business, impacting on communities across the UK and Ireland. As a newly independent company, we have reviewed our social and environmental risks and opportunities, and are managing those which may impact our long term performance and reputation." These cover Customers, Employees, Equal Opportunities, Charitable Support, Health and Safety, The Regulator and Recycling and limiting environmental impact. In terms of the latter, they have published the following: "We are committed to recycling and limiting waste amongst consumables, paper, cardboard and plastic cups. These are recycled at all of our sites. We maintain our small fleet of vehicles to minimise environmental impact."

*Source: interview DX/SMS*

In the light of the significant changes in the postal market since the introduction of the Postal Services Act 2000, the UK government started an independent review of the postal sector in 2008. The results obtained so far suggest that there is a substantial threat to Royal Mail's financial stability and, therefore, the universal service and that the status quo is not tenable. More information is presented in the following textbox while the merits of the access regime are discussed at length in Chapter 8, section 8.2.2.

#### **Independent review by the UK government of the postal sector in 2008**

The terms of reference for the review are:

- To assess the impacts to date of liberalisation of the UK postal services market, including on the Royal Mail, alternative carriers and consumers;

- To explore trends in future market development and the likely impact of these on Royal Mail, alternative carriers and consumers; and
- To consider how we maintain the USO in the light of trends and market developments identified.<sup>71</sup>

According to Royal Mail, they have met their efficiency targets for 2006/7 and the main reasons for the financial deterioration of its performance are the fact that access competition developed more quickly than expected for second class business mail and that there is down-trading from first class business mail to second class business mail and than a shift to access.<sup>72</sup> Royal Mail urges that the elements of a new regulatory framework should be introduced without delay. In short these elements are: a more narrowly defined universal service, less regulation (amongst others the removal of regulation of most retail and wholesale services including access headroom), urgent resolution of the pension deficit and access to equity capital, while preserving Royal Mail as an integrated business and the current VAT regime.<sup>73</sup>

With regard to the deteriorating financial performance of Royal Mail, Postcomm argues that almost half of the deterioration is because mail volumes are tracking below the expectations of both Postcomm and Royal Mail when the price control was finalised in late 2005. However, more than half according to Postcomm is caused by Royal Mail not achieving their efficiency improvement targets of 3% per annum in the price control period (2006-2010). Postcomm points at the need for Royal Mail to have access to private capital and a stronger set of incentives to enable it to restructure and become more profitable.<sup>74</sup>

#### 4.3.5 Business models of competitor postal operators

In ECORYS (2005a, p.128-131) the following typology of business models likely to be employed in a liberalised environment was presented:

- The development of a full service concept;
- The development of a low cost model in certain market segments or certain geographical areas;
- The development of activities in part of the value chain (such as mail preparation upstream or delivery without mail preparation downstream);
- The development of niche markets.

These business models are not mutually exclusive and some can be combined in one business model. A business model with a full service concept is basically the business model of the NPOs which provide universal services, but it may also be a business model that will be employed (or aimed at) by CPOs dependent upon market developments, the relative position of the NPO (in terms of efficiency, corporate structure, customer orientation, etc.) and the regulatory framework in the countries in question.

Table 4.3 presents a categorisation of the business models of the main CPOs in the addressed mail market and indicates whether the CPOs have a link with NPOs of other

<sup>71</sup> See [www.berr.gov.uk/sectors/postalservices](http://www.berr.gov.uk/sectors/postalservices) for more information about the review.

<sup>72</sup> Direct communication from Royal Mail.

<sup>73</sup> Based on Royal Mail's submission for Phase Two of the Independent Review of the Postal Services Sector, 19 May 2008 (see website Royal Mail).

<sup>74</sup> The independent review of the postal services sector, second submission by Postcomm, the industry regulator, 15 May 2008 (see website Postcomm).

countries. Although these characteristics of business models are only a simplification of reality, we are of the opinion that it illustrates the (typologies of the) main business models that can be observed in the addressed mail markets in a very interesting way. One can see that competition in DE, ES, NL and SE (the frontrunners), but also in CZ and BG is mainly developed by using a low cost model, while for example in FR and the UK developments mainly take place in the upstream market.

Table 4.3 Characteristics of business models employed by CPOs in the addressed mail market

CPO	Country	Business model characteristics / remarks	Link with foreign NPO?
Development of a low cost model in certain market segments or certain geographical areas			
TNT Post	DE	Low cost end-to-end delivery five or six times per week focusing on transactional mail through own delivery and cooperation with many local and regional CPOs. PIN AG has run into financial problems and will cease to exist as a group.	TNT
PIN AG	DE		No
Various local and regional operators	DE		No (some are owned by and incorporated in TNT Post and others still in PIN AG)
Unipost	ES	Daily end-to-end delivery of direct mail, intra-city mail and addressed mail >50g through own network (constituting various companies under the Unipost umbrella) and partnership with many local CPOs.	Deutsche Post (38%)
Mediaservis	CZ	Main activities are delivery of newspapers and magazines and unaddressed mail in two distinct delivery networks. Daily delivery of direct mail, partly together with unaddressed mail and partly through a dedicated network.	No
TNT Post (formerly ADM)	CZ	TNT Post is the largest distributor of unaddressed mail in Czech republic and have started a low cost addressed mail delivery service with deliveries made within three to four days.	TNT
Tip-Top Courier, Econt express, M&BM	BG	Developing a nationwide delivery network through own delivery and access agreements with each other and Bulgaria Post. Provision of hybrid mail services with telecommunication companies amongst the first clients.	No
CityMail	SE	A low cost model focusing on the delivery of non-urgent business mail with less than daily delivery.	Norwegian Post
CityMail	DK		Norwegian Post
Sandd	NL	Vertical integration of mail preparation and delivery.	No
Selekt Mail	NL		Deutsche Post
Development of activities in part of the value chain: downstream			
Adrexo	FR	Core activities are delivery of unaddressed mail and magazines/periodicals, not addressed mail. Focus regarding addressed mail is downstream on low cost delivery through unaddressed network and partly through dedicated network (the latter was frozen in 2008).	No

CPO	Country	Business model characteristics / remarks	Link with foreign NPO?
<b>Development of activities in part of the value chain: upstream</b>			
Ca. 200 companies	FR	Active upstream in mail preparation; CPOs can be grouped into affiliates of foreign NPOs, integrated communication companies or large mailers, or into fully independent companies (either large or SME).	Deutsche Post (KOBÄ)
UK Mail	UK	Active upstream in mail preparation and collection and sorting with final mile delivery undertaken by Royal Mail. Has no intention to develop an end-to-end network.	No
TNT Post	UK	Active upstream in mail preparation and collection and sorting with final mile delivery undertaken by Royal Mail. TNT is trialling own delivery in Liverpool and operates a separate unaddressed company.	TNT
Other licensed operators	UK	Most of the other 18 licensed operators in the UK are active upstream using downstream access.	
<b>Development of niche markets</b>			
DX	UK	Focus on B2B document exchange (DX Network Services) and mainly B2C secure deliveries of valuable mail items (Secure Mail Services) using 4,500 B2B 'exchanges' and its own national delivery network, respectively.	No
DX Network Services Ireland	IE	B2B next day parcel delivery and document exchange.	No
Premiere Post	MT	Has a licence to provide non-reserved postal services within the scope of the USO and is currently operating a service for the delivery of traffic summons via registered mail.	No
Citypost	UK	Focus on niche B2B markets with own delivery in London and a number of other large cities in the UK combined with downstream access services.	No
Small number of licensed operators	UK	B2B through own network, often only in London, combined with other business activities (downstream access, courier or mailing house services)	DHL: Deutsche Post Others: no

Note: The classification for upstream competitors in France is from Basic (Gallet-Rybak et al. 2008). Please note that the list of CPOs is not all inclusive, but meant to illustrate the (typologies of the) main business models that can be observed in the addressed mail markets.

Source: Annex II, country sheets.

## 4.4 Parcel mail and express

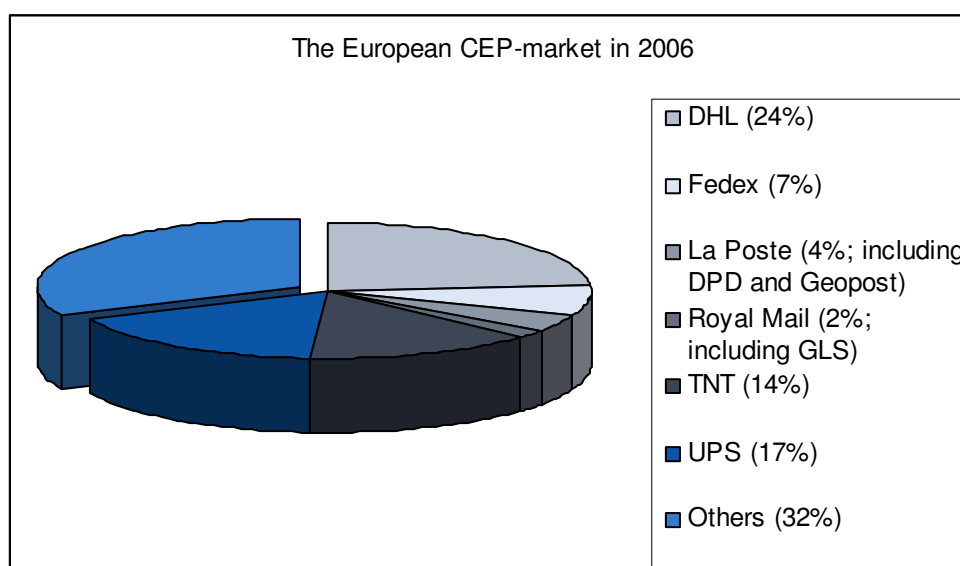
### *Market for couriers, parcels and express (CEP)*

In the European market for parcels and express, competition intensified further during the period 2006-2008. There are six main parties (DHL, UPS, TNT, Fedex, La Poste, and Royal Mail) active in the European market, whose joint market share is close to 70% of the total European market. These market leaders show strong growth rates and are

strengthening their positions through acquiring local players. The 12 largest European countries (including DE, FR, IT, ES, PL, UK and the Scandinavian countries) represented a total volume of approximately € 38.4 billion in 2006.<sup>75</sup>

DPWN used another segmentation (with a total volume of € 12.1 billion), but confirms that in Europe, DHL, UPS and TNT form the top three in the CEP-market with a total market share of circa 55% in 2006 (see figure 4.1).

Figure 4.6 Market shares of main competitors in the European CEP-market in 2006 (%)



Source: DPWN website

<<http://investors.dpwn.com/en/investoren/konzernstruktur/express/marktanteile/index.html>>.

DHL also has a strong position in Asia (34% market share), Eastern Europe, the Middle East and Africa (40%), TNT are also active in these areas. The market share estimates of DPWN are shown in the next table.

<sup>75</sup> Datamonitor, Express Benchmark 2008, press release 21 November 2007.

Table 4.4 Market share of main competitors on the different worldwide CEP-markets in 2006 (%)

	Europe <sup>(1)</sup>	North- Middle and South America <sup>(2)</sup>	Asia Pacific <sup>(3)</sup>	Eastern Europe, Middle East and Africa <sup>(4)</sup>
DPWN/DHL	24%	13%	34%	40%
Fedex	7%	34%	24%	12%
La Poste (including DPD and Geopost)	4%	-	-	-
Royal Mail (including GLS)	2%	-	-	-
TNT	14%	-	8%	11%
UPS	17%	18%	12%	10%
USPS	-	4%	-	-
Others	32%	31%	225	26%
Estimated value (€)	12.1 billion	4.6 billion	€ 5.6 billion	0.8 billion

Source: DPWN website

<<http://investors.dpwn.com/en/investoren/konzernstruktur/express/marktanteile/index.html>>.

Notes:

<sup>(1)</sup> These figures are based on the definition of all shipments < 1,000kg; country base: UK, NL, ES, FR, IT, DE, SE, BE, BG, PL. Datamonitor (Express Benchmark 2008, press release 21 November 2007) estimates the market share of DHL in the European market for parcels and express at 18%.

<sup>(2)</sup> These figures are estimates for outbound international shipments < 70kg.

<sup>(3)</sup> These figures are based on the new definition of all shipments < 1,000kg.<sup>76</sup>

<sup>(4)</sup> These figures are based on the new definition of all shipments < 1,000kg.<sup>77</sup>

Recently, the operators who deliver (value added) express services face more competition by parcel delivery operators. Datamonitor states that parcel delivery operators are closing the gap on express services in terms of quality and value for money, while they also increase their range of products in the key growth markets of B2C and international services. Express operators are forced to demonstrate their added value compared to those developing (in terms of quality and value for money) parcel delivery operators.<sup>78</sup> TNT for example reports that in the B2B segment competitors are starting to offer 2-3 days certain delivery, 'which approaches some economy offerings of TNT Express.'<sup>79</sup>

### Parcels

The two main sub-segments in the European parcel market are the parcel deliveries to consumers (B2C) and businesses (B2B). The total volume of the European B2C parcel market is currently circa € 11 billion and Datamonitor estimates that this will grow to € 15 billion in 2012, with an average growth rate of circa 6%. According to Datamonitor there is potential for significant growth in emerging markets in Eastern Europe (including

<sup>76</sup> Country base: Australia, Canada, Hong Kong, Indonesia, India, Japan, Republic of Korea, New Zealand, Malaysia, Philippines, Singapore, Thailand, Taiwan, Vietnam.

<sup>77</sup> Country base: Russian Federation, South Africa, Saudi Arabia, Bahrain, Israel, United Arab Emirates, Iran, Jordan, Oman, Qatar, Kuwait, Nigeria, Lebanon.

<sup>78</sup> Datamonitor, Express Benchmark 2008, press release 21 November 2007.

<sup>79</sup> TNT, annual report 2007, p. 10.

some of the European Member States) and large ‘untapped markets’ like Italy and Spain.<sup>80</sup>

The main drivers for this growth rate in the B2C market and increasing demand for home delivery are the worldwide results of:

- Increased e-commerce;
- Increased level of internet penetration; and
- Introduction of new supply models.<sup>81</sup>

The increased availability of (broadband) Internet and the use of internet as one of the channels through which customers buy their products these days are an important impetus for the growth of the parcel delivery market. According to Datamonitor the mix of e-commerce, internet penetration, new supply chain models, social demographics, innovations and new service providers are creating a dynamic environment in which parcel (and express) companies will have to adapt their strategies in order to gain competitive advantage.<sup>82</sup> However, the growth rate of the B2C parcel segment lags behind compared to the growth rate in e-commerce. Datamonitor indicates that this is caused by a relative decline in traditional mail order, digitisation of certain key products (music, DVDs) and logistical trends such as order consolidation.<sup>83</sup>

TNT observes that both the B2C and B2B parcel streams are still mainly ‘domestic’ (90%), so within national boundaries. However, they state that the share of cross-border parcel mail is steadily increasing.<sup>84</sup>

The country sheets in Annex II show that in a lot of countries the national parcel market is still dominated by the national incumbent and this is confirmed by Datamonitor (at least for the B2C segment). The reason for this dominance is the existence of a broad network of retail outlets, mostly part of the universal service and managed by the NPO. The NPOs have the competitive advantage of the network, their experience and local knowledge on how to reach private customers. Datamonitor observes however that competitors are entering the market triggered by the growth expectations and are gaining market share.<sup>85</sup>

On a European level, several operators expanded their services to foreign countries and acquired (small) national parties or set up their own businesses. DHL and La Poste (Geopost) are the main examples in Europe. Their exact market share on the European market is not directly available, but La Poste claims to be the second largest operator in Europe (by volume, third by turnover). Geopost for example has an extensive network of subsidiaries throughout Europe. Subsidiary Chronopost is active in France and Portugal, subsidiary DPD in Germany, the Benelux, Switzerland, Poland, the Baltic States, the Czech Republic, Slovakia and Hungary. Other subsidiaries are Interattica (Greece), Parcelline and Interlink in the UK and Ireland.

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<sup>80</sup> Datamonitor, European B2C parcels market to reach € 15 billion in 2012, press release 9 April 2008.

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

<sup>84</sup> TNT, annual report 2007, p. 11.

<sup>85</sup> Datamonitor, European B2C parcels market to reach € 15 billion in 2012, press release 9 April 2008.

The introduction of new supply chain models seems to contribute to the volume growth. Datamonitor indicates that the international segment is showing strong growth influenced by mail order companies and other retailers that are reorganising their supply chains and choosing to use regional warehouses to supply wider geographic markets. Furthermore new innovations such as pick-up and delivery points, which offer customers alternative points to collect or drop off their parcels, are examples of the business development within the B2C and C2C parcel market segments. Finally the use of tracking and communication technologies to interact with the retailer to advise them of potential delays, as well as with the final recipient to arrange deliveries is also contributing to the development and growth of the parcel market.<sup>86</sup> The next two examples illustrate the potential of this type of supply chain innovation.

#### **Finland: customer oriented automated parcel delivery**

Itella is the first in Finland to test an automated parcel terminal, which offers a new way for consumers to pick up their parcels. The automated parcel terminal increases the number of ways in which consumers can receive parcels. In the future, consumers can choose to pick up a parcel from the post office, from an automated parcel terminal or even have it delivered to their home. According to Itella, their customers have expressed a desire for new and flexible ways to receive parcels and the automated parcel terminal offers the opportunity to pick up a parcel at a time that best suits the customer even at night. The terminals are usually located along consumers' daily routes, for example in shopping centres and at traffic junctions. It may take no more than 30 seconds to pick up a parcel from a terminal. The customers receive an SMS informing them of a parcel that has arrived and which locker the automated parcel terminal can be opened.<sup>87</sup>

#### **Kiala – collection points network in Europe for parcels<sup>88</sup>**

Kiala is the leading service provider of a collection points network in Europe, enabling customers to avoid the disadvantages of a missed home delivery of a parcel. Kiala targets active consumers buying from a distance (through catalogues, the Internet or teleshopping), as well as nomad workers (sales representatives, field technicians, promotion agents, small office/home office based workers, etc.) who encounter delivery issues due to absence from their home during the day.

##### *Network of collection points*

Kiala set-up a network of collection points (Kiala Points) allowing these customers to *pick up, pay for and return* their parcels quickly where and when it suits them best. The Kiala Points network consists of nearby stores (grocery stores, dry-cleaners, newspaper shops, petrol stations, etc.) which offer easy access, long opening hours (even during the weekend), quality service, no queue and secured storage space. As a result, the customers can optimise their time by picking up their parcels at a place of their own choice.

##### *Technology platform at the heart of a value added service*

The Kiala Points network is supported by a unique technology platform using state of the art communication technology. It allows the automation of all the activities involved in the transportation and delivery of parcels, thus raising productivity and lowering costs to the minimum. The Kiala Points are equipped with mobile state of the art scanners. The heavy administrative tasks and sources of

<sup>86</sup> Datamonitor, European B2C parcels market to reach € 15 billion in 2012, press release 9 April 2008, literally.

<sup>87</sup> Itella, press release 3 March 2008, parts literally.

<sup>88</sup> See <http://www.kiala.fr/about/corporate>.

errors are removed from the delivery process. The application also manages the numerous and complex data flows going from and to end-customers, direct selling companies, 'delivery points' and transportation partners. As a consequence, the customers can track & trace their parcel on the Kiala Internet site and they are immediately notified of the arrival or of the delay of their parcel on their home telephone, mobile phone or by e-mail. If they forget about their parcel, they are reminded by the same means of communication. This Kiala technological platform is at the core of the added value provided by the company.

#### *Activities in Europe*

Kiala was founded in Brussels in 2000. After launching its service in Belgium and Luxembourg in July 2001, Kiala extended its network to include France and the Netherlands in October 2002, and Austria in June 2007. Since August 2006, Kiala is also present in the UK through a pilot area in the Northwest region. At present, the Kiala network consists of 4,700 Kiala Points and handles up to 78,000 parcels each day. The Kiala service is available from over 150 companies, including the main mail order companies such as Bertelsmann (ECI, Home Shopping Service), Pinault Printemps Redoute (Le Redoute, Daxon, Edmée, Eveil & Jeux), Yves Rocher and so on. Next to these traditional home shopping companies, Kiala could also attract multi channel retailers such as Esprit or H&M and Internet pure players like cdiscount or alapage. Kiala is also extending to new segments like the reverse logistic of defective electronic products or the replenishment of spare-parts to field engineers for their repair of the day. In these segments, Kiala is working with leading companies like HP, Nokia, IBM, Unisys, etc.

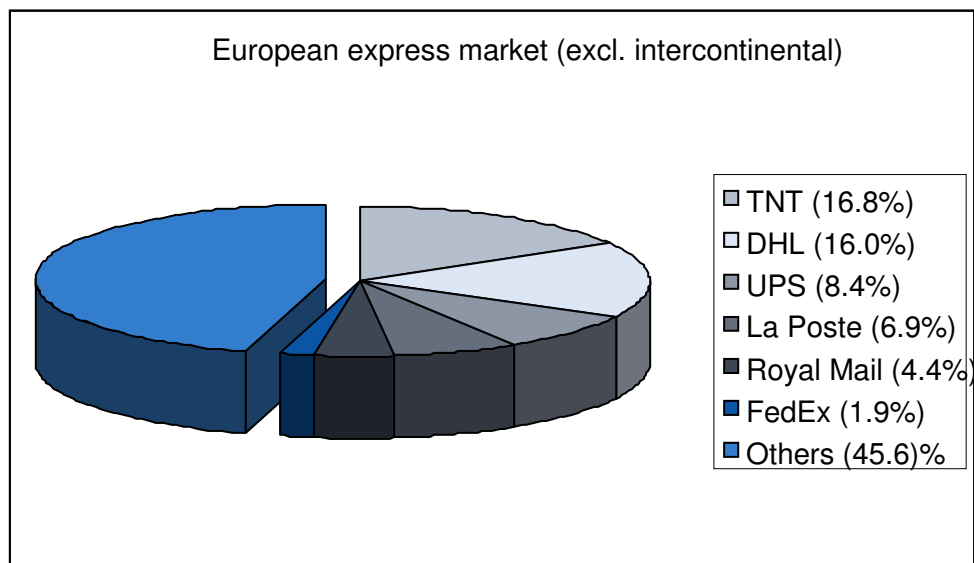
#### *Express*

During the last decades the express industry has developed into a separate sector providing value added services with door-to-door collection and delivery. The focus of the express industry is on the B2B market segment, while the value added nature of the services include full control over the whole (end-to-end) process, track & trace, time-certain delivery and proof of delivery.

The international market leaders in the express industry (DHL, FedEx, TNT and UPS; known as *integrators*) tend to concentrate on the top-end of the express market and on international services, while local express and courier operators often serve the (national) market with lower priced services and sometimes act as local partners of the integrators. In particular for the predominantly internationally operating express companies international trade is the main driver for the development of the industry.

In Europe, DHL and TNT are the largest operators with a market share of 16% and 17% respectively (see Figure 4.7). TNT estimates the size of the European market to be circa € 21 billion in 2006.

Figure 4.7 Market shares of the main express operators in Europe (2006)



Source: TNT, annual report 2007, p.10.

Note: The express market definition used by TNT covers "time certain, next day, and fastest by air or road day certain delivery for business-to-business consignments transported through a scheduled network with door-to-door track & trace of individual items/consignments."

In particular in the central and eastern European Member States that became member of the EU in 2004 (CZ, EE, HU, LT, LV, PL, SI, SK) and 2007 (BG, RO) many (local) operators have entered the courier and express market and competition developed rapidly. In all countries there is effective competition in the courier and express market, albeit that in some countries with a small home market one operator has a dominant position (for example in Iceland, where the NPO acts as an agent for TNT Express and has a very high market share).

## 4.5 Barriers to the development of competition

Barriers to entry or more broadly barriers to the development of competition can be subdivided into several categories:

- Natural entry barriers (demand side and supply side);
- Legal entry barriers;
- Strategic entry barriers; and
- Barriers related to the absence of a level playing field.<sup>89</sup>

The various barriers to the development of competition using this subdivision were discussed at length in ECORYS (2005a) both from a theoretical and from an empirical perspective).<sup>90</sup> Rather than reiterating the discussion in ECORYS (2005a), Table 4.5 presents the expert judgement of ECORYS about the relative importance of these barriers

<sup>89</sup> Although, strictly speaking, certain level playing field issues can also be regarded as legal entry barriers, we prefer to analyse the barriers to the development of competition using this categorisation.

<sup>90</sup> See ECORYS (2005), in particular sections 3.3.3 and 4.3.

and describes to what extent the importance of existing entry barriers has changed over the last three years.<sup>91</sup> In this sense the aspects mentioned under ‘level playing field’ (VAT, access to letterboxes, etc) are most relevant

Table 4.5 Importance of existing entry barriers in the European mail markets

Entry barrier	Comments
<b>Natural entry barriers</b>	<b>These barriers are related to the economics of postal service provision</b>
Reputation effects	Demand side natural entry barriers exist and influence the pattern of competition. They are probably stronger for downstream than for upstream activities and are more relevant for large mailers than for small mailers. Countervailing power creates opportunities for new entry considering the potential cost savings and need for tailor made services. Postal operators that are part of large and trusted organisations (such as the larger NPOs) may have a competitive edge above other postal operators, in particular for E2E nationwide delivery. Concrete actions to raise awareness and address concerns of customers have in some countries been undertaken (UK). <i>In a liberalised market, according to ECORYS these barriers diminish over time, as evidenced by the rising market shares of CPOs in countries such as the UK (upstream), DE and NL and more recently in BG (end-to-end).</i>
Quality or product range requirements	
Costs of switching/ customer inertia/ lack of awareness	
Countervailing power of buyers	
Sunk costs of investments	The sunk costs of investments are fairly limited in the postal sector and can be reduced depending on the business model chosen. Scale economies (better: economies of density) are important and apply to all parts of the supply chain. Through keeping the network small (focus on business mail, pre-sorting, less frequent delivery and/or flexible labour contracts) the importance of scale economies can be reduced somewhat. Scope economies range from very low to high, dependent on the combination of products offered through the same network. Network effects are limited, but may make small scale entry less viable. Moreover, full market opening and the potential removal of certain requirements related to international mail will strengthen the competitive edge of large international postal operators.(*). <i>Supply side natural entry barriers will remain important over time.</i>
Economies of scale and scope	
Network effects	
<b>Legal entry barriers</b>	<b>These barriers are related to the country specific regulatory framework</b>
Reserved area	In most countries the existence of the reserved area is an important entry barrier. The weight reduction from 100g to 50g seems to have had little impact. Since 2005, some countries fully liberalised their postal markets (DE, UK), while other countries postponed liberalisation as compared to their earlier plans (NL, NO, SK).
Regulatory uncertainty *	Across Europe regulatory uncertainty is an important entry barrier that has remained important in the last three years. On the positive side the dates for full market opening have recently been agreed, while on the negative side new issues have emerged (labour conditions) and little progress has been made on a number of well-known issues (VAT exemption, access to letterboxes). For specific countries additional issues creating regulatory uncertainty are, or have been, important. An example is the postponement of full market opening in NL (with no new date set).
Licence requirements	For most countries the licence requirements do not seem overly restrictive. In some cases licence requirements may hamper entry by small firms. In some countries the licence requirement to provide a universal service has ( <i>de facto</i> ) undermined the development of competition in the entire addressed mail market (FI) or important

<sup>91</sup> A corresponding table for the UK only is included in ECORYS (2007).

Entry barrier	Comments
	segments of it (items of correspondence, EE). In other countries competition seems to develop in spite of this licence requirement (BG) or the effect is not yet fully clear because a relatively large reserved area is hampering competition to develop (such as in HU, LV).
Tariff regulation	The main issue is whether 'soft' regulation of prices in segments with little competition would contribute to possible cross-subsidisation and predatory pricing. A related issue is whether the costs of providing the universal service are properly accounted for (if too many costs are attributed to the universal service, in fact competitive activities may be cross-subsidised; the EC expressed concerns to PL about this issue).
Guarantee funds	The potential contribution to a guarantee fund to cover the (net) cost of the USO is not (yet) acting as a barrier to entry (apart from in FI where a high contribution should be made if an entrant would not offer all services under the USO).
Access to the delivery network of the incumbent	There are two main issues. (1) The application of the principle of transparency and non-discrimination; (2) The actual terms and conditions of (downstream) access and the impact that these have on the pattern of competition; as well as to whether these terms and conditions are reasonable and proportionate (are they truly cost related or are they hindering the development of a combination of access and end-to-end competition?).
Access to the P.O. Boxes	Together with access to the letterboxes and change in address notifications these potential entry barriers relate to what can be labelled as access to the postal infrastructure. In the Netherlands and Sweden it took several years to realise this access in practice resulting, in particular in Sweden difficulties for the main competitor CityMail in the first few years after full liberalisation in 1993 (see ECORYS 2005a).
Access to the postcode system (PAF)	
Possibility to return mail through the incumbent	
<b>Strategic entry barriers</b>	<b>These barriers are related to the behaviour of the incumbent and the mandate/actions of the postal regulator and/or competition authority</b>
Cross subsidisation and predatory pricing	In the last three years disputes mainly focused on exclusivity contracts (AT, DK), price discrimination (FI), tying discounts in the reserved area to quantities in the non-reserved areas (AT) or tying discounts to the requirement that all mail is handled by the NPO (EE); and cross subsidisation from activities where the NPO has a monopoly/dominant position to competitive activities (BE, FI). Alleged differences in the access conditions between CPOs and large customers (IT regarding hybrid mail; resolved in DE in 2005) and CPOs and subsidiaries of the NPO (FR) are also an important issue. In NL, TNT has entered a strategy that might be labelled as 'raising rival's cost' by introducing new low price/low speed products (partly through their daughter company Netwerk-VSP) to compete with Sandd and Selekt Mail.
Bundling and tying	
Vertical foreclosure (price discrimination, refusal to deal, access conditions)	
Non price barriers	
	The job of the NRA's and/or the competition authorities is to assess whether (in particular) NPOs are engaging in anti-competitive behaviour or are pursuing a

Entry barrier	Comments
	legitimate business strategy to secure their position on the mail market. The cost accounting systems of most of the NPOs make it difficult for the NRA to assess whether prices are truly geared to cost (cf. Chapter 3).
<b>Level playing field</b>	<b>These barriers are related to (country specific) postal sector policy and postal regulation</b>
VAT exemption	The most important issues regarding the level playing field are the VAT exemption of the NPOs distorting competition in most of the Member States (see Chapter 3, section 3.2.3, for an overview) and (the lack of) access to the letterboxes in closed apartment buildings that is or was an important issue in AT, FR, PL and SK. There have also been allegations that state subsidies for newspaper delivery disturb the level playing field (BE). <i>Over the last three years very little progress has been made with regard to resolving the VAT issue and progress with regard to the access to letterboxes has been mixed. In AT, the problem has been addressed in legislation but this legislation was annulled later on, in PL a start has been made with putting new letterboxes in place, while in FR following a public consultation conducted by ARCEP a solution allowing access to letterboxes on equal terms has been found.</i>
Access to letterboxes	
Change in address notifications	
Immunity from parking penalties	
Financial guarantees and interest rates on loans	If the State in effect guarantees loans taken by an NPO the interest rate charged by the provider of the loan may be lower than without such a (implicit) guarantee. This matter appears to apply to PL, while in FR there is a dispute between the EC and the French government about this matter.
The obligation to provide universal services	A full service model offering a universal service is a very strong business model and the only model that can service the entire (addressed) mail market. The obligation to provide universal services as such is according to ECORYS not a problem, although careful consideration is required regarding the scope of the USO and its funding if services cannot be offered profitably (see also Chapter 3, section 3.4). An obligation to use geographically uniform prices is reducing the room to manoeuvre for the universal service provider. The first mover advantage of the NPO and other issues creating an un-level playing field should also be considered.
The obligation to use geographically uniform prices	

Note: \* Regulatory uncertainty is included as a separate barrier to the development of competition because uncertainty on whether the barriers mentioned in the table will be preserved or taken away (including uncertainty about the timescale when this may happen) increases the risks of investments by CPOs and/or potential entrants. For example, in the Netherlands both the preservation of the reserved area in 2008 and the uncertainty about when the reserved area will be abolished are barriers to the development of competition.

Source: Annex II, country sheets.

## 4.6 Developments in the legal status of NPOs

### 4.6.1 Legal status of NPOs

As can be seen in Table 4.6, during the last two years the process towards incorporation and privatisation of NPOs has continued, albeit not at a very rapid pace. Still in 21 countries the government owns 100% of the NPO.

- With regard to the privatised NPOs (DPAG and TNT), the German government reduced its shareholding in DPAG (through KfW) from 42% to 31% and the Dutch government sold their remaining 10% of the shares in TNT and, under pressure of the Court of Justice, gave up its 'golden share' in TNT;

- MaltaPost has been fully privatised: the Maltese government sold their 65% share in MaltaPost (25% to Redbox and 40% through the Malta stock exchange), while New Zealand Post ended its involvement in MaltaPost through selling their 35% of the shares to Redbox. 100% of the shares are now listed at the Malta stock exchange;
- In the Czech Republic and Poland the process to transform the state enterprise into a joint stock company started in 2007. In Poland, the partial privatisation of the NPO is under consideration;
- The NPOs of Bulgaria and Romania are both public limited companies and Romania is currently preparing for privatisation.

It is further worth mentioning that on 1 April 2008, Sweden Post released a press release, announcing that the Swedish Ministry of Enterprise, Energy & Communications, the Danish Ministry of Transport and CVC Capital Partners have signed a letter of intent regarding a merger between Posten AB and Post Danmark A/S. It is intended that both companies continue to operate independently in their own home markets under one holding company. Subject to approval of the competition authorities, the merger is planned to be realised by the end of 2008.

Table 4.6 Developments in the legal status of European national postal operators

Country	Legal status	Government share	Others	Free float	Development since WIK-Consult (2006)
Austria	Incorporated (with private capital)	51%		49%	No change; on 31 May 2006, the Austrian government sold 49% of their shares to private parties
Belgium	Incorporated (with private capital)	50% + 1 share	CVC/Post Danmark 50% minus 1 share	0%	No change
Bulgaria	Incorporated	100%		0%	Not in WIK-Consult
Cyprus	Government department	100%		0%	No change
Czech Republic	State enterprise	100%		0%	The process to transform into a joint stock company started in 2007 and is expected to end in 2009
Denmark	Incorporated (with private capital)	75%	22% CVC 3% employees	0%	No change; intended merger with Posten AB (SE)
Estonia	Incorporated	100%		0%	No change
Finland	Incorporated	100%		0%	No change
France	State enterprise	100%		0%	No change
Germany	Privatised	0%	31% KfW	69%	The share of the state-owned financial institute KfW (Kreditanstalt für Wiederaufbau) was reduced from 42% to 31%.
Greece	Incorporated	90%	Hellenic Postal Savings Bank 10%	0%	No change
Hungary	Incorporated	100%		0%	No change; the shares are held by a national holding company
Iceland	State enterprise	100%		0%	No change
Ireland	Incorporated	100%		0%	No change
Italy	Incorporated	65%	35%	0%	No change; Cassa Depositi e Prestiti is a public savings bank
Latvia	Incorporated	100%		0%	No change
Lithuania	Incorporated	100%		0%	No change
Luxembourg	State enterprise	100%		0%	No change
Malta	Privatised	0%	60% Redbox Ltd	40%	In January 2008 the government sold their remaining 40%. Earlier, Transend (a subsidiary of New Zealand Post) sold its 35% stake to Redbox (a subsidiary of Lombard Bank).
The Netherlands	Privatised	0%		100%	In November 2006 the Dutch state sold their remaining 10% and, under

Country	Legal status	Government share	Others	Free float	Development since WIK-Consult (2006)
					pressure of the Court of Justice, no longer has a 'golden share' in TNT.
Norway	Incorporated	100%		0%	No change
Poland	State enterprise	100%		0%	In March 2007 the process of transformation into a joint stock company started. Sale of part of the shares is under consideration.
Portugal	Incorporated	100%		0%	No change
Romania	Incorporated	100%		0%	Not in WIK-Consult
Slovakia	Incorporated	100%		0%	No change
Slovenia	Incorporated	100%		0%	No change
Spain	State enterprise	100%		0%	No change
Sweden	Incorporated	100%		0%	No change; intended merger with Danmark Post
United Kingdom	Incorporated	100%		0%	No change; Postcomm publicly expressed to be in favour of an injection of private capital in Royal Mail.

Source: Annex II, country sheets.

#### 4.6.2 The role of private capital

Related to this incorporation and privatisation of NPOs, ECORYS expects that the (yet rather limited) trend of increased private shareholding in NPOs will intensify after full market opening.

In their second submission to the independent review of the UK postal sector that is currently being undertaken in the UK, Postcomm expressed the view that in order to achieve the required transformation essential to deliver a universal service, Royal Mail's ownership and structure must be reviewed and that a partnership with the private sector through an injection of private capital in Royal Mail would be needed. Postcomm provides various reasons why they consider that governance of Royal Mail matters significantly and (partial) privatisation is important, including:

- Commercial incentives can be muddled by the political dimension of public ownership;
- Market signals of (expected) performance such as the share price are absent under the current ownership structure;
- Signals of performance such as return on capital could become more relevant;
- There can be no fear of takeover to hold management to account;
- Investments may be less risk averse more substantial; and
- The injection of private capital might enable the UK government to consider more radical options for addressing Royal Mail's pension deficit problem.

As described in the textbox below, concrete experiences in a number of privatised postal operators underline the general validity of these arguments in practice. According to ECORYS there are both push and pull factors that will lead to an intensification of the trend of increased private shareholding in NPOs after full market opening. Examples of *push factors* are the worsening financial performance of the NPO and the sustainability of the universal service, as state aid regulation puts clear limitations with regard to what the government as shareholder is able to do. Also it may be easier to negotiate a corporate restructuring programme with the trade unions if the NPO is (partly) privatised (or agreement with the trade unions will be a condition for the private sector to take a stake in the NPO). More freedom and better access to external capital in order to seize the commercial opportunities in a fully liberalised postal market are *pull factors*.

In the UK, both push and pull factors seem to play a role in the current debate about the future ownership structure of Royal Mail.

##### **The role of private capital in the European postal market**

Incorporation results in independence from government budgets and generally more focus on improving quality of service and financial results. If business results are good the means are generated to invest in corporate restructuring and/or in activities in the home market or abroad. If the business results are not so good, the opportunities to invest are restricted also because EU legislation in principle forbids state subsidies, unless certain circumstances are met (e.g. services of general economic interest, see article 86 and 87 of the EC-Treaty).

The investments that are needed in corporate restructuring (such as setting up business units, new sorting technologies, new IT systems and other supporting systems) and business development are

generally considerable in size and take several years of preparation and implementation.<sup>92</sup> The need for investments is further strengthened by the fact that the revenues from traditional postal services are under increasing pressure and that the provision of other services may compensate for this decline.

The attraction of private capital can be desirable or necessary to generate the resources for investments. Another aspect of (partial) privatisation is that there is additional shareholder pressure to improve the cost efficiency and the financial results and to generally strengthen the commercial orientation. This is witnessed by the corporate restructuring programmes that have been undertaken by DPAG and TNT in the 1990s and the international strategies that these companies have been able to embark on. Also the developments within MaltaPost illustrate the role that private shareholding may play on the restructuring of an NPO.

#### **Privatisation of MaltaPost<sup>93</sup>**

The present Maltese Government had adopted the policy of privatising most of its enterprises and MaltaPost was one of them. MaltaPost concluded a 'Technical services and support agreement' with Transend Worldwide Ltd, a subsidiary from New Zealand Post on 1 February 2002. Later that year a five-year business plan was developed and approved to make a turnaround from a state enterprise into a commercial oriented company.

Transend was chosen as an ideal candidate as a strategic partner for the Posts. It had acquired 35% shareholding in MaltaPost and was able to carry out a number of changes especially operational, where the whole process was changed to one working from a central CPU and five hubs, as opposed to a delivery branch in (almost) every locality. This allowed the company to consolidate its resources and reduce the workforce gradually over a number of years without creating redundancies. This effectively resulted in better profitability.

Redbox Ltd bought the 35% shareholding from Transend and later increased this to 60% by acquiring part of the government's shareholding. Next the government embarked on the full privatisation process by floating the remaining 40% of the shares on the Malta Stock Exchange. Redbox Ltd is a subsidiary of a commercial Bank and it is expected that this will bring about developments in the services provided by the various branches. Today 100% of the company's shares are privately owned and fully listed on the Malta Stock Exchange.

## **4.7 Summary of main findings and conclusion**

### *Mail volumes*

Despite the existence of e-substitution, addressed mail volumes have continued to grow from 2004-2006. In this two-year period mail volume growth was stronger on average in the twelve countries that joined the EU in 2004 and 2007 (+6.5%) than in the other fifteen Member States (+1.5%), reflecting the relationship between economic activity and mail volumes (the twelve new Member States experienced higher GDP growth rates).

In countries with a less developed mail market and relatively rapid growth in GDP it is to be expected that notably B2C addressed mail volumes will continue to grow in the

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<sup>92</sup> In Chapter 6 we discuss the developments with regard to corporate restructuring into more detail.

<sup>93</sup> Annex II, country sheet Malta.

coming years. This growth potential relates in particular to direct mail but also to a lesser extent transactional mail. In countries with mature postal markets and moderate GDP growth the picture is different. While Germany has seen moderate growth (1-1.5% annually) in addressed mail volumes, the Netherlands and the UK have already experienced declining addressed mail volumes in recent years. In the coming years, the UK, Sweden and the Netherlands expect a decline in the range of 1-3% per annum.

With regard to postal product groups the (negative) impact of e-substitution on transactional mail is expected to be strongest, although it remains a matter of speculation as to when and to what extent the impact of e-substitution will be. Parcels and packets clearly benefit from e-selling and represent a potential for rising revenues even if the total letter mail volume would decline.

#### *Development of competition*

The development of competition in the addressed mail market has been rather uneven across countries. In most of the countries there is no competition of any significance in the addressed mail market. End-to-end competition has however further developed in Spain, Sweden, and most notably, Germany and the Netherlands, where the joint market share of CPOs reached 9-14% of the addressed mail market. In the new Member States developing end-to-end competition can be observed in Bulgaria, Czech Republic, Estonia and Romania.

In Bulgaria a licence condition is that a universal service should be provided and there are requirements as to the national postal network. Although the licensed operators started their operations fairly recently (in 2007 and 2008) and developments are hence still uncertain an explanation why competition in Bulgaria appears to be developing despite these licence condition may be the low service level of Bulgaria Post (as compared to the NPOs in mature postal markets) in combination with the attractiveness of postal activities given the relatively low level of GDP and relatively high unemployment.

In the UK competition has developed fairly rapidly in the upstream part of the market. There are 20 licensed postal operators other than Royal Mail and access volumes have grown to circa 20-22% of the licensed area in 2007/8 (April-March) and are continuing to grow. Approximately one third of the access volume comes from contracting with customers directly (so called *customer direct access*), with the remaining two thirds coming from other postal operators. End-to-end competition remains insignificant, with DX as the most important CPO focusing on B2B document exchange and niche B2C markets.

#### *Barriers to competition in the addressed mail market*

Over the last couple of years very little progress has been made with regard to resolving the VAT issue and progress with regard to the access to letterboxes has been mixed. In Austria the problem has been addressed in legislation but this was annulled in court. In Poland a start has been made with putting new letterboxes in place, while in France following a public consultation conducted by ARCEP a solution allowing access to letterboxes on equal terms has been found.

According to ECORYS, the most important barriers to competition that can be reduced or eliminated by regulation and therefore require attention at EC and/or national level, are:

- The VAT exemption of many of the NPOs;
- Access to letterboxes, most notably in Austria and Poland;
- Strategic barriers, in particular arising from (alleged) exclusivity contracts, price discrimination, loyalty bonuses and bundling and tying;
- Barriers that may arise from collective arrangements of labour conditions;
- Barriers arising from how the USO will be defined, its net cost established, and the cost of financing of the USO shared between market participants.

### *Parcel and express*

There has been dynamic development in both the parcel market and the express industry. Competition is intensifying and innovations include new networks for parcel collection and delivery and automated pick-up by customers.

An interesting development is that the “gap” between the parcel market and the express industry is getting smaller in terms of quality and value for money, while parcel operators also increase their range of products in the key growth markets of B2C and international services. There is an increasing “grey” zone between express and parcel services, as traditional parcel services become more “express” in nature and a trend that clients become more cost-conscious and are willing to trade down the speed of transit times as long as the shipment arrives at pre-determined intervals.

In Eastern European countries it appears that courier services that operate at the lower end of the CEP market (in terms of price) offering value added letter mail services experience substantial growth and some customers switch from what is perceived a low price low quality service (addressed letter mail) to a higher price, better service (courier services). Operators active in this market are considered to be more creative and more focused on customer needs than the NPO operating in the universal service area.

### *Legal status of NPOs*

The process towards incorporation and privatisation of NPOs has continued, albeit not at a very rapid pace:

- The German government reduced its shareholding in DPAG and the Dutch government sold their remaining 10% of the shares in TNT and under pressure of the Court of Justice gave up its ‘golden share’ in TNT;
- MaltaPost has been fully privatised;
- In the Czech Republic and Poland the process to transform the state enterprise into a joint stock company started in 2007. In Poland the partial privatisation of the NPO is under consideration;
- The NPOs of Bulgaria and Romania are both public limited companies and Romania is currently preparing for privatisation.

Posten AB and Post Danmark/CVC announced that they intend to merge. Subject to approval of the competition authorities, the merger is planned to be realised by the end of 2008.

Contributing to the independent review of the UK postal sector that is currently being undertaken in the UK, Postcomm expressed the view that Royal Mail's ownership and structure must be reviewed and an injection of private capital in Royal Mail would be needed. According to ECORYS, the UK situation highlights the broader issue of the legal status of NPOs in a fully liberalised market.

According to ECORYS there are both push (the worsening financial performance of the NPO, the sustainability of the universal service, and/or the ability to pursue a corporate restructuring programme, e.g. in relation to the role of trade unions) and pull factors (more commercial freedom and better access to external capital) that will lead to an intensification of the trend of increased private shareholding in NPOs after full market opening.



## 5 Customer needs

### 5.1 Introduction

How are customers affected by the developments in European postal markets? What are their needs and desires? Are they satisfied with the postal services provided by postal operators? What do customers regard as the benefits (if any) of emerging competition or anticipate as benefits in those countries where competition is yet to take off? What are their main concerns and should these be taken into account while developing and implementing postal sector regulation across Europe?

The above types of questions are the subject of this chapter. In section 5.2, we pay attention to the satisfaction of customers with the services of the NPOs. The relative importance that customers attach to certain aspects of quality of service is discussed in section 5.3. Section 5.4 focuses on the actual and expected benefits of competition, while section 5.5 discusses a number of specific issues. A summary of the main findings and conclusions are presented in section 5.6.

We have used the following sources of information while preparing this chapter:

- Firstly, we have reviewed existing EC studies and country specific reports related to customer satisfaction and customer needs;
- Secondly, we have developed and launched a web-based questionnaire. More information about the questionnaire is given in section 5.1.1 below;
- Thirdly, we have implemented a brief opinion survey. The opinion survey benefited from the contributions of eight NRAs, two customer representative organisations, a publishers platform and nine customers. In addition, large cross border mailer offices from 15 European countries contributed to the opinion survey. A summary of the results of the opinion survey is included in Annex I, Appendix 3;
- Finally, we have held a number of additional interviews with customers and had a discussion of the draft findings with the members of VGP (an association of large mail senders in the Netherlands).

For the purpose of the analysis in this chapter, small mailers are business customers that send less than 250,000 items per year, while large mailers are business customers that send more than 250,000 items per year. The term consumers refers to non-business customers.

### 5.1.1 Web-based customer needs questionnaire

In total 267 customers from 25 different European countries filled in the web-questionnaire. It should be noted that not all respondents answered all of the questions. Across Europe the response rate was mixed. An excellent response was obtained from organisations and companies in Ireland (99 respondents), while more than ten (but less than 25) responses were received from organisations and companies in Belgium, France, Hungary, the Netherlands, Poland and the UK.

The respondent group does not therefore represent a representative sample for the EU, Iceland and Norway, and the number of respondents per country were (apart from Ireland) too few to allow for a country by country comparison. The number of customers that responded is however sufficient to show relevant trends when used in combination with other information sources. It is also possible to make a distinction between large mailers and small mailers as well as between senders of transactional mail, direct mail and individual item mail (letters and postcards), albeit that the results should be regarded as indicative.

Before determining the figures presented in this chapter we gave the answers from Irish respondents a weight of 20%, while all other answers were (fully) included. The 99 responses obtained from Ireland were counted as if there were 19.8 of Irish responses, which is comparable to the number of responses from Belgium (23), the Netherlands (19) and the United Kingdom (18).

The questionnaire also included questions about mail market developments. An analysis of answers from these questions is presented in Chapter 4, section 4.2.

## 5.2 Customer satisfaction

### 5.2.1 Satisfaction with the services of postal operators

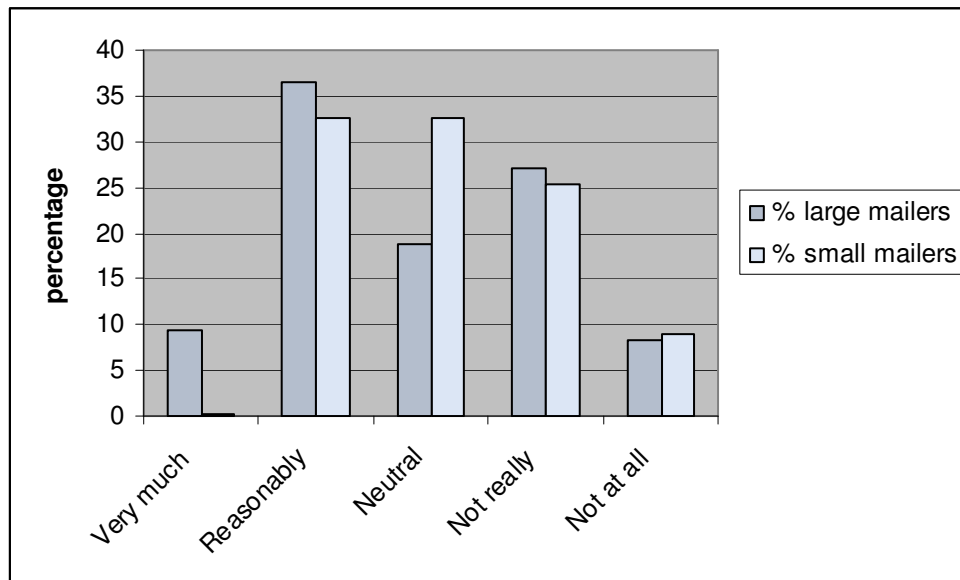
The results of the web-questionnaire with regard to the satisfaction of customers with the services of the NPOs show that there is still room for improvement. Around 35% of the respondents indicate that they are not really or not at all satisfied with the services provided by the NPO in question. A larger group (40%) answered that they were reasonably (and some very much) satisfied with the performance of the NPO (see Figure 5.1).<sup>94</sup> Large mailers appear to be a bit more satisfied with the services of the NPO than

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<sup>94</sup> Country specific surveys show that the results vary from country to country and indicate that customer satisfaction has improved somewhat in recent years (the latter applies to the findings for Belgium, Italy, Norway, Portugal and the United Kingdom). In a joint survey by Royal Mail, Postcomm and Postwatch, less than 10% of the respondents stated dissatisfaction with Royal Mail (see Annex II, country sheet UK). In a survey in the Czech Republic in 2007, it appeared that 72% of the households and 78% of the business customers were satisfied with the services of Czech Post (information provided by the NRA to ECORYS); the customer satisfaction with handling of inquiries and complaints was lower. Post Danmark indicated that its customers (both B and C) rated the overall satisfaction with the services offered at 67 on a scale of 1-100. Also Poste Italiane periodically monitors customer satisfaction and received an average score of 7 on a scale from 1-10 in 2007 (Annex II, country sheet Italy). In Hungary, overall customer satisfaction with the performance of the NPO was 5.3 on a scale of 1-7 in 2006 (Annex II, country sheet Hungary) and in Slovenia 4.13 on a scale from 1-5 in 2008 (Annex II, country sheet Slovenia).

small mailers, with 46% of the large mailers answering that they are reasonably or very much satisfied, compared to 33% from small mailers. There is no (statistically significant) difference with regard to the number of large and small mailers that are not or not at all satisfied (both combined figures are close to 35%).

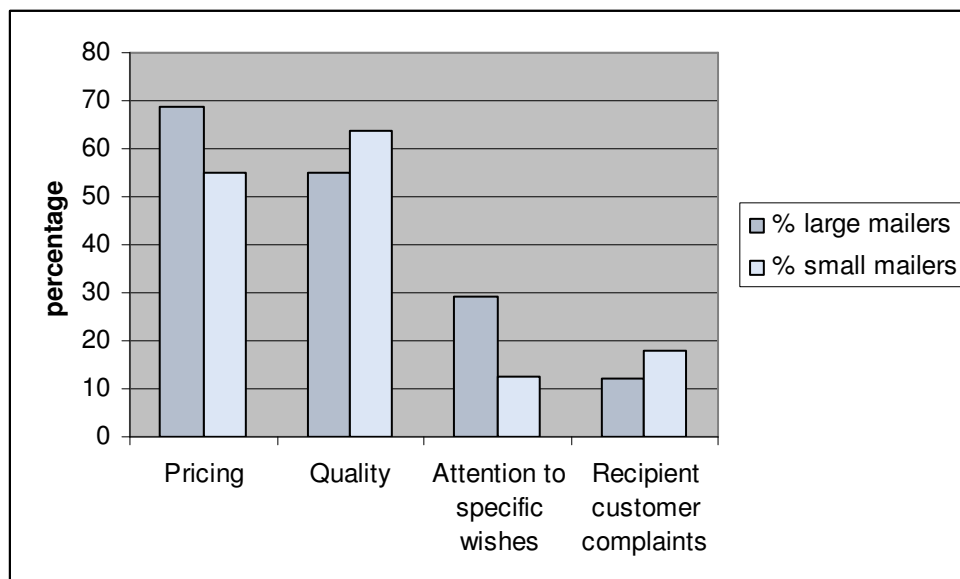
Figure 5.1 Level of satisfaction with the services of the NPO (n=218)



Source: ECORYS web-questionnaire (question 5).

Note: n is the number of respondents that answered this particular question. N=112 for large mailers and n=106 for small mailers.

Figure 5.2 Dominant / most frequent issues in your relation to the NPO, various answers possible (n=201)



Source: ECORYS web-questionnaire (question 6).

Note: n is the number of respondents that answered this particular question. N=104 for large mailers and n=97 for small mailers.

## 5.2.2 Frequent issues in the relationship with the NPO

An issue raised very frequently by customers that are critical about the performance of the NPO is that the NPO still acts as a monopolist and is supply rather than demand (customer) oriented. The following ECORYS web-questionnaire responses from four different countries illustrate this point.

### Customer views on the performance of the NPO<sup>95</sup>

"As there is no competition in [our country] [the NPO] implements new ways of working as they please and they have a price structure that is not consequent. The post is not customer oriented at all."

"[The NPO] is a monopoly and a dinosaur-mega organisation, which has remained from the socialist era. The organisation lacks educated employees, educated and competent management and a service provider attitude [...]. All market players (especially companies) are hoping for the [liberalisation] of the postal market in a few years, when we may get service for our money."

"[The NPO] tries to make a change [towards the market], but they do not yet succeed because there is no pressure arising from real competition. They still operate as a monopolist and are in my view too much controlled and restricted by regulators."

"[The NPO] is dictating prices and terms. They change services without consulting with us the customers. We have no other opportunity than to pay the price. There is no alternative. They are very hard to negotiate with because of the monopoly in the market."

Figure 5.2 shows the four most frequently given answers from both large and small mailers when asked the question about the dominant and most frequent issues in the relationship with the NPO. Both pricing and quality were answered very frequently. The lack of attention for their specific wishes (relatively important to large mailers) and the way recipient customer complaints were handled (relatively important for small mailers) were shown to be important issues for a minority of the respondents.

Table 5.1 Customer surveys in European countries: customer satisfaction and issues in the relationship with the NPO

Country (year)	Subject of the question	Survey result (most often answered)
Ireland (2007) (n=953)	(Dis)satisfaction among business customers with service aspects of the NPO	Overall satisfaction (2006: 48%, 2007:61%) Range of postal service products (3.7/5) Collection time (3.6/5; 2006: 3.3/5) Overall cost of postal services (3.2/5) Transit time (3.5/5; 2006: 3.1/5) Reasons for dissatisfaction: reliability (19%), overall letter service (21%) and value for money (37%)
Ireland (2007) (n=953)	Reasons for dissatisfaction with NPO	Delivery issues (74%) Price of services (13%) Customer services/behaviour (9%)
Malta (2006) (n=420)	Satisfaction of small businesses with service aspects of the NPO	Time of delivery (73% [very] satisfied) Transit time (57%)

<sup>95</sup> Source: answers of respondents to the ECORYS web-questionnaire.

Country (year)	Subject of the question	Survey result (most often answered)
		Range of services (60%) Price (37%)
Malta (2006) (n=583)	Satisfaction of households with service aspects of the NPO	Time of delivery (86% [very] satisfied) Transit time (66%) Range of services (82%) Price (45%)
Poland (2006) (n=1,000)	Satisfaction with the universal postal service (in practice with the NPO)	Both individual consumers and business customers proved to be reasonably satisfied. Main areas of dissatisfaction were transit times and procedures for returned mail (businesses) and long queues in post offices/outlets (consumers)
Portugal (2006) (n=1,240)	Reasons for dissatisfaction with NPO	Waiting time at post offices (18%) Location of the post office (16%)
Sweden (2006) (n=unknown)	Satisfaction with service aspects of the NPO	General satisfaction (62/100) Queuing times (73% satisfied) Dissatisfaction (6% dissatisfied)
United Kingdom (2007) (n=1,804)	Perceived performance of the NPO in terms of quality of mail services; issues that scored worst	Price/discount (7.0) (*) Delivery time (7.6) (*) Control of lost mail (7.6) (*)

Notes: (year) indicates to which year the survey results relate to. (\*) On a score from 1-10.

Sources: ComReg (2008, p.43) for Ireland (2007); Annex II, country sheets for Malta, Poland, Portugal, Sweden; Postcomm (2007, p.73) for the United Kingdom.

### 5.2.3 Treatment of complaints

When questioned about the treatment of complaints by the NPO, the majority of the respondents replied that they are not particularly satisfied (25% had rather or very negative experiences and another 49% answered that complaints are dealt with, but that it takes a lot of time and effort from the customer's side.

A specific survey carried out for Ireland indicates that customers are not satisfied with the handling of their complaints (see Table 5.2). A corresponding survey for Czech Republic revealed that the satisfaction with handling of inquiries and complaints was lower than the satisfaction with the services of Czech Post in general.

Table 5.2 Customer surveys in European countries: treatment of complaints

Country	Subject of the question	Survey result
Ireland (2007) (n=953)	Satisfaction with handling of complaint (by those 23% that made a complaint over the last 12 months)	(Very) satisfied: 15% Neutral: 21% (Very) dissatisfied: 61%

Source: ComReg (2008, p.45).

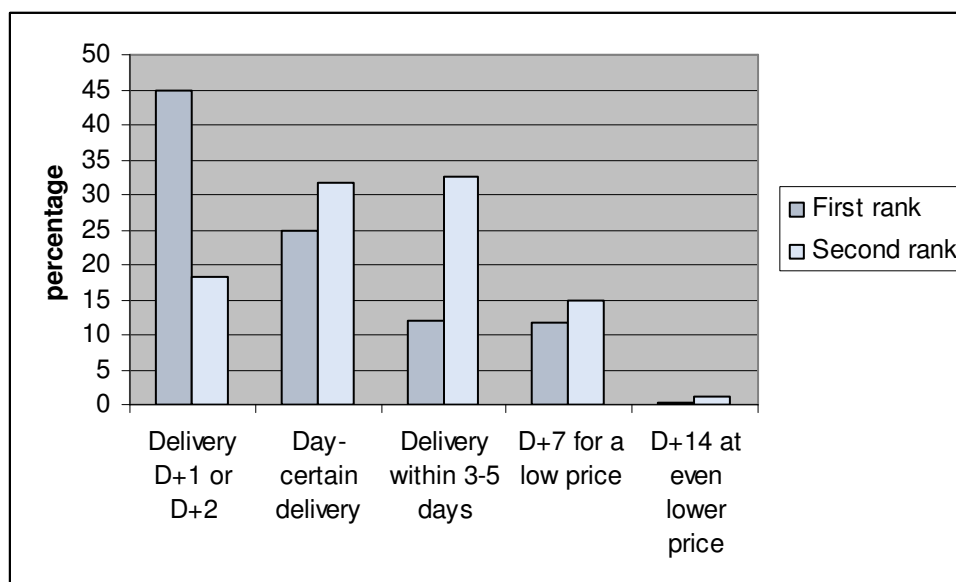
## 5.3 Customer needs regarding QoS and universal service

### 5.3.1 Trade off between speed and price

The opinion survey signals that there is a desired trade off between speed and price. This should not however be detrimental to the reliability of time to delivery, which according to some respondents is currently the case.

The wish for product differentiation can also be observed from Figure 5.3 and Table 5.3. When analysing the responses at postal product level the results for transactional mail, letters and postcards are very comparable. There is however an identified difference in the importance that is attached to QoS aspects between items of correspondence and other postal products including direct mail (see Figure 5.4).

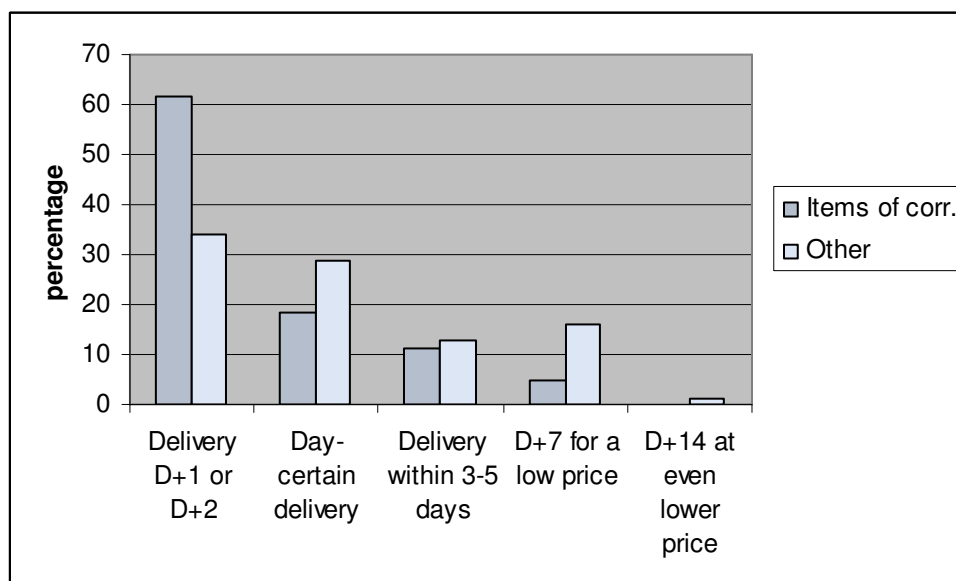
Figure 5.3 Ranking the importance of service aspects, scores on first and second rank (n=175)



Source: ECORYS web-questionnaire (question 11).

Note: n is the number of respondents that answered this particular question. N=138 for second rank.

Figure 5.4 Ranking the importance of service aspects, scores for postal product groups (first rank, n=175)



Source: ECORYS web-questionnaire (question 11).

Note: n is the number of respondents that answered this particular question. N=81 for items of correspondence (combining the results for transactional mail and letters and postcards) and n=94 for all other postal products.

Table 5.3 Importance of service aspects and wish for product differentiation

Country	Survey result
Austria (2004) (n=819)	A survey among 819 respondents showed that postal customers gave the following ranking to service aspects: arrival of mailings (no loss), damaged mail, simple handling on posting, no bureaucracy, next day delivery and receipt of posting.
Belgium (2006) (n=2,500)	The survey showed that distribution quality issues, such as errors, delays, loss and damages are the main elements considered by SMEs when evaluating postal services.
Czech Republic (2007) (n=unknown)	The survey revealed that businesses would like to have higher quality even at the expense of a rise in price; and that consumers preferred lower prices linked with services with longer transit times.
France (2005) (n=1,334 households + 1,022 companies)	A survey of households and small companies in 2005 concluded that speed (D+1 for mail and D+2 for parcels) was the most important product attribute for small mailers, followed by convenience of deposit and delivery (in particular for parcels and registered mail). In the survey the respondents were not asked to make an explicit trade off between speed and price.
Lithuania (2005, 2006) (n=unknown)	The survey results considered the most important criteria for using postal services and were the price (42% of respondents), speed of delivery (31%) and security of postal items (24%).
Luxembourg (n=n.a.)	According to a CPO customers are more and more interested in reliability rather than speed. Furthermore, there is demand for day-certain delivery.
The Netherlands (2004) (n=2000)	In an analysis issued by the Ministry of Economic Affairs of large mailers, large mailers indicated that most of their mail needs not to be sent with a D+1 service level. Moreover 91% of stakeholders were (very) satisfied with the current delivery frequency of six times a week; 41% were against reducing this frequency, while 31% could agree with a frequency of (at least) five times a week.

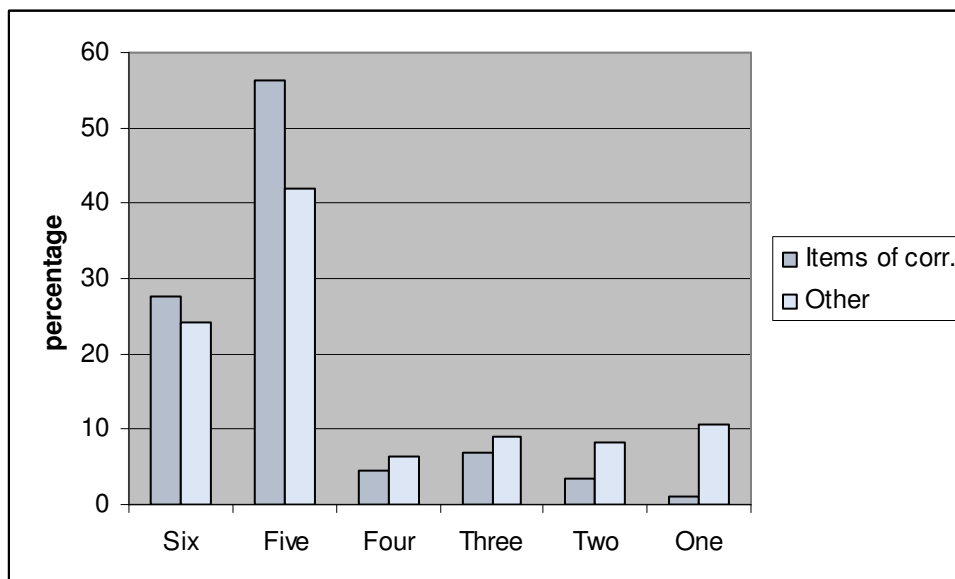
Country	Survey result
Slovakia (2007) (n≈1,000)	According to a mapping of customer needs by Slovak Post, large customers prefer reliability of delivery above speed of delivery and have a demand for day-certain delivery. SMEs usually regard speed of delivery important, while households would like to see reliable delivery, prompt service at a counter and longer opening hours of post offices.
Slovenia (2008) (n=unknown)	22% of business customers answered that they would never change the provider, 31% would change provider in case of attractive prices and 20% in case of better quality. Only 10% would change the provider in case of a lower price and lower quality, while 41% would consider changing in the case of higher quality and higher price.
Slovenia (2008) (n=unknown)	Almost half of the individual consumers said that they would never use the services of CPOs, while other respondents would switch because of price (20%), behaviour of employees (10%), or because of quality and accessibility.
United Kingdom (2007) (n=1,804)	In a survey under business customers, the three factors considered as most important for the quality of services are (1) delivery to the correct address, (2) delivery reliability; and (3) trustworthiness of the provider. Delivery time was eighth place in terms of importance of quality of service attributes.
United Kingdom (2007) (n=1,804)	Among SMEs mailing 250 or more letters a day on average, a third (32%) rule out considering a switch from the NPO. Interest in switching is overwhelmingly driven by seeking cost savings, but with the caveat that quality of service must not deteriorate. Only a small minority of SMEs are willing to consider paying more to access higher quality services.

Source: Annex II, country sheets; France - ARCEP (2005); the Netherlands - ECORYS (2005a, p.99); UK - Postcomm 2007, a.o. p.67.

### 5.3.2 Frequency of collection and delivery

The results of the ECORYS web-questionnaire on questions about how often collection and delivery for the most important mail product should take place are presented in Figures 5.5 and 5.6.

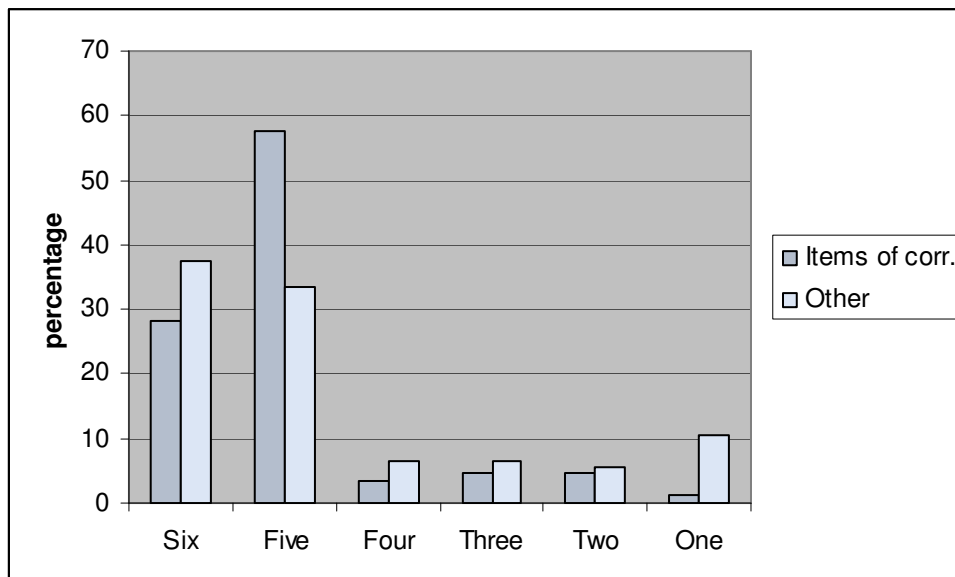
Figure 5.5 Number of times per week that collection should at least take place per postal product group (n=211)



Source: ECORYS web-questionnaire (question 12).

Note: n is the number of respondents that answered this particular question. N=87 for items of correspondence (combining the results for transactional mail and letters and postcards) and n=124 for all other postal products.

Figure 5.6 Number of times per week that delivery should at least take place (n=208)



Source: ECORYS web-questionnaire (question 13).

Note: n is the number of respondents that answered this particular question. N=85 for items of correspondence (combining the results for transactional mail and letters and postcards) and n=123 for all other postal products.

It can be seen that most of the customers consider that collection and delivery should take place either five or six days a week. A substantial minority answered that collection and/or delivery could take place four days a week or less. For the respondents that indicated transactional mail or letters and postcards are their most important mail product the figures are 16% for collection and 14% for delivery. For customers sending

predominantly other mail products the figures are higher, 34% for collection and 29% for delivery (of these, respondents answered that mail could be collected or delivered four days a week or less, respectively).<sup>96</sup>

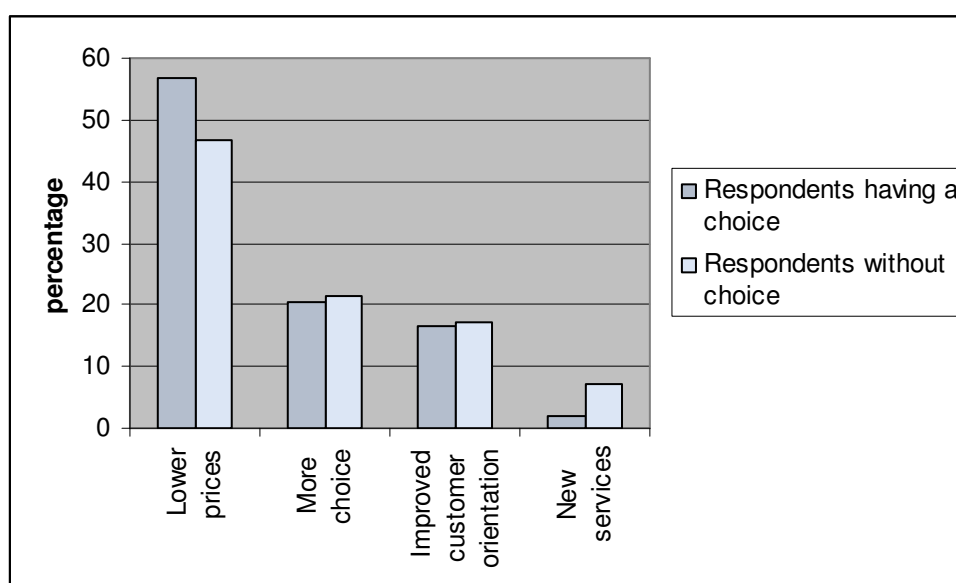
On the question (Q.14) whether it is important that mail is delivered on fixed days in the week if delivery would be done less than five times per week, 48% answered yes, 29% answered no, while 23% did not know or did not have an opinion.

## 5.4 Actual and expected benefits of competition

### 5.4.1 Benefits of competition

Figure 5.7 shows what the web-questionnaire respondents see as the most important benefits of competition: lower prices, more choice and an improved customer orientation of postal operators. It is interesting to note that the scores of customers that actually have a choice are very comparable to the scores of customers that do not yet have a choice.

Figure 5.7 Ranking the importance of actual and expected benefits of competition, first rank (n=203)



Source: ECORYS web-questionnaire (question 17 and 18).

Note: n is the number of respondents that answered this particular question. N=56 for respondents that actually have a choice and n=147 for respondents where there are no alternatives to the NPO.

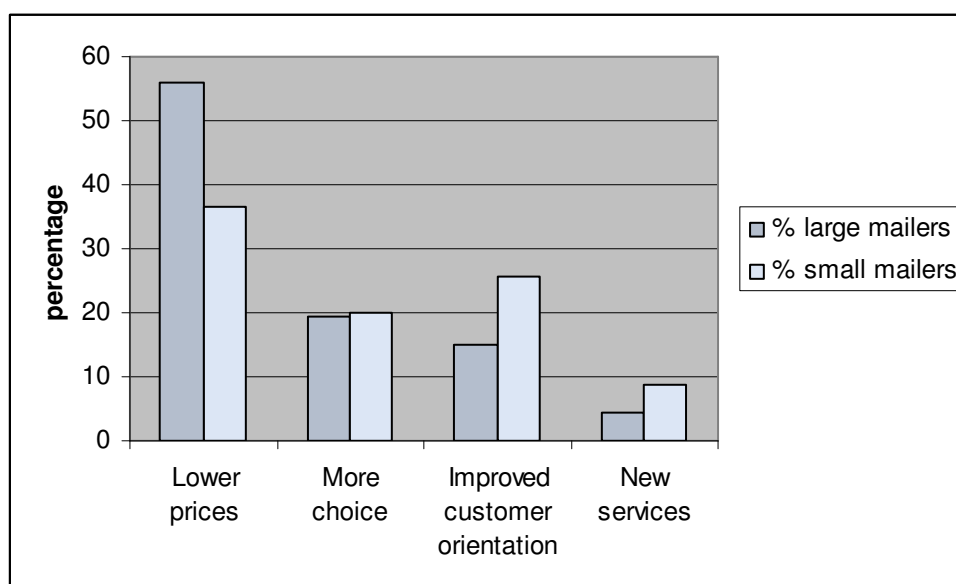
<sup>96</sup> ARCEP (2005) concluded that "delivery six days a week appears to be important" This applies in particular to letter mail, and is less important for parcels and registered mail.

In a study undertaken by the Belgian regulator BIPT in 2006, 83% of the households indicated that a five day per week delivery was compatible with their needs (13% answered that the delivery frequency did not matter much). A comparable study by BIPT in 2007 showed the same results for self-employed and SMEs: 84% indicated that a five day per week delivery was compatible with their needs; 97% said to be in favour of five times per week delivery, while 2.4% preferred at least six times per week.

A study by TNO NIPO under individual consumers in the Netherlands in 2004, revealed that 72% of the respondents regarded a reduction of the delivery frequency to four times per week or less not acceptable (ECORYS 2005a, p.99).

From Figure 5.8 it can be observed that there is a difference between large mailers and small mailers as to the actual or expected benefits of competition. Small mailers regard improved customer orientation and the offer of new services more important than large mailers; whereas large mailers more often point at lower prices as the main benefit of competition. This may be explained by the fact that the potential cost reductions for large mailers can be substantial if prices (were to) decline as a result of competition. It may also be because the pressure on prices tends to be highest for bulk mail if competition is developing.

Figure 5.8 Actual and expected benefits of competition ranked as most important by large and small mailers (n=203)



Source: ECORYS web-questionnaire (question 17 and 18).

Note: n is the number of respondents that answered this particular question. N=113 for large mailers and n=90 for small mailers.

Most of the opinion survey respondents indicated that sustained pressure on prices is expected to be the main benefit of competition in the medium to long term. The tailoring of services to individual client needs for (specific type of) mailings is also mentioned in the survey. According to respondents, competitors tend to focus on niche markets- these are on specific areas, specific mail streams and specific destinations.

#### 5.4.2 Impact of competition on the behaviour of postal operators

Benefits from competition can only be expected if competition, or the threat of competition, influences the behaviour of postal operators, including the behaviour of the NPOs. In countries where competition has developed the effect on behaviour can be observed. For example, business customers in the UK regard the improvement in Royal Mail service as the second most important benefit of competition in the mail market. More than half of those UK business customers which have not seen an improvement yet expect to see improvements in postal service provision in the coming years (see Table

5.4).<sup>97</sup> Another example of the positive effect of competition on the behaviour of the NPO is given by one of the competitor postal operators in another country where competition is has taken off, saying that “competition woke up the NPO.”

In countries where competition has not developed the effect on the behaviour of the NPO is less. This is excluding the probable influence of anticipated competition after full market opening on company restructuring and increased automation, in particular automated sorting (see Chapter 6). These findings are confirmed in the opinion survey and can be observed from the textbox below.

#### Results from the ECORYS opinion survey

Where markets have been opened, to a relatively large extent a majority of respondents perceive improving client orientation and improving quality of services at better prices, in particular from new entrants. However, market shares of competitors are often very low resulting in only limited pressure on the NPOs and consequently limited effects on NPO behaviour. This is particularly valid regarding postal services for small and medium mailers. Furthermore, it was observed that sometimes new service providers encounter quality of service problems after promising market entry.

Table 5.4 Customer surveys in European countries: benefits of competition

Country	Subject of the question	Survey result
Ireland (2007) (n=953)	Reasons for (actually) using other postal service providers (*)	Faster/more efficient (31%) Guaranteed next day delivery (18%) Cheaper (17%) Reliable/guaranteed tracking (12%)
Sweden (2007) (n=unknown)	Research findings concerning customers in the bulk mail segment	Lower prices and additional services: <ul style="list-style-type: none"> <li>• Improved quality of service</li> <li>• New products</li> <li>• Improved customer orientation</li> </ul>
United Kingdom (2007) (n=1,804)	Business customers' view about realised benefits from competition in the mail market	Choice improvement (54% agree) Improvement in Royal Mail service (39%) Price reduction (15%)
United Kingdom (2007) (n=1,804)	Expectation of improvement in the quality of service delivered by mail providers (overall services) as a result of competition	57% of those that had not yet seen an improvement in Royal Mail service, expect an improvement in postal service provision in general as a result of competition

Notes: (\*) In particular for the delivery of packets and parcels use is made of CPOs in Ireland.

Sources: ComReg (2008, p.15); PTS (2007, p.8); Postcomm (2007, p.98 and p.103).

<sup>97</sup> In addition, 9% of the respondents to the business survey in the UK indicated that they were able to negotiate lower prices with Royal Mail because of the existence of alternative providers (Postcomm 2007, p.90).

## 5.5 Specific issues

### 5.5.1 Solutions rather than standard products and services

A general issue that arose from the opinion survey and the interviews with customers is that business customers would like to see postal operators becoming partners of medium and large mail senders, jointly trying to generate new business (recognising that the traditional postal market is shrinking) rather than acting as providers of standard services. Respondents to the web-questionnaire stated they would like to receive proposals outlining ways in which they could improve/optimize their working methods.

In other words customers, and in particular business customers, are increasingly looking for (company specific) *solutions* rather than for a standard set of products and services. Postal operators are also aware of this development, Post Danmark quoted:<sup>98</sup>

“Business customers increasingly expect individualised solutions which require knowledge of the customer’s business and needs. Customers demand more and better access to services, time certain delivery and choice of products and/or operators. Demand for quality of service and reliability has stayed the same over the last years.”

### 5.5.2 Cross-border mail

The ECORYS web-questionnaire indicates that 14% of small mailers and 34% of large mailers that regularly send mail abroad use direct entry to the postal operator in the country of destination as the distribution channel (or routing method) while 86% (small mailers) and 66% (large mailers) send international mail through the postal operator from their home country.<sup>99</sup>

Large cross border mailers that use direct entry in the country of destination mention that there is a need for harmonisation and standardisation in mail requirements, in particular with regard to local address formats, barcodes, and the definitions used to distinguish a letter from a parcel.<sup>100</sup> Another issue is that local requirements are often only available in the language of the country in question. Furthermore, streamlining export formalities are noted as being important.

### 5.5.3 Liberalisation and level playing field

The participants of the opinion survey stress that continued market attention is required in order to create a level playing field environment between postal operators. This is

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<sup>98</sup> Annex II, country sheet Denmark.

<sup>99</sup> 38% of the respondents of the web-questionnaire indicated that they hardly send any international mail.

<sup>100</sup> The information in this section is based on the ECORYS opinion survey and interviews with large cross border mailers and should be regarded as ‘signals from market players’ rather than the outcome of a comprehensive analysis of cross border issues. See also “Customer needs – cross-border mail users,” Simon Hampton, Director Public Policy, Time Warner, presentation at an EC postal sector stakeholder workshop, Brussels, 11 December 2007 (which presents a number of examples of some of the issues discussed).

regarded as essential to strengthen the competitive pressure on NPOs and improve postal market dynamics. Issues mentioned most often are full market opening, resolving unequal VAT treatment; and ensuring fair access to the delivery network of the NPOs. In general, the efficient implementation of the current regulatory framework ensuring that customers will actually benefit from market opening is according to the participants probably more important than changing the rules before full market opening.

Many of the respondents of the web-questionnaire point to the need to liberalise European postal markets to create competitive pressure on the NPOs and the importance of resolving unequal VAT treatment.<sup>101</sup>

## 5.6 Summary of main findings and conclusion

Country specific surveys, some of which are commissioned by the NPOs show that customers are reasonably satisfied with the performance of the NPOs. This result corresponds with the result obtained by Special Eurobarometer 219 of October 2005 according to which, 77 percent of people questioned stated they were satisfied with postal services provided to them, whereas 16 percent stated their dissatisfaction.<sup>102</sup> However, the respondents to the ECORYS web-questionnaire still proved critical about the performance of the NPO. Around 35% of the ECORYS web-questionnaire respondents (small mailers and large mailers alike) indicate that they are not really or not at all satisfied with the services provided by the NPO in question. Customers are also fairly negative about treatment of complaints by the NPO. The majority of the respondents replied that they are not particularly satisfied (25% had rather or very negative experiences and another 49% answered that complaints are dealt with, but that it takes a lot of time and effort from the customer's side).

An issue raised very frequently by customers that are critical about the performance of the NPO is that the NPO still acts as a monopolist in a supply, rather than demand (customer) oriented way. More specifically, 50-70% of large and small mailers indicate that pricing and quality are dominant or the most frequent issues in their relationship with the NPO. A lack of attention for their specific wishes (relatively important to large mailers) and the way recipient customer complaints are handled (relatively important for small mailers) were also shown to be important issues for 10-30% of the respondents. This feedback is by and large confirmed by country specific surveys.

The opinion survey and interviews with customers and postal operators show that business customers would like to see postal operators becoming partners of medium and large mail senders jointly trying to generate new business, rather than acting as providers of standard services. In other words business customers are increasingly looking for (company specific) *solutions* rather than a standard set of products and services.

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<sup>101</sup> 81 respondents gave an answer to the open question which issue would in their view require urgent attention by the national and/or regulatory authorities for the postal market. Other issues that emerged are discussed in other sections of this chapter (in particular the absence of a proper functioning postal code system in Ireland and, by a minority of the respondents, the concern that competition may have a negative impact on the availability of a high quality universal service).

<sup>102</sup> Special Eurobarometer 219's sample size was 24,837 and was conducted between 27 October and 27 November 2004.

According to ECORYS this implies that business development in the mail sector will be mainly focused on innovations along the value chain. It can therefore be concluded that the key focus of competitors will be the provision of value chain and dedicated solutions, thus forcing the NPOs to react.

Customers understand there is a trade off between speed, price and desire product differentiation. Many customers value reliability of delivery higher than speed of delivery. More than half of the respondents to the web-questionnaire answered that day-certain delivery, D+3/D+5 delivery at a low price (as compared to D+1/D+2) or D+7 delivery at an even lower price were more important to them than D+1/D+2 delivery. Instead of speed of delivery, 'delivery of promise' has become of prime importance to customers: "if I buy a D+3/D+5 product, can I be sure that my mail will be delivered within three to five days?"<sup>103</sup>

The different needs and wishes of customers are also reflected in their views with regard to the number of times that collection and delivery of mail should in their view take place. Most of the respondents are in favour of five or six times collection and delivery per week and a significant minority answered that collection and/or delivery could occur four days a week or less. For the respondents that indicated that either transactional mail or letters and postcards were their most important mail product the figures are 16% for collection and 14% for delivery, while for customers sending predominantly other mail products the figures are 34% and 29%, respectively).

The most important (actual or expected) benefits of competition are lower prices, more choice and an improved customer orientation of postal operators. There is a difference between large mailers and small mailers in this respect. Although both customer groups mention lower prices most frequently small mailers appear to regard improved customer orientation and the offer of new services more important than large mailers. This is in contrast to large mailers which more often point to lower prices as the main benefit of competition. In countries where competition has taken off there are indications that the behaviour of the NPO has become more customer oriented and that the service has improved, albeit that the competitive pressure to change behaviour is not yet regarded as very strong.

Various large cross border mailers that use direct entry in the country of destination mentioned that there is a need for harmonisation and standardisation in mail requirements, in particular with regard to local address formats, barcodes, and the definitions used to distinguish a letter from a parcel. The fact that the local requirements are often only available in the language of the country in question could also be improved. Furthermore, streamlining export formalities are mentioned to be important. According to ECORYS, the issue of harmonisation and standardisation will become (even) more important in future given the continued internationalisation of business activities of certain postal customers and the fact that national borders will diminish in importance as a result of liberalisation and technological developments (for example hybrid mail, see Chapter 6).

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<sup>103</sup> In the Netherlands the association for large mailers (VGP) has expressed the desire to develop a QoS monitoring instrument that is common to all postal operators in the Dutch market.

Last but not least, customers are very outspoken about the need to strengthen the competitive pressure on the NPOs and hence improving the dynamics in the postal market. Issues that are mentioned most often are the importance of full market opening, resolving unequal VAT treatment, and ensuring fair access to the delivery network of the NPOs.

## 6 Technological developments and environment

### 6.1 Introduction

The analysis in the previous chapters shows that the postal sector is going through major changes. The main reasons for these changes are:

- Market liberalisation and deregulation;
- Ongoing market segmentation in products and services segments (related to customer groups in specific sectors and branches) in response to customer need developments;
- Changing communication patterns with increased electronic communication through the Internet, which has stimulated the development of web-based solutions for different products and services;
- Technological developments which have had an impact on the mail processing and development of value added services.

Walsh (2007) provided a framework for technology drivers in the first stakeholder workshop for this study in Brussels.<sup>104</sup> The framework provided an overview of technology applications in mail processing from the viewpoint of different stakeholders, such as mailers, mail carriers and mail (technology) suppliers (see Figure 6.1).

In this chapter we focus on a number of these technology drivers which impact the postal sector. We start in section 6.2 with a discussion of the development in labour intensity in the postal sector, showing that the application of new technology has resulted in considerable industry changes in the last decade. Section 6.3 analyses the restructuring of mail processing, focusing on automated sorting (*mail sortation* in the framework presented in Figure 6.1). In section 6.4 we turn our attention to *mail creation and mail finishing*, analysing the development of hybrid mail solutions. The development of new and value added postal services (related to both *mail delivery* and *interfaces*) is discussed in section 6.5, followed by an analysis in section 6.6 of environmental and sustainability policies. A summary of the key findings and conclusions is presented in section 6.7.

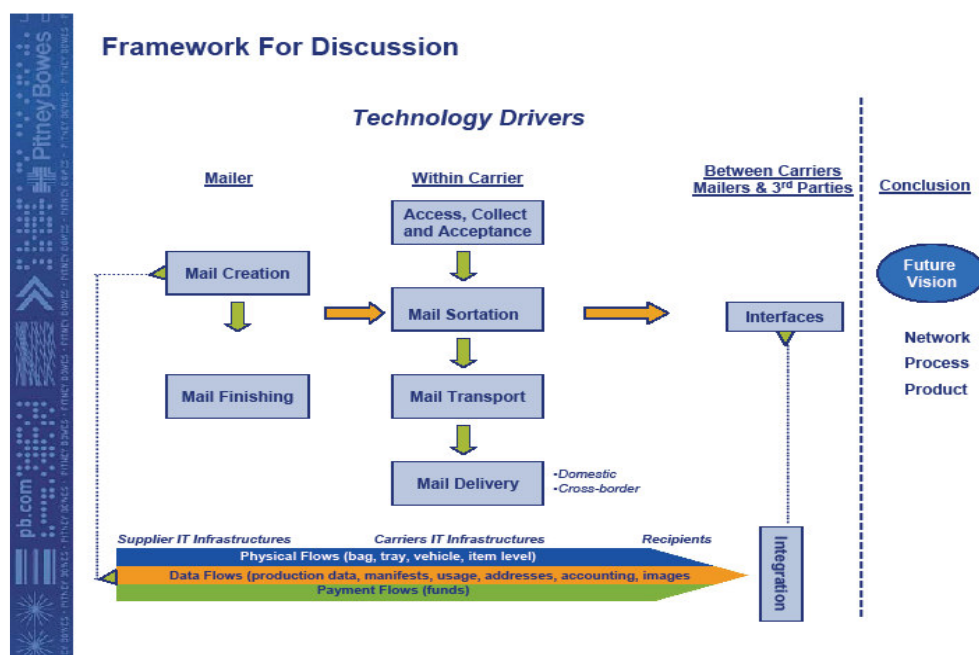
The discussion in this chapter is based on analysis of the annual reports of all EU national postal operators and Norway Post. The analysis has also been referenced from technological developments and environmental information provided in the country sheets. This literature is also supported by various stakeholder and industry expert interviews and a web-questionnaire, which was used for specific questions related to technology developments targeted at the national postal operators.<sup>105</sup>

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<sup>104</sup> Tim Walsh, *Postal Technology and the Evolution of the European Mail Market*, presentation at the European Commission workshop, 11 December 2007, Brussels.

<sup>105</sup> Response to the web-questionnaire was received from Finland, Greece and Portugal.

Figure.6.1 Technology drivers in the postal industry



Source: Walsh (2007).

## 6.2 Impact of application of technology on labour intensity

The main impact of the application of technology for all stakeholders can be observed in three areas:<sup>106</sup>

1. *Increasing effectiveness and efficiency* and control of interfaces in mail processing has led to an increase in overall quality, speed and reliability of service;
2. *Cost reductions through increases in labour productivity.* Technology based mail processing using modern IT solutions and deeper automated sorting for addresses has replaced relatively labour intensive mail processing;
3. *Increasing revenues* for postal operators through business development initiatives (both upgrading services and providing new value added services).

In practice solutions are based on a combination of these objectives, as technology provides multiple solutions for postal business development. Technology solutions and applications contributing to all three objectives simultaneously have (*ceteris paribus*) the best chances for successful implementation due to the relatively high return on investment.

As a consequence of market and technological developments all national postal operators are in a process of restructuring, although the phase of development varies considerably from country to country.

<sup>106</sup> Hans Kok, *Impact of technological developments*, presentation at the European Commission workshop, 11 December 2007, Brussels.

Restructuring of mail processing fits into one of the main strategies of postal operators during the last decade and can be summarised under the heading ‘*optimisation*’: *maximizing the efficiency and effectiveness of existing mail processes, systems, and networks.*

Optimisation initiatives include (and have included) the automation of mail handling, the application of new technology to existing processes, outsourcing of non-core functions, work-sharing, public-private partnerships, and investment in new human performance systems.

#### *Indicator for the application of technology*

One of the main indicators of ongoing technological change in the postal sector is the development of the labour cost as a percentage of the total cost ratio. The postal sector has always been relatively labour intensive with labour costs well above 80% of total costs in the period 1960-1990. A study by PriceWaterhouse (1997) paid attention to the importance of EU postal sector employment.<sup>107</sup> The study focused on the 15 EU Member States at the time of the analysis and concluded the following:

##### **Labour costs in NPOs**

Labour costs in NPOs on average constitute 71% of total costs. This figure has not changed from the earlier estimate provided in the Green Paper published by the Commission. In fact, according to our survey of NPOs, three countries have labour costs which total more than 80% of total costs. The labour intensive nature of the work is a limiting factor for wage increases and results in strong pressure for wage increases to be productivity based. Decisions about wage increases and wage levels in NPOs traditionally were made as part of general public sector pay decisions. While corporatisation has led to greater autonomy in pay determination, general public sector pay policy considerations for moderate wage increases continue to exert considerable influence.

*Source: Price Waterhouse (1997)*

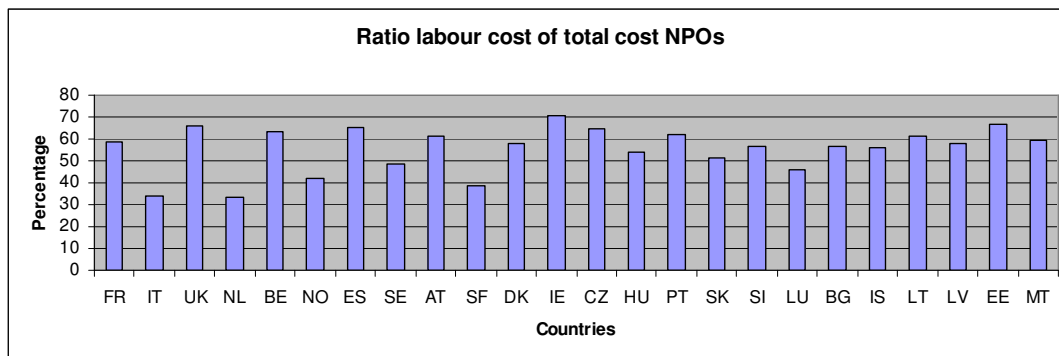
The policies of the national postal operators in response to market liberalisation account for a reduction in the number of staff employed in traditional postal services and the change in the composition of the labour force (more part-time jobs and less full-time jobs).

The importance of the labour intensive character of the postal sector has for a long time attracted attention. Attention has been from the viewpoint of resistance to change (importance of the postal sector for employment, fear for loss of jobs in ongoing market liberalisation) and from the viewpoint of creating new business opportunities (providing new and value added services, thus creating jobs). For example, changes in USO policies were previously countered by arguments of loss of employment in the postal sector. Currently changes in policies are increasingly based on changing labour market arguments. This is due to the changing skill levels of the population and the need for market and business development.

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<sup>107</sup> PriceWaterhouse, *Employment trends in the European postal sector*, study for the European Commission, May 1997.

Figure 6.2 Labour cost as a percentage of total cost for European NPOs



Source: ECORYS based on annual reports of NPOs for 2006. See Annex I, Appendix 4 for the detailed calculations.

Summary information from the NPO annual reports and information provided in the country sheets is presented in Figure 6.2, specific data are provided in Annex I, Appendix 4.

Based on the NPO annual reports and an analysis of the country sheets we can (roughly) differentiate postal operators by categorising them into four groups:

- Postal operators which have been fully commercialised and even privatised and focus continuously on increasing shareholder value (DE and NL). These operators have invested in mail processing with full automated sorting,<sup>108</sup> are fully commercialised and have high economies of scale;
- Postal operators from Scandinavian countries which have focused on modernisation of the postal services and full commercialisation (FI, NO, SE) using hybrid mail solutions and smart mail processing. These advanced countries try to find their own solutions by using technology in order to serve remote areas in a better way;
- Other postal operator countries which are still investing in postal sector technologies (AT, BE, DK, ES, FR, PT<sup>109</sup> and UK<sup>110</sup>) and to a lesser degree new EU entrants (HU, SI, SK);
- Postal operator countries which are moving slower due to different conditions such as lower volumes, geography and limitations in investments (BG, CY, CZ, GR<sup>111</sup>, IE, IS, LT, LU<sup>112</sup>, LV, MT and RO).

Since the first signs of liberalisation and market deregulation in the late 1980s national postal operators have reduced labour costs by restructuring mail processes. Figure 6.3

<sup>108</sup> For Italy the analysis is more complicated as Group data also include the insurance activities of Poste Italiane, which produces a more positive result than for mail processing only. Our own estimate is that Italy is in the second category described in the text.

<sup>109</sup> Correos Portugal reported a 20-40% share of the cost of automated sorting in total cost.

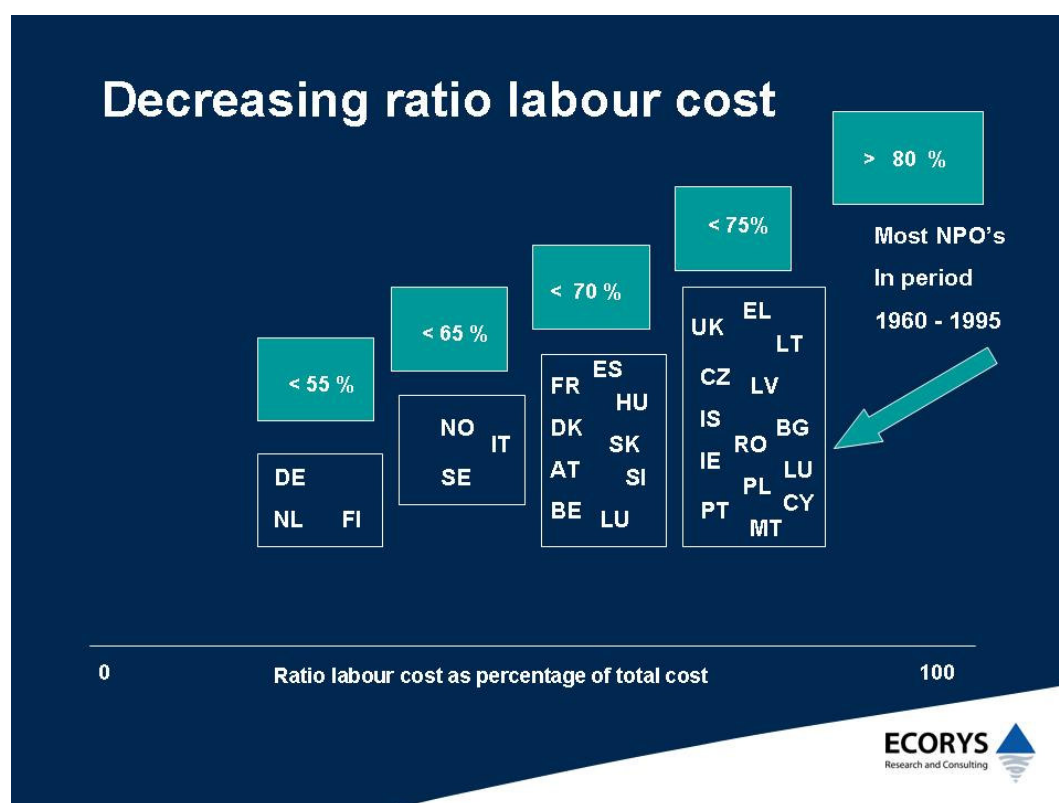
<sup>110</sup> In the annual report 2005 Royal Mail stated that UK should follow the steep increase in labour productivity in the Netherlands and Germany heading for major restructuring of mail processing in the coming years.

<sup>111</sup> ELTA, Greek Post, indicated a 75.4% ratio of labour cost to total cost in reply to our questionnaire.

<sup>112</sup> The ratio in Luxembourg is much influenced by the group reporting for telecommunications and postal services together, with telecommunication having a lower labour cost ratio.

illustrates postal operators' ratio of labour cost as a percentage of total cost which has fallen from over 80% to below 55%.<sup>113</sup>

Figure 6.3 Development of labour cost ratios for European NPOs



Source: ECORYS based on annual reports NPOs (mainly 2006).

### Analysis and main conclusions

If we analyse Figure 6.3, we observe that three of the four fully liberalised countries (DE, FI, SE) show a low labour cost ratio in comparison to the other countries. In the Netherlands, which has a relatively liberalised postal market, and in Italy, where local city mail is *de facto* liberalised, a low labour cost ratio can also be found. According to ECORYS, a logical explanation for the correlation between labour ratio and degree of liberalisation is the competitive pressure on the NPOs as a result of market opening, the increased need for commercialisation and technological investment as a result of this competitive pressure.

This observation should, however, be qualified. In Finland, the competitive pressure is significantly less than in the other liberalised countries. A possible explanation for the low labour ratio for Finland might be the focus on hybrid mail solutions, which require technological investments. In the UK, the labour cost ratio is still high despite the fully liberalised market. A possible explanation might be the development of competition through down-stream access, which reduces the pressure on efficiency gains in the delivery network instead of end-to-end competition. On the other hand, the price for

<sup>113</sup> See Annex I and supplementary notes in this chapter providing the detailed data from the annual reports 2006 and some corrections made by ECORYS.

access to the network of Royal Mail is considered to be low, meaning that Royal Mail is still facing some pressure for efficiency gains, albeit regulatory pressure instead of competitive pressure. Finally, Spain does not show a low labour cost ratio despite having a high degree of liberalisation. An explanation is not available.

### 6.3 Restructuring of mail processing: automated sorting

The developments with regard to restructuring of mail processing, focusing on automated sorting are analysed in this section. Apart from conceptualising the developments and clustering European countries activities, various examples of major mail process restructuring are presented on a country by country basis.

Although the main costs of mail processing are in delivery (approximately 50% of total cost), one crucial area for cost reduction and quality of service improvement is mail sorting (circa up to 10% of the cost of mail processing). Walsh (2007) observes that USPS in the USA has managed to reduce manual letter sorting to 5% and manual parcel (flats) sorting to 10%. Reducing manual sorting is more difficult in the European Union as it is not one mail market and all (national) postal operators have different economies of scale, addressing and sorting systems.

Internationalisation of the mail markets and liberalisation of cross-border mail would provide opportunities for increasing the percentages of automated sorting. However, in order for this to occur a certain level of standardisation would have to take place in the postal industry. Although countries have a tendency towards development of their own standards some unification is assured by certain mail technologies that are applied in all countries.

Our analysis shows that there are different phases in the development of automated sorting that can be differentiated into:

- A first phase starting with bulk mail as this mail category deals with large volumes and standardised mail usually provided by the top 50-100 customers (or top ten customers in smaller countries) of postal operators accounting for 40-60% of total mail volumes;
- A second phase which aims to capture all business mail including standardisation of mail from SMEs. This uses a deeper sorting beyond delivery offices to customer delivery routes and street addresses. This phase can also be seen as preparing for the final phase described in the next bullet;
- A final phase of fully automated sorting up to the specific postal code and customer (house number) address.

Based on the country exhibits and information from the annual reports (indicating investments, change in [sorting] staff composition, upgrading of products and services, etc.) we have positioned the EU national postal operators within the conceptual framework presented in Table 6.1.<sup>114</sup>

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<sup>114</sup> Plans for further re-design of mail processing exist in, amongst others, France, UK, and Belgium.

Table 6.1 Phases in development of automated sorting

Phases automated sorting				
Percentage of mail sorting fully automated	< 10%	< 30%	< 60%	> 90%
<b>Phases</b>	Take off  Main focus on generating conditions for increased machine sorting.	First phase  Structured approach towards bulk mail clients capturing mail generation and sorting.	Second phase  Strategic approach with re-engineering of collection, transport, sorting and delivery processes.	Final phase  Creating a competitive edge; cost and quality leadership in upgraded processes covering the whole supply chain.
<b>Concept</b>	Solutions for large clients especially utilities and government institutions.	Design of a postal code or national address system managed by national postal operators.	Securing the address database, adaptation of addresses of customers and aiming at sorting of all business mail.	Full control over the address database in cooperation with large mailers aiming at maximum automated sorting.
<b>Address database</b>	NPO and large mailers have their own systems.	NPO tries to integrate addressing systems of all large mailers.	Full development of addressing systems avoiding wrong addressing and securing standardised addressing.	Full control over addressing and using pricing instrument for large and medium sized mailers to keep cost down in the interest of all.
<b>Level of sorting</b>	Determined by client.	Sorting with focus on delivery units and post offices.	Deeper sorting with focus on delivery rounds and sequencing of delivery addresses.	Deeper sorting with focus on full automated sorting and elimination of manual sorting (max 5%).

Source: ECORYS

The analysis of national postal operators annual reports shows substantial efforts have been put into upgrading mail processing facilities and equipment. As illustrated in the various examples of country developments below, there has also been an improvement in the efficiency of mail operations including mail transport.

Table 6.2 Main activities in development of automated sorting

Country	Main activities	Conclusion
<b>Austria</b>	Investments of around € 20 million are primarily focused on the modernisation of the technical equipment for the sorting centre in Hall, Tyrol, the Vienna parcel sorting centre, the branch network and the upgrading of the vehicle fleet. Capital expenditure also encompassed replacement investments in machinery, IT systems, office equipment, fixtures and fittings, as well as building repairs and refurbishments. The most significant individual investment projects in the year 2006 were the modernisation in Hall (€ 6m), improvement of security at the postal branches (€ 3m), the full data collection project and the Vienna parcel sorting centre. Property was purchased in Bratislava, Slovakia at a cost of € 7m in order to build a new sorting centre.	The investments indicate major process re-engineering with combined efforts focused on automated sorting (both for letters and parcels), transport and delivery.
<b>Belgium</b>	The developments in Belgium were triggered by negative operational and financial results in the year 2002 leading to revamping mail operations. After a period of preparation a new sorting structure was implemented from 2005 with five main sorting centres in Brussels, Antwerp, Gent, Charleroi and Liege with investment of € 200 million in a four year period. The main change is the focus of deeper sorting from sorting on postcode level towards sorting on delivery rounds with last sorting done by the delivery staff. The new sorting technology upgrades sorting all along the supply chain from mail generation up to delivery routing and everything in between. The process has just been completed and will show better operational results in the coming years in terms of cost efficiency and improvement of quality of mail services	Belgium took stock of the experiences in surrounding countries while undertaking a major re-engineering process in its mail operations. Needing investments also private sector participation was realised in through selling 50% minus one share to Post Danmark/CVC.
<b>Bulgaria</b>	In the restructuring of postal services in Bulgaria the NPO Bulgaria Post focuses on the introduction of new technologies and arrangements for automated processing of information in collection services for electricity distribution companies, central heating companies and other large customers. There is an expansion of the scope of services by using up to-date technologies and working arrangements and introduction of central settlement (BTC AD, national road infrastructure fund, etc.), while outdated transport vehicles are being replaced over the coming years. The review of the sorting structure with a new main and national sorting centre in Sofia (capturing the main mail volumes) and regional sorting centres for direct mail exchange between regions captures 70% of total mail volumes with direct sorting to delivery offices. Still 20% of the addresses are not suitable for automated sorting. The address database is subject to an interconnection agreement between the NPO and the CPOs Tip-Top Couriers, M&BM express and ECONT express (licensed for universal service provision) in which providers add their own addressing to the one of Bulgaria Post. Exchange of addresses in a common database is still a delicate issue regarding privacy of data troubled by the history of the country.	Bulgaria Post has undertaken initial restructuring of automated sorting in the early nineties, which failed due to lacking investments. Over the last few years restructuring has been undertaken again.
<b>Denmark</b>	2005 was the year when significant restructuring of production was completed. The sorting of letters west of the Great Belt was centralised at	After earlier restructuring in

Country	Main activities	Conclusion
	two centres instead of the previous five centres, improving capacity utilisation and using state-of-the-art technology opportunities.	sorting and transport, ongoing investments were made in concentrating automated sorting operations
<b>Estonia</b>	In 1998, the cornerstone of the new Tallinn Post Centre was laid. The Centre has become a mail-processing hub, which uses the most up-to-date and efficient technologies. The building was completed by the end of 1998. The biggest technological development project in 2005 was the procurement of the sorting centre's new parcel sorting line; this sorting line is expected to increase the efficiency of parcel handling with more than 30% each year. As a parallel project, Estonia Post is introducing a new, modern and process-supporting programme which will replace three separate and outdated programmes in the sorting centre.	Facing EU-accession and increasing competition, efforts were made in revamping mail processing. Recently new centres have become operational improving efficiency and QoS.
<b>Finland</b>	Itella Group's capital expenditure totalled € 42.2 million the most significant investments being allocated to machines, equipment and buildings. In 2007 Itella started a three-year investment programme related to mail sorting and delivery, which is one of the company's most extensive investments for decades. The main objectives of this activity are implementing automated business processes, shorter delivery cycles, efficient operations and higher competitiveness.	Itella has undertaken major process re-engineering involving all mail processing and transport operations.

Country	Main activities	Conclusion
<b>France</b>	To improve customer service quality and cut production costs, La Poste group initiated the wide-ranging "Mail Quality Project" in 2004 to re-engineer its sorting and distribution processes. This investment project of unprecedented scope for La Poste will run from 2004 to 2010. The aim of this project is to improve quality of service to customers with 90% next-day delivery by 2010, as well as to adapt the service to customer needs. La Poste has earmarked €3.4 billion for the entire duration of the project. At the end of 2006, it had launched four industrial mail centres (IMC): Paris Nord Gonesse, Lognes, Val de Loire and Lorraine. La Poste is currently rolling out 20 more IMCs. In order to ensure coverage of the entire country, the Mail Quality Project also includes reconfiguring some one hundred mail preparation and delivery centres (at least one per department) and several thousand other delivery centres.	In its press statements and annual report, La Poste explicitly states that The "Mail Quality Project" will enable La Poste to match the technological process built up by the German and Dutch postal operators in recent years and will establish itself as a key player in Europe. This can be seen as a clear example of increased competition pressing operators to keep up with their benchmarks in the EU.
<b>Greece</b>	According to ELTA, 2006 is a landmark year in the history of the company, when the implementation of an investment programme surmounting € 200m for the five year period 2004-2008 is reaching its climax. In order to cover the postal service needs of the whole country a modern network of automated sorting centres in Athens, Thessaloniki, Patras and the Airmail Unit was created. The investments will enable ELTA to provide universal postal services of high quality and reliability to all Greek residents. The new automated sorting centres will be lodged in modern facilities and will be equipped with the latest state-of-the-art machinery for the automatic handling of postal items.	The ELTA annual reports do not report on gains in lower cost and increase in labour productivity, but it is assumed that more mail is processed while maintaining or slowly reducing the labour force.
<b>Hungary</b>	As of 1 July 2006 Magyar Post worked on the elaboration of uniform processing and forwarding technology for the activities and technological processes of the processing plants. The introduction of the new transportation system was primarily aimed at effectively exploiting the time capacity of the National Logistics Centre and the processing plants and also at increasing the reliability of processing, but this has also resulted in the fast and precise forwarding of priority items, an improvement in quality. The new transportation system has also made it possible to divide up the items according to forwarding speed.	Following EU-accession and facing increasing competition, Magyar Post is preparing restructuring of mail processing with a focus on increased automated sorting and improved transport efficiency.
<b>Netherlands</b>	As a result of a process of strategic re-orientation in 1992 after privatisation, PTT Post in the Netherlands started in 1997 with investments of € 250m, with the main investment in the <i>Briefpost 2000</i> concept. In this concept a new sorting structure was designed for letter sorting (six sorting centres) and parcel sorting (four sorting centres)	The privatised mail operator TNT was one of the first undertaking major business and process re-

Country	Main activities	Conclusion
	aiming at transition from sorting based on postal code and delivery units to sorting to delivery routes and street addresses. Full implementation of the new sorting concept aims at reducing manual sorting well below 10% of total sorting starting from 1998 to 2000. The new concept was combined with decreasing tariffs for bulk mailers maintaining high volumes of mail. During the implementation phase some negative results were observed in QoS performance, which have been addressed in the years thereafter. TNT indicates that process innovation in this area is through setting up a postal code pooling network separating IT functions (reading of postal codes) and process functions (actual machine sorting), leading to supplier independent use of sorting equipment and resulting in cost savings returned to the customer in lower bulk mail pricing. This approach was supplemented in the period 2002-2005 with specific house number sorting machines sequencing the mail into the delivery walk and no longer any hand sorting (with the exception 1-2% rejected mail with insufficient addressing) and integrating larger mail items during delivery.	engineering of the letter and parcel mail operations. TNT made full use of the available technology to achieve deeper sorting up to the postman's delivery walk, giving a boost to already relatively high efficiency and QoS, while at the same time enabling the development of more value added products and services.
<b>Norway</b>	Norway Post is continuing its efforts to stabilise delivery quality at a high level as well as to develop more cost-effective processes and increase the flexibility of its costs. In accordance with its new strategy, the letter and parcel production processes have been further coordinated as of 1 January 2007 in order to optimise the value chain. The most important measure for keeping the delivery quality at a high level in the long term is according to Norway Post the building of a new, modern South East Norway mail-sorting terminal at Robsrud in Lørenskog. This terminal will be finished in 2009 and will become the main sorting facility in Norway Post's new terminal structure.	According to ECORYS, Norway Post is following the NPOs in neighbouring Scandinavian countries in upgrading its mail processing. Benchmarking with Denmark and Finland the restructuring aims at improvements throughout the value-chain.
<b>Ireland</b>	At the beginning of the century An Post has invested heavily in the automation of the mail sorting process in order to improve the efficiency of what has traditionally been a labour intensive activity. In 2003, the automation capital programme of over €100m was completed. The opening of the Cork Mail Centre in June 2003 marked the final phase of this project. According to An Post, together with the earlier expansions at the Dublin and Portlaoise Mail Centres and the opening of the Athlone Centre this has equipped An Post with the capability to provide a high quality service with scope for significant downstream developments for the enhancement of its products. In the 2005 annual report was reported that An Post was implementing a major change programme in their mail collection and delivery processes.	Ireland has been relatively late to undertake major restructuring in mail processing, but has now implemented more automated sorting to reduce cost of operations, while still being restricted in the delivery options in the rural areas.
<b>Italy</b>	Poste Italiane confirmed its commitment to modernising logistics facilities through the upgrading of technical equipment and the rationalisation of processes. Investment primarily regarded the continued reorganisation of sorting centres relating to the Nuova Reta (New Network) project aimed at improving collection, transport, sorting and delivery processes and meeting domestic and international quality standards. On the one hand,	Italy is one of the larger countries able to benchmark its postal operations with other larger EU countries. This has

Country	Main activities	Conclusion
	<p>activities served as preparation for the restructuring and extension of existing centres (renovation of sorting centre equipment and restructuring of buildings in which the centres are located), and on the other hand, they were geared at further upgrading of the video coding and sorting capacity of the logistics network. In particular, the sorting systems at the Florence sorting centre were upgraded, new workstations were installed at the sorting centres in Bari, Catania, Naples and Bologna, and the extension of the Milan-Peschiera Borromeo centre and the restructuring of the Milan-Rosario, Ancona, Pisa and Novara centres began.</p>	<p>resulted in the Nuova Reta plan specifically revamping of the sorting structure with better use of machine sorting.</p>
Spain	<p>The main investment programmes of Correos were aimed at making the universal postal service more accessible by increasing the number of post offices, removing architectural barriers and updating operational and work facilities. Investments were also made into introducing leading-edge technologies to innovate and raise quality and competitiveness (ca. 13% of capital expenditure), further implementation of automatic processing of postal items (5.3%), updating and enlarging the vehicle fleet (6.6%) and in furniture, security and other items (8.8%). Correos is now close to completing its automation plan, which seeks to shorten delivery times, reinforce security and improve efficiency.</p> <p>There were three significant projects in 2006: implementation across the company of RFID technology, provision of PDAs to all urgent delivery staff, and a set of initiatives under the INTEGRA project for corporate modernisation.</p> <p>The technological advances of recent years to update the company from part of the INTEGRA project, a corporate development plan with which Correos seeks to bring the postal business into the ambit of information and communication technologies. The IT structure now in the process of being built allows for increasingly automated processes, a better fit between the different areas of the business and a greater ability to adapt to new demands and requirements. At the processing stage, Correos is introducing a new operational model based on process automation, containerisation of items and concentration of flows. With the opening of the Las Palmas automated processing centre, 16 of 17 planned automated sites are now in operation. The Oviedo automated facility was revamped to add new sorting configurations. At the Valencia, Sevilla, Zaragoza, Valladolid, Santiago de Compostela, Malaga and Palma de Mallorca centres, the company set in motion automated processing systems for mail collected from letterboxes. The move encouraged concentration of this category of postal items at the local head offices and increased automated sorting in the first stages of processing, thus helping improve final distribution. By year-end 2006, the company's automated processing centres were equipped with 36 sorting lines for standardised mail, 13 for non-standardised (flat) mail, and 11 for letter-box mail.</p>	<p>Spain like Italy could benchmark with larger EU countries leading to a review of its mail processing. The main areas of improvement are sorting and transport, while considerable gains are realised in terms of QoS and cost of mail handling giving the NPO the possibility to respond to increased competition in domestic and international mail markets.</p>

Country	Main activities	Conclusion
<b>United Kingdom</b>	<p>"Crucially, we need to embark swiftly on the modernisation of Royal Mail. This is the key challenge the whole organisation is facing. It's an even more daunting task than the Renewal Plan we accomplished and it will test us all. Putting in new technology and replacing obsolete equipment, in time and to budget; further streamlining our operations and bringing our people with us at all times; increasing the focus on customers so that we deliver even better service in a market where rivals are after our business – all this will be incredibly stretching. It will mean a great deal of hard work.</p> <p>2005 has been a milestone year for Royal Mail. It marked the successful completion of the programme to modernise its operations with one of the largest transformations of any UK industry over the last 25 years. But 2004-05 was a milestone year in another critical sense. It was the last financial year in which Royal Mail had any protection from competition. From January 2006, the mail market will be fully open to rival companies, large and small. Everything Royal Mail has been doing over the last three years has been about getting the company ready to compete. The modernisation plan was the greatest test Royal Mail faced in decades, for our very future depended on it. The challenge we will face as full competition becomes a reality will be even greater. There are tough but exciting times ahead."</p>	<p>The public statements of the CEO of Royal Mail in the column to the left are stressing the importance of major business and process re-engineering as done by its benchmarks in the EU postal market. The statements also express the urgent need to modernise outdated mail processing in response to developing competition.</p>

Source: Annex II, country sheets.

In Table 6.3, based on the country examples in Table 6.2 and (other) information from the annual reports (indicating investments, change in [sorting] staff composition, upgrading of products and services, etc.) we have positioned the EU national postal operators within the conceptual framework presented in Table 6.1.

Table 6.3 Positioning of European NPOs with regard to automated sorting, an assessment

Phases	Take off	First phase	Second phase	Final phase
<b>Countries</b>	CY, MT, LT, LU, LV	BG, CZ, EE, GR, HU, IS, PT, SK	AT, BE, DK, ES, FR, IE, IT, NO, SI, UK	DE, FI, NL, SE
<b>Main Problems experienced in this phase</b>	General problem is relatively low mail volumes preventing the possibility to have a high degree of automated sorting. Usually only some main utility providers are undertaking efforts in electronic mail generation taken as pre-sorted mail to the sorting centres.	To keep up with EU benchmarks all countries have undertaken mail sorting restructuring capturing major mail volumes of business clients. They are facing new difficulties in addressing, use of postal code and exchange of addresses and codes. Changing sorting becomes increasingly part of an overall restructuring of mail processes, including collection, transport and delivery (units).	This category of countries is experienced in automated sorting and is building on this to capture more mail volumes beyond bulk mailers. They are also reviewing the use of postal codes, address databases and mail exchange with other operators. Real progress in capturing automated sorting depends on progress made in the use of the postal code for deeper sorting up to addressee.	For some countries with matured postal markets, much experience is gained from automated sorting in previous phases. They are towards the end of fully automated sorting, and have reviewed the use of postal codes in deeper sorting and addressing. There is connection between automated sorting and hybrid mail development as both are part of the move to improve mail delivery.

Source: Annex II, country sheets

### *Analysis and main conclusions*

As with the labour cost ratio, ECORYS detects a clear correlation between liberalisation of the market and the level of automated sorting. Despite the fact that NPOs still have a dominant market position in the high volume, highly standardised and low cost bulk mail market segments, they are forced to constantly review and where possible improve all postal operations to counter competitors, who also focus on these market segments during start-up and are not or to a lesser degree, hampered by the fixed cost of infrastructure. This is also the reason why the revamping of mail processing, automated sorting and the review of transport operations have been prioritised in a period when competition is developing or expected to develop in EU countries, resulting in overall improved QoS and cost effectiveness.

## 6.4 Development of hybrid mail solutions

### 6.4.1 Introduction

Hybrid mail is an example of mail generation (or *mail creation* and *mail finishing* in terms of Walsh 2007) and a way by which postal operators try to secure mail processing.

It is also an example of mail delivery, which does not necessarily have to be physical delivery as it used to be for centuries.

The Internet creates both threats and opportunities for postal service providers. Electronic communication is replacing part of the conventional paper-based mail but is also offering significant opportunities for improved customer service involving new hybrid mail solutions.

*Traditional mail* is typically produced (printed, folded and enveloped) by the mail generator and then physically lodged to the postal service provider for physical distribution and delivery. *Hybrid mail* is the electronic transfer of mail from the mail generator's computer directly to the postal service provider. The postal service provider is then able to use electronic means to have the mail piece sorted, routed and physically produced at a site closest to the delivery point (or potentially at lowest cost). The last mile is still physical mail delivery to the addressee, but increasingly uses electronic delivery as well. As noted below, customers are offered multi-channel solutions specific for their business activity.

According to ECORYS, hybrid mail solutions allows postal operators to capture mail generation and counter react mail consolidators combining mail generation of large and many smaller (SME) mailers.

In addition hybrid mail fits into a multi-channel delivery service, securing the value added contribution of postal operators in the supply chain and improving the quality of mail services to both producers and consumers of mail. Producers can integrate mail tracking facilities into mail production and delivery, whilst mail consumers can influence the channel by which they receive their messages (physically, electronically, or both).

Finally, hybrid mail is in itself a value added mail service providing opportunities for business development in response to ongoing substitution of physical mail by electronic alternatives.

#### 6.4.2 UPU and hybrid mail<sup>115</sup>

In 2007, the Universal postal Union (UPU) adopted hybrid mail as an optional postal service. The definition of this service is contained in the UPU Letter Post Regulations under RL255 hybrid mail.

##### **UPU definition**

1. Hybrid mail is an electronic-based postal service whereby the sender posts the original message in either a physical or an electronic form, which is then electronically processed and converted into a letter-post item for physical delivery to the addressee. Where national legislation permits, and when the sender or the addressee so requests, the administration effecting delivery may convert the original transmission received to non-physical means (such as fax, e-mail, or SMS) or to multiple means.

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<sup>115</sup> This section benefited from a contribution of Mr. Paul Donohoe, E-Business Programme Manager, Directorate of Operations and Technology - Universal Postal Union, Switzerland.

1.1. Where physical delivery to the addressee is used the information is generally transmitted by electronic means for the longest possible part of the process and physically reproduced at premises as close to the recipient's address as possible.

Source: website UPU, [http://www.upu.int/acts/en/letter\\_post\\_manual.shtml](http://www.upu.int/acts/en/letter_post_manual.shtml)

UPU undertook a survey with the following general conclusions:<sup>116</sup>

- In 2004, 63 UPU member countries offered hybrid mail services;<sup>117</sup>
- Over 30% of NPOs offered hybrid mail services;
- According to reported figures over two billion items of mail were produced worldwide using hybrid mail in 2004; and
- 99% of the world's hybrid mail was produced for local domestic delivery.

Hybrid mail is seen by the UPU as an important new service being launched by postal providers in the emerging and developing countries. It is expected to increase revenues in new economies by helping businesses send invoices and billing mail. The UPU is assisting many countries to understand more of the business benefits of hybrid mail service offerings in developing mail markets.<sup>118</sup> Since the initial projects for hybrid mail, hybrid mail has grown in importance for all postal operators. This is reflected by the fact that web-based fulfilment and mail generation up to the sorting operations have become a main channel for bulk mail customers generating highly standardised mail (see also section 6.4.4).

The UPU has a study group, facilitated by the e-Business Programme, which brings together the postal providers from around the world to discuss and formulate strategies, policies and regulations for market development related to hybrid mail. The UPU is very active in this area and has also established the Postal Technology Centre (PTC). The PTC facilitates collaboration between postal operators and technology providers by managing projects that provide a common infrastructure for standard postal e-business solutions on an international scale. More information on the activities of the PTC is provided in the below.

#### **Activities of the Postal Technology Centre (established by UPU)**

For the PTC the focus of project activities is on investigating means to create new business opportunities, which complement and leverage traditional core postal services. Posts may wish to provide a new range of electronic services either complementing their core business or by using ones that can be leveraged from the Posts' traditional position of trust, reach, integrity, and security.

Traditional mechanisms used to identify and authenticate documents such as the postmark and written signatures on paper are not available for computer-based transactions. Since the introduction of letter mail, the communications market has evolved to offer new, faster and in many instances less expensive means of communications such as facsimile, electronic data interchange and more recently the Internet.

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<sup>116</sup> As countries are member of the UPU, all countries have a designated postal operator for universal postal services, which is in all cases the incumbent (national) postal operator. These data do not include private sector postal operators being a designated postal operator as in the Netherlands (TPG) and Germany (DPWN).

<sup>117</sup> The UPU web site data are over four years old and since that time most postal operators have entered into some form of hybrid mail, mostly in the area of bill statements for large utility companies.

<sup>118</sup> Website UPU.

These new means of communications particularly focused on the explosive growth of the Internet both threaten the erosion of the core letter mail business of the Posts and yet provide the Posts with a unique opportunity for growth. To support the growth of electronic business transactions, a trusted third party is required to assist in overcoming concerns with issues of reliability, integrity and security of the electronic message. Posts are recognized as the natural Trusted Third Party.

Present **e-business projects of PTC** include a global Digital PostMark (DPM) service and Identity Management services. The DPM is a Non-Repudiation service that will interface directly with client software applications such as Microsoft Office and web forms. Identity Management services will provide a global infrastructure for managing digital credentials (i.e. digital certificates).

The Advanced Electronic Services (AES) User Group is one of the three user groups of the Telematics Cooperative established within the UPU to give guidance to electronic mail developments. The AES User Group through the PTC strives to facilitate the development of:

- Collaboration between Posts and technology providers;
- A common infrastructure and standard postal e-Business solutions on an international scale (e.g. a standard core that can be customised for local needs);
- Interoperability of services between postal operators through the development of common standards, policy, specifications and support systems;
- Service solutions and collaborative ventures on a multi-layered basis to support the various tiers of Posts (i.e. established, emerging, potential, dependent);
- An environment that allows all cooperative members to participate either directly or indirectly.

*Source: Website UPU*

### 6.4.3 Impact of hybrid mail for stakeholders

#### *Hybrid mail benefits for the mail generator*

The main benefit for the customers is the reduced time in mail production, resulting in cost savings. With increased hybrid mail applications there is less printing, folding, inserting and enveloping needed bringing cost of mail handling down.

One of the advantages is that mail collection will no longer be needed. Mail collection is defined as a physical process involving picking up the mail at the client or collecting it from letter and post office collection boxes. Saving on physical collection has contributed to a significant decrease in the cost of mail processing.

Skipping collection of mail and upstream transport to the sorting centres and printing mail close to delivery points contributes to the shortening of transit time throughout the supply-chain.

Because of the many joint functions of hybrid mail (printing, pre-sorting, delivery) advantages are made in improving the whole mail processing in one single process.

#### *Hybrid mail benefits for the postal operator*

There are high advantages for the mail provider in hybrid mail development as it increases the ability to aggregate, sort, route and batch multiple jobs from numerous clients. Another advantage is a more simplified process of reporting, more easy

accounting and invoicing of clients. Hybrid mail requires a comprehensive address database which improves the process and adds value because it forces address validation, cleansing, sorting and bar-coding.

Generating the mail directly from its source, the clients database, also makes it easier for the mail operator to process address changes. At the point where more customers are using hybrid mail, the postal operator can review printing and establish printing sites, closer to the delivery area (distributed printing to minimise distribution costs and maximise delivery speed by printing at centres closest to delivery points).

Hybrid mail developments together with automated mail processing also contribute to better archives on work performed.

Last but not least hybrid mail becomes part of a multiple delivery channel concept producing Electronic Output – fax, email, web, WAP, SMS, XML – which becomes a “one-stop” shop for physical and electronic mail.

#### *Requirements of a hybrid mail solution*

One of the main challenges of hybrid mail development is to design a mail process which can be used by all customers, accommodating specific customer needs while at the same time open to all customer applications. The customers also produce different documents, which must be processed through the same system.

Hybrid mail is a process of development in which both customers and postal operators are learning and continuously improving the actual hybrid mail process. It must be able to grow with the business by supporting multiple print production sites with both cut-sheet and continuous-form printing.

From experiences in hybrid mail development it is considered to:

- Enable the lodgement of fully self-describing jobs, where the document and data can vary with each job, along with the ability to just lodge the variable data for a pre-defined job;
- Enable lodgement to be either on an electronic medium such as magnetic tape, or via a secured electronic transmission method including email, Internet, leased line or dial up connection.

One of the most important issues is to guarantee data integrity, through the use of header and trailer records. This ensures the data is received intact and has not been received before. A modern hybrid mail solution also offers alternative payment options including account, pre-paid or credit card.

Last but not least a hybrid mail solution must be flexible and powerful to cater for the Postal Service Provider’s requirements. It must also be extremely user friendly and secure for the mail generator.

#### 6.4.4 Hybrid mail developments in European countries

As some European countries already have advanced hybrid mail solutions and many of them are catching up with such developments, it is to be expected that hybrid mail is here to stay and will be taken further from domestic applications into cross-border applications. Hybrid mail is no longer only a defence strategy to stay in business but has become part of multi-channel mail delivery solutions.

It is also interesting to assess these developments in their cross-border activities. As hybrid mail enables mail generation in another country to that of the delivery country, in this way it facilitates cross-border mail developments by international and global postal operators. Mail generated in one place can be produced in another location. This is true within one country but also between countries as cost of mail production may vary considerably depending on volumes produced. We expect that this development is especially interesting for standardised mail volumes, such as transaction mail (financial statements) and advertising mail with the same content but varying addresses and postal codes.

In this area it is interesting to notice some results from the ECORYS opinion survey customer needs: "Print and mail is the prevailing business model. However, remote printing clearly is of growing importance amongst others because of positive environmental effects. This development only seems to have a loose link to the development of competition..."

While hybrid mail is a supplemental offer from the mainstream national postal operators it is a way of getting into the postal market by new entrants, which may use a different business concept and/or process design than the dominant parties.

For new entrants it is decisive to have a minimum critical mass of mail to start up development of a basic infrastructure. Most of them target niche markets or target bulk mailers, such as telecom companies or utilities to handle their mail in a more sophisticated and more cost effective way.

Table 6.4 presents a number of operators that provide hybrid mail services. The first example is Itella (FI), a NPO which has put a large emphasis on offering multi-channel solutions, including hybrid mail, and offers these solutions in multiple countries. ECORYS believes this is a good illustration of NPOs incorporating electronic services into their service offer, transforming the trend towards electronic communication from a threat to an opportunity. We expect a similar movement by several NPOs in the near future.

However competitors are increasingly involved in hybrid mail solutions. Competitors are able to differentiate from traditional mail processing in their business model and capture bulk mail volumes from large clients, including utility companies and telecommunication providers<sup>119</sup>. This produces high standardised mail volumes and services which can also

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<sup>119</sup> A typical example can be derived from the developments in Bulgaria, where competitors, having obtained a USP license, all have a starting position with a main (mobile) telecommunication provider to develop a (in principle or in the longer term) nationwide delivery system.

be offered to other B2C mailers in advertising mail and transactional mail for large and small and medium enterprises (SMEs).

The second example of hybrid mail services in Table 6.4 is Polipost (BG). Polipost is an example of a new entrant using hybrid mail services to obtain a share of the letter market by targeting large mailers. ECORYS believes this can be considered an exemplary entry model for competitors.<sup>120</sup>

The third example provided in Table 6.4 is UK Mail (UK), a CPO operating in a fully liberalised market. Compared to the situation of Polipost, UK Mail also focuses on hybrid mail services to SMEs. This can be considered a natural development from the initial entry model described above.

Table 6.4 Examples of hybrid mail services

Country	Operator	
Finland	Itella (NPO)	With the expected decline of traditional letters as a result of e-substitution the current increase of electronic B2B invoicing and the expected increase in electronic invoicing in the B2C segment, Itella Corporation has decided to offer these electronic services. B2B electronic invoicing is based mainly on EDI communication solutions, while Itella Corporation offers an electronic mail box called 'NetPost' to consumers, where messages are received electronically replacing paper based messages. Electronic messages are archived and invoices are paid by using on-line bank services. Electronic services are already offered by Itella Corporation in Finland and in eight other countries.
Bulgaria	Polipost SA (CPO)	Polipost was established in 2005 and is one of the smaller competitors of Bulgaria Post. The company has started with producing mail for UNICREDIT bank using hybrid mail services as bank statement information is transferred in encrypted format to the Polipost production site where the mail (the monthly bank statements) is generated (production, printing, enveloping and pre-sorting). Since its existence the company has captured other clients and provides nationwide delivery.
UK	UK Mail (CPO)	According to UK Mail, I-mail is designed for first and second-class post business users that are looking to lower costs, reduce the administrative burden and minimise the environmental impact of their organisation. The service will be available to all sizes and types of businesses and be of specific interest to SMEs, marketing organisations and business and utility services providers. Customers will be able to gain free access to the i-mail service direct from their Internet-enabled laptop or PC. The i-mail print option will send an encrypted copy of a letter or document direct to one of UK Mail's national network of sorting centres where it will be printed, enveloped and transferred into Royal Mail for delivery by their postmen. Furthermore, customers will be able to send their mail requirements as late as 6pm for nationwide delivery the next day.

Sources: Annex II, country sheets for Bulgaria, Finland and the UK.

<sup>120</sup> A condition for this model of entry is that hybrid mail services are not part of the reserved area.

The success of new entrants has pressed national postal operators to do just the same not only to counter competitors but also to protect their mail volumes in the longer term against increased substitution.

The actual implementation in the EU countries can be based on the following framework:

Table 6.5 Phases in hybrid mail development

Phases hybrid mail development			
Phase	Take off phase	Systematic approach phase	Full integration phase
Focus	Business mail and transactional mail including advertising mail.	All mail beyond bulk mail, also smaller volumes from SMEs and single mail items.	Fully integrated multi-channel strategy.
Concept	<p>Set up of (pilot) national hybrid mail centre with focus on large (bulk) mailers, who generate high volumes of standardised transactional mail.</p> <p>Change from pilot into cooperation with large mailers who have already undertaken actions to set up own centres and integrating them into NPO infrastructure and mail-processing.</p>	<p>Standardised hybrid mail solutions for business mail providing monitoring of quality along the supply chain and provision of new and value added postal services.</p> <p>Increased cooperation with large mailers to develop value added postal services for their business activity.</p>	<p>Matured customer focused hybrid mail solutions are an integral part of multi-channel delivery with choice of customers on preferred applications for their business and sector specific value added services.</p> <p>Sector specific solutions increasingly contribute to new mail volumes.</p>

Source: ECORYS

Hereafter we provide some country specific examples of actual hybrid mail developments per country. It clearly shows that in the majority of the countries the volume of hybrid mail services is still small, but showing large, usually double-digit, growth percentages. Also the sector seems to have acknowledged the importance of hybrid mail judging from the investment in hybrid mail services, planned or made.

#### Austria

One trend spanning the entire communications market is ongoing digitalisation. On the one hand, it has resulted in a certain shift in preferences within existing communications channels. On the other hand, it is the driving force underlying the development of completely new forms of communication and communication needs. Other important developments driving the market include the convergence of different communication channels, the combined application of several channels to convey a specific message, and the consolidation of large players in the communications market. Due to the primarily local nature of one-on-one communications, the international integration of these networks is less a decisive factor than the local market know-how.

#### *New products and services*

Within the framework of its newly-developed in-house management of postal service departments for large customers, Austrian Post has also developed the processing of mail items available to its customers. This new service encompasses three main areas: media-independent supply, internal physical and electronic distribution, as well as delivery.

*Source: Annual Report 2006 Austria Post*

#### **Bulgaria**

The revenue in 2006 is still insignificant amounting only to 0.5% of the total company revenue. However, the service is subject to growing interest from an increasing range of customers. In 2006, an 84.8% growth was observed in hybrid mail revenues. In 2007 an annual increase of 5% hybrid mail growth is observed, which is a trend expected to continue in 2008.

#### *New services:*

The Telepost service was implemented in the first quarter of 2006. It is offered in 418 post offices, with more than 125 000 items collected and delivered.

*Source: Annual Report 2006, Bulgaria Post Plc.*

#### **Czech Post**

Like many other international postal authorities, Czech Post is taking advantage of modern technology to improve and expand the services it offers customers through **Postservis**. One such service is using the print centre of the post for commercial use. It is intended to offer services to other companies and to the general public. On this basis the project Hybrid Post (HP) was established. The main aim of the project is to extend traditional postal services (delivering documents to addressees) to include taking documents (or data) directly from the computer of the user (in electronic form) and provide printing, post-processing and distribution services. The first PostServis Centre was created in Ceske Budejovice with PrintSoft, Xerox Print and Comparex.

*Source: Printsoft: Hybrid Post project Česká Pošta*

#### **Denmark**

With the establishment of eCommunication as a product area, Post Danmark has enlarged its core product (letters) from being exclusively a physical letter to including electronic letters. Revenue from eCommunication is still modest, but both **ePosthuset** and **e-Boks** are recording a growing number of customers. The number of recipients registered at e-Boks increased from 270,000 in 2003 to 480,000 at year-end 2004 while the number of registered senders came to 530. The free, safe electronic mailbox on the Internet provided by the associate e-Boks has been integrated with the other electronic solutions offered such as the distribution of specific letters based on the recipients' specific wishes through electronic mail. The e-Box solution provides private customers with a free, safe and personal file which can receive, for example, account statements, annual statements, pay slips and other letters. Letters by e-mail to private customers ensure fast and easy accessibility to letters which do not require the same degree of safety as those in an e-box.

*Source; Annual Report 2004, Post Danmark*

#### **Finland**

##### *Increasing digitisation*

The business environment is becoming digital. Companies are streamlining their operations and improving customer service by making wider use of information technology. Paper documents are being replaced by electronic information flows. B2B communication has already largely migrated online, and

digitisation is now beginning to influence B2C communication. At the same time, the information overload caused by electronic media is increasing the need for personalized messaging. Moreover, online crime and the steady flow of spam are creating demand for secure and managed delivery solutions. The digitisation of information flows is also opening up new business opportunities in intelligent logistics. E-commerce is generating more demand for information logistics, parcel services and direct mail, the last of which is turning into an increasingly important marketing medium. The role of information and communication technology is growing in all sectors. It is being utilised in more diverse ways to create new business.

#### *Turning point for letter mail*

The digitisation of communications and the change in the demand for letter products had a clear impact on Itella Mail Communication's operations in 2006. Digitisation also began to influence B2C communication because delivery volumes of invoices and bank statements started to decline. As a result of this trend the number of 1<sup>st</sup> class letters fell by 7%. The number of subscribed newspapers and magazines remained the same, whereas the volume of direct mail and local free-sheets rose by around 16%. Total delivery volumes remained unchanged but sales revenue was reduced. At the same time higher labour and fuel costs increased delivery costs. Owing to streamlining measures carried out during the year, Itella Mail Communication's profitability remained good.

#### *New multi-channel solutions*

The radical changes in letter mail are also opening up new business opportunities for Finland Post Group. Our three business groups can join forces to develop new, multi-channel communication services and delivery solutions. The Group's solutions are based on its extensive, up-to-date, error-free address information system maintained by Itella Mail Communication in co-operation with Finland's Population Register Centre. In 2006, the business group invested heavily in its address information system, enabling the maintenance not only of physical addresses but also of e-mail and phone number information.

#### *Business communication via multiple channels*

Itella Information Logistics provides multi-channel solutions for invoicing and other transaction-based business communication. The customer delivers the material electronically to Itella Information Logistics. The information is then sent to the recipient in the desired format as paper printouts or by email to Netposti (an electronic mailbox for consumers in Finland), an online bank, and other online services or directly to an ERP system. Our services also cover communication solutions related to customer relationship management, such as Itella AdVoice, a combination of a marketing message and invoice.

*Source: Annual Report Finland Post 2006*

#### **Italy**

Digital and multi-channel services are provided via an integrated e-business platform that supports Business customer operations. In 2006 negotiations were launched to draw up commercial agreements with Italian partners operating in the field of telecommunications, in order to increase access channels for digital products. In this regard, the agreement with the Land Registry was redefined to include online access to Certitel Land Registry Documents aimed at enabling customers to receive the surveys requested via email or Registered Mail.

*Source: Annual Report 2006 Poste Italiane*

### **Slovakia**

In April 2002, Slovenská pošta, a.s. opened a hybrid mail centre (in Bratislava) and the volumes enormously increased since then. In 2002, turnover was 1.2 million SKK (circa € 37,000, while in 2005 turnover was 32.8 million SKK (€ 982,000). In 2006, Slovenská pošta, a.s. started a second centre in Kosice and achieved a turnover of 44.3 million SKK (€ 1.4 million).

*Source: Annex II, country sheets (Slovakia)*

### **Spain**

Correo Híbrido's is specialising in management of companies' mass communications – billing, bank statements, letters, advertising, and others – to achieve cost savings and high quality. Correo Híbrido's business brings the Correos Group substantial synergies. Correo Híbrido's strategy is to offer a wide spectrum of services tailored to each client's needs based on using the latest technologies in the company's processes. Available 24 hours a day, every day of the year, Correo Híbrido's services include secure electronic transactions, document consultancy and design, enveloping and sorting of postal items up to posting at the facilities of Correos, the public postal operator and the party finally responsible for delivering to addresses throughout the country. In addition, Correo Híbrido offers document image digitisation, storage and custody, postal item tracking and reverse hybrid mail solutions. Clients include major banks, insurance companies, government bodies, telecommunications companies and other service providers that generate mass postal volumes. Correo Híbrido's 2006-2008 Business Plan calls for investments of over 1.5 million euro in the three-year period and seeks to increase turnover and gain market share; the plan's targets for 2006 were met satisfactorily. Since the launch of [www.correohibrido.es](http://www.correohibrido.es) as an additional tool for marketing and providing service to clients, users can use it to access a comprehensive range of services and, in particular to view the status of their hybrid mail at all stages of production. The firm further developed some of its more novel features, such as digitisation and automatic printing on the envelope of an integrated advice of receipt. This automatic, quick, secure system, which brings the client major cost savings led to the signing of new contracts with government bodies.

In 2006 Correo Híbrido's strategy garnered considerable growth in all its activities. The number of handled postal items increased 6.8%, printings improved 9.9%, and digitisations, grew 66.0%.

*Source: Annual Reports 2005/2006 Correos Spain*

### **United Kingdom**

On top of liberalisation, the market faces changes including:

- e-substitution – the role of mail is changing as people are increasingly using a wider number of channels for communication including email, mobile telephone calls and texting etc. This offers an opportunity as well as a challenge to keep mail relevant to customers;
- e-fulfilment - the use of the Internet as a sales channel has and continues to increase demand for end-to-end delivery of packets and parcels at affordable prices; and
- advertising/Direct Mail – the use of mass mail advertising campaigns tends to reflect the health of the UK economy. Companies are also developing more innovative, targeted campaigns based on greater sales intelligence and greater integration with other mediums. While these changes present risks and challenges to Royal Mail they also present significant opportunities to work with our customers to deliver the service they need for their companies to succeed.

*Source: Annual Reports Royal Mail Group 2005/2006/2007*

One country showing increasing hybrid mail volumes is Sweden. In the following text Per Nilsen of Strålfors highlights the phases of development in hybrid mail in Sweden.<sup>121</sup>

#### **Hybrid Mail developments in Sweden**

The way I see it, the trigger behind introducing hybrid mail might be different today than it was 10-15 years ago.

##### *Phase 1: Transportation of mail*

When Sweden Post introduced hybrid mail the main trigger was to handle overnight delivery for large volumes that was electronically produced in Kiruna (northern Sweden). At the same time there was also the environmental aspect of less transportation. The environmental aspect was highlighted but I do believe it was more of a side effect to achieving overnight delivery. In this phase Sweden rapidly built 11 print sites (nodes) all over Sweden.

##### *Phase 2: Cost effective print sites*

In the next phase the customers became more demanding when it came to design. The large customers wanted paper and envelopes with their colour logo. The printing technique was still mainly black and white so the colour was added as off set print. This meant that instead of solving overnight delivery it became a logistic problem as well as a production problem. All print sites needed customer specific paper as well as strict instructions to handle customer specific needs.

Having a lot of print sites was not cost effective. Sweden Post gradually lowered the amount of print sites to cut cost.

##### *Phase 3: Open market and Internet*

In a free market price it has to compete with quality. When City Mail's quality gradually got better more customers wanted to try distribution with a cheaper competitor. In the meantime the Internet and Internet banking was growing and the demand to deliver the mail electronically increased. Even though the end user did not really adapt to electronic delivery in the rate the market predicted. To be able to manage the distributions volume the print operator needs to own 100% of the customers outgoing file. If the customer chooses to send the file to WM Data or any other IT provider chances are that they will split the file and handle the electronic volumes as well as split the print file to City Mail and Sweden Post.

The strategy has changed. Sweden Post had to reevaluate why they were into hybrid mail. The main purpose in this phase was to protect distribution and mail volumes. This is done by offering the customer everything they want even if it means that some volumes will disappear. In this phase Sweden Post is slaughtering the holy cows by offering the customers electronic delivery and postage optimisation. In return they will get 100% of the customers file and deliver the physical part with Sweden Post.

Electronic delivery is part of modern hybrid mail. It supports distribution or print. Postage optimisation: most of the cost in sending mail is in the distribution. Postage optimisation is using all tools possible such as saving volumes to create larger batches and by co-sorting.

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<sup>121</sup> Strålfors Svenska AB was acquired by Sweden Post on 22 May 2006 and defines this business areas as: "A specialist in information logistics and graphic production for the corporate market. Offers total solutions for the effective communication of critical business information."

#### *Phase 4: Colour print and multiple operators*

But to really get full cost saving benefits from postage optimisation and sorting, the hybrid mail operator and customer must start from the beginning. Most distribution operators need the mail sorted in a particular order. To achieve this in different types of mail streams such as invoices and let's say salary slips they have to be printed in the same print line. To be able to achieve this final step to reach cost beneficial production the market needs a reliable and cheap colour print. The colour print is almost here! With colour print all volumes can be printed in the same line and thus split and sorted in any way possible. The customer can customise his mail pieces and at the same time use multiple operators.

In this phase the print operators need to learn how to physically sort the volumes into different postal trays or mail bags. This is a challenge that has been quite simple so far but with ever increasing possibilities this might become a crucial and core competence of print operators.

#### *Phase 5: International mail and international print*

In a truly free market, resources and information can run free. If one of these are inhibited the value of the free market will diminish. The purpose of hybrid mail solutions of most postal operators will be to defend the distribution while the print operators want to defend the print by adding extra value to the customer such as e-distribution and postage optimisation instead of lowering the price on print. The one thing that really hinders print operators to utilise the production capability to maximise the cost effectiveness is existing (elaborate) regulation regarding international mail. It is not possible to print in the country that has the lowest print price and send it through international mail with the local business' (the original mail sender) return address: to send a mail item it is required that the mail item has a return address in the country where it sent from.

This is an area where the monopoly still has a firm grip. The international regulations are designed to protect the different postal monopolies.

A deregulated international mail would probably reflect the cost and thus make it possible for a print operator to achieve the lowest combined price for print *and* distribution. In most instances this would mean local print with local distribution hence achieving electronic distribution instead of physical transportation as well as a cost effective allocation of resources.

*Source: Strålfors Svenska AB, contribution from Per Nilsen*

While the development of hybrid mail services seems to show promising growth in many countries, it received a negative blow in Slovakia when the parliament decided to exclude competitors from providing hybrid mail services within the weight range of the reserved area. This case is a clear example of extended monopolies preventing innovation in the value-chain of postal services. See the text box below for more information.

#### **Slovakia**

For other CPOs, like TNT Post the hybrid mail segment is interesting because they were 'allowed' to deliver hybrid mail within the reserved area. In February 2008 the Slovak parliament revised the Postal Act 2001 because this act gave – supposedly – too much room for interpretation of the scope of the reserved area. Parliament feared that the stability of the universal postal service could be threatened by circumvention of the Postal Act 2001 by cherry-picking competitors. The Postal Act 2001 provided room for operators to deliver mail within the reserved area (items up to 50g) when such mail items could be defined as 'hybrid mail'. This 'loophole' was closed in the revision of February 2008 (effective from 1 April 2008), which clarified some stipulations and adds that the reserved area shall not apply to

correspondence and direct mail item if such an item is delivered by way of self delivery and document exchange.

In December 2007 the NRA gave his view on this matter and concluded that that the delivery of hybrid mail is part of the reserved area. TNT Post Slovensko considers the change as opposing the EC directive (article 82, dominant market position) and is prepared to contest this at EC level. In June 2008 the Commission announced that they have requested Slovakia to clarify the recent amendments to its Postal Law because it may infringe the EC Treaty rules on (i) the abuse of dominant market positions (article 82) in conjunction with (ii) the rules requiring Member States to ensure that measures concerning public undertakings and undertakings to which Member States give special or exclusive rights comply with all rules including the antitrust rules (Article 86).

*Source: Annex II, country sheets (Slovakia)*

## 6.5 Development of new and value added postal services (VAS)

One of the main advantages of new technologies is the development of new and value added services or the use of technology for improvement of services. In this section we provide some examples of the trend to supplement traditional mail with new post related services.

Within the context of this chapter we have analysed the main developments of new and value added postal service (VAS), providing EU country examples. A focus on a country does not imply that other countries are not active in this area, on the contrary all increasingly are, but is merely to be seen as an example of specific applied technology.

### **Use of RFID technology (Spain)**

*RFID technology for postal process monitoring*

The Q-RFID Programme applies the latest radiofrequency tracking technologies. RFID enables the company to track mail end-to-end throughout the postal process, which means logistics can be optimised and any detected problems can be corrected. The key purpose of RFID is to use test letters to measure item processing time in intermediate stretches of the logistics chain, as in the SPEX system of mail delivery time quality control. Under SPEX external panellists track about 200,000 mail items a year. Some of these items carry a passive transponder or tag which, when detected by antennas and readers installed at operating centres provide information about the item's location and transit time. The programme follows the new European standards and is already in operation at 16 automated processing sites and a postal processing centre throughout the country, where fixed antennas and readers have been installed. In addition, the company acquired 5,000 new electronic tags for deliveries and 12,000 tags for the 40,000 transport trolleys that circulate around the whole network.

*Annual Reports 2005/2006 Correos Spain*

### **Intelligent Mail(R) barcode (USA)**

The Intelligent Mail(R) barcode is the tool that the United States Postal Service will use to dramatically enhance its service to mailers. The barcode has the capacity to uniquely identify every piece of mail entering the postal system, a first for the Postal Service. This technology will enable unprecedented visibility into the postal network for mailers and for the Postal Service itself, opening the door to a host of new and valuable opportunities for companies to make their mailings even more efficient and effective.

For example, the advanced barcode will enable mailers to track all outbound statements and inbound payments greatly improving customer communications when there is a question about a bill or payment.

Source: [www.pbpostalinfo.com](http://www.pbpostalinfo.com)

The USPS has recently announced "a dramatic realignment" of several of its core functions in a move designed to "position the organisation to capitalise on new competitive opportunities and significantly enhance the vision of its customer outreach".<sup>122</sup> The USPS also stated that the *Intelligent Mail Barcode*, which would become the technical foundation of mail operations – acceptance, payment, verification, processing, diagnostics, routing transportation and delivery – would come on line in May 2009

#### Mail ID (Belgium)

With this new system, large customers using Mail ID can print their mail with a unique barcode identifying their shipments and final addresses. This will contribute to the speed and quality of mail processing, while the postal operators can also monitor proper use of addresses and assist in improvements in addressing. It is expected that these new services will be used from 2007 for 1 out of each 5 shipments.

Source: *website De Post/La Poste*<sup>123</sup>

#### Exhibit Digital Franking (DPWN- Germany)

*The matrix makes it all possible*

The following example shows that because of modern technology it is possible to frank mail via the Internet. "It is Friday evening and outside it is pouring with rain. But the birthday card for Aunt Erika really needs to catch today's mail. Unfortunately you have no stamp. The nearest machine is too far away to walk to without getting wet. However there is an alternative: Thanks to modern technology it is possible to frank mail via the Internet."



Letter with digital franking



A matrix code

In September 2001 Deutsche Post became the first European mail company to do this with its online franking software STAMPIT. This enables customers to buy stamps via the Internet and produce the franking needed for their mail on their PC, whether it is for a letter, package or parcel to then print out on a standard printer.

"STAMPIT is currently running on more than 200,000 PCs" says Bernd Meyer, Senior Product Manager for PC Franking at Deutsche Post. The model for the STAMPIT franking solution was the US, which was the first country to bring PC franking onto the market. The American version was not entirely suited to the German market. Deutsche Post changed the coding and encryption procedure which is patent-

<sup>122</sup> Source Press statements USPS: US Postal Service restructures major functions, July 2008 – Pitney Bowes Postal Insight.

<sup>123</sup> See for example < [http://www.post.be/site/nl/letters/management/masspost/annexe1\\_nl.pdf](http://www.post.be/site/nl/letters/management/masspost/annexe1_nl.pdf)>.

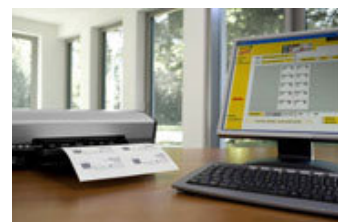
protected. The developers also adapted the franking stamp so that as well as the matrix code it also includes the address of the sender and recipient.

#### *The matrix code - the key is being two-dimensional*

At the heart of STAMPIT is the two-dimensional matrix code - a rectangular box which is divided into four squares and appears to be randomly filled with mini black and white squares. This matrix code appears resplendent on every letter which has been franked using STAMPIT. It contains all the important information about the mailing, such as the type of product, date and postage cost, as well as parts of the recipient's address.

The secret of the matrix code is that it is two-dimensional. The information is encrypted through the horizontal and vertical arrangement of the small black boxes. This enables more information to be put into code. This is in contrast to barcodes which, with just one bar to code data are completely one-dimensional.

Since there is much more room for information the matrix code contains an inbuilt Error Correction Code (ECC). Some of the data are encrypted several times over and in different areas of the matrix. If part of the code is corrupted the information is not necessarily lost. "In principle a matrix code can be internally reproduced if it has not printed out correctly" says Bernd Meyer.



A computer with Internet access and a printer suffice The WEB version works without software

#### *No pirate copies*

There may be people who think "Great - I can print it out once and never pay postage costs again - a matrix code like this can easily be copied." However, the developers of the system have made provisions for this to ensure that this cannot occur. Each matrix code is unique. If the franking were to be copied this would be detected using the information specific to the particular mailing in the matrix code.

The matrix code is also only printed out together with the recipient's address. "In mail centres it is very easy to match up the details on the franking stamp with the recipient's address. What's more, every franked item is given a consecutive number which is checked in the mail centre," explains Bernd Meyer. If this number appears several times something is not quite right. The mail is taken out of the system and checked for possible misuse.

#### *A suitable version for all*

There are now three different types of STAMPIT available to Deutsche Post private and business customers: HOME, BUSINESS and WEB. The first two are types of franking software for installation on a PC.

STAMPIT HOME offers the basic key functions for franking via a PC and the Internet, such as printing separately or in bulk, integration in Office programmes and the import of recipients' addresses from Microsoft® Outlook or Excel, for example. Since STAMPIT BUSINESS is aimed at business customers, with this version company or advertising logos and the barcode for additional mail services, such as registered mail and COD can also be printed.

STAMPIT WEB is not software which can be installed but rather an online service. Customers can use this via [www.stampit.de](http://www.stampit.de) or also as an integrated solution in Internet marketplaces such as eBay.

STAMPIT WEB is aimed at customers who want to use the franking service for individual mailings at any time from any computer with Internet access. In contrast to the software versions STAMPIT WEB is not linked into programmes such as Microsoft® Word or StarOffice.

All these benefits offered by the matrix code process for STAMPIT also make it interesting for other areas. "Other types of franking, such as FRANKIT and DP franking have also since been converted to matrix code technology," explains Bernd Meyer. "The digital franking stamp will play an ever greater role in the future."

#### *Online franking solution conquers Europe*

The concept of digital franking has also taken off in other countries: The Swiss mail service and Royal Mail UK have already applied for STAMPIT licenses. The Estonian mail service has successfully completed a pilot test.

"In principle there is great interest from other mail companies in innovative digital franking solutions, such as PC franking," says Meyer. Currently talks and negotiations are being held with other European mail companies.

Source: DPWN, <[http://www.dpwn.de/dpwn?skin=hi&check=yes&lang=de\\_EN&xmlFile=2008495](http://www.dpwn.de/dpwn?skin=hi&check=yes&lang=de_EN&xmlFile=2008495)>

#### **Information Logistics (Itella – Finland)**

*Solutions for physical and electronic information flows.*

The services of Itella Information Logistics are related to invoicing, supply chain management, data collection, payroll management, archiving, business communication and other information-intensive operations. Itella Information Logistics receives, processes, converts, stores, archives, channels and transmits information on behalf of customers both on paper and electronically.

Source: Annual Report 2005, Itella Finland

#### **The Innovation Lab (United Kingdom)**

We set up the Innovation Lab to provide the people, tools and space our customers and our staff need to unlock business-changing ideas. Whether you're brainstorming a new concept or developing an existing business idea getting out of the office and into the lab enables you to hammer it out and test it from all angles.

Source: Royal Mail Group – 2008

Most examples are taken from national postal operators for different reasons:

- NPOs have the main volumes in standardised mail allowing for large scale restructuring of mail handling processes. Private sector postal operators are more focused on (more personalised) courier and express mail markets or niche markets for specific identity sensible postal deliveries;
- Increasing end-to-end competition by private sector postal operators or competitors of the incumbents usually starts with targeting mail segments and/or design of sector related mail processing;
- Having a mail monopoly with reserved postal services, the NPOs are obliged to report developments in labour productivity, infrastructure and mail processing to the postal regulatory authorities.

As can be inferred from the examples presented above, technological development helps to improve the quality of service offered to customers, ranging from increased traceability of mail items to franking at home using the internet. At the same time these developments provide cost reductions for the postal operators, providing a stronger incentive for implementation than the increase in the quality of services would provide on a stand-

alone basis. In particular, with competitive pressure arising in already or soon-to-be liberalised markets, ECORYS expects an increase in the number of value added services offered and an increase in the use of technology able to offer more value added services.

## 6.6 Environmental and sustainability policies

Most of NPOs adopt some form of sustainable development strategy. As can be expected, there is great variation in terms of plans, detail and concreteness of the strategies across the EU. This section first provides some context, briefly summarizes the most important elements of the strategy across Europe in a systematic way, and concludes with some critical observations.

### 6.6.1 Context

The context in which NPOs operate both has a European and a national angle. The national angle is that more and more customers, voters and the media are focussed on social corporate responsibilities. NPOs respond to these increased pressures. The European context lies in the EU's sustainable development strategy. On 9 March 2007 (at the European Council), leaders of state agreed on a comprehensive package of measures on climate change and energy policy, going above and beyond all previous commitments. Its targets include:<sup>124</sup>

- Reducing greenhouse gas emissions in the EU by 20% by 2020, and by 30% if international agreement is reached;
- Improving energy efficiency by 20% by 2020;
- Raising the share of renewable energy to 20% by 2020;
- Increasing the level of bio-fuels in transport fuel to 10% by 2020.

The EU has its own strategy on sustainable development dealing with most of the Rio challenges covering economic, environmental and social issues.<sup>125</sup> It lists the following seven key challenges:

- climate change and clean energy;
- sustainable transport;
- sustainable consumption and production;
- conservation and management of natural resources;
- public health;
- social inclusion, demography and migration; and
- global poverty.

The Renewed EU Sustainable Development Strategy ('renewed' because its has been updated since it was formulated in 2001) sets out how we can meet our needs without making the quality of life worse for generations to come. Within the framework of such a

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<sup>124</sup> Source: EU publication: a sustainable future in our hands, a guide to the EU's sustainable development strategy, November 2007 -European Commission Secretariat-General.

<sup>125</sup> EU publication: a sustainable future in our hands, a guide to the EU's sustainable development strategy, November 2007 - European Commission Secretariat-General.

policy, postal operators as leading transport companies can make a major contribution by enabling a better use of natural resources. The examples below illustrate some of the main themes which have drawn interest of NPOs. Note that most national postal operators produce annual report supplements on environment policy and implementation since 2004.

## 6.6.2 Information from selected countries

Below we provide information that can be extracted from NPOs' annual reports across the EU. In this section we present it as 'dry information', i.e. without our own critical views, but with an explanation why they are selected.

### *Concrete and verifiable*

Several countries have included concrete and measurable goals that can be verified. We mention Austria and the U.K. as examples, where the former also implemented several technological tools.

#### **Austria**

Austrian Post recognises its corporate responsibility to achieve a more prudent use of natural resources. The company implements measures to relieve the burden on the environment and limit the use of natural resources.

Since the beginning of November 2006, Austrian Post has been testing the use of gas-powered vehicles, whose CO<sub>2</sub> emissions are 10% below those of their diesel-powered counterparts. In addition, the particle content of the waste gases is even 85% lower. Moreover, the vehicles tested emit virtually no nitrogen oxide. Following a one year testing phase, Austrian Post will make a decision in the course of 2007 in regards to the further use of gas-powered vehicles.

In 2006, the company started testing the use of pure vegetable oil as a fuel for lorries. One lorry which was converted for this purpose has already driven 100,000 kilometres without any difficulty.

Austrian Post's vehicle fleet consists of some 8,800 vehicles, of which Austrian Post put close to 1,400 newly purchased vehicles into operation in 2006. They were partly equipped with soot particle filters, thus contributing to a reduction in pollution. In the future, Austrian Post will continue to focus on incorporating eco-friendly features when modernising its vehicle fleet.

In order to avoid the waste of natural resources all printers in the company were converted to a "pay per page" system, so that the individual departments themselves will have to bear the burden of printing costs in the future. Additional savings in energy and natural resource use resulted from the increased use of black and white as well as double-sided printing, along with the optimisation of equipment capacity. Moreover, empty toner cartridges are collected and subsequently refilled.

In the year 2006, Austrian Post initiated a pilot project to establish a special rubbish collection system. The goal is to cut the quantity of residual waste by implementing targeted waste separation and recycling. Waste collection is carried out by the existing logistics network, so that no additional pollution is caused by the transport of the waste materials. The Austrian-wide roll-out of this new system is planned for 2007.

*Source: Annual Report 2006 Austria Post*

### United Kingdom

Royal Mail Group Ltd wants to run businesses that take responsibility for minimising their impact on the environment. Currently the strategy is divided into five key themes:

- Ethical supply chain management;
- Fuel and transport;
- Building energy;
- Waste;
- Water.

Their six environmental targets are:

- A reduction in normalised Group wide fleet fossil fuel usage by 14% from current levels by 2010;
- A reduction in normalised energy consumption for building energy use by 10% from current levels by 2010;
- An increase in the usage of renewable energy to 50% of total building energy use by 2010;
- A reduction in the normalised quantity of containerised solid waste sent to landfill by 25% from current levels by 2010; and
- A reduction in normalised water use by 5% from current levels by 2010.

*Source: Royal Mail Corporate Social Responsibility (CSR) Report 2006.*

### Legal requirements

Some Member States have adopted a legal approach to parts of its strategy.

### Czech Republic

In accordance with the stipulations of the Waste Act, waste management plans were drafted in 2006 and handed over for approval to the respective regional authorities. The plans comply with the binding section of waste management plans of the individual regions and their fulfilment will be continuously checked by a specialised section operating under Czech Post's headquarters. In 2006, the tasks stipulated by law in the area of packaging management (packages introduced into the market), especially the mandatory collection of used packaging and its re-use were secured via hiring an authorised packaging firm.

*Source: Annual Report 2006, Czech Post*

### CO2 reduction targets

Several countries have concrete CO2 targets.

### Finland

Most of Itella's environmental impacts are related to greenhouse gas emissions. In the spring of 2007, Itella pledged to cut its carbon dioxide emissions by 10% by 2012 (compared to 2007). To achieve this target, Itella aims to reduce its vehicles' fuel consumption through transport planning, driver training and alternative fuels, as well as reducing energy consumption in its buildings. Internal environmental performance can also be improved by making recycling and waste management more efficient and through purchase management. Better external environmental performances can be achieved by providing customers with logistics services for the reuse and recycling of products and their packaging, and by creating information logistics services enabling the transmission of data in a non-physical format.

*Source: Annual Report 2007 Itella, Finland*

## France

Sustainable Development: La Poste will implement a number of strategic measures over the period 2005-2007. These include an action plan to cut CO<sub>2</sub> emissions by 5% relative to 2003, and contain energy and water consumption. The Group is also involved in the goods transport task forces formed by local government to advice on urban transport route-planning.

*Annual Report 2004 La Poste, France*

## Sweden

Strategic environmental efforts focused on transportation. According to the Swedish Environmental Protection Board approximately one third of the carbon dioxide emissions in Sweden come from the transportation sector. The overarching aim of Posten's environmental efforts is to reduce greenhouse gas emissions from its transportations. Posten will reach its 2007 target of 175,000 tons by systematically improving the environmental effectiveness of its operations. The emissions reduction achieved during the year despite volume increases in Posten's logistics services is just one result of the ongoing efforts to reach environmental goals.

Less road and air transport combined with increased train transportation results in lower carbon dioxide emissions per transport kilometre. The majority of economy mail is transported via railroad between Posten's large terminals. Posten's rail transport fulfils the Swedish Society for Nature Conservation's requirements for a Good Environmental Choice.

Environmentally conscious drivers use smartest vehicles available. All Posten drivers are trained in fuel-Efficient driving techniques, which contribute to reduced carbon dioxide emissions and lower fuel costs. The same vehicles relative fuel consumption may decrease by as much as 10% after drivers complete the training. Some 500 mail carriers received the training in 2006, which brings the total up to more than 8,500 environmentally trained drivers. The use of vehicles with better environmental performance is increasing throughout the entire Posten group. Posten has over 5,000 mail delivery vehicles that fulfil the 2005 environmental class requirements, and uses around 2,100 electric motor vehicles to serve suburban communities. Posten has environmental requirements for all procured transportation services.

*Source: Annual Report 2006, Sweden Post*

## Norway

Norway Post, together with eight other European Postal Companies, has committed to decrease CO<sub>2</sub> emissions by 10% during the next five years. The environmental programme will mainly be oriented towards environmental improvements for transport, buildings, machines, eco-friendly products, increased use of renewable energy and fuel with low CO<sub>2</sub> emissions. The agreement is in accordance with the Kyoto-agreement and reduction goals passed by the EU.

*Source: Annual Report 2006/2007 Norway Post*

## Strategic partnerships

Several countries have established strategic partnerships. Germany and the Netherlands also added a number of technological tools.

## Germany

On December 15, 2005, Deutsche Post signed a far-reaching partnership agreement with the United Nations Development Programme (UNDP) and the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). One of the goals of the planned partnership between the UN bodies and Deutsche Post World Net is the swift organisation of logistic support when disaster strikes.

GOGREEN is the brand name of the range of low-carbon and carbon-neutral shipping products and services - a world first. With GOGREEN, shipping is either carried out on the growing fleet of alternative fuel and advanced technology vehicles, or transport-related emissions of carbon dioxide are offset by a combination of internal and external initiatives in accordance with the Kyoto Protocol's intentions for carbon trading. Business and retail customers in Europe can today choose from a variety of carbon-neutral and low-carbon shipping options. The GOGREEN services will be expanded to other countries and to additional products in the near future.

Carbon Management Deutsche Post World Net Carbon Management is responsible for managing the carbon credits for GOGREEN shipping products and services. Its primary responsibilities are: accounting for carbon credits; monitoring the GOGREEN production scheme; ensuring that the supply and demand of carbon credits are matched; and documenting that used credits are retired. The Deutsche Post World Net Carbon Management programme is a voluntary carbon accounting and emissions reduction programme operated in accordance with the Kyoto Protocol's goal of reducing global greenhouse gas emissions. The GOGREEN programme and the Deutsche Post World Net Carbon Management's processes and emissions-calculations methodology were successfully verified in 2006 and will undergo annual re-verification by a third-party verifier, SGS.

The objective of Deutsche Post World Net Carbon Management is to have a balanced set of initiatives from different geographical areas and from different types of carbon-reduction projects. The aim is to increase the proportion of internal projects as we create a less carbon-intensive transport and logistics network. Important criteria for credible carbon-reduction projects such as additionality, reporting robustness, carbon calculation methodology and avoidance of double counting are checked annually by independent third parties.

*Source: Annual report 2006, DPWN-Germany*

### **Netherlands**

In December 2002, the United Nations World Food Programme (WFP) and TNT launched a partnership aimed at a single common goal: fighting world hunger. Annually, WFP provides food aid to an average of 90 million people including 56 million hungry children, in more than 80 countries.

In 2005, TNT entered the Dow Jones Sustainability Index as leader of the industrial transportation industry. In 2006 TNT has retained our industry leadership. TNT asks various organisations to assess our progress. PricewaterhouseCoopers provides external verification of the reporting data. Agencies and institutes like Accountability, the VBDO (Dutch Association of Investors for Sustainable Development) and Dutch Sustainability Research benchmark the performance against other companies. All provide feedback as to how we can improve performance.

*Source: Annual Report 2006, Corporate Social Responsibility report 2006, TNT, the Netherlands*

TNT's Express division is introducing a new packaging line designed, stated the Netherlands-based global company to "better protect shipments from damage, promote the TNT brand across the globe and support the company's environmental effort". TNT, which produces 50m packaging items per year, is first deploying its new parcels and satchels in Europe and the Middle East. The new envelopes are available worldwide. Sales staff has received special training to give customers packaging advice. TNT also provides a DVD to help customers choose the right packing. TNT claimed the new packaging line offered customers more choice, ease-of-use and protection against damage. For example, continued

TNT, the new BubblePak (410mm x330 mm) had an inner bubble lining, making it quicker to send breakable goods. TubePak was designed for posters and MedPaks for medical samples.

*Source: TNT News -31 March 2008*

### 6.6.3 Concluding

In conclusion it can be said that NPOs as leading enterprises in their respective home markets are increasingly claiming corporate responsibility through developing and implementing corporate social responsibility strategies and/or environmental policies. NPOs report implementation measures which reduce the impact of their operations on the environment. Postal operators appear in particular to focus on:

- Increased automated sorting limiting mail transport in mail collection and transport between sorting centres;
- Improved transport fleet, with cleaner vans using less fuel and producing less waste;
- Restructuring of the sorting structure to capture more automated mail processing while at the same time limiting physical mail exchange through development of hybrid mail solutions;
- Use of packaging materials which are more environment friendly and can be re-used;
- Reducing use of energy in postal premises within the framework of a waste management policy.

ECORYS observes that not all environmental measures announced by NPOs could be considered as charitable actions. Most of the environmental measures that are announced by NPOs can also be related to increasing profitability. An example can be found in the reduction of carbon dioxide. Nearly all NPOs mention reduction of carbon dioxide as one of their main environmental objectives. For most of the NPOs, one of the major measures to achieve this goal is to train drivers in fuel-efficient driving techniques. In this case reduction of carbon dioxide equals reduction of fuel consumption and thus in a reduction of fuel costs. Moreover, while admirable and verifiable, it is not always clear what the sanctions are when targets are not realized. Finally, ECORYS observes that most of the environmental policies have long-term goals and might be sometimes interpreted as window-dressing. Short term goals are less well defined, while reporting on environmental results achieved is limited in general.

## 6.7 Summary of main findings and conclusion

Analysing the data on technological developments, ECORYS observes that there are two sources of technological development. The first one is an autonomous development driven by innovation and possibilities to reduce costs. Hence, in the majority of countries the application of technology follows the same general (longer term) trend, with the exception of certain smaller countries with lower mail volumes.

The second source of technological development is liberalisation. Postal markets that experience competitive pressures often develop technology at a faster pace than markets where the competitive pressures are smaller.

Ongoing market liberalisation has urged postal operators to increase efficiency of mail processing resulting in cost control and QoS improvements. This has also given rise to major restructuring of mail handling and sorting operations. Although some countries have reviewed the mail infrastructure and sorting processes in an early phase (DE, NL), most countries have developed their plans in the period after 2004, anticipating planned full market opening (at the time in 2009) and the reduction of the reserved area to mail items below 50 grams. Implementation of major corporate restructuring programmes for mail processing is currently underway (in the period 2004–2010 in most countries). Increasingly technology is applied that enables deeper sorting up to the delivery walk and new (value added) products and services.

The investments in mail processing have already led to improved QoS performance for all postal operators involved. With new nationwide networks developed by CPOs, the topic of interconnection in the postal sector becomes increasingly relevant for longer term solutions. Interconnection in the postal sector includes agreements on standards for mail processing, maintaining address databases and mail exchange between NPOs and CPOs. The interconnection in the postal sector will require attention from NRAs in the near future.

Restructuring of mail handling processes has often resulted in or was induced by the development of new products and concepts. Physical delivery of mail will remain to be one of the main options, but will increasingly be supplemented by multi-channel delivery with tailor-made solutions in segmented postal markets. An example of this development is the increasing development of hybrid mail services by most of the postal operators, which generate a lot of innovation in specific postal products and services for different business sectors. The NPOs in the EU are in different phases of development, but all report increasing hybrid mail volumes with the exception of some countries that lack the proper economics of scale for such development. Countries such as Finland and Sweden go a step further and are entering adjacent markets through developing IT services for their customers.

Developments in hybrid mail cross boundaries in telecommunications, postal services and advertising and the multi-media market. Although hybrid mail services are currently focused on domestic mail markets, it is to be expected that cross-border mail will be increasingly affected. Correspondingly, bulk mailers can generate mail in each country balancing the cost of production and terminal dues.

Liberalisation of the mail market has increased attention for value added services touching all fields from generating mailings and mail processing to transport and delivery options.

The main postal operators show specific interest and responsibility for environmental policies, with a main focus on transport and use of natural resources and materials, but increasingly covering other fields (innovation in transport, mail delivery, etc.). The increasing environmental awareness of customers may eventually have a negative effect on mail volume developments although this effect cannot yet be observed in practice.



## 7 Developments in employment, wages and working conditions

### 7.1 Introduction

Throughout Europe, many people are employed in the postal sector and postal sector reform potentially affects the lives of many employees and their families. Developments in the regulatory framework, market demand, technological developments and the choices postal operators make in their business models and application of technology are important drivers for postal employment, both in quantitative and qualitative terms, wage levels and working conditions. What are the main developments and trends over the last decade and which key issues have become important during the last few years? How is postal sector liberalisation likely to impact on employment, productivity and employment conditions? This chapter describes and analyses the evolution of employment, wages and working conditions in the European postal sector, illustrated by case studies. We define employment in the sector as:

#### **Definition of postal sector employment**

Total direct and indirect/induced employment<sup>126</sup> within national postal operators (NPOs), competitor postal operators (CPOs) and other postal agents (OPAs).<sup>127</sup>

We start in section 7.2 with a brief review on how the postal directives pay attention to employment and social aspects. The developments in employment levels in the EU and individual Member States are analysed in section 7.3. Section 7.4 discusses the current situation and trends with regard to labour contracts, wages and working conditions, the role of social partners and investments in training. In section 7.5 the likely impact of liberalisation on employment, productivity and working conditions is discussed. Finally, we present in section 7.6 a summary of our main findings and conclusions.

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<sup>126</sup> Direct employment concerns the number of people who are employed in postal services only.

Indirect employment concerns the number of people employed in services related to or dependent on the postal sector (i.e. direct marketing, letter print and production, mail order fulfilment, transport and vehicles).

Induced employment refers to the macro-economic employment effects of postal services.

<sup>127</sup> OPAs are organisations that carry out one or more of the activities in the postal value chain without having overall responsibility for the entire postal value chain (PLS RAMBOLL 2002).

## 7.2 Employment and social aspects in the postal directives

In Directive 2002/39/EC and Directive 2008/6/EC attention is given to employment and social aspects. As compared to Directive 2002/39/EC, Directive 2008/6/EC gives more explicit attention to employment and social aspects, as can be seen in Table 7.1.

In particular the Directive 2008/6/EC explicitly states that this should not lead to unfair competition and that labour law and social security legislation should be in conformity with Community law.<sup>128</sup>

Table 7.1 Reference to employment and social security aspects in Directive 2002/39/EC and Directive 2008/6/EC

Directive 2002/39/EC	Directive 2008/6/EC
The measures [...] should be designed in such a way that the social tasks of the Community pursuant to Article 2 of the Treaty, namely, a high level of employment and social protection, are also achieved as objectives (recital 5).	<p>The measures [...] should be designed in such a way that the social task of the Community pursuant to Article 2 of the Treaty, namely, to promote throughout the Community [...] a high level of employment and of social protection [...] are achieved as objectives (recital 6).</p> <p>Complete market opening [...] will further contribute to maintaining sustainable and quality employment within universal service providers as well as facilitate the creation of new jobs in other operators, new entrants and associated economic sectors. This Directive is without prejudice to the competence of Member States to regulate employment conditions in the postal services sector, which should not, however, lead to unfair competition. Social considerations should be taken into due account when preparing the opening up of the postal market (recital 16).</p>
Any reduction in staff levels among the NPOs due to market opening are likely to be offset by the resulting growth in employment among private operators and new market entrants (recital 13).	<p>This Directive does not affect labour law, [...], which Member States apply in accordance with national law which is in conformity with Community law. Equally, this Directive does not affect the social security legislation of the Member States. Where necessary, Member States may reflect working conditions in their authorisation procedures in line with the principles of transparency and proportionality (recital 53).</p> <p>Essential requirements: general non-economic reasons which can induce a Member State to impose conditions on the supply of postal services. These reasons are [...] respect for the terms and conditions of employment, social security schemes, laid down by law, regulation or administrative provision and/or by collective agreement negotiated between national social partners in accordance with Community and national law [...] (Article 2, point 19).</p>

<sup>128</sup> Explicit legal basis are Articles 136 and 137 of the EC Treaty.

Full market opening in line with the goals of the Lisbon agenda is expected to foster the creation of new jobs in new postal companies; and indirectly in the industries dependent on the postal sector. However, Internal Market and Services Commissioner McCreevy said that “the Directive means little if it is not properly transposed in national law and rigorously implemented on the ground.” The Commissioner also expressed his concerns on the protectionist tendencies and unfair competition that are contrary to the spirit of EU postal reform on which the EU has engaged in for over 15 years. One of these tendencies is the establishment of relatively high minimum wages for postal operators, which may create a disproportionate barrier to entry, for example in Germany.<sup>129</sup>

## 7.3 Development of employment

### 7.3.1 Introduction

In this section we describe and analyse the evolution of EU postal sector employment. It should be noted that the different data sources that we have used for analysing the development of EU postal sector employment produce somewhat different figures, which is further elaborated upon in this section.

First, we focus on the evolution of employment levels in the EU postal sector distinguishing between overall NPO and CPO employment. We describe the evolution of employment levels in the NPOs (including a breakdown by market segment) and the share and evolution of civil servants in total NPO employment. Also, we present the contribution of postal sector employment to total EU employment. This is followed by an overview and interpretation of productivity levels in NPOs and the entire postal sector.

### 7.3.2 Evolution of postal employment in the EU

The last comprehensive analysis of employment developments in the EU postal sector has been undertaken by PLS RAMBOLL (2002), which focused on the 15 countries that constituted the EU at that time.

In Table 7.2 data for postal employment<sup>130</sup> (direct, indirect and induced)<sup>131</sup> are presented including NPOs, CPOs and OPAs. In 2000, direct employment amounted to almost 1.6 million FTE. Total employment amounted to 5.3 million FTE in 2000, which is a 4.0% growth compared to 1995.

<sup>129</sup> IP/08/323, Publication of Postal Directive marks start for real market opening. Available at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/323&format=HTML&aged=0&language=EN>. We will address this issue at length in section 8.4.

<sup>130</sup> Postal employment is defined as employment in postal services, no matter which type of company provides it.

<sup>131</sup> Direct employment concerns the number of people who are employed in postal services only. Indirect employment concerns the number of people employed in services related to or dependent on the postal sector (i.e. direct marketing, letter print and production, mail order fulfilment, transport and vehicles). Induced employment refers to the macro-economic employment effects of postal services.

Table 7.2 Total EU-15 direct, indirect and induced postal employment, 1995 and 2000 (FTE)

	1995	2000	% change
Direct employment	1,563,110	1,575,947	0.8%
Indirect employment	1,560,047	1,736,233	11.29%
Induced employment	1,969,519	1,985,693	0.8%
Total	5,092,676	5,297,873	4.0%

Source: PLS RAMBOLL (2002, p.7).

ECORYS estimates EU-27 direct employment (in headcount) at 1.60 million in 2006 (see Table 7.3). This is considered a minimum figure as for a few Member States CPO data are missing. Sector employment has slightly decreased by 0.4% in comparison to 2005. A breakdown of this table by European country is provided in Table 7.5 (section 7.3.3).

Table 7.3 EU-27 direct employment in 2005 and 2006 (headcount)

	2005	2006
NPO	1,402,866	1,380,290
CPO	> 202,505	> 219,092
Total EU-27	> 1,605,371	> 1,599,295

Source: Mainly Annex II, country sheets, Universal Postal Union (UPU) and ECORYS estimates for AT (CPO 2005, 2006), CY (CPO 2006), CZ (CPO 2005, 2006), DK (NPO 2005, 2006; CPO 2005), EE (CPO 2005), FR (CPO 2005), GR (CPO 2005), IT (CPO 205, 2006), LT (CPO 2006), MT (CPO 2008), SI (CPO 2005) and UK (CPO 2005, 2006).

Note: Data are missing for BG (CPO 2005, 2006), HU (CPO 2005, 2006) and LV (CPO 2005, 2006).

### 7.3.3 Evolution of employment levels in NPOs and CPOs

#### *Evolution of employment levels in NPOs*

ECORYS estimates that NPOs in EU-27 employed about 1.38 million people<sup>132</sup> in 2006, as shown in Table 7.3. The evolution of direct NPO employment in the period between 1997 and 2006 is presented in Table 7.4 and Figure 7.1. It can be observed that NPO employment has declined by 7.7% since 1997. Also, it appears that the decline of 2.2% in the second part of this ten-year period (2002-2006) was lower than the 4.9% decline in the first period (1997-2001).

In Table 7.4, a distinction is made between NPO employment in the old EU-15 Member States<sup>133</sup> and the new EU-12 Member States.<sup>134</sup> The figure for the EU-15 Member States amounted to 1.1m (headcount). In comparison, PLS Ramboll (2002) estimated NPO employment at 1.2m (FTE) in 2000. The difference can largely be explained by the different data sources used. The ECORYS figures in Table 7.4 for the period 1997-2004

<sup>132</sup> Defined as all employees of the NPO dealing with postal services.

<sup>133</sup> AT, BE, DE, DK, ES, FI, FR, GR, IE, IT, LU, NL, PT, SE and UK.

<sup>134</sup> BG, CY, CZ, EE, HU, LI, LT, MT, PO, RO, SI, and SK.

are based on UPU data<sup>135</sup> while the PLS RAMBOLL figure is derived from questionnaire-based data collection.

Table 7.4 Evolution of EU-27 NPO employment (headcount and percentage change), 1997-2006

	1997 (headcount)	2001 (headcount)	1997- 2001 (% change)	2002 (headcount)	2006 (headcount)	2002- 2006 (% change)	1997-2006 (% change)
EU-27	1,495,140	1,421,834	-4.9%	1,411,748	1,380,290	-2.2%	-7.7%
EU-15 (old MS)	1,202,841	1,139,877	-5.2%	1,128,432	1,114,971	-1.2%	-7.3%
EU-12 (new MS)	292,299	281,957	-3.5%	283,316	265,319	-6.4%	-9.2%

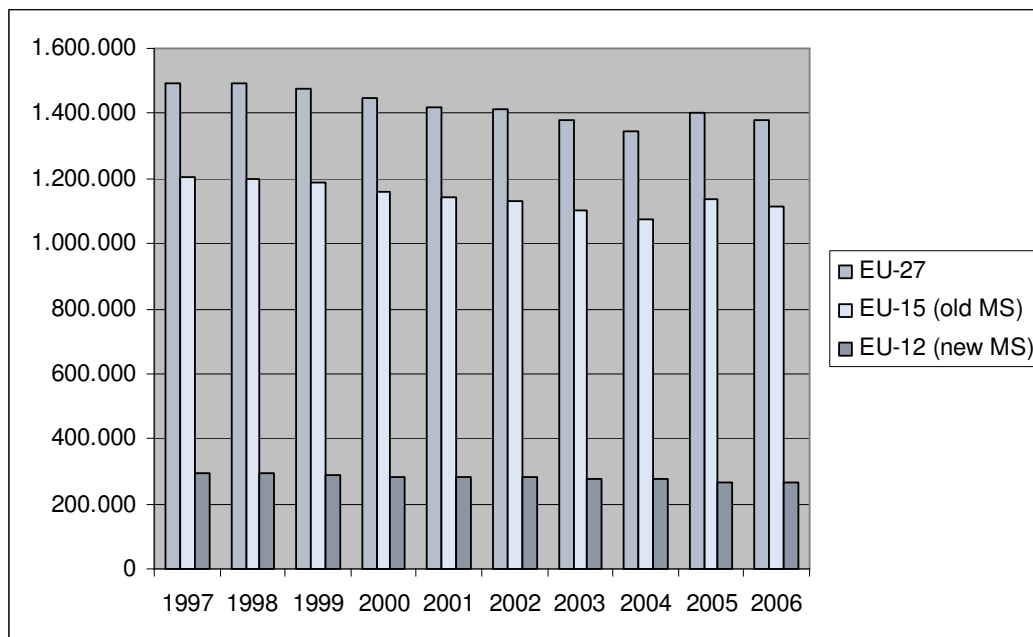
Source: Universal Postal Union (UPU) (1997-2004), Annex II country sheets (2005 and 2006).

The overall decline of 7.7% between 1997 and 2001 is the result of the application of technology and corporate restructuring (cf. the discussion in Chapter 6, section 6.2). Most of the NPO staff are employed in the EU-15 Member States (mainly caused by NPO employment in France, Germany, Italy and the UK), representing about 80% of total NPO employment.

As can be seen in Table 7.4 the decline in NPO staff was somewhat larger in the new Member States (EU-12) than in the old Member States (EU-15), namely 6.4% between 2002 and 2006 and 3.5% between 1997 and 2001, as compared to 1.2% and 5.2%, respectively.

<sup>135</sup> The Universal Postal Union (UPU) has collected data on the total number of people employed in NPOs; the data concerns actual employed, both full-time and part-time – that is, a headcount of the average annual number of those employed in the entire USP.

Figure 7.1 Evolution of NPO staff (headcount) in EU-27 (including EU-15 and EU-12), 1997-2006

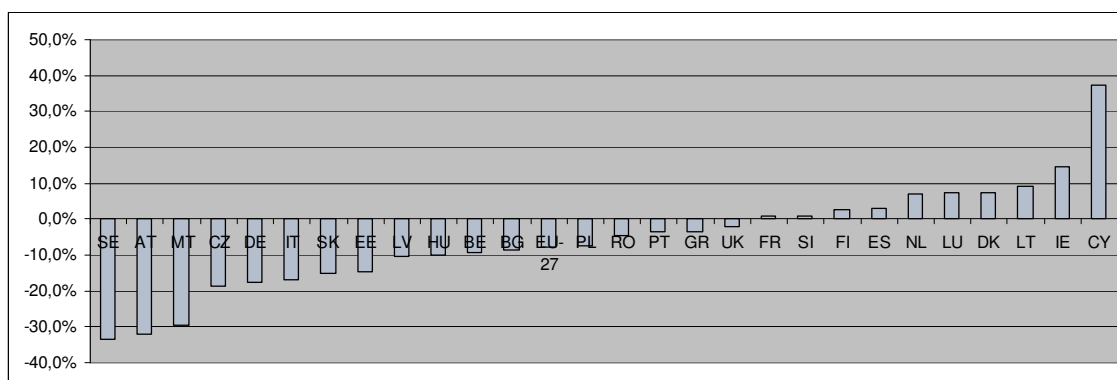


Source: Universal Postal Union (UPU) 1997-2004, Annex II country sheets 2005-2006.

Note: UPU data are not available for: BE (2006), DE (1997-2006), DK (2002), FI (2001), IT (2000), LT (2005), SI (1997-2001) and SE (1997-2004). For these countries, NPO staff data are estimated by ECORYS based on NPO annual reports and the ECORYS questionnaire. The figures for Germany are based on data from Bundesnetzagentur on letter mail as UPU data include all worldwide activities of Deutsche Post World Net.

In Figure 7.2 the development of NPO employment is shown by Member State for the period 1997-2006. The majority of the EU-15 and EU-12 Member States show a decline in NPO staff levels ranging from 33.5% in Sweden to 2.2% in the United Kingdom. Ten Member States show rising NPO staff levels ranging from 0.9% in France to a considerable increase of 37.2% in Cyprus. The latter can be explained by the fact the NPO in Cyprus employs a lot of seasonal workers, around 1,200 people who work on average a quarter FTE per year.

Figure 7.2 Development of NPO staff (headcount) in EU-27 (in % change), 1997-2006



Source: Universal Postal Union (UPU) 1997-2004, ECORYS questionnaire results 2005-2006.

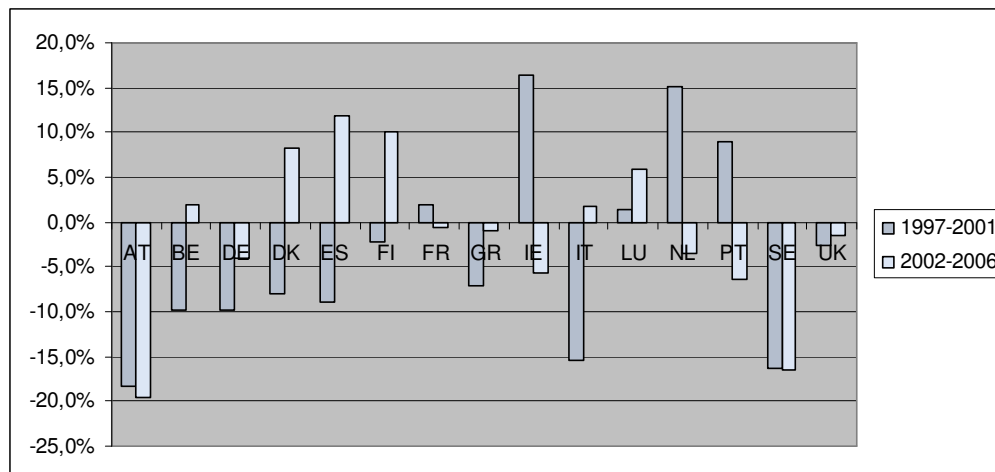
Note: UPU data are not available for: BE (2006), DE (1997-2006), DK (2002), FI (2001), IT (2000), LT (2005), SI (1997-2001) and SE (1997-2004). For these countries, NPO staff data are estimated by ECORYS based on

NPO annual reports and the ECORYS questionnaire. The figures for Germany are based on data from Bundesnetzagentur on letter mail as UPU data include all worldwide activities of Deutsche Post World Net.

The changes in NPO staff levels in the Member States show considerable differences between the period 1997-2001 and 2002-2006. As in Table 7.4 we provide a breakdown for the periods 1997-2001 and 2002-2006 distinguishing between the old, EU-15 Member States (Figure 7.3) and the new, EU-12 (Figure 7.4).

From both Figure 7.3 and 7.4 it can be observed that NPO staff levels have been fluctuating. Employment trends differ from Member State to Member State reflecting the different developments in business development, restructuring and modernisation (e.g. automation, rationalisation) within NPOs. For instance, the growth in staff numbers in Finland was a result from company acquisitions within logistics and the acquisition of the regional transport services business.

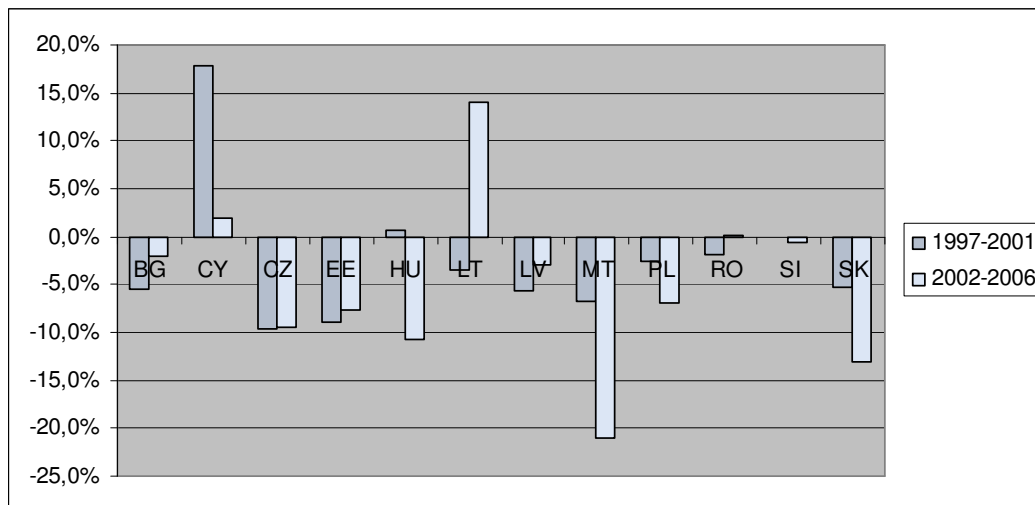
Figure 7.3 Development of NPO staff (headcount) in EU-15 (in % change), 1997-2001 and 2002-2006



Source: Universal Postal Union (UPU) 1997-2004, Annex II country sheets 2005-2006.

Note: UPU data are not available for: BE (2006), DE (1997-2006), DK (2002), FI (2001), IT (2000) and SE (1997-2004). For these countries, NPO staff data are estimated by ECORYS based on NPO annual reports and the ECORYS questionnaire. The figures for Germany are based on data from Bundesnetzagentur on letter mail as UPU data include all worldwide activities of Deutsche Post World Net.

Figure 7.4 Development of NPO staff (headcount) in EU-12 (in % change), 1997-2001 and 2002-2006



Source: Universal Postal Union (UPU) 1997-2004, Annex II country sheets 2005-2006

Note: UPU data are not available for: LT (2005) and SI (1997-2001). For these countries, NPO staff data are estimated by ECORYS based on NPO annual reports and the ECORYS questionnaire.

#### *Evolution of employment levels in CPOs*

In Table 7.5 employment figures are presented for the NPOs and where available the CPOs in the 29 countries under review in this study. In addition it is indicated in which part of the postal market most CPO employment applies to. CPO employment amounted to at least 219,000 people in 2006, which would be an estimated increase of 8.3% compared to the previous year. Nearly 70% of CPO staff work in the German, Dutch, French or Polish market. It can also be observed from Table 7.5 that competition causes a transfer of employment from NPOs to CPOs in addition to the (stronger) reduction in employment within NPOs as a result of corporate restructuring to improve efficiency. A decrease in NPO employment is fully (e.g. in DE, ES, FR, NL) or partially (BE, SE) offset by an increase in CPO employment.

Table 7.5 EU-27 NPO and CPO employment (in headcount), 2005 and 2006

	NPO 2005 (headcount)	CPO 2005 (headcount)	Total 2005	NPO 2006 (headcount)	CPO 2006 (headcount)	Total 2006	Comment CPO employment
AT	26,125	3,500	29,625	25,466	3,500	28,966	Mainly courier services, newspapers and unaddressed mail
BE	40,286	1,854	42,140	39,373	2,604	41,977	Mainly unaddressed mail, parcels and local addressed mail
BG	14,853	-	14,853	14,768	-	14,768	
CY	1,792	400	2,192	1,813	400	2,213	Mainly courier services
CZ	38,290	14,000	52,290	37,200	14,000	51,200	Addressed, unaddressed and newspapers/magazines
DE	148,840	46,175	195,015	148,595	48,411	196,906	Addressed items up to 1kg

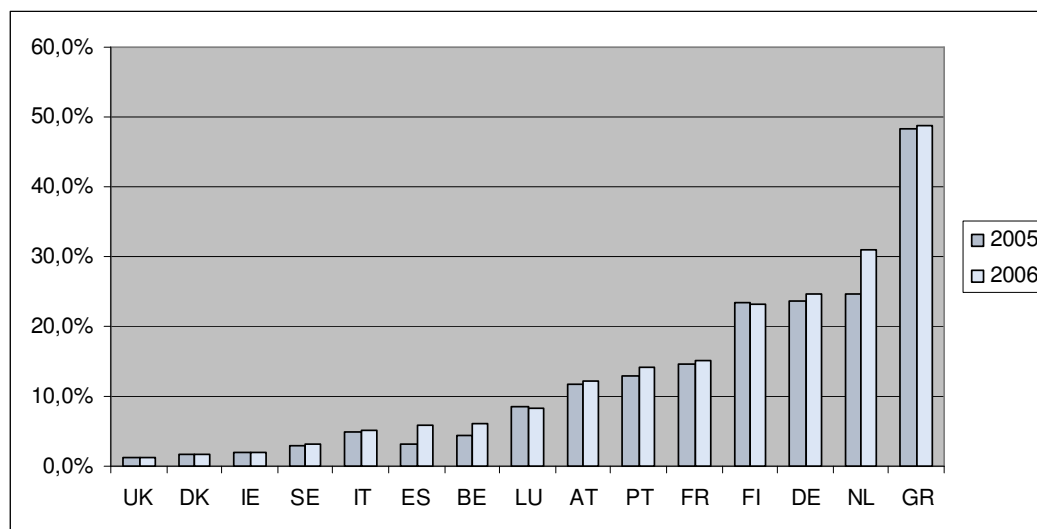
	NPO 2005 (headcount)	CPO 2005 (headcount)	Total 2005	NPO 2006 (headcount)	CPO 2006 (headcount)	Total 2006	Comment CPO employment
DK	27,973	500	28,473	27,936	500	28,436	Mainly addressed mail
EE	3,986	141	41,27	4,008	141	4,149	Mainly addressed (direct) mail
ES	64,909	2,137	67,046	67,089	4,200	71,289	Mainly addressed mail
FI	24,408	7,500	31,908	24,806	7,500	32,306	Mainly unaddressed mail
FR	303,041	51,622	329,582	289,632	51,622	341,254	Mainly unaddressed mail
GR	11,471	10,737	22,208	11,237	10,737	21,974	Mainly courier services
HU	38,788	-	38,788	38,686	-	38,788	
IE	9,552	180	9,732	9,516	200	9,716	Parcel mail and express
IT	152,598	8,000	160,598	150,694	8,000	158,694	Mainly express, parcels and logistics
LT	8,260	967	9,227	8,168	967	9,135	Mainly express and courier services
LU	1,746	165	1,911	1,897	171	2,068	Mainly addressed direct mail, parcels, express
LV	7,610	-	7,610	7,884	-	7,610	
MT	640	138	778	634	138	772	Mainly bulk registered mail and courier services
NL	64,035	20,972	85,007	61,269	27,376	88,645	Addressed mail
PL	94,033	14,798	108,831	95,016	17,964	112,980	Mainly courier services
PT	15,611	2,334	17,945	15,400	2,559	17,959	No data available on data by segment
RO	36,281	6,835	43,116	34,935	8,364	43,299	Mainly courier services
SE	33,520	1,050	34,570	33,395	1,100	34,495	Mainly industrial mail or pre-sorted bulk mail to largest cities
SI	5,877	400	6,277	6,057	438	6,495	Mainly courier, express and parcel services
SK	16,185	5,400	21,585	16,150	5,500	21,650	Mainly unaddressed mail
UK	212,156	2,700	214,856	208,666	2,700	211,366	Mainly upstream activities
EU-27	1,402,866	202,205	1,605,371	1,380,290	219,092	1,599,295	
IS	1,184	-		1,058	-		Mainly unaddressed mail
NO	23,926	-		24,478	-		
All 29 countries	1,427,976	202,205	1,630,481	1,405,726	219,092	1,599,295	

Sources: Mainly Annex II, country sheets; Universal Postal Union (UPU), figures in *italics* are minimum ECORYS estimates. BG - NPO 2005: UPU; CY - NPO 2005, 2006: UPU, CPO 2005: Eurofound; CZ - CPO 2006: Mediaservis (8,000 employees) and TNT Post (6,000 employees); DE - Bundesnetzagentur; ES - NPO 2005: UPU, GR - NPO 2005: UPU; ES - CPO 2005, 2006 (Unipost); FI - CPO 2005, 2006: Suomen Suoramainonta Oy; FR - CPO 2005: Adrexo (estimate for Mediapost), CPO 2006: Adrexo and Mediapost; IT - CPO 2005, 2006 (TNT); MT - CPO 2006: European Foundation for the Improvement of Living and Working Conditions; NL - CPO 2005: reported numbers of Sandd and Selekt Mail (including 19,500 deliverers, data for deliverers of Netwerk-VSP are not available), CPO 2006: reported numbers of Sandd, Selekt Mail and Netwerk-VSP (including 1,600 deliverers).

Note: CPO data not available for BG (2005, 2006), HU (2005, 2006), LV (2005, 2006), IS (2005, 2006), NO (2005, 2006). CY, FR, LU, NL, PL, SE and UK are minimum figures for CPOs; BE - CPO 2005 and 2006: measured in FTE; FR - NPO 2005 and 2006: consolidated figures (including financial activities); IE - CPO 2005 and 2006: measured in FTE (Nightline). Figures differ to some extent from data provided by the Ministry (Sector analysis postal market 2008); and IS - NPO 2006 in FTE.

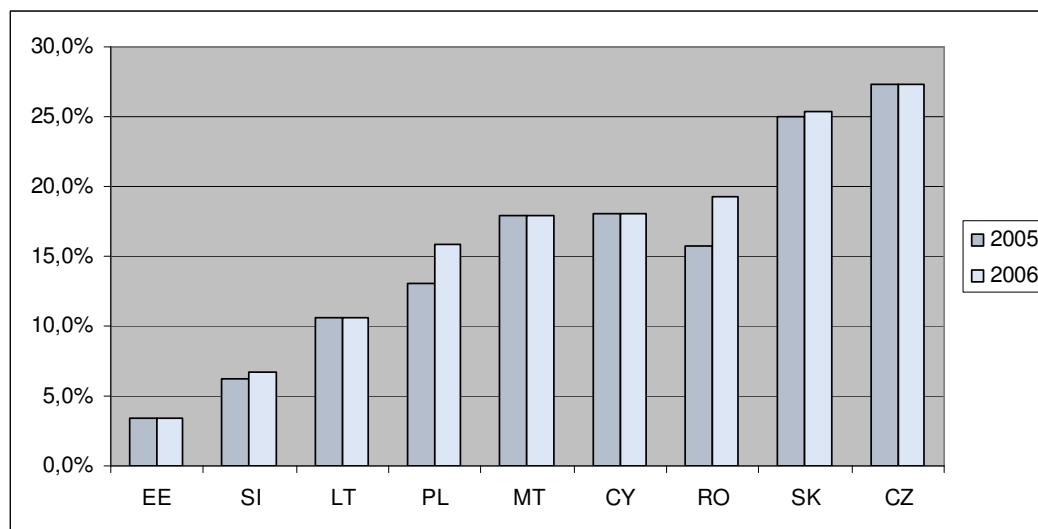
To illustrate the figures in Table 7.5, we present in Figure 7.5 for EU-15 and in Figure 7.6 for EU-12 the employment in CPOs as a share of total direct postal employment. It can be observed from Figure 7.5 that for most of the EU-15 Member States the share of CPO employment has increased, illustrating the already mentioned transfer of employment from NPOs to CPOs caused by employment. Greece (49%), the Netherlands (31%), Germany (25%) and Finland (23%) have the largest share of CPO employment. In the new EU-12 Member States most of the CPO levels have increased in 2006 in comparison with the previous year, which is shown in Figure 7.6. In the Czech Republic (27%), Slovakia (25%), Romania (19%), Cyprus (18%) and Malta (18%) the ratio of CPO employment to total employment is relatively high, which can largely be explained by CPO activities in courier and express (see Table 7.5).

Figure 7.5 Development of CPO employment in total direct postal employment, EU-15, 2005 and 2006 (%)



Source: Annex II country sheets and ECORYS estimates.

Figure 7.6 Development of CPO employment in total direct postal employment, EU-15, 2005 and 2006 (%)

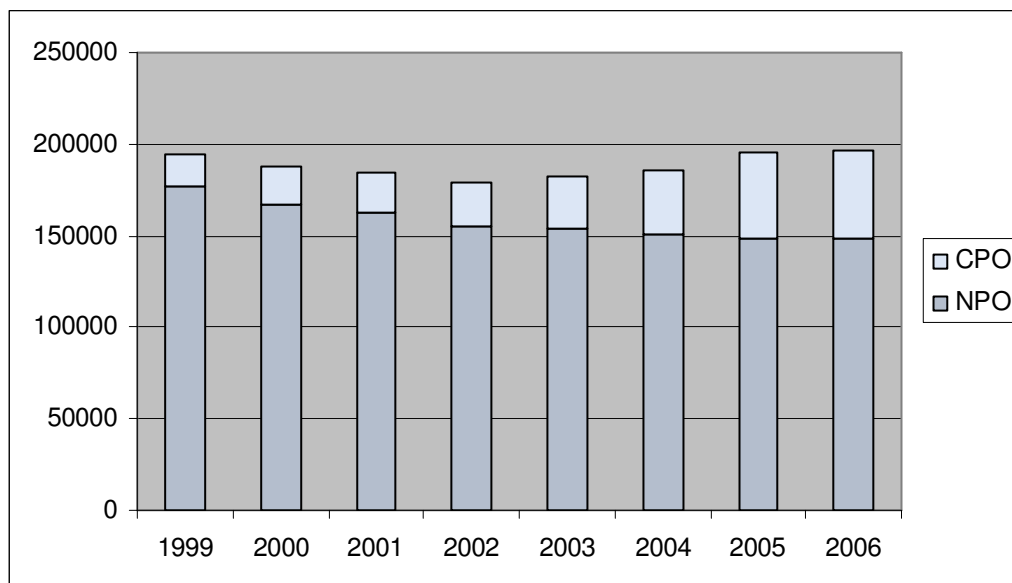


Source: Annex II country sheets and ECORYS estimates.

Note: CPO employment figures for 2005 and 2006 are missing for BG, HU, LV.

In Germany the transfer of NPO employment to CPO employment is mainly the result of developing competition, as DPAG was one of the first NPOs to undertake corporate restructuring which had a negative effect on the level of employment already before competition was developing in the German addressed mail market. Figure 7.7 hence shows the employment developments in a mature postal market open to competition and where the NPO already has undergone major restructuring. Since 1999, the total workforce of DPAG active in the domestic letter mail market (licensed area) decreased with 16.1% from 177,000 employees in 1999 to 149,000 employees in 2006. In the same period, CPO employment increased with 174% from 18,000 to more than 48,000. Total postal employment in letter mail grew with 1.1% to 197,000 employees in 2006. From these figures it can be concluded that the decrease in NPO employment has been fully offset by an increase in CPO employment.

Figure 7.7 Evolution of NPO and CPO employment (headcount) in the German postal sector – letter mail (1999-2006)



Source: Bundesnetzagentur (BNetzA), annual report 2007, p. 139

Note: these figures refer to the licensed area and include full-time and part-time employment and employment with minor occupation (Geringfügig Beschäftigung).

### 7.3.4 Breakdown of NPO staff by market segment

A breakdown of NPO employment by market segment (such as mail, express and logistics) is provided in Table 7.6. Clarifications regarding the differences in segmentation are provided in the note below the table.

Table 7.6 NPO employment, breakdown by market segment (in %, total in headcount)

Member State	Mail (%)		Logistics (%)		Express (%)		Other (%)		Total (%)		Total (headcount)	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
AT	63.8	64.7	8.2	8.0	-	-	28.0	27.3	100	100	26,124	25,467
DE	30.6	31.2	38.7	30.1	30.6	29.8	-	-	100	100	409,270	416,908
ES	96.6	97.0	-	-	2.0	2.0	1.4	1.4	100	100	67,186	67,445
FI	68.9	67.2	28.4	30.2	-	-	2.8	2.6	100	100	24,623	25,294
FR	-	63.2	-	-	-	2.7	-	34.1	100	100	-	282,123
LI	63.9	63.1	2.6	2.7	1.1	1.1	32.4	33.1	100	100	8,260	8,168
LU	99.0	99.0	-	-	1.0	1.0	-	-	100	100	1,746	1,897
MT	90.4	94.1	-	-	9.6	5.9	-	-	100	100	460	407
NL	95.3	95.3	-	-	4.7	4.7	-	-	100	100	63,756	61,039
PT	90.7	89.7	-	-	4.4	4.5	4.9	5.8	100	100	15,611	15,400
SI	98.0	98.0	1.1	1.2	0.8	0.8	-	-	100	100	5,887	6,057
UK	83.0	83.4	5.1	5.3	2.1	2.0	9.9	9.3	100	100	212,156	208,866

Source: Annex II country sheets, annual reports of NPOs.

Note: AT - Logistics segment includes parcel mail; Other includes the branch network;

DE – Employment figures are for the operations of DPWN worldwide;

ES - Other includes hybrid mail, telecoms and category not accounted for;  
 FI - Logistics segment includes information logistics;  
 FR - Other includes financial and network division;  
 MT - Express segment includes parcel mail;  
 UK - Other includes corporate, Post Office Ltd and partially owned subsidiaries.

From Table 7.6 it can be concluded that the majority of NPO staff is employed in the mail segment. Only the DPAG in Germany shows an equal spread of staff between the mail, express and logistics division, reflecting the strong worldwide position of Deutsche Post in express (DHL) and logistics. Despite fluctuations in absolute staff figures (headcount) the staff breakdown by segment has remained relatively stable from 2005 to 2006.

### 7.3.5 Share and evolution of civil servants in NPO and total postal sector employment

Results from WIK-Consult (2006) indicated an average reduction of employees with a civil servant status (working under a public employment contract) of 10.4% in the period 2002-2004. The share of civil servants decreased to 41.4% of total employment within the concerned NPOs and to 21.4% of total NPO employment in EU-25.

The evolution of civil servants and their share in total NPO employment are presented in Table 7.7 and Figure 7.8. The ECORYS data for EU-27 (2005 and 2006) show that the absolute figure of civil servants continued to decline by 22.9% compared to 2002. However, in 2005 and 2006 the share of civil servants as part of total employment within the NPOs concerned modestly increased to almost 50% because total employment in these NPOs declined faster than the number of civil servants. In relation to total NPO employment in EU-27 it can be observed from Table 7.7 that despite the decline in absolute figures, the share of civil servants has remained relatively stable between 2002 and 2006. This indicates that total NPO employment in EU-27 has declined at the same pace as the number of civil servants.

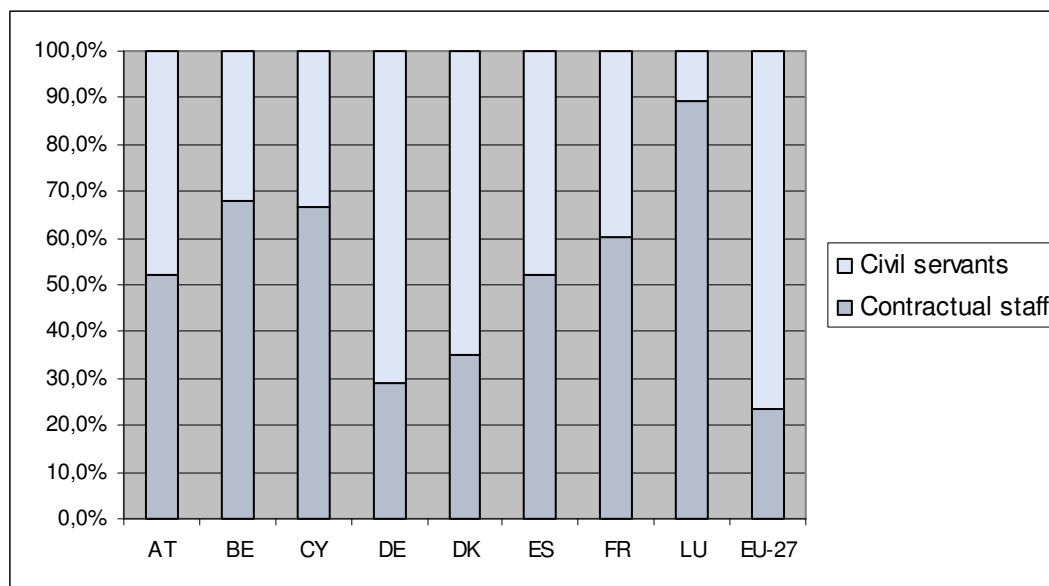
In coming years, the share of contractual staff is expected to rise as ongoing liberalisation will put further pressure on the corporatisation and privatisation of (former) state-owned NPOs and on improving efficiency.

Table 7.7 Civil servants employed by NPOs – development and share (headcount, 2002-2006)

Year	Civil servants	Share of total employment of NPOs concerned	Share of total EU-27 NPO employment
2002	407,278	45.6%	23.5%
2003	384,126	42.9%	22.1%
2004	365,061	41.4%	21.4%
2005	332,246	49.6%	24.6%
2006	314,122	49.5%	23.7%
Change rate (2002-2006)	-22.9%		

Sources: Annual reports and WIK survey (2002-2004) for AT, BE, CY, DE, DK, ES, FR, GR, IE, LT and LU.  
Annex II country sheets and annual reports (2005-2006) for AT, CY, DE, DK, ES, FR and LU.  
Notes: ECORYS estimates for BE (2005) and ES (2005), missing value for IE (2005, 2006).

Figure 7.8 Share of civil servants and contractual staff employed by NPOs in 2006



Sources: Annex II country sheets and annual reports of NPOs.

### 7.3.6 Contribution of NPOs to total EU employment

PLS RAMBOLL (2002) estimated that direct postal employment alone (1.58 million FTE including NPOs and CPOs) constituted approximately 1.0% of total EU employment in 2000. If indirect and induced employment is also included, total employment generated by postal and related activities (5.3 million FTE) corresponds to a share of 3.3% of total EU employment in 2000.

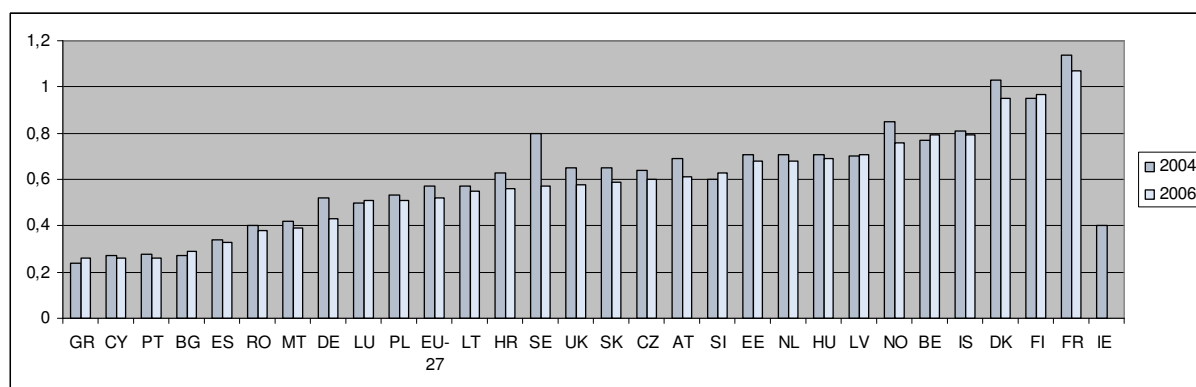
WIK-Consult (2006) concluded that the overall size and composition of the European postal sector has changed little from 2002 to 2004. In 2004, NPOs in the Member States jointly employed about 1.71 million people accounting for 0.8% of all jobs in the European Union. The direct contribution to EU GDP was estimated at € 37 billion (0.4% of total GDP).

The figures from PLS RAMBOLL and WIK-Consult show some variations in absolute and relative values resulting from differences in data collection methods and availability of data. The PLS RAMBOLL ratio is based on direct employment including NPOs and CPOs in FTE while the WIK-Consult ratio is based on NPO employment in headcount.

ECORYS estimates that EU-27 direct employment (including NPOs and CPOs) amounted to (at least) 1.58 million in 2005 and 1.60 million people in 2006 accounting for 0.8% and 0.7%, respectively, of total EU employment.

Eurostat figures on the number of NPO employees as a share of total domestic employment are available for 2004 and 2006. These figures are presented in Figure 7.9. In 2006 NPO employment in EU-27 amounted to 0.52% of the total EU employment, which is a slight decrease compared to the 0.57% in 2004. A decline in postal sector employment as a share of total domestic employment can be observed in the majority of the Member States. Only a few Member States (GR, BG, LU, SI, BE) show a higher figure for 2006 compared to 2004.

Figure 7.9 Total number of persons employed in NPOs in the EU-27 postal sector as percentage of the total employment (2004, 2006)



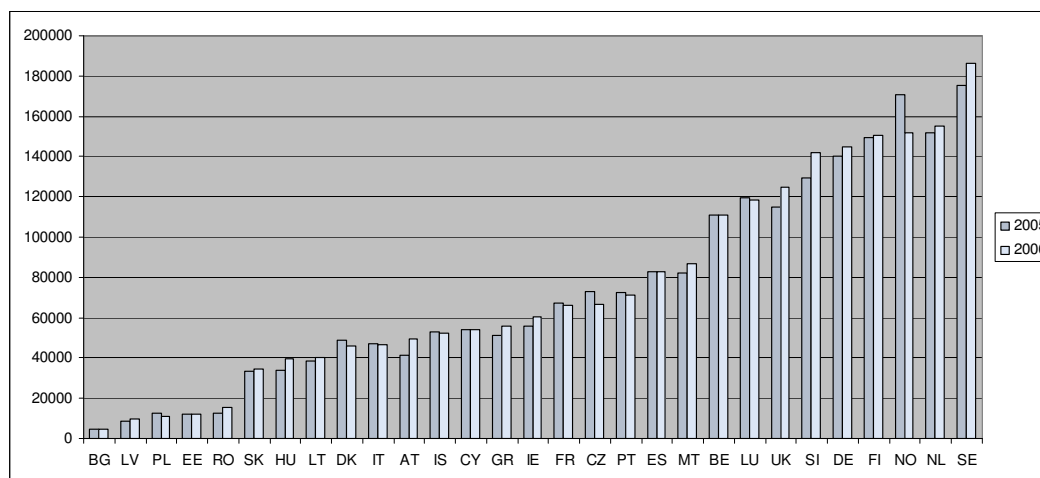
Source: Employment in the postal sector: Eurostat, Inquiry on Postal Services 2007. Total employment: Eurostat, Annual employment averages, domestic concept – ESA, except for IS – resident concept.

Notes: Employment in the postal sector refers to the total number of people employed for the provision of postal and related services domestically (EMPL 106). Data on domestic employment in the postal sector are confidential for IT (2004) and not available for IE (2006) and IT (2006). The figures for the EU-27 aggregates have been calculated without IE and IT.

### 7.3.7 Productivity of NPOs and the sector

(Physical) labour productivity of NPOs is measured as letter output per person employed. The productivity levels of NPOs in Europe in 2005 and 2006 are depicted in Figure 7.10. Although they should be interpreted with care in terms of accuracy, large variations in productivity levels between the Member States can be observed ranging from 186 thousand mail items per employee in Sweden to a bit over four thousand per employee in Bulgaria. Also, the figure shows that productivity levels are generally higher in the older, EU-15 Member States than in the new, EU-12 Member States.

Figure 7.10 Number of letter post items (in 1,000) distributed per employee in NPOs (2005, 2006)



Source: Universal Postal Union (UPU), ECORYS questionnaire (2005, 2006) and estimates for BE (2005) and DK (2005).

Important factors that have an impact on productivity include mail volume per capita and population density (or more accurately: letterbox density). For example, in the Netherlands both mail volume per capita and population density are higher than in Greece, which partly explains the difference in productivity levels.

Ongoing liberalisation, increasing competition and corporate restructuring (e.g. automated sorting) are also drivers for developments in efficiency and, hence, productivity. With the necessary caveats because of data accuracy and the partial analysis made in this section, this notion seems to be supported by the productivity levels presented in Figure 7.10: from the seven countries with the highest productivity levels, six (UK, SI, DE, FI, NL, SE) have largely or fully liberalised their postal markets, albeit that in FL there is no actual competition in the addressed mail market.

The following examples from the ECORYS questionnaire<sup>136</sup> further illustrate the relation between increased competition, the application of technology and productivity, while Figure 7.11 shows the development in productivity of Posten AB in Sweden from 1990-2006.

#### Germany

The German NRA indicated that the productivity of DPAG has risen sharply. This was driven in particular by setting a definitive date for liberalisation and by the endeavours undertaken by the DPAG to enhance its competitiveness to ensure its market position.

#### Belgium

At the beginning of this century, productivity in Belgium was lagging behind. However, De Post/La Poste opened four new sorting centres (Gent X, Charleroi X, Antwerpen X and Luik X) and renovated the sorting centre in Brussels in 2006. Total investments were nearly € 200 million in four years. As a result,

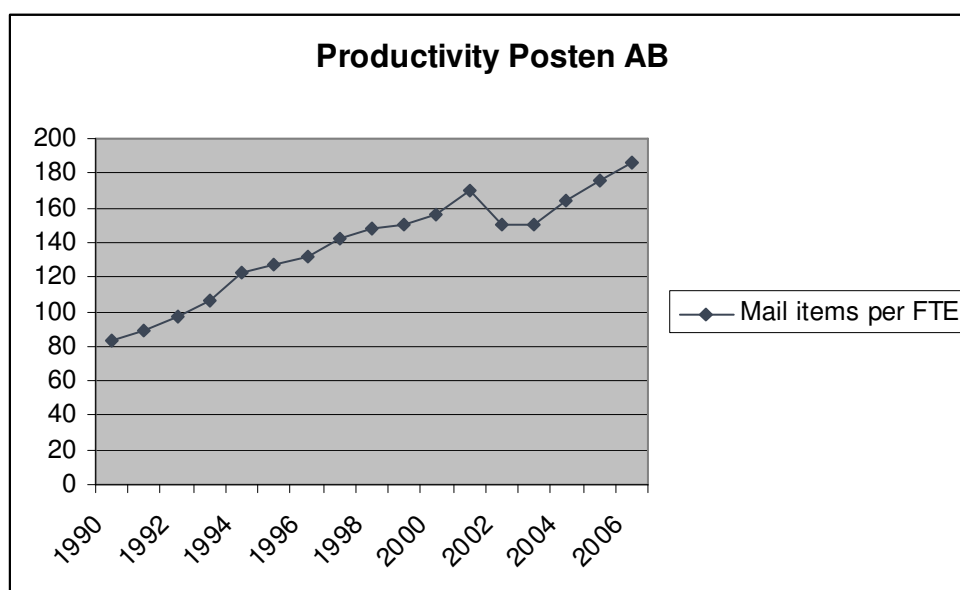
<sup>136</sup> Annex II, various country sheets.

most of the mail is now sorted automatically, which has increased the productivity level and competitiveness of De Post/La Poste (see also Chapter 6).

#### Sweden

Posten AB reported that productivity has improved by 2% in 2006 compared to the previous year. Although there are no public studies available on productivity developments for the Swedish postal sector as a whole, ECORYS has estimated labour productivity for Posten AB in a recent paper. An overview of these results is given in the figure below.

Figure 7.11 Development of productivity of Posten AB (mail items per FTE)



Source: De Bas et al. (2008b)

### 7.3.8 Productivity of CPOs

Productivity data of CPOs are often not publicly available and in general CPOs are reluctant to provide information. *A priori* it is to be expected that productivity in the upstream activities is relatively high because of the focus on (pre-sorted) business mail and that productivity in delivery is lower than of the NPO because of lower mail volumes and lower economies of scale.

The following examples illustrate the developments of productivity developments of CPOs in a number of Member States.<sup>137</sup>

#### Poland

The Polish NRA indicated that in 2006 the productivity of CPOs (measured as revenues per employee) increased twice while the index of NPO Poczta Polska remained at the same level. However, the NRA stressed that the rapid growth in the productivity of CPOs is probably caused by the fact that many operators classified their activity as transport services in 2005. Therefore their revenues from postal

<sup>137</sup> Annex II country sheets

activities were much lower than in 2006 while employment was roughly at the same level. According to the NRA, it is hard to predict how the full liberalisation of the postal market will affect productivity rates.

#### **Ireland**

Nightline (an Irish national and international express delivery service) believes that with increasing volumes, productivity will improve and that labour as a proportion of cost will only reduce modestly.

#### **Germany**

The German NRA mentioned that the productivity levels of CPOs are significantly lower than those of the incumbent. This can mainly be attributed to the lower economies of scale and the much lower levels of automation.

#### **The Netherlands**

ECORYS made the following estimate for the productivity of CPOs Sandd and Selekt Mail. In 2007 Sandd and Selekt Mail employed approximately 3,000 FTE (including subcontractors) and 2,500 FTE respectively. Considering the mail volumes realised in 2007, the productivity of Sandd would be 130,000 items/FTE, while Selekt Mail would have a productivity of 120,000 items/FTE. In comparison, TNT Post reported a decrease from 155,000 items per FTE in 2006 to 153,000 items per FTE in 2007.

## **7.4 Developments in contracts, wages and working conditions**

### **7.4.1 Development of contractual conditions**

With regard to labour contracts, the following aspects are worth considering:

- Full-time or flexible employment;<sup>138</sup>
- Public service or private sector labour contracts;
- Job differentiation;
- Freelance labour.

#### *Full-time and flexible employment*

In the past decade there has been a move towards flexible working practices such as part-time employment and seasonal employment. WIK-Consult (2006) concluded that the share of part-time employment in NPOs continued to rise between 2000 and 2004. The decline in full-time employment accounted to 5% in this period.

The figures from WIK-Consult were based on UPU data focusing on EU-25. Table 7.8 is an update of these WIK figures (2006, p.182) with data for EU-27 and Iceland for the period 2002-2006.

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<sup>138</sup> Flexible employment consists of both part-time and temporary staff.

Table 7.8 Development of full-time and part-time employment in NPOs for EU-25 (2002, 2004, 2006) and EU-27 (2006)

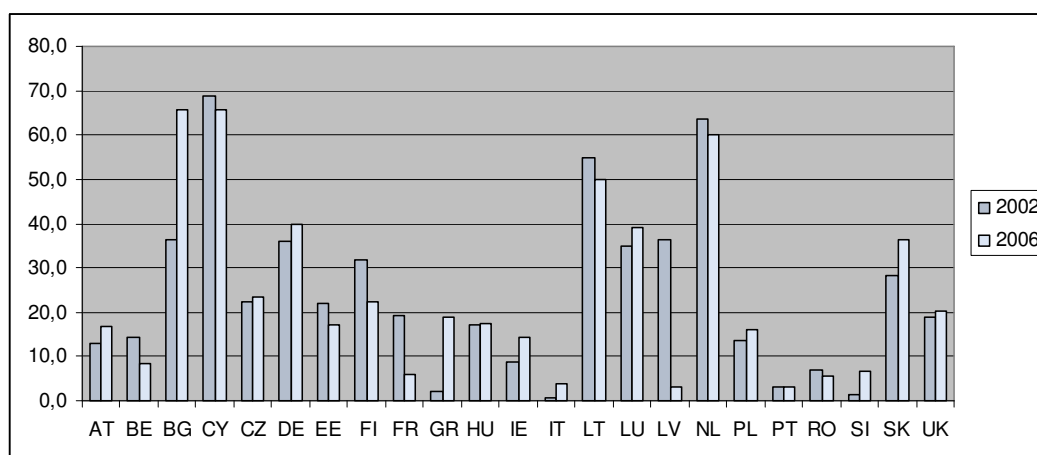
	Full-time	Share	Part-time	Share	Total
2002 (EU-15)	933,060	81.8%	208,022	18.2%	1,141,082
2004 (EU-15)	886,783	81.1%	206,807	18.9%	1,093,678
2006 (EU-25)	958,355	81.7%	214,532	18.3%	1,172,887
2006 (EU-27)	1,002,511	81.9%	221,115	18.1%	1,223,266
<b>Growth rate 2002-2004</b>	<b>-5.0%</b>		<b>-0.5%</b>		<b>-3.6%</b>

Source: WIK-Consult (2006, p. 182) based on data from Universal Postal Union (UPU) for 2002 and 2004, ECORYS questionnaire for 2006 - missing values complemented with UPU data.

Note: Not included because of missing values: DK, ES, MT, SE. ECORYS estimates for DE (2002, 2004, 2006).

From the table it can be concluded the ratio between full-time and flexible employment has stabilized in the period from 2002 to 2006, which implies there is a status quo. Figure 7.12 depicts the evolution of flexible employment as a share of NPO headcount for each Member State for the period 2002-2006.

Figure 7.12 Ratio of flexible to total NPO employment in EU-27, headcount (2002, 2006)



Source: Universal Postal Union (UPU) for 2002, ECORYS questionnaire for 2006 - missing values complemented with UPU data.

Note: Not included because of missing values: DK, ES, MT, SE; ECORYS estimates for DE (2002, 2006) – flexible employment includes part-time employment and mini-jobs (temporary or part-time employment with a maximum annual salary of EUR 4800).

From this figure it can be observed that there are considerable differences between the Member States. The share of part-time employment seems to be highest in Cyprus, Bulgaria, the Netherlands and Lithuania, respectively. Cyprus Post employs almost 1,200 seasonal employees who work a quarter FTE per year. However, it is unclear how many part-time workers are employed by the courier service company belonging to Cyprus Post. The high ratio for TNT in the Netherlands is explained by the fact that the figures include its subsidiary Network VSP that mostly employs people on a flexible basis. As can be further observed from Figure 7.12, the share of flexible employment is particularly low (less than 10%) in Belgium, France, Italy, Latvia, Portugal, Romania and Slovenia. In France, La Poste is in a process of reducing the share of flexible (temporary) staff. In

2006, the share of flexible employment decreased by 15% in comparison to 2005 accounting for 6% of total employment.

Figures on flexible employment within CPOs are rarely publicly available. However, given the business models that are pursued by CPOs ECORYS expects that the ratio of flexible employment is (substantially) higher in CPOs than in NPOs, in particular for delivery. The use of flexible employment is one of the ways to mitigate the importance of economies of scale in the postal sector. This is illustrated by the following example in the Netherlands.<sup>139</sup>

#### **The Netherlands**

The main competitors of TNT, Sandd and Selekt Mail, have gained a market share of 25% of the liberalised part of the addressed mail market. Sandd and Selekt Mail have a large network of part-time deliverers. Both companies employ around 12,000 deliverers (mainly students, housewives and elderly) who work only a limited number of hours per week (for example two days of four hours). The use of flexible labour forms a crucial part of the business model of both companies, in particular in the start-up period until sufficient mail volumes have been captured. Also TNT Post uses this concept for their mail-deliverers (they work only three to four hours a day).

#### *Public service or private sector labour contracts*

As presented in section 7.3.5 the number of civil servants is declining in the EU. This trend is mirrored in a shift of staff from a civil servant status to 'contractual staff' with market related contract conditions and wages.

By way of example, we illustrate below the status and development in civil servant employment in the Austrian and Danish NPOs.<sup>140</sup>

#### **Austrian Post**

Austrian Post is still characterised by the existence of private and public employment contracts, a heritage from the former state monopoly. New employees get a labour contract based on private law. In 2005 and 2006, circa 52% of the Austrian Post employees still had a civil servant status (in headcount, circa 56% in FTE).

#### **Post Danmark**

During the last decades there has been a shift from employment as a statutory civil servant to employment as contractual staff under a collective agreement. This evolution has taken place in all parts of the public sector. The Danish NPO Post Danmark distinguishes three types of employees:

- Statutory civil servants;
- Contractual staff on special terms (former statutory civil servants); and
- Contractual staff under a collective agreement.

The statutory civil servants employed in Post Danmark work under the Statutory Civil Servants Act and have a supplementary collective agreement with the state. They are in practice seconded to Post Danmark by the state (i.e. seconded civil servants). The former statutory civil servants are called contractual staff on special terms. Amongst other things they keep the civil servants' favourable

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<sup>139</sup> Annex II, country sheets.

<sup>140</sup> Annex II, country sheets.

pension. The third and largest group are employees with employment contracts under private law, which is contractual staff under the provisions of a collective agreement. Of the employees 35% are either seconded statutory civil servants or contractual staff on special terms (former civil servants).<sup>141</sup>

### *Job differentiation*

In the Netherlands, TNT introduced a new type of job for mail distribution along the existing job of postman aiming to increase flexibility and decrease cost. To our knowledge, TNT is the only NPO that has introduced this new job substituting partly the work done by postmen previously.<sup>142</sup>

#### **Mail deliverers, postmen and Saturday workers in TNT (the Netherlands)**

Within the mail delivery section TNT Post distinguishes between (the traditional) mailmen, Saturday-workers and mail deliverers. The Saturday-workers (mainly students) can be seen as part-time mailmen who (in principle) carry out the same tasks. The responsibilities of mail deliverers however are much smaller. Anticipating on the gradual liberalisation (expected volume decrease) TNT Post introduced in 2001 a plan ('Masterplan Kostenflexibilisering') to create more flexible costs (mainly wages) and reduce total costs with € 370 million in 2012. Part of this plan was the decrease of the total amount of employees by 9,000 people and the introduction of mail-deliverers, next to and partly substituting the traditional postmen. These mail-deliverers only deliver mail and have (nearly) nothing to do with the rest of the process (e.g. sorting and organising the route). All types of employees have a traditional labour contract in the sense of article 7:610 of the Dutch Civil Code, which means that: (i) the employee is obliged to work for a certain time, (ii) the employer is obliged to pay wages and (iii) the employee performs his/her duty in the service of the employer. The last of these conditions implies that the employer exercises a certain 'authority' over the employee.

### *Freelance labour*

Another example from the Netherlands concerns the use of freelance contacts ('*overeenkomst van opdracht*') by the main competitors of TNT Post, Sandd and Selekt Mail. For this type of labour contract the employer has no obligation to pay social contributions, which for these companies is one of the main advantages of this type of contract. However, the situation may change in future as illustrated below.<sup>143</sup>

#### **OVO ('overeenkomst van opdracht') in the Netherlands**

The OVO is characterised by a large degree of freedom and flexibility. Within an OVO (article 7:400 Civil Code), the 'agent' is obliged to carry out work, but not on the basis of a labour contract in the sense of article 7:610 of the Civil Code. A 'relation of authority' between the principal and the agent (the deliverer), characterising the traditional labour contract, does not exist. Sandd, Selekt Mail and Network VSP only make agreements regarding the type of service (in this case delivery) and the latest time of delivery. Their deliverers therefore have the freedom to deliver in a certain period of time (within set margins), and the job can be done by others (e.g. a relative). Payments are mainly based on the number of items delivered. Within this OVO framework, the principal (the 'employer') is not obliged to pay any social contributions. Sandd, Selekt Mail and Network VSP (addressed and unaddressed) have used these OVOs since their operational start. Note that these OVO deliverers differ from TNT Post mail deliverers (those with a traditional labour contract in the sense of article 7:610 Civil Code).

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<sup>141</sup> Eurofound (2007) – Denmark, Ch. 2.

<sup>142</sup> Annex II, country sheets.

<sup>143</sup> Annex II, country sheets.

During the parliamentary discussions about the (draft) Postal Act 2008, labour conditions in the market were fiercely discussed, mainly related to these OVOs. The trade unions were of the opinion that under this type of contract the wages of deliverers were too low and that their legal protection (e.g. no payment in case of illness or holidays, no insurance) was too weak.

These concerns were (partly) picked up by some of the members of parliament. In reaction to a couple of (proposed but denied) amendments to the Postal Act 2008 the Secretary of Economic Affairs announced in May 2007 an inquiry of the status of the OVO on the postal market. The main conclusions were:

- The legislation regarding (i) employment protection, (ii) working hours, and (iii) working conditions is not valid for people working under an OVO. This mainly relates to the lack of 'authority' between the principal and the deliverers;
- Most deliverers with an OVO-contract do not work enough hours to fall under the social legislation, although there is a certain threshold. This is related to the principle that social legislation is only applied to jobs with a certain 'body' in working hours;
- The minimum wage-legislation is applicable under certain circumstances, if: (i) there are less than two other principals, (ii) the duration of the working-relation is more than three months, (iii) there are at least five working hours per week; and (iv) the work is done by the person itself (however, this is not fully clear in the jurisdiction).

During 2007 the main trade unions (FNV Bondgenoten, Abvakabo FNV, CNV Bedrijvenbond, CNV Publieke Zaak and BVPP) bundled their powers and tried to convince the members of parliament that OVO's wages were too low and legal protection too weak. In principle they would like all deliverers to receive a labour contract in the sense of article 7:610 Civil Code instead of an OVO. The trade unions have been negotiating about the conditions with Sandd, Selekt Mail and Netwerk-VSP since the last quarter of 2007. On 24 April 2008 the main trade unions reached an agreement with Sandd and Selekt Mail. The core of this agreement is that 80% of the employees with an OVO contract at Sandd and Selekt Mail will receive a labour contract after 3-4 years (based on the assumption of growing market shares) within six months after liberalisation of the postal sector. However, the decision of Frans Heemskerk, Dutch Secretary of State of Economic Affairs, to postpone liberalisation of the Dutch postal market (without setting a new target date) taken in May 2008 puts this collective labour agreement under pressure.

#### 7.4.2 Development of wages and working conditions

Within the Member States, wages are either determined at a national, sectoral or company level and are often influenced by national minimum wage regulations. Table 7.9 below shows in which country minimum wage legislation is applicable distinguishing between the national and sectoral level. The vast majority of countries have a national law establishing the minimum wage while only Germany has the option to conclude a minimum wage at sectoral level, which is further discussed in section 7.4.4.

Table 7.9 Minimum wage law

	Countries
National minimum wage	AT, BE, ES, FI, FR, HU, IS, LU, MT, NL, NO, PL, PT, SK, UK
Sector minimum wage	DE
No legislation	DK, SE

Source: ECORYS questionnaire.

Note: unknown – CY, GR, LT and RO; BE – Minimum wage is defined at national level but also at sector, subsector and company level by employers and trade unions. In most of these cases minimum wages are negotiated above the national minimum wage; SE – There is no law on minimum wages and it has – with a few exceptions of which none refer to the postal sector – not really been an issue in Sweden.

Table 7.10 provides a description of wage developments and working conditions distinguishing between NPOs and CPOs in the Member States. Information was gathered from NRAs, NPOs and CPOs through the preparation of the country sheets (Annex II). Additional information has been obtained from Eurofound (2007). This comparative report on industrial relations in the European postal sector is based on national reports received at the beginning of 2007 from 27 countries by country experts. Information collected from the Eurofound study has been incorporated into the country sheets and submitted to stakeholders for verification. Unfortunately, for CPOs limited data is publicly available.

Table 7.10 Development in wage levels and working conditions, NPOs and CPOs (2006)

Country	NPO	CPOs
AT	Wages at Austrian Post correspond to the national average, but are lower compared to other (former) state-owned companies (e.g. telecommunications). Austrian Post has several initiatives with regard to the improvement of working conditions, including: 1) an employee participation programme to give employees and those of subsidiaries entitled the opportunity to profit from the success of the company, and 2) family support, advancement of women and flexibility.	Wage levels are related to job performance and the quality of service delivery.
BE	A major part of De Post/La Poste's workforce has a civil servant status which has more favourable aspects than a contractual agreement with regard to contract duration.	
CY	There is a substantial pay gap at the expense of private sector employees (Eurofound). Employees of the NPO are public servants, which have better conditions than the private market in terms of social security and benefits.	
CZ	Wage levels of the NPO are below the national average. The average monthly wage is € 622, which is an increase of 6.6% compared to 2005. Wages vary from € 521 for delivery personnel to EUR € 1 149 for office staff.	
DE	Wage levels in DPAG have remained stable in accordance with collective agreements. The average hourly wage in DPAG in 2007 was €11.34 for sorters, € 11.99 for drivers and € 12.13 for postmen (deliverers). The labour conditions for employees of DPAG are much better than	Within the CPOs the quality of jobs tends to be lower (and for delivery mainly part-time) with lower average wages than

Country	NPO	CPOs
	regular market conditions. This applies both to wage levels, weekly working hours, annual leave and social benefits. The labour conditions were developed in a former state administration and later in a private company (stock corporation) with a monopoly position, according to German NRA.	DPAG: the average hourly wage in 2007 was € 7.68 for sorters, € 7.63 for drivers and € 7.28 for deliverers.
DK	The basis monthly salary of a postman of Post Danmark in 2006 was € 2,949 per month for statutory civil servants. In 1997 this amount was approximately € 2,413 per month. For a non-civil servant postman of Post Danmark the monthly wage in 2006 is more or less the same as for statutory civil servants. Pay development has overall been moderate, not exceeding 5% a year in real terms. Labour conditions are comparable to those of any other enterprise in Denmark.	
FI	The average national, annual wage is EUR € 31,600. In the postal sector the average annual wage is EUR € 23,900. One reason for the relatively large difference is the fact that there are a lot of part time contracts in the postal sector. During the past decade, the pay increases in the sector have followed the national average.	
FR	Mainly the young employees have a private employee status while the older staff are mainly civil servants.	
HU	Wages are traditionally low at the NPO. In 2006, the monthly average wage of a full time employee at the NPO was € 565, which is an 8% increase as compared to 2005.	
IC	There is no difference in labour conditions between the NPO and CPOs.	
IE	The weekly basic earnings in An Post for a Postal Sorter and Postal Operative were € 559 and € 524 respectively in June 2007. The average earnings in the Distribution and Business Services Sector of the economy were € 708 in June 2007.	
LU	Considering that the majority of NPO employees are civil servants, they get a higher wage level than CPOs and have the benefit of job security.	
NL	Since 2000, (real) wage development for (traditional) NPO postmen and mail deliverers has been zero, while (real) wage development in the total economy has been close to +5%. The wages of postmen and mail deliverers differ greatly: a deliverer (age 20) earns € 790 per month, while a postman (age 20) earns € 1,275. An average postman costs € 24.- per hour (of which € 9.- is social contributions). Mail deliverers are paid just above the minimum wage level. The costs of an (average) mail deliverer are € 12.70 per hour (including € 3.70 for social contributions). The third type of employee, the Saturday worker, costs (on average) € 15 per hour (including € 4.40 for social contributions).	The average wage of a deliverer (with an OVO contract, see the discussion in section 7.4.1) is € 6-8 per hour (based on the number of items delivered), and deliverers have no rights regarding pensions, insurance, unemployment and payment during illness. Only 14% of deliverers earn more than € 7 per hour, which is based on a random check of labour union FNV Bondgenoten. Selekt Mail stated that (on

Country	NPO	CPOs
		average) only 10% of its deliverers (and not always the same ones) did not earn the minimum wage appropriate to their age. Selekt Mail's new pay model should eliminate this from occurring. Sandd also indicated that 5-15% of its deliverers did not always earn the minimum wage. The company changed its standards recently, so deliverers can now (under normal circumstances) earn the minimum wage.
NO	Employees have labour conditions which are much the same as the rest of the postal sector. The NPO is a state owned limited liability company that is not part of the state nor have the employees a civil servant status.	
PL	<p>The average monthly wage in Polish Post is € 777 at December 2006. However, 27% of all employees (mostly mailmen) were earning € 231 per month, which is just above the minimum wage in 2006.<sup>144</sup></p> <p>The differences between labour conditions of the NPO and regular market conditions depend on the region of the country. In a few big cities, where most of the competitors are operating, the differences are considerable. In these cities the NPO suffers from difficulties resulting from lack of staff (especially postmen) and loss of employees to CPOs offering a better salary. In small towns and rural areas the situation is better mainly due to the fact that there is no serious competition and the cost of living is lower. The NPO has developed a system in order to replace state workers (without civil servant status) in the postal central messaging service in the long term. These new employees will be paid at the minimum wage level and have poorer working conditions.</p>	In Post, which is already present in 71 towns of Poland, pays their new employees € 385.
PT	<p>The wage level in the postal sector is much higher than the average wage level in Portugal. In 2004, the average monthly wage was almost 1.5 times higher than the general average salary. In 2006, the average monthly wage amounted to € 1,726 per month, which is a 2.8% increase compared to 2005.</p> <p>The same national regulations on labour are applicable both to the NPO and the CPOs. A collective labour agreement is in place in the NPO.</p>	
SI	<p>Wage levels are higher than the minimum wages in the sector.</p> <p>General labour law is applicable to the NPO and CPOs; there are no</p>	

<sup>144</sup> Eurofound (2007).

Country	NPO	CPOs
	differences in working conditions in the sector.	
SK	<p>Sector wages are progressively increasing in average and are connected with an increase in average wage in the entire Slovak economy and with the adoption of collective agreements. In 2005, the average monthly wage for employees of Slovenská pošta, a.s. was € 460, an increase of 6.4% compared to 2004. Cziria reports that compared to 2003, the increase was 27% and met the collective agreement (22%) between Slovenská pošta, a.s. and the labour unions. However, the average wage within Slovenská pošta, a.s. is still markedly lower than the national average, but (probably) higher than the wages paid by alternative operators. In 2006 the average wage monthly within Slovenská pošta, a.s. grew again to € 480, which is an increase of 5.1% compared to 2005. The average monthly wage further increased to € 487 in 2007.</p> <p>The labour conditions for employees of the NPO are comparable to current market conditions of CPOs.</p>	<p>In 2007, the average monthly wage in the sector was € 503, while the average monthly wage in the Slovak Republic was € 614, which means that the average monthly wage for CPOs is higher than for NPOs.</p>
UK	<p>Basic pay is relatively low at around € 402 a week, some € 88 less than the average, according to the Communications Workers Union (CWU). However, overtime and a plethora of allowances improve earnings.</p> <p>Employees of Royal Mail since the introduction of liberalisation have benefited from the inflation in wage increases, a highly competitive pension and bonus arrangements, as well as a reduction in the working week from six to five days.</p>	

Source: Annex II, country sheets.

From Table 7.10 it can be observed that wage developments and remuneration levels differ per Member State. In some countries (e.g. DE, NL) wages are under pressure because of the development of competition. Competition seems to put wage pressure on lower skilled jobs. For example, post deliverers earn less than traditional postmen. This development is observed in the Netherlands. In most countries we have not found evidence of this development.

With regard to working conditions we observe that the majority of the countries have national labour regulations, which are applicable to both the NPO and CPOs in the postal sector. However, we observe that working conditions tend to be better for staff with a civil servant status (in terms of social benefits, job security, etc.) in comparison to contractual staff in Belgium, Cyprus, France and Luxembourg.

#### 7.4.3 Role of social partners, trade unions and sector based collective agreements

Eurofound (2007) performed a comprehensive study with regard to the role of social partners, trade unions and labour agreements in the European postal sector. An overview for the European countries is provided in Appendix 5 and includes the sectoral structure, trade union organisation and density, employer organisations and the status of collective

bargaining. Also, information is provided on the presence and structure of social partners, such as the number of important organisations and the unionisation rate, and the use of collective bargaining, distinguishing between NPOs and CPOs.

From the overview it can be concluded that the degree of unionisation differs per country. In NPOs union density is particularly high, ranging between 76% and almost 100%, in Austria, Belgium, Bulgaria, Denmark, Germany, Hungary, Ireland, Italy, Luxemburg, Malta, Norway, Portugal, Romania and the United Kingdom. Moreover, trade union presence, union density and industrialised relations are particularly strong in the NPOs and to a large extent absent, or mostly insignificant, within the CPOs.

High union density seems to be an important prerequisite for successful collective labour agreements, which is illustrated by the examples below.<sup>145</sup>

### **Cyprus**

Given the limited number of collective labour agreements in the private (courier) sector, the employees in this sector seem to work under less favourable terms and conditions than those applying to employees of Cyprus Post – whose employees are covered by collective labour agreements. There are about 600 unionised postal workers within Cyprus Post. Those who are employed with the status of public servant are organised in PASYDY, which is the representative organisation of the public sector.<sup>146</sup> Hourly-paid staff of Cyprus Post is organised in the Pancyprrian Federation of Labour (PEO) and the Cyprus Workers' Confederation (SEK). All companies active outside the universal service area (i.e. couriers) are private companies that employ their staff mainly on the basis of individual contracts. The courier sector is for the most part not unionised, with the exception of the firms GAP AKIS and the Pancyprrian Parcel Conveyance Company Ltd. Although there are no institutional bodies for consulting social partners in matters related to regulating postal services, there is a relevant Order which provides for a public consultation procedure. This Order aims at ensuring conditions of transparency and democracy in procedures of the NRA with regard to information and awareness and/or decision-making procedures.

### **Denmark**

Collective agreements are concluded at sectoral level. All employees in a company that is member of an employers' association are covered by the sectoral agreement, whether they are members of a union or not. Collective agreements are applicable to approximately 10% of the companies in the postal sector, as many courier companies or other companies with a concession to provide postal services, are self-employed or only have very few employees and for this reason are not member of an employers' association. As the larger postal operators are member of employers' associations, the number of employees to which collective agreements are applicable, is much higher. Collective agreements are applicable to around 90% of the employees. The impact of outsourcing on collective bargaining coverage has not been significant, as working conditions are mostly negotiated at company level.

### **Italy**

There is no single collective contract in the sector. There are instead a number of different contracts: one regulating all the companies in the Poste Italiane group; one regulating the express delivery

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<sup>145</sup> Annex II country sheets

<sup>146</sup> With around 16,000 members at the end of 2006 from around 90 occupational sectors, and a union density of over 95%.

agencies; and one (the craft workers' contract), regulating all the companies and agencies belonging to the CNA<sup>147</sup>. Different contractual terms apply to Poste Italiane and the private companies. The unions are working towards having one single contract, to come into force as soon as liberalisation is complete, which will ensure that equal rules apply to everyone operating in the sector (Poste Italiane, 2006b).

#### **Sweden**

The Swedish postal operators Posten AB and CityMail, as well as numerous local suppliers of postal services, have signed collective agreements which provide an almost uniform system of pay and working conditions for the Swedish postal market.

The employees of CityMail AB, the main competitor to Posten AB (the NPO), are covered by a collective agreement signed by the same trade union as the collective agreement that covers the employees of Posten AB and the wage level is equal to the level of Posten AB. These two operators distribute approximately 99.8% of all postal items in Sweden. Concerning working conditions and labour contracts the same legislation applies to employees of Posten AB, CityMail AB or any other postal operator. In addition there is a tradition of strong trade unions that together with public authorities at different levels safeguard the interests of the employees in different respects. No further measures are considered necessary to safeguard this in the postal sector as the conditions in the sector do not differ from other sectors in the Swedish industry.

#### **7.4.4 Case study: minimum wage in the German postal sector**

The minimum wage law in Germany has been subject to many discussions and protests. In the textbox below we provide some information about the minimum wage law and how it may affect competition in Germany.

##### **Minimum wage in the German postal sector**

In Germany no universal minimum wage applicable to all sectors and all workers exists. The government can, however, and in certain conditions order that minimum wages be agreed collectively between employers and trade unions for specific sectors which are mandatory for all firms working in this sector.<sup>148</sup> For the postal market, the trade union ver.di concluded an agreement with the recently established Postal Services Employer's Association (dominated by Deutsche Post AG and representing more than half of the workers from companies predominantly engaged in addressed mail delivery), setting the minimum wages for workers delivering mail on the one hand and for workers processing mail (collection, sorting and transport) on the other hand. These minimum wages were generally made applicable through a regulation issued by the German government (Ministry of Labour).

The minimum wages (see Table 7.11) are substantially higher than what is currently paid by competitors in the German postal. It is also considerably higher than the 7.50 euro/hour that the trade union ver.di was campaigning for in summer 2007 as the lower end for a national minimum wage.

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<sup>147</sup> The National Confederation of Crafts and Small and Medium-Sized Enterprises.

<sup>148</sup> Currently, five branches (including the postal sector) have sector-specific minimum wages.

Table 7.11 Minimum wages for mail delivery and mail processing in Germany

	Average wages for DPAG	Average wages of competitors	Minimum wage West- Germany	Minimum wage East-Germany
Mail delivery (postmen)	11,29	7,94	9,80	9,00
Mail processing (sorting/presorting)	10,57	8,36	8,40	8,00
Office staff	17,11	16,22	n.r.	n.r.

Source: WIK, *Arbeitsbedingungen im Briefmarkt*, 2007.

*For which companies is the minimum wage legislation applicable?*

The minimum wage legislation is applicable to all companies whose main business activity is the delivery of addressed mail. This means that for many of the largest 500-700 regional and local postal operators the minimum wage legislation does not apply, as their dominant business activity is the distribution of newspapers or periodicals (many German publishers have set up postal operators). This may apply to a substantial share of regional operators in Germany, but exact figures are not available. On the other hand, some of those firms (in some of the bigger cities such as in Munich, and Stuttgart) pay a wage level around the minimum wage (of EUR 9.80) because of the need to be competitive in local labour markets.

*Protest by TNT Post*

TNT (and others) filed a law suit questioning the validity of the minimum wage law for their operations. In its decision of 7 March 2008 in the case against the postal minimum wage, the Berlin Administrative Court ruled that the postal minimum wage of € 9.80 violates the German constitution. In the opinion of the court the Minister of Labour and Social Affairs was not allowed to declare this wage generally binding.

The German State has directly filed an appeal against it at the Administrative Court of Appeal. This appeal process may take at least six months and can be followed by a second appeal to the Federal Administrative Court, meaning that it will take some time before it will be clear whether the minimum wage law will remain in place.

In parallel, TNT has launched an official complaint on DPAG distorting competition in the German postal market to the European Commission.

*Direct cost effect of the minimum wage law on competitors of DPAG*

The direct cost effect of applying the (higher) minimum wages are around 9-13% (see ECORYS 2008 for the underlying calculations). TNT arrives at unit cost rises of 10-11% for their own operations.

*Effect on competitors*

The minimum wage law probably contributed to the problems in the PIN Group. People interviewed by ECORYS say that PIN was also suffering from an inappropriate business model and also without the minimum wage law was encountering difficulties.

The effect on the 500-700 active *regional and local postal operators* is not straightforward. Approximately 100 of the larger operators are linked to German publishers and do not have addressed mail delivery as their main business activity. Hence, the minimum wage law does not apply to them.

Until the present date, there are no clear signs that many local and regional operators have exited the German mail market.

*How to compensate the direct cost effect?*

Given the existence of scale economies in the postal sector, the direct cost effect can be compensated through a rise in the (average) number of items delivered per postman per hour. Clearly, compared to the alternative of paying lower wages, there remains a permanent increase in the cost base and a permanent reduction in the potential operational result (EBIT<sup>149</sup>).

Firstly, one option is to reduce the number of delivery days from five (and for some local operators six) days a week to for example three or two days a week. In this case, at current mail volumes rather substantial cost reductions in delivery can be obtained. Although potentially possible (some years ago this model was already advised to a number of potential entrants in the German market), most interview partners consider this a very risky option given the degree to which customers are used to next-day delivery (note that until January 2008 most competitors operated a next-day delivery service based on the so-called D-license) and that there is competition for the delivery of (relatively time sensitive) transactional mail (such as bank statements) and hardly any for the delivery of low-priced direct mail (addressed advertising mail that generally is regarded less time sensitive). TNT is adamant that they do not see this as a real option.

Secondly, growth in mail volumes reduces the average unit costs and can compensate for the higher labour costs. Using a business case analysis, it was estimated how much growth in mail volume would be needed to offset the direct effect of the minimum wage law. Results of scenario analyses performed by ECORYS (2008) show that starting from a situation in which there would be a loss of ca. 26 mln. (operational result, comparable with EBIT) at ca. 600 mln. mail items delivered and with a total cost elasticity of around 0.7, mail volume should grow by 45-65% to offset the effect of the minimum wage law on the total profit of the operations in Germany (that is: to have the same level [-26 mln.] of profit/loss as without the introduction of the minimum wage law). If we assume a slighter lower loss (-23 mln., because of slightly higher productivity in delivery) and a total cost elasticity of 0.61, mail volumes should grow by 32-40% to offset the effect of the minimum wage law.

Thirdly, competitor postal operators may be willing and able to rearrange their legal structure and/or their operational process to circumvent the minimum wage law as much as possible. The main escape possibility is that companies whose dominant business activity is not addressed mail delivery but something else, are not bound by the minimum wage law, as mentioned above.

Finally, CPOs could opt for paying wages based on the number of mail items delivered. Legally, this is possible in Germany, although for the smaller companies it is difficult to implement for technical reasons (systems should be in place to calculate how many mail items are exactly delivered by each mail deliverer). From a social perspective there has been criticism in Germany to this type of wage system.<sup>150</sup>

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<sup>149</sup> Earnings before interest and tax

<sup>150</sup> According to TNT, the German company Jurex (which went bankrupt in 2007) was the only company using a wage structure based on payments per mail item delivered – and this contributed to the negative image of competitors in the German mail market.

#### 7.4.5 Training and investment in training

We observe that both liberalisation and developments in technology spur the focus and investment in training in the European postal sector, particularly in NPOs. Increasing competition puts pressure on the competitive position of the NPOs and requires flexibility to continuously adjust to market demand. Facing the challenges generated by new technologies demand investments in specialised and qualified staff. This is based on information from the country sheets (Annex II) and feedback from NPOs and CPOs.

Consequently many postal operators are increasingly focusing on the valorisation of human resources, which means that the demand for a highly qualified level of staff is reinforced through recruitment and investments in training. This implies there is a link between specialisation/job differentiation and the training of staff.

Below we illustrate the type of training strategies and investments in human resources by a number of NPOs in the Member States.<sup>151</sup>

##### **Austria**

Austrian Post reported that the professional development of employees was an important priority of Austrian Post's human resources management in the year 2006. External professional training and continuing education courses totalled close to 22,000 person-days in 2006, of which management training comprised 10,400 person-days. Furthermore, an additional 160 courses of instruction with 600 participants were held in 2006 within the framework of Austrian Post's internal professional training-efforts.

##### **Belgium**

De Post/La Poste reported that they made large investments in training. In 2006 they provided 18,500 days of training (+11.3% compared to 2005) and for 2007 they expected 21,000 days of training, due to the fact that several new sorting centres will be opened. The 4<sup>th</sup> Management Contract between De Post/ La Poste and the Belgian government obliges De Post/ La Poste to spend 2% of the annual personnel costs on training.

##### **Cyprus**

Cyprus Post is making attempts to increase service quality and productivity by setting up training programmes in cooperation with the Cyprus Academy for Public Administration, the Cyprus Productivity Centre and various other educational institutions/organisations. During 2005 the pilot implementation of the European programme Leonardo Da Vinci (European Postman - Certification of the Profession) was completed, during which six Cypriot delivery officers were certified. In total ten training programmes were held and 80 postal officers from all over Cyprus participated. Training within the framework of the Leonardo Da Vinci programme (European Postman – Vocational Certification) continued throughout 2006 and 17 Cypriot postmen were certified. In total, eight further training programmes were held with the participation of approximately 80 postal officers from all over Cyprus.

##### **Czech Republic**

Czech Post signed long-term agreements and contracts with strategic partners in the area of banking services (Československá obchodní banka, a.s.), and in the area of insurance services (Česká

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<sup>151</sup> Annex II country sheets

pojišťovna, a.s.). In 2006, the training activities were partly based on these strategic partnerships: the number of employees attending various courses came to a total of 56,921, of which 15.5% were trained in new technologies, 47.3% participated in training activities coordinated by the allied partners, 6.4% took part in qualification examinations of all levels and 30.8% attended other types of courses (economics, marketing and sale of services, managerial and business skills, etc.).

### Denmark

Post Danmark supports the general management development through a broad training programme within strategically oriented competencies. All managers are offered training within the framework of 'Strategic management courses' such as 'Coaching', 'Communicative Leadership', 'Process Orientation' and 'Assessment Insight'. Post Danmark offers pre-manager and team leader training programmes according to requirements and supports a number of individual training programmes such as HD (Diploma in Business Economics), MBA and other master programmes. Furthermore, a corps of internal mentors contributes to developing senior and junior manager candidates.

New knowledge and competencies are also ensured through the appointment of trainees with a higher education or training. Based on a number of seminars, trainees will be given a detailed knowledge of the company and the opportunity to test their strength in a position where the theoretical ballast can be tried out in practice. Since 1996, 193 trainees have been employed by Post Danmark. 98 of these are still employed by the company. In 2006, altogether 18 trainees completed their course. The trainee programme was revised in 2006 and divided into separate lines for specialists and managers, respectively.

### Portugal

Further training carried out in 2006 aimed at promoting CTT's growth, maintaining leadership, and at transforming human resources as to consolidate and develop business support skills. This entailed management training (e.g. operational management, customer orientation, 'best practice', commerce and sales) and training for postal workers (e.g. safe driving, commercial training linking technical improvement to a strong commercial outlook). In 2006, the number of training hours almost doubled in comparison to 2005 (64,623 hours) including 643 trainings with in total 7,397 persons involved.

CTT also gave financial assistance to members of the company's (upper) management through a postgraduate course support programme at prestigious higher education establishments. Furthermore, CTT was the first Portuguese company to create a self-financed RVCC Centre,<sup>152</sup> committing itself to the national effort to improve the qualifications of the Portuguese working population. In 2006 a total of 137 workers achieved certification equivalent to the completion of a basic secondary education.

In the area of *skill and behaviour development*, the "Farol – Orientar para Desenvolver" ("Lighthouse: Guidance for Development") programme was expanded to various units. This programme is designed to support the integration and development of managerial staff and employees. It is based on a coaching methodology that aims at improving work quality and obtaining results.

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<sup>152</sup> RVCC centre is a Centre for the Recognition, Validation and Certification of Competences. This centre offers company employees who left school at an early stage the possibility of achieving certification equivalent to a diploma issued by the Ministry of Education for completion of basic secondary education (Year 9) through the recognition and validation of (non-certified) skills acquired throughout life by means of informal channels.

## 7.5 Likely impact of postal sector liberalisation on employment, wages and working conditions

Above we have focused the discussion on the current developments and trends. As the European postal market will be fully liberalised as per 31 December 2010, or per 31 December 2012, it is worthwhile to discuss the likely impact of full market opening on employment levels, wages and working conditions. On this matter we have approached all NRAs with a brief questionnaire. Below, we present a summary of the responses received for each of the questions.

Question 1: How does or will the liberalisation of the postal sector impact on employment and working conditions in your country? (e.g. labour contracts, wage development, investment in training, collective labour agreements). What measures are or will be taken to safeguard socially acceptable employment?

NRAs<sup>153</sup> believe that liberalisation of the postal sector will both positively and negatively impact on employment and working conditions. The level to which liberalisation impacts on employment and working conditions will depend on the level of competition and the operator's business strategy in terms of services offered, market and business model (e.g. acquisitions and mergers will contribute to the decrease or stagnation of the employment in the sector. A positive impact is expected through job creation in the postal sector and other related sectors, which might offset decreasing NPO employment levels. However, liberalisation might negatively affect the working conditions and quality of jobs (e.g. shift from full-time to part-time employment) in NPOs particularly because of increasing pressure on efficiency and cost reduction measures. Increased competition will likely require more effort in training and recruitment. One of the NRA's mentioned that no major changes in employment and working conditions are expected until the full opening of the postal market.

Measures mentioned to safeguard socially acceptable employment (e.g. employee's rights, working conditions) include compliance with general regulation concerning labour conditions and collective sector agreements.

Question 2: To what extent does or will liberalisation of the postal sector in your country affect productivity levels?

From the NRAs who ventured an opinion<sup>154</sup> the majority expects that liberalisation will have a positive impact on productivity levels while others consider it difficult to assess. The degree to which liberalisation will impact on productivity levels will depend on the level of market competition. It is expected that liberalisation will lead postal operators, particularly NPOs, to the adoption of measures to increase productivity levels in order to reduce costs and compete in a fully liberalised market. These measures may be related to reorganisation of operational processes, the adoption of new technologies (e.g. automation) and the creation of new services and products based on new electronic technologies as well as the valorisation of human resources.

<sup>153</sup> Based on the responses of the NRAs from BE, CY, DE, DK, ES, FR, GR, HU, LU, NL, NO, PL, PT, SI, SK, SE and UK.

<sup>154</sup> BE, CY, DE, DK, ES, HU, LU, MT, NO, PL, PT, SI, SK and SE.

Another important factor is whether the organisation is an NPO or CPO. For example in Germany the NPO's productivity levels have risen sharply. This trend was driven in particular by the setting of a definitive date for liberalisation and by the endeavours undertaken by the incumbent to enhance its competitiveness in order to ensure it would be able to hold its position in a fully liberalised market. The CPOs' (new entrants) productivity levels are much lower than those of the NPO. This can be mainly attributed to the (still existing) lack of economies of scale and the much lower levels of automation.

## 7.6 Summary of main findings and conclusion

### *Developments in employment levels*

Corporate restructuring and the application of technology has a clear impact on employment levels. The development of competition causes a transfer of employment from NPOs to CPOs. As discussed above, corporate restructuring is taking place at different pace and in different periods in time across different Member States.

Different data sources provide different estimates for the level of employment in the postal sector. ECORYS estimates EU-27 direct employment (in headcount) at 1.60 million in 2006, which accounts for 0.7% of total EU employment in this year. The figure of 1.60 million probably underestimates the employment levels in CPOs. Our conclusions should be qualified to the extent that data availability was scarce.

According to data collected by ECORYS, NPOs in EU-27 employed about 1.38 million people in 2006. Most of the NPO staff is employed in the mail segment. In comparison to 1997, NPO employment decreased by 7.7%. This decline is observed in the majority of the Member States and reflects the impact of ongoing corporate restructuring. The decline in NPO staff seems larger in the new Member States (EU-12) than in the old Member States (EU-15), namely 9.2% and 7.3% in the period 1997-2006 respectively. Employment trends differ from Member State to Member State reflecting the different developments in business development, restructuring and modernisation (e.g. automation, rationalisation) within NPOs.

CPO employment amounted to (at least) 219,000 people in 2006 (headcount), which is an 8.2% increase compared to the previous year. Nearly 70% of CPO staff is employed in the German, Dutch, French or Polish market. Increasing competition causes a transfer of employment from NPOs to CPOs. Rising CPO employment appears to be either fully (DE, ES, NL) or partially (BE, SE) offsetting declines in NPO employment. Greece (49%), the Netherlands (31%), Germany (25%) and Finland (23%) have the largest share of CPO employment.

The absolute figure of civil servants employed in the postal sector has declined from 407,000 in 2002 to 314,000 in 2006, a 23% decrease. The share of contractual staff is expected to rise further as ongoing liberalisation will put further pressure on the corporatisation and privatisation of (former) state-owned NPOs and on improving efficiency.

### *Labour productivity*

Important factors that have an impact on productivity include mail volumes per capita and letterbox density. Ongoing liberalisation, increasing competition and corporate restructuring are also drivers for developments in efficiency and, hence, technology.

Although available productivity data should be interpreted with care, some general observations can be made:

- Between the Member States large variations in productivity levels can be observed ranging from 186,000 mail items per employee in Sweden to 4,000-5,000 mail items per employee in Bulgaria;
- From the seven countries with the highest productivity levels according to the available data, six (UK, SI, DE, FL, NL, SE) have fully liberalised their postal markets or important segments of it, albeit that in Finland there is no actual competition in the addressed mail market.

Although data on productivity levels in CPOs are hardly available, it is to be expected that productivity in the upstream activities is relatively high. This is caused by the focus on (pre-sorted) business mail and the lower productivity in delivery of CPOs (i.e. lower mail volumes and lower economies of scale).

### *Developments in contracts and wages*

The ratio between full time and flexible employment in NPOs has stabilised in the period from 2002 to 2006. The evidence suggests that the ratio of flexible employment is (substantially) higher in CPOs than in NPOs. The largest share of flexible staff is observed in postal markets that are relatively open to competition.

There is a trend towards contractualisation of civil service employment, which means that staff with a civil servant status is replaced by or shifted to contractual staff with market related contractual conditions and wages.

Different developments in wage levels can be observed in the Member States. In some countries (NL and to a lesser extent DE) wages are under pressure because of the development of competition. In particular, competition seems to put wage pressure on lower skilled jobs for sorting and delivery. TNT in the Netherlands is so far the only NPO that has introduced a new job profile, that of a mail deliverer working on a part-time basis, who earns less than (traditional) postmen who are still employed by TNT. In most countries however, wages tend to follow wage developments in the national economy.

In the majority of the Member States, formalised industrial relations almost exclusively concern the NPO, while they are either absent or not very significant amongst the majority of the CPOs. Also trade union density is particularly strong in NPOs and often low in CPOs.

In some of the countries where competition is developing, the issue of labour conditions within the CPOs have received a lot of attention. In Sweden there is a collective labour agreement, applicable to both Posten AB and its main competitor CityMail, and it seems that CityMail can operate under this condition. In Germany, the wages for mail deliverers included in the minimum wage law are approximately 30% higher than the wages that

were actually paid by CPOs and also substantially higher than the minimum wage in certain comparable sectors. CPOs have filed a law suit arguing that the minimum wage law is not proportionate and would distort competition to an unfair degree. As mentioned above, the minimum wage law in Germany coupled with the differences in labour conditions between TNT and the main CPOs has been presented as the main argument to postpone full market opening.<sup>155</sup>

#### *Development in working conditions*

With regard to working conditions the majority of the European countries have national labour regulations applicable to both the NPO and the CPOs in the postal sector. Generally speaking, working conditions tend to be better for staff with a civil servant status (in terms of social benefits, job security, etc.) than for contractual staff.

We observe an increase in the provision of training, driven by liberalisation and developments in technology. Competition exerts pressure on the NPOs and requires that NPOs improve their customer orientation. The application of new technologies demands for investments in specialised and qualified staff. Consequently, many postal operators are increasingly focusing on the valorisation of human resources, which means that there is a demand for highly qualified staff, which reinforces recruitment and investments in training.

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<sup>155</sup> Another argument is the lack of a level playing field in Germany, the Netherlands and the UK because of the differences in VAT exemptions of the NPOs.

## 8 Interrelations between postal regulation and market developments

### 8.1 Introduction

In this chapter we analyse the interrelations between postal sector regulation and market developments. In section 8.2 we examine to what extent regulation, the level playing field and the development of competition are interrelated. Empirical estimates of the impact of regulation on mail volumes are presented in section 8.3. The empirical analysis is followed in section 8.4 by a qualitative assessment of the effect of EC and national regulation on postal sector developments. In section 8.5 we describe the risk for regulatory asymmetry and the possible impact that this may have on the internal market. Section 8.6 presents a summary of the main findings and our conclusion.

### 8.2 Impact of regulation on the development of competition

As can be observed from Table 8.1, there is a clear interrelation between developments in the regulatory framework and the development of competition.<sup>156</sup>

Below, we discuss this interrelation into more detail and specifically focus on:

- The impact of the new threshold of 50 grams (as of January 2006);
- The impact of distinct market segments that have been liberalised;
- The impact of the access regime on the pattern of competition.

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<sup>156</sup> See also De Bas and Van der Lijn (2008), who analyse the influence of the regulatory framework on the pattern of competition based on case studies for Germany, the Netherlands, Spain and the UK.

Table 8.1 Interrelation between regulatory framework and development of competition

Country	Historic development/ specific issues/ country characteristics	Development of competition (market share of CPOs)*
<b>No reserved area</b>		
Sweden	FMO in 1993; Sweden is a large country with low population density. Most of the inhabitants live in southern Sweden. The regulatory framework became more supportive to the development of competition since the end of the 1990s.	CityMail (owned by Norwegian Post) is the main competitor operating a two times per week delivery network in the main urban areas in Sweden. CityMail's market share steadily increased to 9% in 2007. The joint market share of CPOs in 2007 was 9.3%.
Finland	FMO in 1991; Finland is a large, sparsely populated country with difficult geographic conditions for mail delivery; a licence requirement is that all universal services must be provided throughout Finland; a fee should be paid (of 5-20% of turnover) if delivery only takes place in high density areas.	There is no competition in the addressed mail market. Apart from Itella, one CPO had a licence to provide universal services, but this expired in 2003 and was not renewed.
United Kingdom	FMO in 2006; mandatory access since 2001, access negotiations between UK Mail and Royal Mail from 2002 to 2004, relatively low access prices geared to downstream delivery costs.	Access competition has developed rapidly, with 20-22% of upstream volumes carried by CPOs or large customers (April-March 2007/8). End-to-end volumes carried by CPOs are still very low (<1%).
Germany	FMO in 2008; in the years preceding FMO, competition was stimulated amongst others through "D-licences" allowing CPOs to provide (value added) next day delivery services in the reserved area. Downstream access prices were ex-ante regulated at a retail minus basis until 1.1.2008 and are assessed ex-post since January 2008.	NPO reduced access and parcel tariffs for customers and small and medium-sized enterprises. End-to-end competition has developed steadily; the combined market share of CPOs has risen to 10.4% in 2007. There are a large number of local and regional CPOs and two that developed a nationwide network (of these two PIN AG will cease to exist as a group). Ca. 4% of all addressed mail is through third party access (mainly from consolidators) to the network of DPAG.
<b>Direct mail not in reserved area</b>		
Austria	Direct mail is not reserved if the envelope is unsealed. There are severe distortions of competition because CPOs lack access to a large part of the letterboxes and Austrian Post's VAT exemption includes direct mail.	Competition is not really developing because of the limitation that direct mail <50g must be unsealed and the existing distortions to competition. The joint market share of CPOs is ca. 2% and a bit higher in the direct mail segment.
Bulgaria	Hybrid mail is not part of the universal services and hence outside the reserved area.	Competition is developing rapidly, in particular through hybrid mail services (there are no accurate data; ECORYS estimates the market share of CPOs at 30% in 2006).
Czech Republic	Also outbound and inbound cross border	Competition is developing (joint market

Country	Historic development/ specific issues/ country characteristics	Development of competition (market share of CPOs)*
	mail is not in the reserved area, but this has not had a real impact on competition so far (e.g. Mediaservis is not active in cross border mail).	share of CPOs is ca. 5%; incl. newspapers and magazines Mediaservis has ca. 18%).
Denmark	Direct mail <50g is only open to competition if the packaging is transparent, if not it is considered as items of correspondence. The VAT exemption of Post Danmark includes the conveyance of direct mail, magazines and periodicals up to 2kg.	A small number of CPOs are active in addressed mail delivery (no estimated market share); some of the direct mail is delivered by CPOs (in transparent packaging). Bladkompagniet is active in the delivery of magazines and subscription newspapers (total ca. 275m items in 2007).
Estonia	Since 2002, the licence requirements for the delivery of universal services (requiring that universal services are provided throughout Estonia) do not apply for direct mail.	Competition is developing. In 2006 the joint market share of the three CPOs active in direct mail was 8% in this market segment and 4-5% in total.
Italy	Direct mail is open to competition and part of the intra-city deliveries within the reserved area are subcontracted to CPOs on behalf of the NPO.	Competition is developing, but accurate data on market shares are not available. TNT recently started competing in the reserved area with a value added 'alert of delivery' service.
The Netherlands	Printed matter (letters with identical content apart from the name and address, including direct mail) is not in the reserved area and there is no VAT distortion for this product group.	Market shares of CPOs have risen steadily to 14% in 2007 (incl. magazines and periodicals). Two CPOs have a nationwide delivery network and deliver two times per week.
Slovenia	Direct mail has been liberalised in 2004. There is mandatory access to the network of the NPO and there is no VAT distortion.	Competition is not taking off, potentially because of the small addressed mail market in terms of total volumes and revenues.
<b>Direct mail and intra-city mail not in reserved area</b>		
Spain	Intra-city mail and direct mail have been open to competition for many years. Correos enjoys a VAT exemption on reserved services and not on non-reserved services, creating a level playing field (with regard to VAT) in the liberalised part of the market.	The development of competition in local markets (intra-city mail) was related to the relatively low QoS performance by the NPO. In 2001, Unipost was formed and comprises a network of the 19 main private postal operators. Accurate data is not available; the market share of CPOs is 10-14%.
<b>Relatively large reserved area and well established (negotiated) access regime</b>		
France	The reserved area <50g includes direct mail and inbound cross border mail, but excludes outbound cross border mails and books, magazines and periodicals. The upstream market has been open to competition for decades on the basis of negotiated access offered by La Poste.	Competition in addressed mail delivery >50g is marginal (1%). Competition is developing in outbound cross border mail (10%), while the upstream market carries 7b items (42% of total delivered, some operators are affiliated with La Poste) generating > € 1b in revenues.

Country	Historic development/ specific issues/ country characteristics	Development of competition (market share of CPOs)*
<b>Direct mail and intra-city mail in reserved area</b>		
BE, CY, GR, HU, IE, IS, LT, LU, LV, MT, NO, PL, PT, RO, SK	-	Until the present date, in all these 15 countries no competition of any significance has developed in the addressed mail market.

Note: DM is direct mail; FMO is full market opening. \* Unless stated otherwise, the market share of CPOs refers to the market share in the total addressed mail market, excluding newspapers, magazines and periodicals.

Source: Annex II Country sheets; see Table 4.1 for a summary overview of the estimated market shares of CPOs in the addressed mail market.

### 8.2.1 Impact of the new threshold of 50 grams (as of January 2006) on competition

Reducing the reserved area from below 100 grams to below 50 grams for the conveyance of addressed mail (opening up an additional 7% of the addressed mail market) seems to have made very little impact on the development of competition in European postal markets.

There are a number of reasons for this. First, reducing the weight limit to 50 grams still makes it difficult for competitors to come up with an interesting business proposition. Part of the mail can be handled, while large mail flows cannot be handled because they are part of the reserved area. The consequence is that customers have to separate these mail flows making the process more complicated and less attractive. This issue was already raised in ECORYS (2005, section 6.5.3, p.139) and is confirmed by interviews with competitors and customers as well as by market developments.

Second, periodicals and magazines are products which can more easily be targeted as a specific mail stream and there are periodicals and magazines that weigh between 50 and 100 grams. However, in various countries the incumbent receives a subsidy to deliver periodicals and magazines which is distorting competition.

Finally, the general barriers to entry and to the development of competition mentioned in section 4.3 above apply to the weight category 50-100 grams as well.

### 8.2.2 Impact of distinct market segments that have been liberalised on competition

Rather than reducing the (general) weight limit, the liberalisation of distinct segments of the addressed mail market has been conducive to the development of competition. As can be seen from Table 8.1, the following evidence can be presented to underline this point of view:

- The liberalisation of *direct mail* has enabled competition to develop, in particular in countries where no restrictions were attached as to how direct mail should be presented (as in transparent packaging in Denmark or in an unsealed envelope in Austria) and where no other major barriers to the development of competition in this market segment exist (the Netherlands, Czech Republic, Estonia);

- *Intra-city mail* not being part of the reserved area has, together with the relatively low quality of service performance by Correos, given rise to the emergence of many, often small, local postal operators in Spain;
- *Hybrid mail* is not regarded part of the universal service (and nor of the reserved area) in Bulgaria and this has stimulated entry by CPOs who appear to have gained market share fairly rapidly. In 2007 and 2008, three of these CPOs have also become active in the universal service area;
- The issuance of “D-licences” allowing CPOs to provide (*value added*) *next day delivery services* in the reserved area has stimulated the development of competition in Germany.

Apart from the observation that there is an interrelation between the choices that have been made with regard to the reserved area and the development of competition (in terms of market shares), also the pattern of competition is in our view influenced by the regulatory regime. Linking the information about the business models that are pursued by the main competitors in countries where competition is developing (see Chapter 4, Table 4.3) with the regulatory regimes in these countries, the following examples can be given to illustrate this interrelationship:

- The liberalisation of printed matter (including direct mail) in the Netherlands has given rise to CPOs pursuing a low cost business model focusing on non-urgent business mail (mainly direct mail, catalogues, periodicals and sponsored magazines) with two days per week (end-to-end) delivery;
- The existence of many local postal operators in Spain can be attributed to the early liberalisation of domestic intra-city mail in combination with the low QoS performance of the NPO. With the anticipation of full market opening, Unipost was established in 2001 offering services nationwide and comprising of a network of the 19 main postal operators in Spain and cooperating with a large number of other (local) postal operators;
- The stimulation of competition in Germany through “D-licences” has resulted in a business model of CPOs focusing on transactional mail with five (or six) times per week (end-to-end). As CPOs many local and regional operators emerged as well as TNT and PIN AG who developed nationwide delivery networks combining own delivery with cooperation with each other and these local and regional operators;
- The development of access competition in the UK (discussed in more detail in the next section).

It remains to be seen whether after full market opening eventually a convergence of business models of CPOs will take place or that the liberalisation path will have a longer lasting impact on the pattern of competition in the Member States.

### 8.2.3 Impact of the access regime on the pattern of competition

If we compare the developments between countries such as France, Germany, the Netherlands, Spain, Sweden and the UK, it appears that the access regime has an impact on the pattern of competition (cf. Table 8.1). In all these countries, apart from France (that still has a reserved area <50g, including for direct mail) and the UK, CPOs have built end-to-end delivery networks; and in all of these countries apart from Sweden at

least one CPO is operating a nationwide network covering the largest part or the entire country. End-to-end competition is also developing in other countries (for example in Bulgaria and the Czech Republic).

As is contended below, whether or not entrants develop an end-to-end network seems to depend on the access regime. In this respect, the actual terms and conditions for access seem to be more important than whether or not access has been regulated. For example, in the Netherlands, Spain (until recently) and Sweden there is no mandatory access and the access prices are negotiated between the NPO and the access seekers who are mainly consolidators and mail houses (in Sweden CityMail use access for the delivery of mail to addresses that are not covered in their delivery network). In Germany, until 1 January 2008 the access prices were regulated at a retail minus avoided cost basis and since then the prices are fixed by DPAG (or can be negotiated) while the NRA has the power to review the prices (and force adjustments if needed) ex-post.

In Germany, and even more so in the other countries mentioned, the access prices are less favourable than in the UK, where they have been negotiated but appear to reflect the underlying cost structure of Royal Mail and are below the (bulk) retail prices minus avoided cost. Until full market opening in 2008, competition in Germany was stimulated in the delivery of low weight (<50g) time sensitive (transactional) mail using D-licences. The attractiveness of operations under a D-licence, the relatively high public tariffs linked with a relatively small price difference between the public tariffs and the access tariffs; as well as the problems that competitors encountered several years ago to obtain access at the same terms and conditions as large customers (for injection of mail items in the reserved area) have given CPOs strong incentives to invest in alternative delivery networks with a focus on items of correspondence.

In France, already for several decades there is negotiated access which has stimulated the development of upstream competition and worksharing: currently the upstream market carries 7 billion items (42% of total addressed mail delivered) generating more than € 1 billion in revenues.<sup>157</sup> Fairly recently, namely in the postal law of 2005, the existing situation has been reflected in legislation and access became mandatory. In the Postal Law it is stipulated that the access prices should reflect the costs avoided by La Poste. The actual situation with regard to access is comparable to the situation in the Netherlands in the sense that access is granted rather upstream in the postal supply chain and that prices are not lower if mail is injected further downstream (for example at the delivery offices). According to ECORYS, after full liberalisation the situation in France is conducive to the development of end-to-end competition alongside the existing access competition, provided that there will be no major distortions to the development of end-to-end competition, because:

- The access prices are not as low as in the UK and the business case for end-to-end competition is hence better than in the UK (and more comparable to Germany);
- The activities of mail consolidators have had a concentration effect in the upstream market, meaning that potential end-to-end competitors can gain market share

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<sup>157</sup> The situation in France is somewhat comparable to the situation in the USA where USPS has a monopoly with regard to mail distribution and an extensive system of worksharing has been developed.

relatively quickly through focusing on a limited number of companies (or customers) that generate large volumes of mail.

According to ECORYS, the current access regime in the UK is however conducive to the development of access competition rather than to end-to-end competition, because:

- The low access prices (geared to cost of downstream delivery rather than to the retail prices minus avoided cost) worsen the business case for potential end-to-end competitors;
- The fixed percentage difference between retail and access prices (*headroom*) may be warranted to prevent margin squeeze, but it may be holding the access prices artificially low (or the retail price artificially high) thus preventing greater end-to-end competition (or inducing more access competition);
- The access conditions (in particular the national geographic profile requirement) make combining own delivery with using access unattractive;
- The VAT distortion (valid for around 50% of the market) almost does not apply if access is used (through the ‘agent’ contracts), but remains a key barrier to the promotion of effective end-to-end competition.

It appears to ECORYS, that the main argument (and justification) underlying choices with regard to the regulatory regime should be based on the longer term policy objective (the end-game) that the policy maker and/or the regulator would like to accomplish:

- If this end-game is stimulating upstream competition and preserving economies of scale in delivery (through a near monopoly), then (low) access prices geared to the cost of delivery can be justified;<sup>158</sup>
- If the desirable end-game is end-to-end competition (with access competition playing an additional role), then using the principle of retail price minus avoided cost makes more sense;
- If the goal is end-to-end competition with upstream consolidation activities, it is probably sufficient to apply the principle of transparency and non-discrimination and ensure that consolidators have the same access conditions (prices, terms) as large customers.

### 8.3 Impact of regulation on mail volumes

The addressed mail market is competing with existing alternatives such as other communication channels (for direct mail) and is experiencing e-substitution in particular for items of correspondence. QoS performance, prices, product differentiation and innovation are expected to have an impact on mail volumes in addition to economic development (see also Chapter 4, section 4.2). Regulation and liberalisation have an impact on addressed mail volumes either directly, for instance, through price and quality

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<sup>158</sup> Note that it may be easier to calculate the avoided cost than the cost of downstream delivery and that, if the access prices are below the retail prices minus avoided cost, the transfer of mail volumes from end-to-end (retail) to access results in a worsening financial performance of the NPO. In the UK, part of the financial deterioration of Royal Mail can be attributed to this effect. A potential reason for Royal Mail to accept this reduction in margins (the access prices were negotiated and not imposed by Postcomm) might have been that through setting low access prices a bigger threat (that of end-to-end competition) could possibly be avoided.

regulation, or more importantly indirectly through setting the framework under which competition can develop and business development can take place.

In order to examine the impact of regulation on mail volumes ECORYS has conducted regression analyses using a data base constructed by ECORYS and containing figures for addressed mail volumes per capita and various variables that could explain differences in these mail volumes between countries. We have specifically included figures on direct mail growth rates as this market segment has been liberalised by various countries. The detailed results of the regression analyses are presented in Annex I, Appendix 6.

We have tested the following hypotheses:

- QoS performance has a positive impact on addressed mail volumes per capita;
- Competition in the addressed mail market has a positive impact on addressed mail volumes per capita;
- Bulk mail prices have a negative impact on addressed mail volumes per capita (lower bulk mail prices lead to higher addressed mail volumes per capita and vice-versa);
- Liberalisation of the direct mail market segment contributes to growth in direct mail volumes per capita.

Information on the data sources and on the variables included in the data set is given in the textbox below.

#### Description of variables and data sources

For determining the impact of competition on addressed mail volumes we have included the following variables:

1. Market share CPOs: the combined market shares of CPOs in addressed mail delivery;
2. Upstream access: a dummy variable for extensive access competition (1 for FR, UK);
3. DM open: a dummy variable for liberalisation of the direct mail segment (1 if liberalised);
4. FMO: a dummy variable for full market opening (1 if there is FMO);
5. Qual1: the percentage of domestic mail delivered the next day;
6. Qual2: Qual1 minus the legally required threshold (for domestic priority mail);
7. Priority mail price: the price for single item priority mail (20g, in terms of purchasing power parity, PPP);
8. Bulk mail price: the price for bulk mail (20g, in terms of PPP);
9. GDP/cap: Gross Domestic Product per capita (in terms of PPP);
10. DM growth: growth in (addressed) direct mail volumes;
11. Addressed mail per capita (the dependent variable).

Sources: the values for variables 1-8 come from Annex II, country sheets; variable 9 is taken from Eurostat; variable 10 and 11 are based on UPU supplemented with information from Annex II, country sheets.

### 8.3.1 Impact of QoS performance on addressed mail volumes per capita

Regression results show that both QoS performance and GDP per capita have a statistically significant positive influence addressed mail volume per capita. Hence, given the level of GDP per capita, countries with better QoS performance have higher

addressed mail volumes per capita than countries with worse QoS performance. QoS performance is defined as:

- The percentage of mail delivered the next day (Qual1); or
- The difference between the percentage of mail delivered the next day and the threshold for this figure as set in national regulation (Qual2).

Table 8.2 shows the estimation results obtained using the latter definition for quality.

Table 8.2 Influence of QoS performance and GDP per capita on addressed mail volumes per capita (n=29)

		Qual2	√ GDP/cap	Intercept
Values		2.80	2.66	-234.64
T-value		2.09***	8.12***	-4.59***

Note: n is the number of countries included in the regression estimate. The panel consists of all Member States plus Iceland and Norway. R square is 0.74. \*\*\* The coefficient is statistically significant with at least 95% confidence.

Table 8.3 shows the outcome of a more detailed regression analysis. In this analysis, we relate the volume of addressed mail per capita not only to QoS performance and GDP per capita, but also to competition (market shares of competitors and various dummy variables for market opening), price (the prices for priority mail in PPP were used as we have no bulk mail prices for all of the 29 countries). It appears that GDP per capita still has a clear positive effect on addressed mail volumes per capita and it is more likely that competition and quality have a positive than a negative effect on addressed mail volumes per capita.<sup>159</sup> The dummy variable for upstream liberalisation, which is equal to one for France and the UK and zero for the other countries, appears to be significantly positive, meaning that upstream liberalisation most likely has a positive impact on addressed mail volumes per capita.

Table 8.3 Influence of competition, market opening, QoS performance and price on addressed mail volumes (n=29)

	Market share CPOs	Upstream access	DM open	FMO	Qual2	Price single item mail	√ GDP/cap	Intercept
Coefficient estimate	4.73	105.55	-8.11	55.25	1.82	-84.57	2.36	-171.35
T-value	1.46*	2.63***	-0.34	1.45*	1.37*	-1.39*	8.03***	-2.81***

Note: n is the number of countries included in the regression estimate. The panel consists of all Member States plus Iceland and Norway. R square is 0.85. \* The coefficient is statistically significant with at least 75% confidence; \*\*\* the coefficient is statistically significant with at least 95% confidence.

<sup>159</sup> Note that Market share CPOs and Qual2 are positively correlated (the correlation coefficient is 0.38), but that both variables have a (tentatively) positive effect on addressed mail volumes per capita.

### 8.3.2 Bulk mail prices and addressed mail volume per capita

Table 8.4 shows the impact of bulk mail prices on addressed mail volumes per capita based on the twenty countries for which bulk mail prices are available. Again GDP per capita has a positive impact on addressed mail volumes per capita. The coefficient for bulk mail prices is not significant at a 95% confidence level but is significant at a 90% confidence level. The negative sign of the coefficient suggests that lower bulk mail prices lead to higher addressed mail volumes per capita.<sup>160</sup>

Table 8.4 Influence of bulk mail prices and GDP per capita on addressed mail volumes (n=20)

	Bulk mail prices	√ GDP/cap	Intercept
Coefficient estimate	-358.49	2.42	-79.44
T-value	-1.82**	5.87***	-0.77

Note: n is the number of countries included in the regression estimate. The panel consists of AT, BE, BG, CY, DE, FR, GR, HU, IS, IE, IT, LT, LU, LV, NO, PT, SI, SK, NL, and UK. R square is 0.71. \*\* The coefficient is statistically significant with at least 90% confidence; \*\*\* the coefficient is statistically significant with at least 95% confidence.

### 8.3.3 Direct mail growth and market opening

Table 8.5 shows the regression results with the growth in direct mail volumes as the dependent variable. The explanatory power of the regression is high (R square is 0.88) and all coefficients have the expected sign. Liberalisation of the direct mail segment appears to have a positive influence on the growth rate in direct mail volumes of the last three years for the group of countries included in the regression analysis.

Table 8.5 Influence of market opening and bulk mail prices on growth in direct mail volumes (n=11)

	Market share CPO	DM open	Bulk prices	Intercept
Coefficient estimate	3.74	30.26	124.80	48.34
T-value	2.08**	2.47***	2.81***	2.80***

Note: n is the number of countries included in the regression estimate. n=11 because we have data for both growth in direct mail volumes and bulk mail prices for (only) 11 countries. The panel consists of BG, GR, IS, IE, IT, LT, LU, LV, PT, SI, and SK. R square is 0.88. \*\* The coefficient is statistically significant with at least 90% confidence; \*\*\* the coefficient is statistically significant with at least 95% confidence.

A drawback is that the estimates are based on figures for only 11 countries. If we remove bulk mail prices from the equation, the number of countries for which we have data increases to 17. In this case, it also appears that liberalisation of direct mail has a positive effect on the growth of direct mail volumes in the past three years for the group of countries included in the regression analysis, as shown in Table 8.6. If we remove GDP

<sup>160</sup> A regression analysis including the growth rate of GDP per capita as explanatory variable gives comparable results (but the coefficient of GDP/cap growth is not significant).

growth per capita as an explanatory variable, liberalisation of direct mail also has a positive effect on addressed mail volumes per capita (see Annex I, Appendix 6).

Table 8.6 Influence of direct mail liberalisation on growth in direct mail volumes (n=17)

	DM open	GDP/cap growth	Intercept
Coefficient estimate	26.17	65.14	17.41
T-value	2.67***	1.40	0.29

Note: n is the number of countries included in the regression estimate. n=17 because we only have data on growth in direct mail volumes for 17 countries. The panel consists of BG, CZ, EE, ES, FI, GR, IS, IE, IT, LT, LU, LV, PL, PT, RO, SI, and SK. R square is 0.35. \*\*\* The coefficient is statistically significant with at least 95% confidence.

## 8.4 Contribution of EC directives and national policies on developments in the postal markets

For establishing the contribution (or the *effect*) of the EC directives and national policies on developments in the postal market it is necessary to single out the influence of the EC directives and national policies from the influence that other factors have on market developments. Moreover, it is necessary to compare the market developments with the developments that were to be expected under alternative policies or in methodological jargon, the *counterfactual*. For example, if policy A is changed to policy B with the aim to generate more jobs, policy B would only have a positive effect on employment if through pursuing policy B more jobs would be generated than what would be the case through implementing policy A.

An explanation of the methodology used in this section to establish the contribution of EC and national policies on market developments is given in the textbox below.

### Methodology to establish effects of policies and regulation

Methodologically, it is important to make a distinction between developments and effects. To establish effects (e.g. of the implementation of the postal directives), the actual (observed) developments (actual outcomes) need to be compared with the expected developments (expected outcomes) under a counterfactual. Part of the analysis is to determine the influence of external factors (such as technological developments) on the actual developments (actual outcomes). In a simple formula the methodology reads as:

$E = (O \text{ corrected for EF}) \text{ minus } (\text{expected } O \text{ corrected for EF under the counterfactual});$

where E = effect of policies/regulation, O = outcome (actual development of the relevant indicator), EF = external factor.

As the counterfactual we have chosen to regard a situation in which Directive 97/67/EC would not have been enacted and the (gradual) liberalisation of the addressed mail markets would not be aimed at. In short, in the counterfactual a monopolist postal operator is regulated through QoS (quality) regulation and price regulation focused at

maintaining the prices at 'affordable' level (cost plus or price cap) and demanding transparency and non-discrimination.

Table 8.7 presents the ECORYS assessment of the contribution of EC and national policies in developments in the postal markets, using this methodology and based on the analysis as presented in the various chapters of this study the following conclusions can be drawn:

- The EC directives have a direct effect on the corporate restructuring programmes that are currently undertaken by most of the NPOs, strengthen the trend towards incorporation and act as a catalyst for privatisation;
- Moreover, the EC directives have a direct effect on market developments in countries that without the intervention of the EC would have worsened the prospects of competition (through reversing policies already implemented);
- Most of the effects are generated through the threat of and more importantly actual competition in postal markets and hence by national policies rather than by EC directives given the level of freedom that Directives 97/67/EC and 2002/39/EC allow for the transposition into national legislation; and the subsequent differences in the development of competition between Member States. In many countries the EC directives are a necessary but not a sufficient precondition for these effects;
- The available evidence indicates that competition has contributed to growth (or less decline) in addressed mail volumes, improved customer orientation, more product differentiation, the development of new (value added) services (including hybrid mail services) and a downward pressure on bulk mail prices (cf. the regression analyses and the evidence presented in Chapter 5, in particular section 5.4);
- The recent attention by many of the NPOs to developing and implementing environmental and CSR strategies is largely driven by external factors, whereas the observed improvements in QoS performance would also be partially achieved if QoS regulation would be effectively enforced under the counterfactual (the situation without the directives).

Table 8.7 Effect of EC directives and national regulation on postal sector developments

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
Effective competition	In a minority of European countries competition in the addressed mail market has taken off. The NPOs in these countries have maintained a dominant position in the overall addressed mail market, but experience fierce competition in certain market segments (such as in non-time sensitive mail and direct mail in the Netherlands). In most of the countries with end-to-end competition and in some other countries, competition upstream in the value chain has developed.	To the extent that the VAT exemption of the NPO is outside the realm of postal sector regulation, this is an external factor hampering the development of competition for customers that are VAT exempt.	End-to-end competition would not develop if the legal monopoly would be maintained. The level of upstream competition would depend on the possibilities for mail consolidation if the principle of transparency and non-discrimination would be applied and on the strategic choices of the NPO regarding negotiated upstream and downstream access. For example, upstream competition in France is not very much linked to the liberalisation process, whereas access competition in the UK is.	The main driver of competition is the (development of the) regulatory framework in specific countries. For most countries (with the possible exception of Sweden), the Postal Directives can be regarded as a necessary, but not a sufficient, condition for the development of competition given the degrees of freedom that the Postal Directives leave Member States while transposing the Directives into national legislation.	Competition is developing if either the postal market has been fully liberalised or distinct segments have been liberalised, provided that the licensing conditions do not prohibit competition from developing. The pattern of competition is also influenced by the existing regime for downstream access, as shown by developments in the UK (at least until the present date).
Mail volume	In the countries with mature postal markets and moderate GDP growth total addressed mail volumes have either stabilised (DE) or declined somewhat (UK). In most other countries addressed mail volumes have increased in recent years. As compared to other postal products, volumes	The volume of addressed mail is positively correlated with GDP. The Internet, mobile telephony, SMS, and e-substitution have a negative impact on volumes in transactional mail and letters and postcards (C2C). Increased environmental concerns may also have a negative impact on mail volumes, although the	It seems likely that QoS performance and the development of services in the value chain have a positive impact on addressed mail volumes. Insofar as QoS performance is influenced by QoS regulation and the upstream market has ( <i>de facto</i> ) been liberalised, this would have	Both end-to-end and upstream competition (to the extent that the latter is related to national regulation because of the Postal Directive) have a positive influence on mail volumes through (a combination of) lower prices, better service, improved customer orientation, product differentiation and the	Liberalisation facilitates and/or enables business development through development of the value chain and forward and backward integration.

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
	in transactional mail and letters and postcards (C2C) have declined most (or grown less), while volumes in packages have grown rapidly.	impact is not strong as of yet. E-selling has a positive impact on the distribution of packages.	a positive influence on mail volumes. However, the influence of external factors would probably be dominating.	development of new (value added) services.	
Prices	Price developments show mixed results across the Member States. In countries where competition is developing bulk mail prices tend to gone down.	Prices are influenced by cost developments and hence by wage developments and technological developments.	Assuming cost plus or price cap regulation, prices would go up along with cost (wages) or inflation. There would be no real incentive to reduce the cross-subsidies between products and to realign prices to cost.	Both competition and RPI minus regulation are an incentive for increasing efficiency and lower prices, especially for bulk mail where competition is strongest. A readjustment of prices (geared to cost) may imply that prices for individual item mail go up.	-
Quality of services (transit time)	QoS performance varies between countries with some countries not meeting the set QoS standards (e.g. IE). The general trend is that QoS performance is improving.	Technology can facilitate improving QoS but the application of technology is a decision of company management and not an external factor.	QoS regulation would be in place and this would provide an incentive to meet QoS targets and improve performance if necessary.	In addition to QoS regulation, competition forces NPOs to improve performance.	Product differentiation will cause a shift from traditional QoS performance to 'delivery of promise' monitoring (a D+7 service may be perfectly acceptable as long as the mail is delivered within a week, etc.).
Customer orientation	Customer orientation is slowly becoming more important but customers are still not satisfied in this regard.	-	There would be no clear incentive to improve customer orientation.	Increased customer orientation by NPOs seems to be particularly driven by competition. CPOs tend to be customer oriented.	-
Product differentiation	The main development is that a trade off between price and transit time is offered through	-	This development would not take place. The focus would be on meeting QoS targets and	The increase in product differentiation is driven by entry of new market players and	-

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
	new products, including day-certain delivery. While often initiated by CPOs, NPOs are also increasingly offering these type of products.		system optimisation of the postal supply chain.	(emerging) competition (in particular end-to-end).	
Product innovation / value added services (general)	Product innovation is mainly related to the application of track and trace technologies and through backward and forward integration in the value chain (in particular regarding addressed advertising mail).	Technological developments enable product innovation and the development of value added services. Decline of mail volumes because of e-substitution is an incentive for NPOs to develop new services.	Application of technology in order to better meet customer needs and to improve financial performance would take place to a certain extent. However, the incentives for improving customer orientation and developing customer dedicated services would not be particularly strong.	Competition stimulates product innovation and the development of value added services. Customers more often desire <i>solutions</i> rather than standard products. In some countries competition could develop through offering value added services (use of D-licences in Germany until 1.1.2008) or opportunities are provided by it (track and trace services in the reserved area in Italy).	Given the importance of competition, the effect is stronger in fully liberalised markets (unless the licensing regime in fact prohibits competition) and in countries where complete market segments have been liberalised (direct mail, intra-city mail) than in countries with a reserved area <50g for (almost) all postal product groups.
Product innovation / value added services (hybrid mail)	Hybrid mail services are gaining importance. Most NPOs report increasing hybrid mail volumes, whereas various CPOs are actively exploiting hybrid mail solutions (most notably in BG, NL, SE, and recently in the UK).	Technological developments provide both threats (e-substitution) and opportunities. Increasingly, the development of hybrid mail services is a reaction to these threats and opportunities.	Hybrid mail solutions were used in some countries (e.g. Sweden) to meet QoS targets in remote areas. Hybrid mail would gain in importance in reaction to technological developments.	Competition gives a further impetus to developing hybrid mail solutions. With regard to CPOs: some base their business case on computer generated pre-sorted mail (e.g. NL, SE), upstream competition creates opportunities for hybrid mail (e.g. UK), or hybrid mail offers opportunities if these services are open to competition	-

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
				(BG).	
Productivity / automated sorting & corporate restructuring	(Major) investments aiming to improve the efficiency of mail processing (incl. automated sorting) have been/ are being made or are planned by all NPOs. CPOs link their organisation to their business model; often first bulk mail is targeted and later on smaller mail batches, inducing investments in sorting equipment.	Privatisation provided both an incentive and the means for these investments as evidenced by the relatively early corporate restructuring of DPAG and TNT and developments within MaltaPost. Technological developments provide opportunities for improving the efficiency of mail handling and offering new services.	Some investments in mail processing would take place in order to improve QoS performance targets and to seize opportunities created by technological developments.	Developing (and potential) competition has given additional incentives for postal operators to increase the efficiency of mail processing, leading to major restructuring of mail handling and sorting operations. In a minority of countries (DE, PT, UK) price regulation creates incentives for improving efficiency as well.	Most of the current restructuring programmes cover the period 2004-2010. In the longer term, all countries show the same trend, albeit that countries with low mail volumes and limited means for investment move slower than the other countries. Investments by CPOs depend on their phase of development and opportunities given the regulatory framework.
Incorporation and privatisation	There is a clear trend towards incorporation and privatisation.	-	Partly this trend would exist in order to improve financial independence and efficiency. Privatisation would be mainly based on political considerations.	Approaching full market opening and developing competition strengthens the trend towards incorporation and acts as a catalyst for privatisation.	-
Environmental policies	NPOs are increasingly developing Corporate Social Responsibility (CSR) strategies and/or environmental policies and report on implementation measures which reduce the impact of their operations on the environment.	Environmental concerns amongst politicians and the general public have resulted in increased environmental awareness and many companies developing CSR strategies and programmes and/or environmental policies.	For the largest part this development is driven by external factors and would also have occurred if the legal monopoly of NPOs would have remained unchanged.	Although largely driven by external factors, the existence of competition stimulates postal operators to have a CSR strategy as for example some large customers in the UK demand a CSR in the tender dossier for mail services that are tendered.	Most of the environmental measures that are announced by NPOs can also be related to increasing profitability. Most of the environmental policies have long-term goals and sometimes might be interpreted as window-dressing.

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
Employment – level	Developments in (direct) employment levels are driven by productivity developments (automation, rationalisation) and changes in mail volumes. Competition causes a transfer of employment from NPOs to CPOs. Overall, the number of people directly employed in the postal sector has remained fairly stable the last six years.	Privatisation of DPAG and TNT gave an incentive to increase shareholder value through corporate restructuring with corresponding (short run) reductions in employment levels. Technological developments provide opportunities for improving the efficiency of mail handling (negative), offering new services (positive) and negatively influence employment because of e-substitution.	Although there would not be a (strong) incentive to improve productivity, some investments in mail processing would take place in order to improve QoS performance targets with a negative impact on employment. Ultimately, mail volume decline would put employment levels under pressure.	The overall effect on employment is not clear. NPOs in countries anticipating full market opening are engaged in corporate restructuring, leading to reductions in employment. When competition has taken off, the positive employment effect through new employment within (at least in delivery less productive) CPOs, diminished economies of scale and business development (lower prices, new products) probably outweighs the negative effect of corporate restructuring.	A priori, the welfare effects of changes in employment are not evident. If for example employment is decreasing as a result of productivity improvements and employees laid off find more productive jobs elsewhere, the welfare effect at national level is positive.
Employment – job qualifications	Developments vary. In many countries there do not seem to be significant changes. Some NPOs (e.g. La Poste) have reduced flexible and part-time labour in an effort to improve performance, whereas TNT has created a new (part-time) job of mail deliverer requiring lower qualifications. CPOs tend to use a business model with relatively little qualification requirements (and corresponding low wages)	In many countries the supply of part-time work has increased, in particular from those who do not need to earn an income based on full-time employment (people with a working partner, students, pensioners), facilitating that business models based on part-time labour can operate.	Apart from developments related to improving QoS realisations, there would be no clear incentive to change existing job qualifications.	The changes in job qualifications seem mostly driven by the development of competition (and are most pronounced in countries where competition has taken off).	The application of technology generally leads to more specialisation and as a result to lower job requirements for certain jobs (in particular in sorting and delivery). For example, a high degree of automated sorting or computerised pre-sorting reduces the need for manual sorting and may change the job requirements for mail delivery.

Indicator	Observed development	Influence of external factors	Expected development under counterfactual	Contribution of regulation to development (effect)	Remarks
	for workers engaged in mail processing and mail delivery and more often than NPOs offer part-time contracts. Development of new (value added) services in general rises the job requirements.				

Source: assessment by ECORYS based on the information and analysis in the various chapters of this study.

Note: In the counterfactual a monopolist postal operator (in the addressed mail market) is regulated through QoS (quality) regulation and price regulation focused at maintaining the prices at 'affordable' level (cost plus or price cap) and demanding transparency and non-discrimination.

## 8.5 Regulatory asymmetry and the potential impact on the internal market

According to ECORYS, based on acquired evidence in the country sheets, the following issues may create regulatory asymmetry and have a negative impact on the internal market:

- The profound differences between Member States with regard to the services for which the NPO is exempt from charging VAT;
- The different requirements that have to be met for obtaining a licence or authorisation to provide postal services (Directive 2008/6/EC provides guidance in this matter);
- The varying extent to which access to the postal infrastructure has been regulated and/or arranged for in practice, including how interoperability has been taken care of at Member State level;
- The diverse mail requirements in the Member States, in particular with regard to local address formats, barcodes, and the definitions used to distinguish a letter from a parcel (relevant to internationally operating postal operators and customers);
- Labour legislation and in particular collective labour agreements applicable to all operators (the NPO and CPOs alike) if these would in fact pose unfair restrictions to the business model of competitors;
- The definition of the USO in combination with its cost and financing. If the large differences in the definition of the USO across Member States would remain and if this would result in (large) differences in the (to be calculated at Member State level) net cost of the USO, the functioning of the internal market, including the development of competition, would be hampered if CPOs are forced to participate in the funding of the net cost of the USO.

## 8.6 Summary of main findings and conclusion

The analysis presented in this chapter shows that there is a clear interrelation between postal regulation and market developments.

### *Impact of regulation on the development of competition*

Considering the impact of regulation on the development of competition we conclude that:

- Reducing the reserved area from below 100 grams to below 50 grams (opening up an additional 7% of the addressed mail market) seems to have made very little impact on the development of competition in European postal markets;
- Rather than reducing the (general) weight limit, the liberalisation of distinct segments of the addressed mail market has been conducive to the development of competition. The liberalisation of direct mail (CZ, EE, IT, NL), intra-city mail (ES), hybrid mail (BG) and the issuance of “D-licences” (allowing CPOs in Germany to provide *value added next day delivery services* until full market opening) has enabled competition to develop, in particular if there were no other major barriers to the development of competition;
- According to ECORYS, the access regime influences the pattern of competition and a number of aspects of the access regime and access regulation are likely to be conducive to the development of access competition rather than end-to-end competition.

It appears to ECORYS that the main argument (and justification) underlying choices by the policy maker and/or the NRA with regard to the regulatory regime should be based on the end-game that the policy maker and/or the regulator would like to accomplish:

- If this end-game is stimulating upstream competition and preserving economies of scale in delivery (through a near monopoly), then (low) access prices geared to the cost of delivery can be justified;<sup>161</sup>
- If the desirable end-game is end-to-end competition (with access competition playing an additional role), then using the principle of retail price minus avoided cost makes more sense;
- If the goal is end-to-end competition with upstream consolidation activities, it is probably sufficient to apply the principle of transparency and non-discrimination and ensure that consolidators have the same volume discounts as large customers.

#### *Effect of market opening on addressed mail volumes per capita*

A series of regression analyses using a dataset constructed by ECORYS containing data for addressed mail per capita volumes and a series of potential explanatory variables suggest that market opening and competition (including through lower bulk mail prices) has a positive effect on addressed mail volumes. Amongst others, the (*a priori*) expectation that liberalisation of the direct mail segment is conducive to business development and increasing mail volumes is empirically confirmed. Moreover, there is a statistically significant correlation between QoS performance and addressed mail volume per capita, even if we adjust for the impact of GDP.

#### *Contribution of EC directives and national policies on market developments*

For establishing the contribution (or the *effect*) of EC directives and national policies on developments in the postal market it is necessary to examine the influence of external factors on market developments and assess how the market would have developed under alternative policies (the *counterfactual*). The effect of EC and national policies is the difference between the observed market development and the expected development under the counterfactual.

As the *counterfactual* we have chosen to regard a situation in which Directive 97/67/EC would not have been enacted and the (gradual) liberalisation of the addressed mail markets would not be aimed at. In short, in the counterfactual a monopolist postal operator is regulated through QoS (quality) regulation and price regulation focused at maintaining the prices at 'affordable' level (cost plus or price cap) and demanding transparency and non-discrimination.

Table 8.8 presents a summary of the assessment of ECORYS of the contribution of EC and national policies to developments in the postal markets. It can be concluded that the effect is often generated through actual competition or the threat of competition in postal markets. The effects are therefore predominantly dependent on the national regulatory

<sup>161</sup> It should be noted that it may be easier to calculate the avoided cost than the cost of downstream delivery and that, if the access prices are below the retail prices minus avoided cost, the transfer of mail volumes from end-to-end (retail) to access results in a worsening financial performance of the NPO. In the UK, part of the financial deterioration of Royal Mail can be attributed to this effect.

frameworks, while for many countries the EC directives are a necessary but not a sufficient precondition for these effects.

The EC directives have a direct effect on the current corporate restructuring programmes of most of the NPOs. They strengthen the trend towards incorporation, act as a catalyst for privatisation and have a positive impetus in countries where the political stance is hesitant towards liberalisation.

The development and implementation by many NPOs of environmental and CSR strategies is largely driven by external factors, whereas the observed improvements in QoS performance would also be partially achieved if QoS regulation were effectively enforced under the counterfactual (the situation without the directives).

#### *Risk for regulatory asymmetry and the internal market*

Finally, there are a number of issues that may create regulatory asymmetry and have a negative impact on the internal market (in particular VAT treatment, licence conditions, access and interoperability, mail requirements, labour legislation and the definition of the USO in combination with its cost and financing).

**Table 8.8** Effect of EC and national regulation on postal sector developments (summary)

Indicator	Contribution of regulation to development (effect)
Effective competition	The main driver of competition is the (development of the) regulatory framework in specific countries. For most countries (with the possible exception of Sweden), the Postal Directives can be regarded as a necessary, but not a sufficient, condition for the development of competition given the degrees of freedom that the Postal Directives leave Member States while transposing the Directives into national legislation.
Mail volume	Both end-to-end and upstream competition (to the extent that the latter is related to national regulation because of the Postal Directive) have a positive influence on mail volumes through (a combination of) lower prices, better service, improved customer orientation, product differentiation and the development of new (value added) services.
Prices	Both competition and RPI minus regulation are an incentive for increasing efficiency and lower prices, especially for bulk mail where competition is strongest. A readjustment of prices (geared to cost) may imply that prices for individual item mail go up.
Quality of services (transit time)	In addition to QoS regulation, competition forces NPOs to improve performance.
Customer orientation	Increased customer orientation by NPOs seems to be particularly driven by competition. CPOs tend to be customer oriented.
Product differentiation	The increase in product differentiation is driven by entry of new market players and (emerging) competition (in particular end-to-end).
Product innovation / value added services (general)	Competition stimulates product innovation and the development of value added services. Customers more often desire <i>solutions</i> rather than standard products. In some countries competition could develop through offering value added services (use of D-licences in Germany until 1.1.2008) or opportunities are provided by it (track and trace services in the reserved area in Italy).
Product innovation / value added services (hybrid)	Competition gives a further impetus to developing hybrid mail solutions. With regard to CPOs: some base their business case on computer generated pre-sorted mail (e.g. NL, SE), upstream competition creates opportunities for hybrid mail (e.g. UK), or hybrid mail

Indicator	Contribution of regulation to development (effect)
mail)	offers opportunities if these services are open to competition (BG).
Productivity / automated sorting & corporate restructuring	Developing (and potential) competition has given additional incentives for postal operators to increase the efficiency of mail processing, leading to major restructuring of mail handling and sorting operations. In a minority of countries (DE, PT, UK) price regulation creates incentives for improving efficiency as well.
Incorporation and privatisation	Approaching full market opening and developing competition strengthens the trend towards incorporation and acts as a catalyst for privatisation.
Environmental policies	Although largely driven by external factors, the existence of competition stimulates postal operators to have a CSR strategy as for example some large customers in the UK demand a CSR in the tender dossier for mail services that are tendered.
Employment – level	The overall effect on employment is not clear. NPOs in countries anticipating full market opening are engaged in corporate restructuring, leading to reductions in employment. When competition has taken off, the positive employment effect through new employment within (at least in delivery less productive) CPOs, diminished economies of scale and business development (lower prices, new products) probably outweighs the negative effect of corporate restructuring.
Employment – job qualifications	The changes in job qualifications seem mostly driven by the development of competition (and are most pronounced in countries where competition has taken off).

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## Annex I

## Appendices



## Appendix 1 Price regulation in the Member States

Country	Price Control			Type				Ex-ante	Ex-post	COMMENTS
	Reserved	USO	Other	RPI -	RPI +	Cap	Cost			
							Based			
AT	X	X					X	X	X	Prices approved by NRA Reserved area: ex-ante regulation, USO: ex-post regulation
BE	X	X	X		X	X	X		X	Price cap for reserved and small consumer basket USO: price cap full tariff Bulk Mail: CPI+ Non-USO mail: maximum tariffs or tariff formulas
BG	X	X								State subsidy for USO
CY	X	X	X			X	X	X	X	Price regulation for non-USO services only applicable to dominant operators.
CZ	X	X					X	X		Price regulation does not apply to CPO.
DE		X	X	X		X		X		Prices for bulk mail are not subject to NRA approval. The monopoly commission considers the regulated prices to high due to the level of profit being achieved by the NPO

Country	Price Control			Type				Ex-ante	Ex-post	COMMENTS
	Reserved	USO	Other	RPI -	RPI +	Cap	Cost			
							Based			
DK	X	X				X	X	X		Reserved services: ex-ante regulation, Non-reserved USO-services: price cap regulation. Benchmark is consumer price index for services.
EE	X	X					X	X		Prices may contain a 10% profit margin
ES	X	X					X	X	X	Reserved services require pre-approval, whereas non-reserved USO do not but subject to review. The reserved area in Spain includes the provision and deliver of money orders, which it is assumed are price regulated.
FI		X					X		X	No reserved area.
FR	X	X				X	X	X	X	Price changes for services in the reserved area require approval; non-reserved services in the USO require notification.
GR	X	X					X	X		
HU	X					X		X		
IS	X	X					X	X	X	Reserved service require pre-approval, whereas non reserved USO do not but subject to review
IE	X	X					X	X	X	Reserved service require pre-approval, whereas non reserved USO do not but subject to review
IT	X	X				X		X	X	
LT	X	X				X	X		X	
LU	X					X	X	X		

Country	Price Control			Type				Ex-ante	Ex-post	COMMENTS
	Reserved	USO	Other	RPI -	RPI +	Cap	Cost			
							Based			
LV	X	X					X	X		
MT	X	X					X	X		The NRA plans to commence a project in 2008 with the aim of introducing and RPI minus x regime in the future.
NL	X	X				X		X		The NRA is responsible for setting initial tariffs under new legislation, thereafter, prices will be geared to RPI
NO	X	X			X	X	X	X	X	Reserved service require pre-approval, whereas non reserved USO do not but subject to review
PL	X	X					X	X		Since 2008 ex-ante price regulation of the reserved and USO services has been introduced.
PT	X	X		X			X	X	X	
RO	X	X					X	X		
SI	X	X					X	X		
SK	X	X	X				X	X		Included within the USO is the provision of postal payment services which are also price regulated
SE		X				X	X	X	X	The yearly increase for 1 <sup>st</sup> class single items up to 500 gram can not be more than RPI. Ex-post review for other USO services

Country	Price Control			Type				Ex-ante	Ex-post	COMMENTS
	Reserved	USO	Other	RPI -	RPI +	Cap	Cost			
							Based			
UK		X	X	X		X	X	X		The price control is set for a period of years and is in the form of two “baskets” of products – captive and non-captive. Access prices are also controlled in the form of margin maintenance with retail services

Source: Annex II, country sheets.

## Appendix 2 Overview of NRAs

Country	NRA	No. of staff at the postal unit + additional support (in FTE)	Independent?
AT	Rundfunk und Telekom Regulierungs-GmbH (RTR)	3+3*	Yes
BE	Belgian Institute for Post service and Telecommunications (BIPT)	10	Yes
BG	Communications to Communications Regulation Commission (CRC)	5+5	Yes
CY	Office of the Commissioner of Telecommunications and Postal Regulation (OCECPR)	0.9	Yes
CZ	Czech Telecommunication Office (CTO)	8	Yes
DE	Bundesnetzagentur (BNetzA)	28	Yes
DK	Færdselsstyrelse (Road Safety and Transport Agency)	4	Yes
EE	Estonian Competition Authority (Konkurentsiamet)	4	Yes
ES	Ministerio de Fomento	40	New status/Unclear
FI	Finnish Communications Regulatory Authority (FICORA)	8.5	Yes
FR	ARCEP (Autorité de Régulation des Communications Electroniques et des Postes)	11	Yes
GR	National Telecommunications and Post Commission (EETT)	[unknown]	Yes
HU	National Communications Authority, Hungary (NCAH)	[unknown]	Unclear (1)
IS	Post and Telecom Administration (PTA)	[unknown]	Yes
IE	Commission for Communications Regulation, (ComReg)	7.5	Yes
IT	Ministry of Communications	40	Yes
LT	Communications Regulatory Authority (RRT)	[unknown]	Yes
LU	Institut Luxembourgeois de Régulation (ILR)	3	Yes
LV	Public Utilities Commission (PUC)	[unknown]	Yes
MT	Malta Communications Authority (MCA)	3	Yes

Country	NRA	No. of staff at the postal unit + additional support (in FTE)	Independent?
NL	Onafhankelijke Post- en Telecommunicatie Autoriteit (OPTA)	2.7	Yes
NO	Norwegian Post and Telecommunication Authority (NPT)	5	Yes
PL	Office of Electronic Communications (UKE)	28	Yes
PT	ICP - Autoridade Nacional de Comunicações (ICP-ANACOM)	[unknown]	Yes
RO	National Regulatory Authority for Communications and Information Technology (ANRCTI)	[unknown]	Yes
SI	Post and Electronic Communications Agency (APEK)	5	Yes
SK	Postal Regulatory Office	12	Yes
SE	Post- och telestyrelsen (PTS)	9	Yes
UK	Postal Services Commission (Postcomm)	60	Yes

Note: \* Supported by 3 FTE from the RTR.

Source: Annex II, country sheets.

## Appendix 3 Summary results of the customer needs: Delphi opinion survey

This appendix provides results from an opinion survey, mainly high volume users from 22 different Member States, asking question on customer needs.

### 1. Product differentiation

It seems that mailers wish to have more choice with respect to service levels, e.g. speed of delivery, certainty of the moment of delivery, more differentiated tariffs structures (for addressed bulk mail). Do you recognise this (as a trend)? Do market players in your view respond adequately to market needs and treat customers as real clients, also if real competition has not yet developed? What could and should be improved?

Where markets have been opened, which certainly is not the case (completely) in all EU countries, a majority of respondents perceive improving client orientation and improving quality of services at better prices, in particular from new entrants.

However markets shares of competitors are still (very) low resulting in only limited pressure on the incumbents and, consequently, limited effects on incumbent behaviour, in particular regarding postal services for small and midsize consumers.

Furthermore it was observed that sometimes new service providers encounter quality of service problems after promising market entry.

Continued attention for creating a level playing field is essential to strengthen competitive pressure on the incumbents, thus improving market dynamics (removal or further reduction of the reserved area, resolving VAT issues, fair access to (unbundled) incumbent wholesale services).

### 2. Benefits of competition

What should in your view be the short term and longer term benefits of opening markets for competition, e.g. improved customer orientation and customer dedicated services, sustained pressure on tariffs, possibility to implement a multi vendor strategy? What benefits of competition do you already experience or perceive?

Sustained pressure on tariffs should according to most respondents be the main benefit of competition in the medium/long term. However perceived effects in the market still are very limited.

Tailoring of services to individual clients needs (for specific type of) mailings is also mentioned quite often. In particular competitors tend to focus on market niches, e.g. specific areas, specific mail streams, specific destinations.

At this it is important that bulk mail is becoming less important whereas the importance of more focussed mail streams is growing.

Some respondents addressed the possible negative effect of differentiation of services on the universal availability of good quality basic services. Ensuring a solid USP package should remain a government task.

### 3. New or improved services

Do you think the mail sector adequately responds to the need for additional services, e.g. remote printing, consolidation services, more easy and harmonised procedures for cross-border mail (currently cross border mailers are confronted with a variety of formats for addresses and envelopes)? What could and should in your view be improved?

Print and mail still is the prevailing business model. However remote printing clearly is of growing importance, i.e. because of positive environmental effects. This development only seems to have a loose link to the development of competition.

Rather than providers of standard services mailers should become logistic partners of medium sized and large clients, jointly trying to generate new business in the shrinking print based market.

Solving current inefficiencies in cross border mail processes is also mentioned as a chance for business innovation, whereas streamlining export formalities seems to be as important as or maybe even more important than harmonisation of address formats.

An effect of competition is that customer can make the trade off between speed and price. This should however not be detrimental for the reliability of time to delivery as currently sometimes is the case. Ensuring minimum market performance levels might be a reason for sustained government involvement.

### 4. Development of competition

Are you satisfied with the development of competition? What are in your view major drivers and major obstacles for the development of competition? Should regulation policies be changed?

In general the development of competition in the postal sector is not judged very positive. Where (basic) conditions for competition are created market, which is not always the case, response is experienced to be (very) slow and regionally and locally focussed.

Continued attention for creating and maintaining a level playing field is needed. The current regulatory framework should in principle be sufficient for realising this but access to the network is still a weak element taken into account the cost of building up a postal network. Efficient implementation of the framework, ensuring that also consumers benefit from market opening probably is more important than changing the rules before full implementation.

At this market transparency should be a point of attention.

A further point of attention could be harmonisation of conditions for cross border mail and the reduction of the administrative burden placed on this mail stream (this might need amending regulation).

## List of participants

	country	organisation type	Name
1	Austria	Company	Readers Digest
2	Belgium	Bank	Dexia
3	Belgium	NRA	
4	Belgium	Company	Readers Digest
5	Bulgaria	Company	Readers Digest
6	Cyprus	NRA	
7	Czech Republic	Company	Readers Digest
8	Denmark	Company	Readers Digest
9	Estonia	NRA	
10	EU	Publishers platform	EADP
11	Germany	NRA	
12	Germany	Company	Readers Digest
13	Greece	CRO	KEPKA
14	Hungary	NRA	
15	Hungary	Company	Readers Digest
16	Ireland	Company	The Boat People
17	Ireland	Charity organisation	Concern
18	Italy	Company	RCS
19	Luxembourg	Company	Readers Digest
20	Malta	NRA	
21	Netherlands	Company	SNS Reaal
22	Netherlands	Company	Readers Digest
23	Norway	Company	Readers Digest
24	Poland	Company	Readers Digest
25	Portugal	Company	VASP
26	Portugal	Company	Readers Digest
27	Slovakia	NRA	
28	Slovakia	Company	Readers Digest
29	Sweden	NRA	
30	Sweden	Company	Homeenter.com
31	Sweden	Company	Readers Digest
32	United Kingdom	Company	BSkyB
33	United Kingdom	Company	BBC
34	United Kingdom	CRO	Postwatch
35	United Kingdom	Company	Readers Digest



## Appendix 4 Ratio staff cost of total cost with NPOs

The labour cost ratio analysis is based on data from national postal operators' annual reports with the year 2006 taken as base year. The 2006 base year was selected due to the fact that some operators were late in publishing audited annual (financial) reports.

In the following table, we have indicated some restrictions in analysing these data for the mail sector only, as annual reports publish data on group activities.

For this reason we have corrected the group data with approximately 10 % in our scheme presented in the text of this chapter, which is also based on analysis of other data such as changes in composition of (sorting) staff and other subjects dealt with in these annual reports.

Turnover	Staff cost	Country	%		Conversion	Turnover	Currency	Staff cost	Source
€ 60.545.000.000	€ 18.616.000.000	Germany	30.75	DE	Euro	60.545	Euro (mln.)	18.616	AR 2006
€ 20.100.000.000	€ 11.841.000.000	France	58.91	FR	Euro	20.100	Euro (mln.)	11.841	AR 2006
€ 15.932.000.000	€ 5.396.000.000	Italy	33.70	IT	Euro	15.932	Euro (mln.)	5.369	AR 2006
€ 11.854.756.800	€ 7.812.410.400	United Kingdom	65.90	UK	1,30905	9.056	£ (mln.)	5.968	AR 2006
€ 10.060.000.000	€ 3.384.000.000	Netherlands	33.64	NL	Euro	10.060	Euro (mln.)	3.384	AR 2006
€ 2.230.500.000	€ 1.414.900.000	Belgium	63.43	BE	Euro	2230,5	Euro (mln.)	1414,9	AR 2006
€ 2.527.707.915	€ 1.058.110.290	Norway	41.86	NO	0,126417	19.995	NOK (mln.)	8.370	AR 2006
€ 2.171.176.000	€ 1.418.138.000	Spain	65.32	ES		2.171.176	Euro (1000)	1.418.138	AR 2006
€ 2.130.209.055	€ 1.042.083.000	Sweden	48.92	SE	0,106335	20.033	SEK (mln.)	9.800	AR 2006
€ 1.736.700.000	€ 1.063.000.000	Austria	61.21	AT	Euro	1736,7	Euro (mln.)	1063	AR 2006
€ 1.550.600.000	€ 605.000.000	Finland	38.98	FI	Euro	1.550,6	Euro (mln.)	604,5	AR 2007

Turnover	Staff cost	Country	%		Conversion	Turnover	Currency	Staff cost	Source
€ 1.537.042.738	€ 891.087.855	Denmark	57.97	DK	0,134099	11.462	DKK (mln.)	6.645	AR 2005
€ 818.827.000	€ 578.120.000	Ireland	70.60	IR	Euro	818.827	Euro (1000)	578.120	AR 2006
€ 668.539.903	€ 430.121.276	Czech Republic	64.34	CZ	0,0398946	16.757.654	CZK (1000)	10.781.441	AR 2006
€ 661.265.465	€ 356.726.666	Hungary	53.95	HU	0,003789	174.522.424	HUF (1000)	94.147.972	AR 2006
€ 653.486.000	€ 404.114.000	Portugal	61.84	PT		653.486	Euro (1000)	404.114	AR 2006
€ 250.252.311	€ 129.018.716	Slovakia	51.56	SK	0,0309352	8.089.565.000	SKK	4.170.612.000	AR 2005
€ 229.302.979	€ 129.679.567	Slovenia	56.55	SI	0,00417293	54.950.114	Sit (1000)	31.076.382	AR 2006
€ 153.700.000	€ 71.010.000	Luxembourg	46.00	LU	Euro	153,7	Euro (mln.)	71,01	AR 2006
€ 69.230.337	€ 39.235.955	Bulgaria	56.67	BG	1,958	135.553	BGN (1000)	76.824	AR 2006
€ 53.746.074	€ 30.172.281	Iceland	56.14	IS	0,00950721	5.653.191	ISK (1000)	3.173.621	AR 2006
€ 52.302.476	€ 31.950.792	Lithuania	61.09	LT	0,28962	180.590	LTL (1000)	110.320	AR 2006
€ 45.076.463	€ 26.262.792	Latvia	58.26	LV	1,42287	31.679.959	LVL	18.457.619	AR 2006
€ 42.182.000	€ 28.093.000	Estonia	66.60	EE	Euro	42.182	Euro (1000)	28.093	AR 2004
€ 16.928.652	€ 10.027.134	Malta	59.23	MT	2,32937	7.267.481	MTL	4.304.655	AR 2006

Notes:

- Some countries are not included simply as the Annual Report does not provide any information on relevant financials, such as the cost side and productivity data (GR, PL, RO, LU and CY);
- These data include all operations and some operators have a larger scope than mainly the mail sector including Express, Logistics, Financial Services and Insurance services;
- The view will be different for (high volumes) mail processing only as the other mail sector are from the start less labour intensive and more based on new technology and driven by value added solutions;
- The postal operators operating in different business areas report financials for Group data, which make comparisons less business area specific;
- ECORYS has asked all NPOs to report on wages as a proportion of total cost but most of them were reluctant to provide detailed data (with the deadline of full liberalisation approaching). Only few have provided specific answers to questions of our web questionnaire at this point.

Source: Annex II, country sheets.

## Appendix 5 Industrial relations in the mail service sector

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
<b>AT</b>	Main provider (83% of sector's employment)	One sectoral union, Union of Post and Telecommunications Employees (Gewerkschaft der Post- und Fernmeldebediensteten, GPF)	80%	No sectoral association	Only employees of main provider are covered by company agreement.  Full coverage.
	Alternative providers	Two different unions (one new)	Around 20%		n.a.
<b>BE</b>	Main provider (around 70% of sector's employment)	Sevens unions (double presence for civil servants and private employees)	80%	No general sectoral association.  Belgian Courier Association (BCA) for private sector	Company agreement.  Full coverage
	Alternative providers (in expansion)	Different unions	n.a.		All companies have to be covered by sectoral collective agreements.  Extensive coverage.
<b>BG</b>	Main provider (around 78% of sector's	Three unions	76%	No sectoral association	Only company agreement for main provider.

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
	employment)				Full coverage.
	Alternative providers (in expansion)	Not unionized	--		No collective agreements
<b>CY</b>	Main provider (around 60% of sector's employment)	a) One union for public servants. b) Two unions for hourly-paid staff	a) Very high b) n.a.	No sectoral association.  Four private companies are members of employer organizations.	Collective bargaining at company level.  Wide coverage.
	Alternative providers	Only two companies unionised	n.a.		Most workers employed on basis of individual contracts.  Only one company-level agreement.  Limited coverage.
<b>CZ</b>	Main provider (strongly predominant)	One sectoral union, Postal Workers, Telecommunications and Newspaper Services Trade Union (Odborový svaz zaměstnanců poštovních, telekomunikačních a novinových služeb, <u>OSZPTNS</u> )	36% (whole sector)	One organization set up for collective bargaining purposes, Czech Union of Postal, Telecommunications and Print Distribution Sector (Český svaz zaměstnavatelův poště, telekomunikací a distribuci tisku)	High-level collective agreement.
	Alternative providers				Two company agreements.
<b>DE</b>	Main provider (around 80% of sector's employment)	- One main union;  - Two other unions	Very high	Working Committee in Courier, Express, Parcel and Postal Services (Arge KEP- und Postdienste e.V.)	Noteworthy collective agreements only at Deutsche Post.  Full coverage.
	Alternative providers (in expansion)	n.a.	n.a.	n.a.	Other workers may be covered by agreements in other sectors.

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
					Limited coverage.
<b>DK</b>	Main provider (around 88% of sectors)	Two unions (outcomes of mergers) for both civil servants and contractual staff	90%	Post Danmark and a few other companies are members of Confederation of Danish Industries (Dansk Industri, DI)	Sectoral level collective agreement, plus negotiations at company level.
	Alternative providers	n.a.	n.a.		Extensive coverage
<b>EE</b>	Main provider (around 76% of sector's employment)	- One main union; - another competing union	40%	No sectoral association. Estonian Post and another company are members of Estonian Employers' Confederation (Eesti Töoandjate Keskliit, ETTK)	Only company agreement for main provider.
	Alternative providers		n.a.		Full coverage
<b>GR</b>	Main provider (and one subsidiary): around 57% of sector's employment	One union	High	No sectoral association	Company agreements.
	Alternative providers	Not unionized	--		Full coverage
<b>ES</b>	Main provider (strongly predominant)	Five unions	n.a.	No sectoral association	Under the National General Collective Labour Agreement
	Alternative providers	n.a.	n.a.		Only company agreement for main provider.
<b>FI</b>	Main provider (around 86% of sector's employment)	One main union (outcome of a merger), Finnish Post and	82%	Employer organisation Tieto- ja tekniikka-	Full coverage
		Logistics Union (Posti- ja logistiikka-alan unioni, PAU)		alojen työnantajaliitto (TIKLI), affiliated to Confederation of Finnish	n.a.
					Collective agreement at sectoral level. © European Foundation for the Improvement of Living and
					Extensive coverage

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
	Alternative providers	n.a.	n.a.	Industries (Elinkeinoelämän keskusliitto, EK)	
<b>FR</b>	Main provider (strongly predominant)	- Seven unions (two affiliated to confederations); - two independent unions	n.a.	Employers' postal sector chamber (Chambre patronale du secteur postal) as of 1 December 2006	National level agreements supplemented by negotiations at local level.  Full coverage.  2004 agreement organising social dialogue
	Alternative providers	n.a.	n.a.		Company agreements in all companies
<b>HU</b>	Main provider (around 98% of sector's employment)	Eight unions	High	No sectoral association, but sectoral social dialogue committees	Company agreements. Full coverage
	Alternative providers (in expansion)	n.a.	n.a.		Company agreements in a couple of cases
<b>IE</b>	Main provider (strongly predominant)	Five unions	Almost 100%	No sectoral association.  An Post is affiliated to Irish Business and Employers' Confederation (IBEC)	Collective bargaining at An Post occurs at both local and national level.  Full coverage
	Alternative providers		n.a.		n.a.
<b>IT</b>	Main provider (strongly predominant)	- Four confederal unions; - two independent unions	70%-80%	Main provider and largest companies belong to Federation of Service Enterprises (Federazione delle imprese)	Company agreement. Full coverage

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
				<p>di servizi, FISE), affiliated to Confederation of Italian Industry (Confederazione Generale dell'artigianato e della piccola e media impresa, CNA)</p> <p>smaller companies belong to National Confederation of Crafts and SMEs (Confederazione Nazionale dell'Industria Italiana, Confindustria);</p>	
	Alternative providers		low		<p>Sectoral agreement covering express delivery agencies and members of CNA.</p> <p>Broad coverage</p>
LT	Main provider (around 90% of sector's employment)	One sectoral trade union, Lithuanian Communication Workers Trade Union (Lietuvos ryšių darbuotojų profesinė sąjunga, LRDPS)	50%	No sectoral association	<p>Only company agreement for main provider.</p> <p>Full coverage</p>
	Alternative providers (in expansion)	Not unionized	--		No coverage
LU	Main provider (strongly predominant)	<p>- One union for civil servants and state employees;</p> <p>- another union for state workers</p>	High	No sectoral association	<p>Only company agreement for main provider.</p> <p>Full coverage</p>
	Alternative providers	n.a.	n.a.		n.a.

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
<b>LV</b>					
	Main provider (around 82% of sector's employment)	One sectoral trade union, Communication Workers Trade Union (Sakaru darbinieku arodbiedrība, SDA), with 51% overall density	59%	No sectoral association.  Main provider is affiliated to Latvian Employers' Confederation (Latvijas Darba Devēju konfederācija, LDDK)	Company agreement.  Full coverage
	Alternative providers		n.a.		n.a.
<b>MT</b>	Main provider (around 80% of sector's employment)	Two unions (one not recognised)	95%	No sectoral association.	Only company agreement for main provider.  Full coverage
	Alternative providers (in expansion)	Not unionized	--		Not covered
<b>NL</b>	Main provider (strongly predominant)	Four unions	n.a.	No sectoral association	Company agreement for main provider.  Full coverage
	Alternative providers	n.a.	n.a.		n.a.
<b>NO</b>	Main provider (strongly predominant)	Main provider (strongly predominant) - One main union, Communication Workers' Union (Norsk Post- og Kommunikasjonsforbund, Postkom), the result of a merger; - a few others	73%–88%, according to the company's section	No sectoral association.  Main provider affiliated to NAVO, an employer organisation representing companies with some type of public/state affiliation, set up in 1993	Within the organised sector, a three-level bargaining model.  Full coverage
	Alternative providers	n.a.	n.a.	No sectoral association	n.a.
<b>PL</b>	Main provider (strongly predominant)	Eight unions	60%	No sectoral association.	Company agreement that can be improved by state intervention.

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
				Main operator is member of Confederation of Polish Employers (Konfederacja Pracodawców Polskich, KPP)	Full coverage
	Alternative providers	n.a.	n.a.		n.a.
PT	Main provider (around 94% of sector's employment)	15 unions plus two minor ones	85%	No sectoral association	Only company agreement for main provider.
	Alternative providers	n.a.	Low		Full coverage Currently, unions are negotiating an extension to cover other major companies
RO	Main provider (around 84% of sector's employment)	One union, Trade union Federation in Post and Communications (Federația Sindicatelor din Poștă și Comunicații, FSPC)	88%	n.a.	Only company agreement for main provider.
	Alternative providers	n.a.	n.a.	n.a.	Full coverage n.a.
SI	Main provider (strongly predominant)	--	60%	Two employer organisations: one affiliated to the Slovenian Employers Association (Združenja delodajalcev Slovenije, ZDS); the other at the Chamber of Commerce and Industry of Slovenia (Gospodarska Zbornica Slovenije, GZS)	Sectoral collective agreement for post and courier activities; plus company collective agreement for main provider.
	Alternative providers	Small providers not unionised	n.a.		
SK	Main provider (strongly predominant)	Two unions	65%-70%	Sectoral Employers Association of Transport, Post Offices and Telecommunications (Zväz	Extensive coverage Only company agreement for main provider.

	Structure of sector	Trade union organisation	Union density	Employer organisations	Collective bargaining: levels and coverage
				zamestnávateľov dopravy, pôšt a telekomunikácií, ZZDPT)	Full coverage
	Alternative providers	Not unionized	--		No collective agreements even at branch offices of multinationals
UK	Main provider (strongly predominant)	One main union, Communication Workers' Union (CWU)	Over 90%	No sectoral organisation	National-level collective bargaining on terms and conditions of employment, with differences among the various businesses of the Royal Mail Group.  Full coverage
	Alternative providers	n.a.	n.a.		Any collective bargaining is at company level.  Limited coverage

Note: n.a. is not available.

Source: Annex II, country sheets.

## Appendix 6 Regression results

### Description of variables and data sources

For determining the impact of competition on addressed mail volumes we have included the following variables:

- 1 Market share CPOs: the combined market shares of CPOs in addressed mail delivery;
- 2 Upstream access: a dummy variable for extensive access competition (1 for FR, UK);
- 3 DM open: a dummy variable for liberalisation of the direct mail segment (1 if liberalised);
- 4 FMO: a dummy variable for full market opening (1 if there is FMO);
- 5 Qual1: the percentage of domestic mail delivered the next day;
- 6 Qual2: Qual1 minus the legally required threshold (for domestic priority mail);
- 7 Priority mail price: the price for single item priority mail (20g, in terms of purchasing power parity, PPP);
- 8 Bulk mail price: the price for bulk mail (20g, in terms of PPP);
- 9 GDP/cap: Gross Domestic Product per capita (in terms of PPP);
- 10 DM growth: growth in (addressed) direct mail volumes;
- 11 Addressed mail per capita (the dependent variable).

Sources: the values for variables 1-8 come from Annex II, country sheets; variable 9 is taken from Eurostat; variable 10 and 11 are based on UPU supplemented with information from Annex II, country sheets.

Influence of QoS performance and GDP per capita on addressed mail volumes per capita

Regression on addressed mail volume per capita (n = 29)				
		QoS performance minus QoS threshold (Qual2)	$\sqrt{\text{GDP/cap}}$	Intercept
Values		2.80	2.66	-234.64
St E		1.34	0.33	51.13
t-value		2.09	8.12	-4.59
R2	0.74			
St E on Y	59.62			
F	36.55		$v1 = n - df - 1$	2.00
Df	26.00		$V2 = df$	26.00
SS reg	259795.35		F distribution	0.00
SS resid	92408.46			

Note: n is the number of countries included in the regression analysis. A t-value of 2.05 (or more) means that the coefficient is significant with (at least) 95% confidence.

Influence of competition, market opening, QoS performance and price on addressed mail volumes

Regression on addressed mail volume per capita using prices for single item priority mail (n = 29)									
		Market share CPO	Upstream access	DM open	FMO	Qual2	Price single item mail	√ GDP/cap	Intercept
Values		4.73	105.55	-8.11	55.25	1.82	-84.57	2.36	-171.35
St E		3.23	40.13	23.89	38.17	1.33	61.04	0.29	60.99
t-value		1.46	2.63	-0.34	1.45	1.37	-1.39	8.03	-2.81
t-0.05	2.05	-	Yes (*)	-	-	-	-	yes	yes
t-0.1	1.70	-	yes	-	-	-	-	yes	yes
t-0.25	1.18	yes	yes	-	Yes	yes	yes	yes	yes
R2	0.85								
St E on Y	49.72								
F	17.35		v1 = n – df – 1	7.00					
Df	21.00		V2 = df	21.00					
SS reg	300292.29		F distribution	0.00					
SS resid	51911.52								

Note: n is the number of countries included in the regression estimate. t-0.05 = 2.05 means that the coefficient is significant with (at least) 95% confidence if the t-value is (at least) 2.05; (\*) yes = significant at that confidence level.

Source: Annex II, country sheets; UPU; Eurostat.

Influence of bulk mail prices and GDP per capita on addressed mail volumes

Regression on addressed mail volume per capita (n = 20)				
		Bulk mail prices	√ GDP/cap	Intercept
values		-358.49	2.42	-79.44
St E		197.33	0.41	102.83
t value		-1.82	5.87	-0.77
0.05	2.10	-	yes (*)	-
0.10	1.73	yes	yes	-
R2	0.71			
St E on Y	54.48			
F	21.17		V1 = n – df – 1	2.00
Df	17.00		v2 = df	17.00
SS reg	180221.79		F distribution	0.00
SS resid	72378.12			

Note: n is the number of countries included in the regression estimate. t-0.05 = 2.05 means that the coefficient is significant with (at least) 95% confidence if the t-value is (at least) 2.05; (\*) yes = significant at that confidence level.

#### Influence of market opening and bulk mail prices on growth in direct mail volumes

Regression on growth in direct mail volumes (n=11)					
		Market share CPO	DM open	Bulk prices	intercept
values		3.74	30.26	124.80	48.34
St E		1.80	12.23	44.43	17.29
t value		2.08	2.47	2.81	2.80
0.05	2.26	-	Yes	Yes	Yes
0.10	1.83	Yes	Yes	Yes	Yes
0.25	1.23	Yes	Yes	Yes	Yes
R2	0.88				
St E on Y	10.57				
F	16.59		$v1 = n - df - 1$	3.00	
Df	7.00		$v2 = df$	7.00	
SS reg	5565.25		F distribution	0.00	
SS resid	782.59				

Note: n = 11 because we have data for both growth in direct mail volumes as well as bulk mail prices for (only) 11 countries. t-0.05 = 2.26 means that the coefficient is significant with (at least) 95% confidence if the t-value is (at least) 2.05; (\*) yes = significant at that confidence level.

#### Influence of direct mail liberalisation on growth in direct mail volumes

Regression on growth in direct mail volumes (n = 17)				
		DM open	GDP/cap growth	Intercept
values		26.17	65.14	17.41
St E		9.81	46.49	60.12
t value		2.67	1.40	0.29
0.05	2.13	Yes	-	-
0.10	1.75	Yes	-	-
0.25	1.20	Yes	Yes	-
R2	0.35			
St E on Y	19.10			
F	3.85		$v1 = n - df - 1$	2.00
Df	14.00		$v2 = df$	14.00
SS reg	2944.72		F distribution	0.05
SS resid	5354.83			

Note: n = 17 because we only obtained data for growth in direct mail volumes for 17 countries.

Influence of direct mail liberalisation on growth in direct mail volumes

Regression on growth in direct mail volumes (n = 17)			
		DM open/	Intercept
values		22.76	101.15
St E		9.80	6.73
t value		2.32	15.04
0.05	2.13	Yes	Yes
0.10	1.75	Yes	Yes
0.25	1.20	Yes	Yes
R2	0.26		
St E on Y	20.18		
F	5.39	$v1 = n - df - 1$	1.00
Df	15.00	$v2 = df$	15.00
SS reg	2193.74	F distribution	0.03
SS resid	6105.80		

Note: n = 17 because we only obtained data for growth in direct mail volumes for 17 countries.

## Appendix 7 Development of competition

A detailed overview of the degree of competition, per market segment, for the various countries is given in the table below.

Summary overview of the development of competition in the main segments of the postal market

Country	Express (competitive?)	Parcel (main players)	Unaddressed	Cross border mail	Addressed mail 2004	Addressed mail 2007
Austria	Yes (USP <3%)	USP (40%), DHL, Hermes	USP (85%, incl. Feibra)	USP (60%)	1.6%	< 2%
Belgium	Yes	USP (11%), TNT, Kiala, DPD, GLS	BD (80%), USP (15- 20%), others	Spring, SPI, DPD, DHL	< 2%	< 2%
Bulgaria	Yes	USP > 99%	Competitive	USP > 99%	0%	Unclear (ca. 30%)
Cyprus	USP-Int (10%), local (0%)	USP-Int (10%), local (0%), DHL, Gap V	USP (99%)	USP (100%)	0%	0%
Czech Rep.	Yes	USP (45%), DPD, PLL	NPO (25%), TNT (52%), Mediaservis (8%)	NPO (90%),	4.5%	5% (excl. newspapers and magazines)
Denmark	Yes	NPO >85% (50% in B2B)	USP (50- 60%)	NPO (90- 95%)	3-5%	1-5% (non-bulk)
Estonia	Yes (USP 42%)	USP (100%)	USP (100%)	USP (100%)	5-6%	Direct mail: 8%, total: 4-5%
Finland	Yes	USP (unknown)	USP (45%)	DHL, Spring, SPI, UPS	0.5-1% (excl. newspapers)	0%
France	Yes	USP, DHL, Adrexo, Kiala, Sogep	USP (50%), Adrexo (50%)	USP (80- 85%), 8 main competitors	< 2%	1-2% (exit of Adrexo in 2008)
Germany	Yes	USP (38%)	n.a	USP (>80%)	5.3%	10.4%
Greece	Yes, 370 operators	?	Various operators	USP dominant position	< 1%	< 1%
Hungary	Yes, USP	USP (17%),	Competitive	USP (high)	0%	0% (excluding direct

Country	Express (competitive?)	Parcel (main players)	Unaddressed	Cross border mail	Addressed mail 2004	Addressed mail 2007
	(17%), DHL, GLS	DHL, GLS				mail)
Iceland	USP (agent TNT, > 95%),	USP (> 95%)	USP (> 95%)	USP (> 95%)	0%	< 2%
Ireland	USP (< 50%)	USP (< 50%), 5 main competitors	USP (< 40%), 2 main competitors	USP- inbound: 100%, USP- outbound: 75%	0%	0-1% B2B: 10%
Italy	Yes (USP 11%)	USP (11%), DHL, TNT,	n.a.	USP (circa 100%)	1-2%	5-15% (unreliable data)
Latvia	USP (25%)	USP (14%), 43 others	Competitive	USP (100%)	< 1%	< 1%
Lithuania	Yes (USP 8%)	USP (53%), DPD, DHL	USP (68%)	USP (68% outbound, 100% inbound)	0%	1%
Luxembourg	Yes	USP (10%), Greco (USP), Dintec, TNT	USP (75%), Lux Diffusion	USP (80%), DHL, TNT, UPS, Fedex	1-2%	1-2%
Malta	Yes	USP (100%)	Competitive	USP (100%)	0%	1%
The Netherlands	Yes	USP (40%), DHL, Fedex, DPD, others	NPO (48%, incl. Netwerk- VSP), DHL	USP, DHL, Fedex, DPD	4.1%	14%
Norway	Yes	USP (62%)	USP (55- 60%)	USP (shares varies), Tollpost, DHL,	n.a.	< 1%
Poland	USP (50%)	USP (25%), 5 others	USP (39%), 91 others	n/a	0%	0%
Portugal	USP (44%), 37 others	USP (44%), 37 others	n.a.	USP (98%)	< 1%	2% (guestimate)
Romania	Yes	USP (13%), many others	n.a	NPO (85%)	< 5%	< 5%
Slovakia	Yes	USP (65%), DPD, TNT, UPS	TNT (66%), Kolos (AP, 10%), SMS	USP (30%), DPD, TNT, UPS, Fedex	0%	1.9%
Slovenia	USP (56%)	(USP 78%)	USP (100%)	USP (100%)	< 2%	0-5%

Country	Express (competitive?)	Parcel (main players)	Unaddressed	Cross border mail	Addressed mail 2004	Addressed mail 2007
Spain	Yes	Competitive	Competitive	n.a.	7-11%	8.2%
Sweden	Yes	Competitive	USP (64%), SDR (30%), S-Post (5%)	Competitive	7.0%	9.3%
United Kingdom	Yes (USP 8%), many others	USP (2%), many others	USP (25%), many others	USP- inbound: 90%, USP- outbound: 33%	< 1% E2E < 5% access	< 1% E2E 20.2% access (03/2007-03/2008)

Source: See Annex II, country information sheets; ECORYS (2005a, p.74-77) for market shares of CPOs in the addressed mail market in 2004 if not included in Annex II.

Note: n.a. means 'not available'.