

Study for the European Commission, DG Internal Market and Services

The Evolution of the European Postal Market since 1997

August 2009

A Report by:



&



Final Report

The opinions expressed do not necessarily reflect the views of the European Commission. Any errors remain the responsibility of ITA Consulting & WIK-Consult.

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Acknowledgements

ITA Consulting and WIK-Consult are grateful for the constructive assistance from the entire Postal Unit within the European Commission, DG Internal Market and Services. We want to thank Mr. Jörg Reinbothe, Mr. Pavanjit Dhesi and the other members of the Postal Unit for their detailed comments and support.

During the extensive secondary research covering a period of 12 years and a geographical scope of 33 countries in total, the study team has been in close contact with a large variety of stakeholders who provided valuable input for this study. ITA Consulting and WIK-Consult would like to acknowledge the assistance of all parties that contributed to this survey. In particular we would like to express thanks for the cooperation of national regulatory authorities, national and competing postal operators, the Federation of European Direct Marketing (FEDMA) and the European Express Association (EEA).

During the course of this study we have greatly benefited from comments received in two public workshops held in Brussels as well as from several interviews held at the European Postal Forum in Amsterdam in April this year and at other opportunities. We also would like to thank the companies (from all Member States) that participated in our business customer survey.

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Terms and Abbreviations

ACSEL	Association de l'économie numérique
AG	Aktiengesellschaft
ANACOM	Autoridade Nacional de Comunicações
approx.	Approximately
ARCEP	Autorité de régulation des communications électroniques et des postes
Arts.	Articles
AT	Austria
AU	Australia
B2B	Business to Business
B2C	Business to Consumer
BE	Belgium
BG	Bulgaria
bn	Billion
BNetzA	Bundesnetzagentur (The Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway)
BPI	Belgian Post International
C2C	Consumer to Consumer
C2X	Consumer to undefined party (Business or Consumer)
CAGR	Compound Annual Growth Rate
CEN	Comité Européen de Normalisation
CEP	Courier, Express and Parcels
CIS	Centro de Investigaciones Sociológicas
CO2	Carbon Dioxide
CPI	Consumer Price Index
CPL	Courier and Parcel Logistics Conference
CSR	Corporate Social Responsibility
CTT	Correios, Telégrafos e Telefones
CY	Cyprus
CZ	Czech Republic
DE	Germany
DG	Directorate General
DK	Denmark
DPD	Dynamic Parcel Distribution
e.g.	Exempli gratia (Latin: for example)
EBIT	Earnings Before Interest and Tax
EC	European Community
e-commerce	Electronic commerce
ECU	European Currency Unit
Edf-Gdf	Électricité de France-Gaz de France
EDI	Electronic Data Interchange
EE	Estonia
EEA	European Express Association

EEA	European Economic Area
EEMEA	Eastern Europe, Middle East and Africa
EMOTA	European E-commerce and Mail Order Trade Association
ES	Spain
EU	European Union
EUR (€)	Euro
FedEx	Federal Express
FEDMA	Federation of European Direct and Interactive Marketing
FI	Finland
FMO	Full Market Opening
FR	France
FSC	Fastest Standard Category
g	Gram
GDP	Gross Domestic Product
GLS	General Logistics Systems
GPS	Global Positioning System
GR	Greece
HDN	Home Delivery Network
HU	Hungary
i.a.	Inter alia (Latin: amongst others)
i.e.	Id est (Latin: that is)
IE	Ireland
IFRS	International Financial Reporting Standards
IPC	International Post Corporation
IS	Iceland
IT	Italy
JP	Japan
kg	Kilogram
LatAm	Latin America
LT	Lithuania
LU	Luxemburg
LV	Latvia
m	Million
M&A	Mergers and Acquisitions
MS	Member States
MT	Malta
NL	The Netherlands
NMS	New Member States (Member States that have joined the EU in 2004 and 2007)
NO	Norway
NRA	National Regulatory Authority
NZ	New Zealand
PD	Prvá Doručovacia
PG	Peer Group
PL	Poland

plc	Public Limited Company
PPS	Purchasing Power Standard
PT	Portugal
PTS	Post- och telestyrelsen
RFID	Radio Frequency Identification
RO	Romania
S.r.o.	Spoločnosť s ručením obmedzeným (Czech and Slovak business form, limited liability company)
SA	Société Anonyme
SE	Sweden
SGEI	Services of General and Economic Interest
SI	Slovenia
SK	Slovakia
SME	Small and Medium Enterprises
SNELPD	Syndicat National des Entreprises de Logistique de Publicité Directe
SPI	Swiss Post
SSC	Second Fastest Standard Category
TNT	Thomas Nationwide Transport
US	United States
UK	United Kingdom
UPS	United Parcel Service
UPU	Universal Postal Union
USA	United States of America
USO	Universal Service Obligation
USP	Universal Service Provider
USPS	United States Postal Service
VAT	Value Added Tax

Executive Summary

1. Report Objectives and Approach

This report examines the evolution of the European postal market since the start of EU Postal Reform in 1997. It covers both the letter post and the parcel and express market segments.

The aim of the report is to assess key market trends in the light of EU Postal Reform and, in particular, in the light of the gradual opening of the postal market during the period of 1997-2009. It describes the postal reform process and evaluates the impact on access, affordability, prices, consumer satisfaction and complaints, quality of service, and competition. In addition, it highlights likely trends in the near future and offers various recommendations with regard to key issues.

The report is mainly based on secondary research (i.e. reports, market surveys, annual reports and customer surveys published by the European Commission, national regulatory authorities and other European and national postal stakeholders). To simplify the description and analysis of the national postal markets at an EU level, three geographical groupings were made: Western, Southern and Eastern European Member States.¹

In this report letter post services refer to the collection and delivery of correspondence, direct mail and publications. Letters encompass correspondence and direct mail (i.e. addressed advertising). Correspondence includes private and office mail as well as transactional mail. Transactional mail consists of industrially produced items that comprise i.a. bank statements and invoices. Publications, i.e. newspapers, magazines and periodicals comprise subscribed publications (delivered by a postal operator) as well as customer newsletters or sponsored magazines. Unaddressed advertising is not part of letter post. Parcel services are the transport of largely standardised packages and usually have a non-guaranteed delivery time of 2-3 days. Parcel services are also referred to as “deferred services”. Express services are time-sensitive, usually guaranteed services and have as delivery time a specific day (in general the next day) and/or a specific time.

2. EU Postal Reform

The quality of postal services in Europe at the start of the 1990s was far from satisfactory. In many Member States postal services were provided by inefficient loss-making postal entities with a considerable lack of customer orientation, resulting in substantial heterogeneity of service quality. Postal monopolies often covered delivery of letter post items up to 2 kg and sometimes included even express services. This situation was well documented in a comprehensive survey of the delivery services sector conducted by the European Commission.

¹ Western Member States: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxemburg, the Netherlands, Sweden and the United Kingdom; Southern Member States: Cyprus, Greece, Italy, Malta, Portugal and Spain; Eastern Member States: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

In 1992, the European Commission published the “Postal Green Paper”² to stimulate the discussion on postal policy within the European Community. It highlighted the risk that the postal sector might not sufficiently use the opportunities offered by the growing communications and transport markets. Moreover, the European Commission recognized that the provision of basic postal services could be under threat within the broader communication, advertising and transport markets and urged the strengthening and safeguarding of the role of postal services within this broader context. The Green Paper proposed a comprehensive Community policy framework for postal services, including the provision of an efficient universal postal service at nationwide level and at affordable prices to consumers.

The Green Paper can be seen as the turning-point for the European postal sector. The report stimulated the desired political debate and launched the transformation process. The direct result was the enactment of the Postal Directive in 1997³ that marks the formal starting point for EU Postal Reform.

2.1 Postal Directives drive reform

This 1997 Postal Directive, together with the two subsequent amendments (2002 and 2008), established a common policy framework for the postal market based on a process of gradual reform. The detailed policy, including the timetable for market opening, evolved in several stages during the period under review.

The overall objective of the EU Postal Reform is defined as the need to safeguard the provision of the universal postal service and to improve its quality. However, the universal postal service is not a static concept but has developed in line with the changing needs of postal users: individuals as well as business customers in their role as senders and recipients of postal items.

Moreover, EU Postal Reform aims to establish a fully operational internal market by gradually opening the domestic and cross-border letter post markets. Competition is not seen as an end in itself but as a vital market mechanism to set important incentives to improve the efficiency and quality of postal operations and to enhance customer orientation. In other words, in competitive markets customer needs should be the driving force determining which services are offered. Regulatory intervention is generally needed in areas where the market does not provide the expected results. The universal service obligation safeguards the needs of those customer groups that are not sufficiently attractive to postal operators from a commercial point of view.

The first Postal Directive (Directive 97/67/EC) established minimum criteria for universal postal service requirements and the first step for gradual market opening by defining maximum

2 Commission of the European Communities (1992), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final.

3 Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service (OJ L 15/14, 21.2.1998) amended by Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to further opening to competition of Community postal services (OJ L 176/21, 5.7.2002) and by Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services (OJ L 52/3, 27.2.2008).

weight and price thresholds for letters services that can be reserved to the extent necessary to safeguard the universal postal service. Furthermore, it established rules concerning tariff principles and transparency of accounts for universal service provision, the setting of quality standards and the harmonisation of technical standards, and, most importantly, the creation of independent national regulatory authorities. The Postal Directive took into account that national peculiarities and differences in the development of the needs of postal users should be reflected in the final design of the national universal postal service requirements. As a result, the Postal Directive left it up to the Member States to determine the details of universal service requirements and regulation in compliance with the EU framework.

The next step in the reform process came five years later with the second Postal Directive (Directive 2002/39/EC amending Directive 97/67/EC). This strengthened the role of competition by reducing the price and weight thresholds of letters that can be reserved within the postal monopoly and determined the next two market opening steps that came into effect on January 1, 2002 and January 1, 2006. In particular, it put priority on measures designed to support the gradual establishment of a level playing field in domestic and cross-border letters markets (especially the transparent and non-discriminatory application of special tariffs offered by incumbent postal operators).

The political decision-making process of EU Postal Reform culminated in 2008 in the third Postal Directive (Directive 2008/6/EC amending Directive 97/67/EC). This Directive defines a credible timetable for the accomplishment of the internal market for postal services while safeguarding the postal universal service. It abolishes the reserved area for postal services and adds common rules concerning the financing of universal services under conditions that guarantee their permanent provision. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 31 December 2010 at the latest. By 2011 full market opening will be achieved in 95 percent of the EU letter post market (in terms of volumes). Due to specific national circumstances, eleven Member States⁴, the remaining 5 percent, may postpone the implementation of the third Postal Directive until 31 December 2012. These Member States have notified the Commission to make use of the derogation.⁵

2.2 Some countries have liberalised faster

Parallel to the EU-wide postal reform process, a number of Member States have moved ahead of the Directive requirements by liberalising their markets more quickly.

Six Member States accounting for more than half of the EU letter post market (in terms of volume) have already abolished the reserved areas in their countries: Estonia (2009), Finland (1991), Germany (2008), the Netherlands (2009), Sweden (1992) and the United Kingdom (2006). However, Estonia and Finland have impeded market entry through disadvantageous licence requirements.

⁴ Cyprus, Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia

⁵ Notices from Member States, Information of Member States that intend to postpone the implementation of Directive 2008/6/EC until 31 December 2012, in order to continue to reserve services to universal service provider(s) (OJ C 265/26, 18.10.2008).

Another six Member States accounting for a further 14 percent have at least opened important segments of their domestic postal markets. In Spain intra-city postal services have traditionally been open to competition. Additionally, direct mail is not reserved in the “old” Member States Italy and Spain as well as in the “new” Member States Bulgaria, Czech Republic, Romania and Slovenia. In two Member States the delivery of hybrid mail has been opened to competition: in Bulgaria and Slovakia⁶.

The remaining fifteen Member States—accounting for one third of the EU letter post market—as well as the EEA countries Iceland and Norway have partially opened their domestic markets by reducing the weight and price thresholds largely following the thresholds set by the second Postal Directive.

In many Member States outgoing cross-border mail has been open to competition since 2003. However, in twelve Member States this segment is still part of the reserved area.⁷

2.3 Member States promoted public postal operator reorganisation

Although not a formal part of the EU Postal Reform, many Member States have tended to combine their national postal market liberalisation measures with some form of reorganisation of the state-owned national postal operator. This restructuring is a response to the challenges resulting from ongoing technological and market developments as well as the expected future impact of full market opening. Reorganization has ranged from corporatisation through to full privatisation and stock exchange listing. The changes have substantially affected the commercialisation of the national postal operators, their business strategies and thus developments in the letter post as well as the parcel and express markets.

All public postal operators in the European Union have been corporatised except for the Cyprian one which is still a government department. The legal status of the entities varies from state enterprises (e.g. La Poste in France and Poczta Polska in Poland) to companies under private law (usually public limited companies). Today, five national postal operators are fully or partly privatised: Austrian Post, De Post / La Poste (Belgium), Deutsche Post (Germany), Maltapost and TNT (the Netherlands). However, in the Austrian and in the Belgian case the state still owns more than half of the shares; only TNT and Maltapost are fully privatised. Austrian Post, Deutsche Post, Maltapost and TNT are listed on European stock exchanges.

3. The EU Postal Market Today

Following enlargement, the European Union today embraces 27 Member States with nearly 500 million inhabitants. We estimate that the overall EU postal sector, comprising letter post, parcel and express services, earned total revenues of about EUR 94 billion in 2007. This figure corresponds to approximately 0.7 percent of EU-27 GDP. The letter post market represents the

⁶ Due to a change in Slovakian postal law delivery of hybrid mail was transferred to the reserved area in 2008. The EU Commission found that the re-monopolisation of hybrid mail constitutes a breach of Article 86 in conjunction with Article 82 of the EC Treaty in December 2008 (OJ C322/10, 17.12.2008). The decision was appealed by the Slovak Post (OJ C55/35, 7.3.2009).

⁷ Bulgaria, Cyprus, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, Poland, Portugal, Slovakia and Spain

largest segment with 56 percent of the revenues while the parcel and express market combined represents 44 percent.

3.1 EU letter post accounts for one fifth of worldwide letter post volumes

Around 95 billion letter post items were delivered within the European Union in 2007. Around one fifth of the letter post volume worldwide originates in the European Union. The six largest national letter post markets (in terms of volume) account for nearly 80 percent of the EU letter post business: the United Kingdom, Germany, France, Spain, Italy and the Netherlands. We estimate that approximately 60 percent of letter post is correspondence; direct mail accounts for nearly 30 percent and more than 10 percent are publications.

The EU-27 letter post market is highly fragmented into national markets. This is essentially because domestic letter post remains the dominant product type, and cross-border mail is relatively small in comparison. Additionally, there are substantial differences in postal products (standards and pricing schemes) and in the institutional arrangements between Member States (i.a. different scopes of reserved area and different application of VAT rules). The average EU citizen receives approximately 200 letter post items per year. However, the volumes received per capita range from less than 50 letter post items in Lithuania, Slovakia, Bulgaria and Romania up to nearly 400 in Finland, mirroring the substantial differences in the development of national letters markets.

The national postal operators are still the key players in the European cross-border and domestic letter post markets, delivering approximately 95 percent of domestic letter post items. In those Member States that have opened substantial parts of the market to competition, other postal operators have entered the market and gained importance. In 2007, more than 1.8 million people worked for the national postal operators (or one of their subsidiaries). In Member States with emerging competition additional employment has been generated by competitors while most incumbent postal operators have substantially reduced employment in the course of modernising and reorganising their postal and retail operations.

3.2 The EU parcel and express market

The EU-27 parcel and express market today is estimated at EUR 42.4 billion and accounts for 0.34 percent of the EU-27 gross domestic product. Parcels account for nearly two-thirds of the market revenue, while express shipments represent slightly more than one-third of the market value.

Like in the letter post market, domestic items form the bulk of parcel and express shipments from a geographical perspective. They account for an estimated 70-75 percent of the total EU-27 market (in revenue terms). The cross-border market can be divided into intra-European shipments (approx. 15-20 percent of the market value) and intercontinental shipments (to/from the EU), which comprise an estimated 10 percent share of the market.

The largest segment of the EU-27 market, in terms of customer focus, is represented by Business to Business (B2B) shipments accounting for about 80% of the parcel and express market revenues. Parcels from the distance selling business (mail order and internet sales) are

the main shipments within the Business to Consumer (B2C) market, which accounts for around 15% of the total market value. Traditional postal parcels are mostly part of the Consumer to Consumer (C2C) market segment, which represents approximately only 5% of the market in terms of revenues.

Germany, the largest economy within the European Union, also has the biggest parcel and express market with a turnover of EUR 10.5 billion. The other major markets are the United Kingdom, France, Spain and Italy, ranking second to fifth in terms of market size. These five largest markets (in terms of value) account for more than 77 percent of the total EU-27 parcel and express business.

The leading players in the EU parcel and express market today are the international integrators DHL (Deutsche Post DHL), TNT, UPS and FedEx alongside the European parcel networks GLS (Royal Mail) and DPD (French La Poste/ GeoPost). In most of the national domestic markets the local postal operator and a small number of private local companies also play an important role.

4. Evolution of the EU Postal Market since 1997

4.1 Developments in the EU Postal Market: Letter Post

4.1.1 Economic growth is no longer the main driver for developments in letter post volume

Growth in the letter post market is clearly lagging behind overall EU economic growth. Between 1998 and 2007, the EU domestic letter post volume grew only slightly at an average of 0.4 percent per year. Between 2002 and 2007 growth rates varied considerably between Member States. The average growth rate of letter post volume was highest in the Eastern Member States (2.2 percent), followed by the Southern Member States (1.1 percent) while letter post volume in the Western Member States has effectively stagnated (0.2 percent). Letter post items per capita are substantially lower in the Southern and Eastern Member States compared to the Western Member States (only Slovenia has closed the gap on the Western Member States); for this reason the growth potential of the letter post markets in the Southern and Eastern Member States is higher than in the Western Member States.

The European Union achieved considerable economic growth after 2002, especially the Eastern Member States that joined the European Union in 2004 and 2007. Yet the total letter post volume increased far less than the overall EU economy. Generally, this gap indicates that economic growth is not the only driver for letter post volume. There are additional drivers which limit the impact of the economy on volume developments. In order to understand the relation between economic growth and developments in letter post we have considered each of the sub-segments separately: correspondence (including transactional mail), direct mail and publications.

4.1.2 Emerging electronic alternatives and increasing cost awareness of large mailers have affected the use of correspondence

Growth rates in correspondence are generally lower than growth in direct mail (or even negative), especially in the high-volume Western Member States. Emerging electronic

alternatives to physical delivery of letters have affected the letters business, especially private correspondence and increasingly transactional mail. Letter post services in the Netherlands and the Scandinavian countries are more affected than in the Southern and in most Eastern Member States.

The technological environment for electronic communication has considerably improved in the last five years through the establishment of broadband access. Since 2004 the share of households and companies having broadband access has grown rapidly in all Member States. However, the penetration rates differ between and within the country groups. In the Western Member States usually more than 50 percent of the households – and more than 70 percent in Scandinavia – have broadband access (2008 figures). In the Southern Member States only Malta has achieved a share above 50 percent; in the other countries the share is between 22 (Greece) and 39 percent (Portugal). In the group of the Eastern Member States more than half of the Estonian and Slovenian households had access to broadband. Romania (13 percent) and Bulgaria (21 percent) have—together with Greece—the lowest penetration rates.

Additionally, technological progress in mail production and the increasing cost awareness of large mailers have changed mailing behaviour. Large mailers increasingly use the opportunities to save costs either by using economy services (if separately offered) or by reducing the frequency of mailings (e.g. from monthly to quarterly or yearly statements).

4.1.3 Direct mail has grown in many Member States

The use of direct mail for advertising purposes varies between the Member States. In most Western Member States between 60 and more than 80 direct mail items per capita were delivered in 2007 (exemptions are Ireland with 9 and Denmark with 26 items per capita). In the Southern Member States the figure is considerably lower and lies between 20 and 30 items. Most Eastern Member States have less than 10 direct mail items per capita.

Direct mail has increased in many Member States, especially in the Eastern Member States. However, the role of direct mail in most of these countries is still relatively small. The direct mail industry is less developed than in most Western Member States, direct mail as advertising medium is not yet well-established and the necessary infrastructure (e.g. sophisticated address databases) is not sufficiently available.

Moreover, recipients' acceptance of advertising mail, data protection legislation, existence of high-quality address material, the relative costs of direct mail (design, production plus physical delivery) compared to other advertising media and the existence of reliable and attractive direct mail products offered by postal operators are important drivers for the business.

Unaddressed and addressed advertising are to some extent substitutes, especially in the Eastern Member States. In these countries national postal operators distribute more unaddressed items than direct mail items per capita. In the Western Member States the demand for direct mail is impaired by a trend towards more target-oriented advertising campaigns which results in declining volumes per consignment. Moreover, it appears that more sophisticated unaddressed advertising (in combination with detailed information on income and on other socio-demographic data of the neighbourhood) can substitute direct mail to some

extent. Tightening of data protection legislation (e.g. in Germany) and in the acceptance of direct mail additionally challenge this segment. In particular, the use of “opt-in” rules (that require the explicit permission of the customer in order to use his address for advertising purposes) limits the growth potential of direct mail (e.g. in Denmark).

4.1.4 The delivery of publications by national postal operators has declined in many Member States

The importance of publications in the letter post business varies considerably between the Member States. In many Member States the importance of this segment is limited. Exceptions are Finland and the Baltic Member States in particular. Itella (Finland), for example, has actively promoted this business to boost its delivery volumes. The delivery of publications is of similar importance in the Baltic countries (Estonia, Latvia and Lithuania). Actually, the Latvian and the Lithuanian universal service providers deliver roughly as many newspapers and periodicals as letters.

In some Member States, i.a. Austria and Germany, publications encompass customer or members’ magazines in addition to subscribed publications. This has stabilised the volume development at a relatively high level. However, publications delivered by national postal operators have declined in many Member States, partly because of the declining demand of subscribed newspapers, magazines and partly because of the market entry of alternative delivery organisations established by publishers.

4.1.5 Competition has gained momentum in Member States that have opened their letters markets

The opening of the domestic letters markets has gained clear momentum in recent years. As outlined earlier, six Member States accounting for more than half of the letter post market (in terms of volume) have now fully liberalised their postal markets. Furthermore, six Member States have at least opened significant segments of the letter post market. In more than half of the Member States outgoing cross-border mail has been liberalised. In Member States that have substantially opened their letters markets some competition has emerged.

Strong competition, however, has remained limited. The number of competing postal operators with market shares significantly above two percent in terms of volume has remained low in most Member States. During the last decade competing postal operators have achieved market shares of around 8 to 12 percent in terms of volume in those Member States that have fully or substantially opened their letters market (Germany, the Netherlands, Spain and Sweden). In Member States that have opened their domestic letter post markets to the least extent possible (i.e. using the maximum possible reserved area allowed by the second Postal Directive) noticeable competition has not emerged. However, there is no rule without an exception: in Poland it appears that at least one competitor is challenging the incumbent postal operator by successfully introducing a “50g envelope” and establishing a retail network in Polish cities.

The main trend so far has been for competition to emerge predominantly in a few specific market segments, for example segments as defined by target customers, geography or service level:

- Competing postal operators have mainly focused on medium-sized and large business customers. For this target group the competitors do not need an extensive collection network since they can pick up the mail at the customer's premises.
- Competing postal operators have started their delivery services at a local level. The outreach of entrants' delivery infrastructure depends on the geography of the Member States and the market segments have been liberalised, as the following examples show:
 - Spain: the private operator Unipost has basically focused on delivery services within cities; in Spain intra-city delivery has traditionally been open to competition. Unipost plans to establish a nationwide network by intensifying the cooperation between the local delivery partners.
 - Germany: competing postal operators have established local delivery networks in urban as well as rural areas. The key competitor TNT Post aims at establishing a nationwide delivery network by co-operation or joint-ventures with and by acquisition of local service providers. TNT Post's own network (including the recently founded joint venture with the publisher Holtzbrinck) covers around 40 percent of German households. Together with various partners TNT Post covers around 90 percent of Germany.
 - Sweden: Bring Citymail focuses on the more densely populated southern part of Sweden. Its distribution network covers around 54 percent of the Swedish households.
 - Netherlands: private operators Sandd and Selekt Mail initially launched services with limited coverage. Sandd, for example, started covering 45 percent of the country but within four years has established a nationwide delivery network in this relatively small and densely populated country.
- Competing postal operators that focus on non time-critical letters (e.g. direct mail) deliver less than five days per week in order to keep their costs low (e.g. Bring Citymail in Sweden and Sandd and Selekt Mail in the Netherlands).
- Competing postal operators with a focus on local mail deliver at least five days per week, e.g. many local operators in Germany and Spain (Unipost).
- Additionally, competing postal operators have emerged in niche markets e.g. DX in the UK (DX Mail: specific business mail) or primeMail in Germany (delivery of catalogues in cooperation with Hermes).

One notable trend is that some foreign national postal operators have already invested in other EU domestic or cross-border markets through acquisitions or start-up companies, and have provided them with the necessary funding and know-how. The leaders of this process are essentially national postal operators of the Western Member States that started relatively early with the expansion process of their business activities, i.e. Dutch TNT, German Deutsche Post and to some extent the Scandinavian national postal operators as well as the Austrian Post.

However, legislative liberalisation does not necessarily result in substantial end-to-end competition on the ground:

- The UK experience has shown that low priced access products of the incumbent postal operator may effectively suppress emerging competition in end-to-end delivery services. However, competition in the upstream segment has developed well and resulted in substantial cost savings and more choice in terms of service providers for medium-sized and large business customers.
- Other legal barriers to entry, e.g. universal service requirements in licences for competing postal operators may have the same effect as an extensive reserved area (e.g. in Finland and Japan).
- Low prices offered by the incumbent postal operators in certain market segments may impede market entry at a large scale in these segments (e.g. direct mail in Germany).
- VAT exemptions for liberalised postal services provided by the incumbent postal operator have created substantial problems for the development of competition (e.g. in Germany).

The pure fact that letters markets have been partially or fully opened does not mean that competition has evolved smoothly. Competition cases against and legal actions taken by incumbent postal operators indicate the bumpy road to competition (e.g. in Sweden and in Germany). Abuse of the market dominant positions of incumbent postal operators has been subject to investigation by competition authorities in several Member States. In letters markets fully opened to competition rebates will continue to be an important instrument for incumbent postal operators to retain and re-attract customers.

4.1.6 Pricing schemes and service offerings have substantially changed during the last decade

At the beginning of the 1990s the incumbent postal operators offered a limited range of standard postal products with little differentiation between customer groups. Some rebate systems usually related to volume existed⁸ but more sophisticated customer-oriented services were generally not offered. This situation has fundamentally changed in the last two decades. Today, incumbent postal operators offer more sophisticated services to large (and sometimes medium-sized) business customers while basic services are offered to the general public (small business mailers and individuals). Competing postal operators usually focus on business customers resulting in more choice with regard to service providers and scope of services offered. These developments reflect the asymmetric structure of demand. A small group of large business mailers generates a substantial share of letter post while the large group of small business mailers and individuals generates relatively low volume share. Overall, more than 85 percent of letters are sent by businesses while the importance of private correspondence (C2B and C2C) has declined in many Member States.

⁸ See European Commission (1992), Green Paper on the Development of the single market for postal services, COM(91) 476 final, p. 93.

Generally, the characteristics of basic postal services offered to individuals have substantially changed over time. Regular next day delivery services for letters have been offered or launched in most Member States during the last decade. Reliability and transit time performance of letter delivery have improved while prices remained affordable.

4.1.7 Pricing: Basic postal tariffs have been affordable for consumers

Basic tariffs for domestic letters services are still affordable:

- In more than half of the Member States the tariff for a 20g letter of the fastest standard category has not increased in real terms (notably in most Western and Southern Member States plus Bulgaria, Estonia and Slovakia)
- In many Eastern Member States there have been substantial price increases for different reasons (especially the change of the fastest standard category from D+2/3 service to a D+1 service in Hungary, Poland, Latvia, Lithuania and, recently, in Romania). However, in these Member States national postal operators still offer a cheaper economy service which safeguards affordability even for low income households.
- In some Member States second class letters services for stamped letters or single-piece items have been phased out (Belgium, Finland and Italy). In Slovenia the second class service was replaced by a D+1 service; nevertheless, Slovenia still has one of the lowest tariffs within the EU. Generally, from the customers' point of view, this resulted in less choice and a hidden price increase especially for those customers who would prefer to use a cheaper economy service.

The tariffs for single-piece letters are closely regulated by all Member States. This has resulted in fairly stable tariffs for consumers and small business customers in the "old" Member States (EU-15). In the new Member States, the price trends are mainly the result of increasing cost orientation and historically very low prices in the years before the countries joined the EU.

Tariff increases have to be put into the perspective of the importance of the postal service within the overall household budget. The average expenditure of consumers for postal services is very low compared, for example, to telecommunications services. On average in Europe, for every EUR 100 spent, only EUR 0.10 is for postal services while EUR 3.20 is for telecommunications services.

All national postal operators in the EU offer a uniformly priced EU cross-border letter: e.g. a 20g letter from Germany to Austria has the same price as a letter from Germany to Portugal. Compared to domestic tariffs cross-border tariffs have developed differently. In most Western Member States public tariffs for 20g cross-border letters within the European Union have increased at higher rates than domestic tariffs; in the Southern and Eastern Member States the public cross-border tariffs have often declined in real terms.

4.1.8 Pricing: Business customers have benefitted from price discounts and the extension of service offerings

National postal operators have substantially extended their service offerings for business customers resulting in a broad range of product and pricing models. Emerging competition has additionally entailed more choice for business customers.

- Business customers benefit from price discounts depending on criteria such as pre-sorting, volume, or delivery destination (in case of zonal tariffs).
- The service range has been extended from the “one size fits all” postal services to different service levels (different transit times including day certain delivery) and the offer of upstream and consolidation services by postal operators or other service providers like mailing houses.
- Technical progress in electronic communications and printing technologies has promoted the development of hybrid mail services that comprise the electronic transfer of the document information to a service provider, printing, enveloping and the final delivery of the letters by a postal operator.

The pricing schemes of national postal operators often appear very complex. Customers have to fulfil many technical requirements before handing over their mail to the national postal operator. Therefore, it is not surprising that in many Member States specialised service providers (e.g. mailing houses, consolidators, print and letter shops) have opened to offer production and handling services to medium-sized and large mailers. These businesses focus on transactional mail and direct mail.

Emerging consolidation services facilitate the access of small and medium-sized mailers to discounts offered by the incumbent postal operator. The development of upstream and consolidation services substantially depends on the pricing models of national postal operators. In order to keep in close contact with the mailers many national postal operators increasingly offer the whole range of services upstream and downstream to the traditional postal value chain (“one stop solution”) including hybrid mail services. Generally, many national postal operators of the “high-volume” Western Member States have made more progress in this area⁹ than most national postal operators of the Southern and Eastern Member States.

Business customers have thus benefited from price reductions due to the extension of service offerings by national postal operators but also from new service offerings by incumbent and by competing postal operators. However, the number of business customers that have benefited varies between the Member States; this depends largely on the current service offerings of the national postal operator and on the degree and shape of competition that has already emerged in the country.

⁹ Except for An Post (Ireland) and Royal Mail (UK): Both companies do not offer upstream or downstream services.

4.1.9 Quality of Service: Postal customers have benefitted from substantial improvements in quality of service

Customer surveys have revealed that the reliability of postal service provision is the most important service characteristic in the view of individuals and business customers. Improving reliability and quality of universal postal services is therefore one of the key issues of EU Postal Reform. During the last decade all customers, individuals as well as business customers, have benefited from improvements in the efficiency of postal operations and, thus, in reliability of service provision and transit time performance.

Modernisation and reorganisation of postal operations by national postal operators have accompanied the improvement of the transit time performance: It is necessary that all elements of the postal value chain run smoothly together to achieve a high performance in transit time. Progress in sorting technology and operation research techniques for optimising the transport and delivery organisation combined with the establishment of integrated IT solutions have pushed the modernisation of postal operations. Operations have been streamlined and a close monitoring of quality of service (i.e. smoothness within and between the relevant processes) has been established. Regulatory requirements and especially the imposition of the mandatory measurement standard for single piece letters (EN 13850) have improved the quality of measurement and the transparency of results (publication) in most Member States.

During the last decade the D+1 transit time performance has improved in most Member States: In 2008 two-thirds of the national postal operators deliver on average more than 90 percent of letters of the fastest standard category the next working day.

The first group of operators that accomplished the key modernisation measures in the 1990s already achieved quality of service levels above 90 percent before 2000: TNT (the Netherlands), Royal Mail (UK), Deutsche Post (Germany), Itella (Finland), PTT (Luxembourg), Posten (Sweden), Post Danmark (Denmark) and CTT Correios (Portugal).

Operators that started later with the restructuring of their postal operations achieved levels above 90 percent between 2000 and 2008: De Post–La Poste (Belgium), Austrian Post and Poste Italiane (Italy) of the old Member States and Magyar Post (Hungary), Maltapost (Malta), Česká Pošta (Czech Republic), the Eesti Post (Estonia), Latvijas Pasts (Latvia), Slovenská Pošta (Slovakia) and Pošta Slovenije (Slovenia) of the Member States that joined the EU in 2004.

In nine Member States the national postal operators have not yet achieved levels above 90 percent: An Post (Ireland), La Poste (France), ELTA (Greece), Correos (Spain) of the old Member States and Cyprus Post, Bulgarian Posts, Lietuvos Paštas (Lithuania), Pošta Română (Romania) and Poczta Polska (Poland).

The cross-border transit time performance has also substantially improved during the last decade as the number of country-to-country relations within the EU has substantially increased: from 210 in 1998 (EU-15) to 702 (EU-27) in 2008. The overall performance within the UNEX-18 group (that includes the national postal operators of the EU-15 plus Norway, Switzerland and Iceland) has increased from 85.6 percent (1998) to 96.3 percent (2008). In

2008 the UNEX-34 group that includes the EU-27 Member States achieved a D+3 performance of 94.6 percent. In the same year about 97 percent of country-to-country relations between EU-15 Member States have at least met but usually considerably outperformed the target of 85 percent. Within the enlarged EU the transit time target of 85 percent was achieved by approximately 60 percent of the country-to-country relations.

4.1.10 Accessibility: The number of postal outlets has moderately declined in many Member States but access to postal services has been safeguarded

Over the last decade the appearance of postal outlets has substantially changed essentially to improve attractiveness for customers and to increase cost efficiency in retail operations. In 1998 national postal operators managed more than 106,000 outlets (EU-25). The number declined to 96,000 in 2007, reflecting in part the changes in consumer behaviour (less demand for postal services) and reorganisation of postal networks in improve efficiency. Significant reductions have occurred in seven Member States (Austria, Denmark, Finland, Ireland, Latvia, Portugal and UK) However, in other Member States accessibility in terms of density of postal outlets has increased: i.a. in Bulgaria, Poland and Romania (Eastern Member States); Greece and Malta (Southern Member States).

In many ways, former post offices and current postal outlets have little in common:

- Many national postal operators have substantially modernised their retail operations and the retail network to make postal outlets more attractive for customers (e.g. by using open counters and offering all services at one counter).
- The service offerings particularly in post offices have been extended to better use the capacity of the retail network (e.g. by selling of stationery or by offering more financial services).
- National postal operators increasingly use franchised postal outlets (postal agencies) instead of, and additional to, post offices. These are usually retail shops with much longer opening hours than a traditional post office.

Franchised postal outlets are less costly than the operation of post offices. Especially in the Western Member States national postal operators make extensive use of franchised postal outlets, notably in the Scandinavian countries, Germany and the Netherlands with shares above 80 percent of all postal outlets. Royal Mail (UK) and An Post (Ireland) traditionally have a high share of “subpostmasters” (above 90 percent). De Post–La Poste (Belgium) has substantially increased the share of franchised postal outlets since 2003 (from zero to more than 40 percent). Other national postal operators that increasingly use postal agencies are Elta (Greece), CTT Correios (Portugal) and Maltapost of the Southern Member States and Magyar Posta (Hungary) and Poczta Polska (Poland) of the Eastern Member States.

Some national postal operators have no or a relatively low number of postal agencies (notably in France, Italy, Spain and in many Eastern Member States). In Spain, Correos has substantially reduced the number of post offices and replaced them by mobile post offices instead of establishing postal agencies. Financial services play a substantial role in the businesses of Poste

Italiane and La Poste (France), as well as in the businesses of many national postal operators of the Eastern Member States (postal financial services).

Emerging competition in postal services (letters and parcels) has resulted in additional access points for customers in some Member States, e.g.:

- In Germany, competing postal operators have established postal outlets and positioned street letter boxes to attract private customers and small business customers.
- In Poland, the competing postal operator InPost has established around 800 franchised outlets in Polish cities.

In some Member States parcel service operators have established parcel shops to improve their market position in the distance selling business but also to provide parcel services for individuals. In Germany, for example, Hermes has established around 14,000 franchised parcel shops nationwide. These are encouraging developments which show that retail networks are not necessarily a handicap as considered by some incumbent postal operators but an essential tool to keep in close contact to their customers. However, these developments also show that competing postal operators primarily use franchised outlets in order to limit the costs of the retail network.

The closure of traditional post offices however remains a controversial social issue in many countries and public opinion tends to oppose any downscaling of the retail network. Changes in the organisation of postal outlets and the closure of post offices are generally accompanied by declining consumer satisfaction with the accessibility of postal services as the regularly published Eurobarometer consumer surveys have revealed. Therefore, handling and communicating these network changes is thus a constant challenge for incumbent postal operators.

4.1.11 Many national postal operators have substantially improved their operational efficiency and profitability

Technological progress has affected all elements of letters operations, including upstream and downstream activities. Many national postal operators, especially in the Western Member States, have taken advantage of the technical opportunities to optimise their postal logistics:

- The use of sorting machines at least for small letters is quite common. Delivery sequency sorting machines are increasingly reducing manual sorting by postmen. Sorting technologies have continuously been refined in order to improve speed and share of automatically read items.
- National postal operators have optimised their logistics by limiting the number of sorting centres and delivery offices. In this way they have reduced the number of transport routes to be served daily which—as a positive side effect—has also reduced carbon dioxide emissions.

- Delivery routes have been restructured and enlarged resulting in a declining number of delivery routes. The “street time” of postmen has increased due to the implementation of delivery sequency sorting machines.
- National postal operators have increased cost flexibility by outsourcing collection, transport and delivery activities.
- As already outlined retail operations have been modernised and reorganised. National postal operators have achieved cost savings due to increasing use of franchised postal outlets.

Some national postal operators notably in the Eastern Member States are still in the process or at the beginning of modernising their business. Improved transit time performances of these national postal operators indicate that they have also made significant progress in modernising their logistics.

These efforts have substantially improved the profitability of many national postal operators. In 2007 most national postal operators were profitable, although profit margins vary considerably. This is a major improvement compared to 2002 when ten national postal operators had only very low profitability or were even loss-making.¹⁰ They succeeded in a turnaround and became fairly profitable in the subsequent years.

Regional differences remain even so. Some national postal operators in the Eastern and Southern Member States are less profitable than those of the Western Member States. This firstly reflects differences in the progress of modernisation and reorganisation (especially with regard to postal outlets). Secondly, it reflects differences in the development of the letter post markets (considerably lower letter post items per capita) resulting in lower economies of scale and scope for these national postal operators.

4.2 Developments in the European Parcel and Express Market

4.2.1 Parcel and express market outperforms EU-27 GDP growth

The European parcels and express market has seen rapid development over the last decade and has shown significant growth levels.

In 1998, the EU-27 parcel and express market in 1998 amounted to EUR 23.4 billion, equal to 0.27 percent of total EU-27 GDP. By 2008, this had grown to an estimated value of EUR 42.4 billion (0.34 percent of EU-27 GDP). With a compound annual growth rate (CAGR) of 6.1 percent, the parcels and express market has continuously outperformed EU economic growth (GDP), which had a CAGR of 3.5 percent over the same time period.

This growth in the industry has certainly been fuelled by the liberalisation process in the European Community. However, the evolution of the parcel and express market over the period from 1997 until 2008 has been influenced by other driving factors, as outlined below.

¹⁰ Austrian Post, De Post / La Poste (Belgium), Post Danmark (Denmark), La Poste (France), Magyar Post (Hungary), An Post (Ireland), Maltapost, CTT Correios (Portugal), Posten (Sweden) and Royal Mail (UK)

4.2.2 Customer demand for broader parcel and express services

Customer demand has developed significantly during the 1998-2008 period due to a number of factors. The implementation of free trade of goods (within the EU-27 and internationally) along with the trend to globalisation of production connected with the intensifying trend towards just-in-time-manufacturing has led to the requirement for faster, more reliable postal services and generated additional volumes, especially for international destinations. In response, the parcel and express operators started to offer a broader choice of products and services. Given the highly competitive nature of the parcel and express markets, large customers are often able to negotiate discounted prices based on their volumes while small customers or private customers lack this negotiating power.

4.2.3 Competition in the parcel and express market

Although the parcel and express market was already competitive in 1997, the character of the competitive environment has changed to a large extent during the past ten years. Up until the end of the 1990s two sorts of operators had developed in the market. The international express operators (DHL, FedEx, TNT and UPS)—also referred to as ‘integrators’ due to their integrated business model—started to establish their European express networks. Additionally, domestic parcel operators started to flourish mainly on a domestic level, as they were able to capture large volumes from established freight transportation companies.

In 1997, larger global and/or European-wide players were leading the market for parcel and express services. Other (smaller) parcel and express operators were acting only on a domestic level, while the international/European express market was shared among the integrators. In reaction to changes in the market and in customer demand, the national private operators reacted with the establishment of European network alliances such as GLS, DPD, EuroExpress and Net Express. These network alliances (cooperations or franchise-based) enabled them to offer an extended range of international services to target the additional market potential in the growing intra-European cross-border market

During the last decade, the structure of the European business-to-business (B2B) parcel and express market has changed significantly. This is mainly due to strong market consolidation in the form of multiple mergers and acquisitions, with several large national postal operators of the Western Member States expanding their strategies into the parcel and express market. Other postal operators largely restricted their parcel and express activities to their domestic market. Two large non-European players (UPS, FedEx) managed to develop strong businesses in the EU-27 region.

Today the leading players are mainly national postal operators (Deutsche Post DHL, TNT, La Poste, Royal Mail and Austrian Post) of the Western Member States and a handful of private operators (UPS, FedEx). Competition between these players is intense, both within the EU-27 domestic markets and for cross-border business. This highly competitive environment is expected to continue for the foreseeable future, and further consolidation is likely both at an international and domestic level.

The former distinction between parcel and express services in terms of products is becoming less clear. Express operators, parcels companies and national postal operators have internationalised and broadened their business and started to compete against each other in order to offer clients a full service portfolio.

The B2C market landscape differs from the B2B market landscape, as competition remains largely nationally-based due to the essentially domestic nature of the home delivery business. National postal operators still benefit from a certain monopoly status, due to high market entry barriers and tend to be the clear B2C market leader in most EU-27 countries. Most private B2C competitors focus on deliveries within a single country. The only private operator that has so far started to compete at a European level is German company Hermes.

4.2.4 Expansion of service offerings for parcel and express service customers

In the late 1990s the available parcel and express services clearly differed based on the historical nature of the parcel and express operators in Europe. Fuelled by changes in customer behaviour and requirements and also due to the changes in the competitive landscape, however, the market has seen a clear convergence between parcel and express competitors' product and service offerings during the last decade.

In comparison to the slower and cheaper services from the parcel operators, express companies offered high-quality products with a much faster service. The focus was clearly on documents and lighter parcels, with additional value-added services (e.g. tracking & tracing, ad-hoc pick-up, overnight delivery, insurance, etc.). In contrast to this, parcel operators focused on heavier parcels up to about 30 kg and offered a cheaper alternative with almost no value-added service options.

Over the past ten years, parcel operators have realised the opportunity to attack the lower end of the express segment by investing in their networks in order to improve transit times and also to improve their service capabilities. By doing so, parcel operators have been able to broaden their service portfolio with faster services and some guaranteed products, whilst retaining a certain price advantage by keeping their operational network costs at a low 'mass-production' level.

In response, express operators have recognized this threat and started to introduce more economical (slower and cheaper) type of products. At the same, however, express operators also continued to enhance their core products by introducing further service options, such as timed-deliveries and special service options.

Another change in recent years has been the change in customer segment focus as well as geographical coverage. Express operators have always been providing their services across all customer segments and have always covered national as well as the international (cross-border) markets. Parcel operators on the other hand have clearly been providing their products to the Business to Business (B2B) customer segment and focused on the national (domestic) transport. Due to their geographical expansion, parcel operators are now able to offer international services and provide customers with an alternative to either the postal parcel or the express services.

Significant service innovation is taking place in parcel services for consumers (B2C and C2C). Parcel operators are trying to introduce more cost-effective but still reliable last mile deliveries, and are promoting these as new service offerings. Last mile delivery is increasingly becoming subject to automation, as several operators have set up automatic parcel boxes where parcels can be dispatched and/or collected at any time. Moreover, the number of parcel shops has grown rapidly, providing a central point for collection, dispatch and reception of parcels. These developments created a high degree of flexibility for both the customer and the provider.

4.2.5 Technological progress and innovation improve service quality of parcel and express services

The introduction of EDI (Electronic Data Interchange) solutions in the late 1990s enabled parcel and express operators as well as national postal operators to optimise their operational processes in various ways. Pick-up and delivery routes could be optimized, sorting facilities were automated and barcodes and scanners were introduced. All these innovations and improvements supported the companies in increasing their productivity and profitability.

The most important technological innovation in the market over the last decade from a customer perspective has probably been that of “tracking and tracing”. The ability to track the physical location and status of a shipment pro-actively and if necessary to trace back its progress through the delivery chain is now part of the standard customer service offered by all parcel and express operators.

The emergence of the internet for commercial activities was another revolutionary step in technology. Parcel and express operators began to constantly develop new types of products and services over the last decade (e.g. online shipping, web-based tracking & tracing, drop-off locators, re-routing, etc.).

In the last few years, another innovative technology has appeared on the market and is gradually being implemented more widely. RFID (Radio Frequency Identification) is expected to bring dramatic benefits to the industry in the long-term. These include quality improvements through a further optimisation of automatisations on the production side (e.g. replacement of manual scans and the introduction of „Live Tracking“) as well as cost savings.

4.2.6 Dynamic e-commerce growth generates more business in particular for the B2C parcels market

E-commerce is a major driving force for parcel and express market growth since it generates additional packets and parcels for physical distribution. Since its early beginnings in 1990s, the European e-commerce market has grown rapidly to a size of approx. EUR 106 billion, of which 70 percent remains concentrated in three key markets, the United Kingdom, Germany and France.

The B2C market in particular benefits from this dynamic growth since most items are destined for home delivery. This market segment has grown more strongly than the B2B segment for the last two years and is expected to continue this growth primarily due to e-commerce related transactions. Moreover, some B2B volumes have been transformed into B2C shipments as

manufacturers or producers seek to bypass wholesalers and retailers by selling directly to consumers via the internet.

As a result of these trends, the B2C market is becoming more attractive for new entrants. Although the segment remains largely dominated by the national postal companies at present, other parcel and express operators are increasingly developing B2C products and services to benefit from the growth potential generated by e-commerce. This trend is stronger in the mature markets of the Western Member States than in the emerging markets of the Eastern Member States.

5. Impact of EU Postal Reform on Market Developments

Substantial customer benefits have already resulted from the EU Postal Reform process ahead of the forthcoming full market opening in 2011. It should be recalled that the overall objective of the EU Postal Reform is to safeguard and improve the provision of the universal postal service. However, the universal postal service is not a static concept but needs to develop in line with changing needs of postal users: For both individuals as well as business customers in their roles as senders and recipients of postal items.

Overall, the needs of individuals and small business customers have been effectively safeguarded by universal postal service regulations, the improved efficiency in postal operations and enhanced customer orientation:

- Individuals and small business customers have benefited from substantial improvements in quality of service for domestic and cross-border letter services, and reliable next day delivery has become a standard in most Member States.
- Increasing efficiency in postal operations of the national postal operators has gone along with fairly stable postal tariffs for consumers and small mailers in many Member States. Postal tariffs have remained affordable.
- Access to postal services has been safeguarded by postal outlets. Although the total number has declined in many Member States the outlets have often been modernised and are more customer-friendly today; increasing use of franchised postal outlets has increased the opening hours and thus accessibility.

Business customers, especially medium-sized and large ones, have also benefited from developments in postal markets stimulated by EU Postal Reform:

- Business customers have benefited from extended service offerings provided by national and competing postal operators. The modernisation of postal operations and emerging competition have afforded the establishment of differentiated service offerings for business customers, e.g. guaranteed services and services with very different transit time targets (ranging from D+1 to D+7). Pricing schedules have become more sophisticated and offer business customers substantial discounts depending on a variety of service characteristics.

- In Member States with end-to-end and upstream competition business customers have more choice between postal operators. In these Member States they have also benefited from declining tariffs.
- Emerging consolidation services have extended the benefits of declining tariffs to small and medium-sized business mailers.

Most national postal operators have evolved into commercially thinking, increasingly customer-oriented and profitable postal companies which has improved the service offerings for postal customers in many Member States. National postal operators have understood that the provision of reliable and high quality postal services is of major importance to meet the challenges of emerging competition with other postal operators as well as with other communication and advertising media. Their role as universal service providers has not been significantly challenged by emerging competition, so far.

Today, letter services are a well-established channel for businesses to remain in continuous contact with consumers and business customers in many Member States. The role of correspondence in the wider communications market has been safeguarded and the role of direct mail in the advertising markets has been strengthened.

The EU Postal Reform has provided the regulatory framework and the road map to achieve its overall objectives. However, variations in national market developments result from country-specific peculiarities including particularly different attitudes of Member States with regard to detailed universal service requirements and competition in letter post markets.

In the parcel and express market, the fact that liberalisation was achieved in virtually all markets by the late 1990s and the market has since then functioned on a normal competitive basis, means that postal reform has had only an indirect impact. The implementation of a clear dividing line between universal postal services and express services enabled both national postal operators and private operators to further develop their business in this competitive environment.

A number of national postal operators (such as Deutsche Post, TNT, French La Poste, Royal Mail, Austrian Post) of the Western Member States broadened their business strategies by moving into the European parcel and express market. This was largely carried out through acquisitions of major established players (e.g. DHL, DPD, GLS) and smaller national companies. These acquisitions were enabled by the national postal operators' sizeable financial resources. Other, smaller, national postal operators made local acquisitions in the parcel and express sectors but largely continued to focus on their domestic markets.

6. Future Trends

6.1 Future Trends in the Postal Markets: Letter Post

6.1.1 *The strong economic decline and the ongoing structural change in communication behaviour challenge the future role of letter services*

The recent economic decline has affected postal volumes significantly. Direct mail and unaddressed advertising are directly impacted by cuts in the marketing budgets of many companies and organisations. This is reflected in the drastic decline in addressed and unaddressed advertising disclosed in quarterly reports of national postal operators. The economic decline pushes the efforts of business customers to reduce postal expenses and may promote the attractiveness of electronic delivery solutions.

In the future the role of multi-channel delivery of postal items will increase. The recipient will have the choice of getting the mail physically from the postman or electronically through an electronic mail box. This will substantially challenge the traditional letter post services. Ongoing efforts to make secure electronic communication more convenient—this is especially driven by the eGovernment activities in the EU¹¹—will promote the use of electronic mail boxes. However, the pace of the development is substantially driven by the acceptance of the recipients, individuals as well as businesses. Key drivers for the penetration of alternative electronic solutions are the “technological openness” of a society (e.g. the Estonian or the Scandinavian societies appear to be more open than the German and the British ones), the perceived reliability (data security), the convenience and potential value added features (e.g. electronic invoicing combined with online-banking) related to the upcoming “secure” electronic mail boxes.

The economic decline and the structural change in communication behaviour will particularly affect the letter post volume of the mature letter post markets of the Western Member States. However, there is still growth potential in some low volume Eastern Member States in the medium term (i.e. after the economic recession) notably in Poland, Bulgaria and Romania but we assume that their volume growth will not compensate for the volume decline of the Western Member States.

6.1.2 *Competition in letters markets will continue evolving slowly but much will depend on how the third Postal Directive is transposed into national law*

As outlined earlier, noticeable competition has emerged in Member States that have either opened substantial segments of the letters market or fully opened the market. In the run-up to full EU-wide market opening in 2011, competition can be expected to continue evolving in these markets. However, the incumbent postal operators increasingly meet competition with competitive measures (instead of legal actions against competing postal operators) like new products and more attractive pricing schedules for business customers. This may limit the growth prospects of competing postal operators particularly in mature letters markets. In

¹¹ See link to activities of DG INFSO for more information:
http://ec.europa.eu/information_society/eeurope/i2010/index_en.htm.

Member States that have not yet opened attractive market segments we do not expect that competition will emerge prior to the full market opening required by the third Postal Directive in 2011/2013 (except possibly for Poland). In addition, there are often other barriers to competition that affect the position of competing postal operators adversely, notably the unequal application of VAT rules on universal service providers and competing postal operators or restrictive licensing requirements.

While the experience in those markets that have already fully liberalised may provide some pointers to the possible general EU-27 market development post-2011, it remains difficult to generalise at this stage. Competition will, of course, increase with full market opening but the nature and degree of this competition would be speculative at this stage. Much will depend on how the third Postal Directive is transposed into national law, barriers such as VAT tackled and how the universal postal service is regulated.

6.1.3 Demand developments will stimulate discussions on the future shape of universal postal service

A significant decline in letter post volume in national postal markets may challenge the profitability of postal operators: postal operators with low profitability and letter post volume more than those with high letter post volume. We expect that national postal operators will continue playing an important role in the provision of nationwide postal services to the general public. However, the emerging challenges will put additional pressure on costs of postal service provision. Postal operators will therefore raise the question of how the universal postal service should be shaped under these conditions especially with regard to delivery frequency, accessibility, speed of delivery (next day delivery) and funding. Some of these issues (notably the question of funding) have been addressed in the third Postal Directive. Member States should meet these discussions well informed about changes in the needs of postal users and should use this as the key benchmark for the future shape of universal postal service obligations.

6.2 Future trends in the postal markets: Parcel and express

The next few years will likely prove challenging for all players in the parcel and express market. Over the last 12 months volumes and revenues have slumped significantly due to the impact of the worldwide recession. This decline has wiped out previous growth rates and it will take a period of recovery before the former levels can be regained. More positively, it is expected that the parcel and express market will continue to grow in the medium and long term, although short-term forecasts are impossible at present due to the impact of the worldwide economic slowdown. Future growth will depend on how countries react on a macro-economic level and on how oil prices (as an important cost factor for the industry) will develop. One consequence of the current downturn is that customers tend to migrate from fast express services to more standardised parcel services for cost saving reasons.

External factors, especially environmental issues (e.g. aircraft noise, regulations concerning emission standards), will increasingly impact on the industry, forcing operators to adapt their business operations in response. Other key driving forces are likely to be the increase in internet-generated B2C packets, the further pressure on the domestic B2C market and the rise

in cross border B2C shipments. As a consequence the domestic parcel and express services will show a convergence from B2B to B2C in the future.

Competition will remain intense and further consolidation is likely both at an international and domestic level. In the long term we can expect to have fewer and larger parcel and express operators acting on a global/European level. Especially in more fragmented markets (such as Italy, Spain, UK and Eastern European countries) we believe that there will be fewer domestic parcel and express operators.

Forced by pressure to reduce costs some operators might in the short term concentrate more on their core businesses. Parcel and express operators will mainly focus on reducing their costs and focus on maintaining their market share due to the economic recession. Non-profitable business segments and/or geographical market activities that are not part of a long-term strategy will be closed.

In the long-term, however, no dramatic changes of strategy are likely among the leading parcel and express companies. Integrators will concentrate on the development of their global networks and international services as well as a further development and enhancement of their slower type of express services. Smaller and medium-sized express operators will continue to focus more on niche markets and try to expand these internationally, while parcel operators are still going to focus on expanding their intra-European networks and continue trying to capture business from the express market.

7. Recommendations

Past experience has shown that reliable postal services, efficient postal operations and competitive, customer-oriented postal operators accompanied by appropriate universal service regulations are essential factors for safeguarding the role of postal services in the wider communication, advertising and transport markets. EU Postal Reform has successfully stimulated the market developments and ensured the nationwide provision of postal services at good quality and affordable prices to the general public. In order to safeguard and strengthen the role letter post and parcel services in the future we conclude with the following recommendations:

- In future, parts of the universal service provision, particularly for consumers and small businesses, may come under pressure due to declining letter post volumes. Safeguarding basic postal services, for senders as well as for recipients, should therefore continue being subject to special regulatory control and take into account the dynamic nature of the public needs for postal services.
- Member States should carefully observe the developments in demand for letter services and, especially, in the needs of postal users (senders as well as recipients). These developments should be used as a central benchmark for the future evolution of the universal postal service to ensure obligations are appropriate.
- National postal operators need to complete their modernisation and reorganisation process in order to improve reliability in postal service provision. In our view, time matters.

Reliable and affordable postal services are the necessary pre-requisites to prevail in competition with other postal operators and—even more importantly—with other communication channels.

- Competition in the letters markets can set the right incentives to strengthen the position of letters services within the wider communications market. Additionally, competition is an important counterbalance to excessive cost saving measures (and cutbacks in service) or price hikes by national postal operators. Against this background Member States should accept competition as an opportunity for the future development of the postal markets. We see no reason to regard competition as a threat for the universal postal service. As long as there is no (or little) effective competition, postal users' needs should be the key benchmark for regulatory decisions in areas where competition does not achieve the targeted results.
- We recommend that non-discriminatory access to special tariffs offered by incumbent postal operators should be effectively ensured. Upstream service providers and consolidators can additionally safeguard and even strengthen the importance of postal services: In their role as intermediaries between the sender and the delivery company they provide value added services to postal customers that would have more choice between innovative service offerings and providers.
- Efforts should continue to achieve a level playing field in letters and parcel markets especially with regard to the application of VAT rules in the postal sector and other legal barriers to competition (e.g. unnecessarily rigid licence conditions).
- Member States should effectively ensure that the incumbent postal operators comply with the competition rules. Abuse of the dominant position enjoyed by the incumbent postal operators can create severe risks for emerging competition in traditional letters and related upstream markets, and should be prevented by a consequent application of competition rules.
- Consistent statistical information on market developments, provision of the universal postal service, and on demand behaviour and customer satisfaction of consumers and business customers are necessary to adapt postal legislation in due consideration of market developments and the needs of the general public. However, there is still a considerable lack of standardised and consistently applied definitions. For these reasons we recommend strengthening the efforts into establishing common standards for data on postal services within the European Union.

1 Introduction

1.1 Background of the Study

The postal industry plays a vital role for the social and economic development of the European Union (EU). As a service of general economic interest, it provides efficient and affordable mail and parcel services of high quality to fulfil its traditional role of a postal service in communications for both individuals and businesses.

Induced by the EU Postal Reform, the European postal sector is currently undergoing a liberalisation process. As a part of the Lisbon agenda, EU postal policy aims to assure a high quality universal postal service and to achieve the Single Market for postal services. Subsequent to the “Postal Green Paper” (1992)¹² and based on the regulatory framework of the Postal Directive (97/67/EC), amended in 2002 (Directive 2002/39/EC) and 2008 (Directive 2008/06/EC), the sector has been opened gradually and in a controlled fashion to competition.

On the basis of this regulatory framework, the postal sector has undergone a significant transformation over the last decade. Technological developments and the rise of electronic communication means, providing a fast, reliable and reasonably priced alternative to the traditional postal services, have further influenced the provision of postal services.

With the rise of electronic communication, preoccupation arose in the postal industry that physical delivery would gradually be substituted by electronic means of communication, leading to a decline in correspondence volumes. However, technological progress in electronic communication may also generate new letter post volume, e.g. the establishment of online banks creating additional volumes in correspondence and in direct mail and the growth of parcel volumes through online sales and an increasing demand for e-fulfilment services. Regarding parcel and express services technological progress and electronic communication became an opportunity for parcel and express services as the increasing use of e-commerce fuelled demand for reliable, timely delivery services, which resulted in high growth rates for the parcel and express industry over the past ten years under review.

This study considers how the postal landscape of the EU-27 countries and two European Economic Area (EEA) countries has been shaped in the years from 1997 to 2009 in the light of the EU Postal Reform. It provides a comprehensive overview of the trends observed during that period of time and aims at giving an outlook for the near future, while identifying the factors which had an influence on the transformation, presenting the drivers and explaining the implications on both, consumers and competitors.

¹² Commission of the European Communities (1992), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final.

1.2 Objectives of the Study

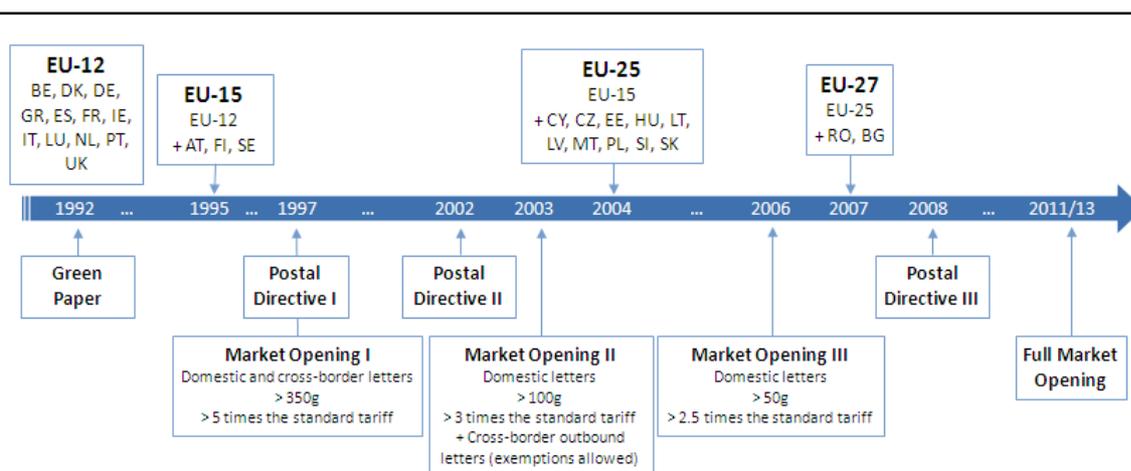
1.2.1 Scope and objectives

The purpose of this report is to examine and evaluate postal market trends over time taking into account the competitive situation and consumer issues. For this reason the study monitors, identifies and analyses the impact of the EU Postal Directives on the market development and trends during the period of 1997 to 2009 considering all EU-27 countries, EEA countries as well as the USA, Japan, Australia and New Zealand. In addition, the study aims to develop an outlook for the trends in 2009 and the near future.

This study covers a period of significant change and transition for the postal industry since the Postal Directives have established regulatory principles and gradually introduced competition into the postal market. Simultaneously, the European Union enlarged from 15 to 27 Member States (see Figure 1-1). The Postal Directive adopted in 1997 has further initiated the establishment of independent national postal regulators and has set standards for quality of service, authorisation procedures and customer complaints. Full market opening is now set to take place for the majority of Member States by the end of 2010. By way of derogation, eleven Member States – that account for about 5 percent of EU mail volume – may maintain reserved areas until the end of 2012.

All 27 EU Member States (with regard to their accession to the EU) and the EEA countries Iceland and Norway are covered by this study. As non-European benchmarks it compares developments in the European countries with postal market trends in Australia, Japan, New Zealand and the USA.

Figure 1-1 EU enlargement and EU Postal Reform



Source: ITA Consulting / WIK-Consult

As described in the Terms of Reference, the aim of this study is to provide an insightful comprehensive overview of the status and the evolution of the postal market sector for the period 1997 – 2009. In detail, the study

- provides quantitative data on postal market trends since 1997,
- identifies and discusses the reasons underlying these trends
- provides forecasts trends for the next few years
- evaluates the effect of EU Postal Reform and of postal market opening to date

In doing so, the study uses indicators that measure:

- access conditions
- price trends and their impact on affordability
- customer satisfaction
- quality of service
- the handling of consumer complaints
- the effects of competition in different segments of the postal market

The objectives and key steps of EU Postal Reform are presented in chapter 2 of this report. Chapter 3 presents the current status of the EU Postal Market as a whole, along with separate descriptions of the letter post and parcel and express markets, including putting them into a global context.

The core part of the study is chapter 4. The key developments in the EU letter post and parcel and express markets since 1997 are assessed comprising developments in demand, competition, efficiency and technological progress in postal operations, service offerings to consumers and business customers with special emphasis on quality of service, accessibility and customer satisfaction.

Chapter 5 focuses on the impact of EU Postal Reform on developments in demand, competition, postal service provision for consumers and business customers with special emphasis on quality of service, accessibility and affordability and efficiency in postal operations

Future trends in the European postal market with respect to volumes, demand, competition and strategies of the postal operators are discussed in chapter 6 of this report. Finally, chapter 7 ends with conclusions and recommendations taking into account past developments and future trends in the European postal sector.

1.2.2 Methodology

As this study is mainly based on the results of secondary research activities, work on the study started with a comprehensive and thorough collection of sources with relevant information over the period of 1997 until 2009 on the postal markets in the EU countries, the USA, Japan, Australia and New Zealand. In an ongoing process, the project team continuously checked additional sources for other relevant information.

Based on these sources, the study team collected specific data on a country-by-country level through intensive desk research. The list of screened documents (secondary sources) included (amongst other) the following documentation:

- Application reports and related Commission staff working papers prepared by the European Commission DG Markt, Postal Services in 2002, 2005, 2006 and 2008
- Relevant Studies commissioned by the European Commission DG Internal Market, Postal Services (i.e. WIK-Consult 2004 and 2006, Ecorys 2005 and 2008)
- Annual reports and publications (e.g. market and demand surveys) by national regulatory authorities
- Annual reports of postal companies
- Market research reports by independent consulting companies
- Publications of associations, e.g. IPC, UPU, various national express associations
- Eurostat publications on the postal sector

In addition to information related to the postal market, the project team has collected macro-economic data, exchange rates (incl. purchasing power parities), consumer price indices, data related to internet penetration and broadband access, urbanisation rates and population data.

The secondary research phase was followed by a gap analysis based on the results of the secondary research. In some areas of requested information it emerged that for some areas of the study it is difficult to get all the information from reliable secondary sources. To fill these information gaps, the project team undertook primary research activities with stakeholders, such as a questionnaire that was sent in cooperation with the European Express Association (EEA) to national parcel and express parcels associations, national regulation authorities as well as directly to postal service operators. To investigate customer satisfaction with mail, parcel / express services the study team conducted 150 targeted telephone interviews with business customers in all EU Member States, partly with support of TNS Infratest¹³. Two groups of postal customers—large B2B customers and large B2C customers—were interviewed with the objective of investigating customer perception on quality of service with mail, parcel and express services as well as the development of customer needs in the postal market since 1997.

Two members of the team attended the FEDMA “Postal Affairs Committee Meeting” in Brussels (February 5th 2009) and participated in the “European Postal Services” conference in Amsterdam (March 23rd – 25th 2009) to promote the study, address stakeholder support and to conduct interviews with industry experts.

Parallel to all the research and analysis activities, the project team developed a country fiche template as requested by the terms of reference. The country fiches are designed to give a

¹³ TNS (Taylor Nelson Sofres) is a leading global market research company.

quick country by country overview of the developments in the postal market. It appeared to be very ambitious to compile a large number of facts & figures and to show their postal market development over a period of 10 years within limited space. To ensure an equal and comparable level for all countries, the availability of information was also taken into consideration when choosing the respective indicators. The country fiches for all countries that are covered in this study can be found in the Annex of this report.

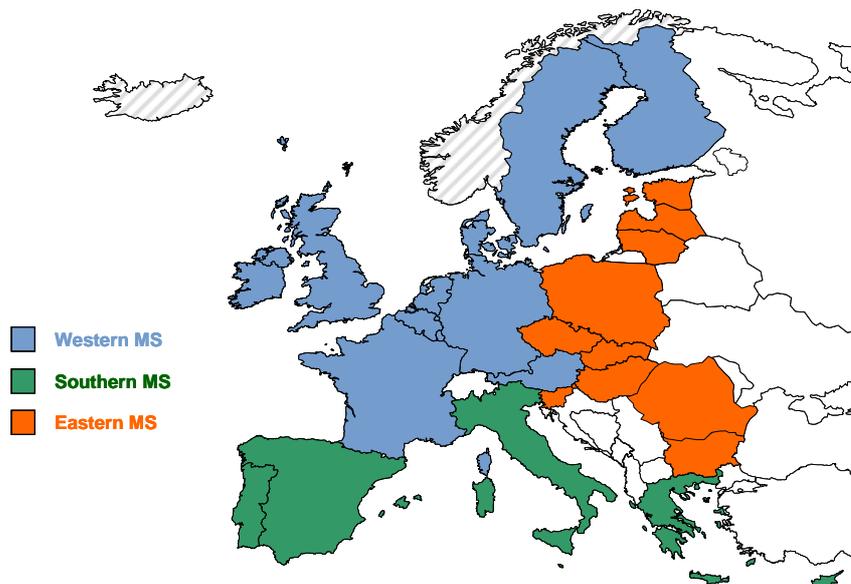
1.2.3 Determination of the country groups

To simplify the description of the national / regional postal markets on a European level, the countries were grouped into three different peer groups. To define these peer groups a “Two Step Cluster Analysis” (with the statistical analysis tool SPSS) was conducted taking into account two independent variables that are relevant for the development of the postal markets: Gross domestic product (GDP) per capita and the accession date to the European Union.

The tests performed via SPSS fully confirmed the geographical classification of the 27 Member States. Therefore, as a result of the statistical analysis, the following peer groups will function as reference groups for the comparative analysis of selected performance indicators:

- **Western Member States (Western MS):** Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxemburg, The Netherlands, Sweden and UK;
- **Southern Member States (Southern MS):** Cyprus, Greece, Italy, Malta, Portugal and Spain;
- **Eastern Member States (Eastern MS):** Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia;

Figure 1-2 Geographic Classification of EU-27 Countries



1.3 Postal Terminology

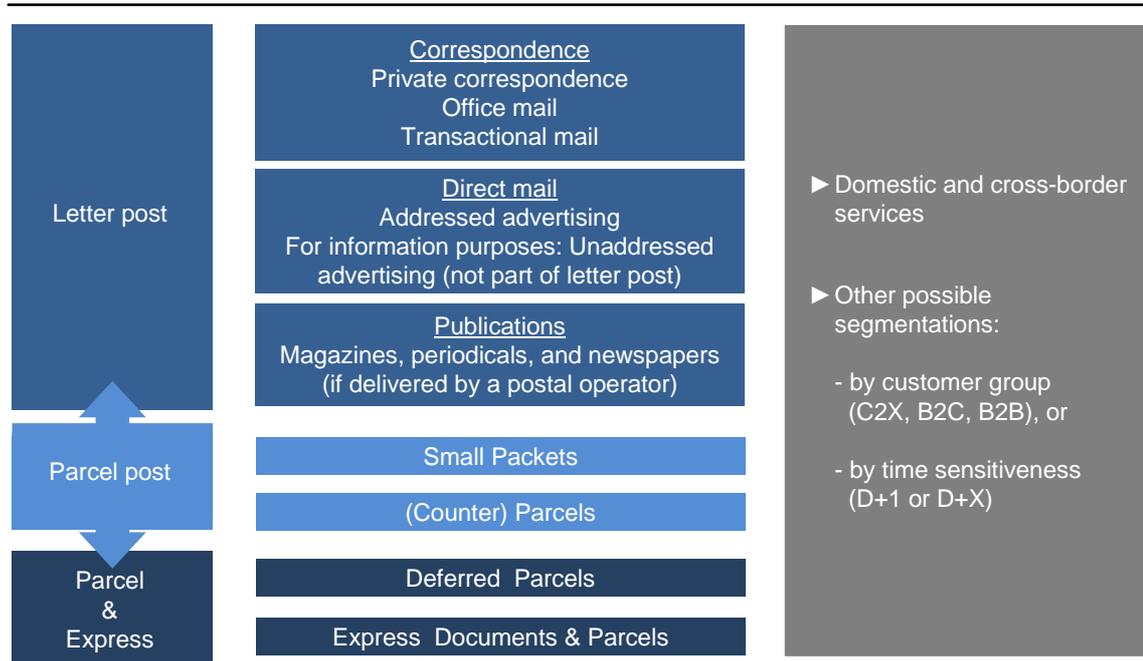
Since the publication of the Green Paper in 1992 postal services have been subject to fundamental changes driven by postal reform on the one hand and technological progress on the other. These changes have also affected postal products and postal service provision.

In the world of the former postal administrations¹⁴, standard traditional usage is generally defined by the Universal Postal Convention. In simplified form, the traditional postal view is that the delivery services sector is composed of public postal operators (meaning public undertakings) and private operators (everyone else including express companies). Today, the picture has changed at least within the European Union. The former postal government departments have been changed to independent entities, ranging from fully state-owned to fully privatised companies, not fundamentally different to the private operators from a legal point of view. The key differences between these postal companies and the private operators are firstly that they are usually obliged to provide the universal postal service and secondly that they still have a dominant market position in their domestic mail markets. In this report we use the terms “national postal operator”, “universal service provider” (USP), or “incumbent postal operator” when we talk about the former postal administrations (the use of the terms depends on the respective context).

This study uses the term “postal services” to refer to any general delivery service whether provided by a (former) public or private operator. The major sub-segments of postal services are (1) the letter post, (2) parcel post and (3) parcel & express. The delivery services sector also includes non-postal delivery services that consist of services for items not prepared in a manner suitable for posting, such as, inter alia, unaddressed mail and courier services.

14 Postal administrations are government departments responsible for the provision of postal services. Historically, postal (and telecommunications) services have been provided by postal administrations, worldwide. This has changed in some countries (notably in Europe) during the last two decades. The term “postal administration” is the official expression used in the Universal Postal Convention (UPU).

Figure 1-3 Product segmentation of the delivery services market



Source: ITA Consulting / WIK-Consult

LETTER POST

The term “letter post” refers collectively to postal services for the collection and delivery of correspondence and printed matter.

In this report the postal term “letter” comprises “correspondence” and “direct mail” (i.e. addressed advertising). Correspondence includes private and office mail as well as transactional mail. Transactional mail comprises, for example, bank statements and invoices.

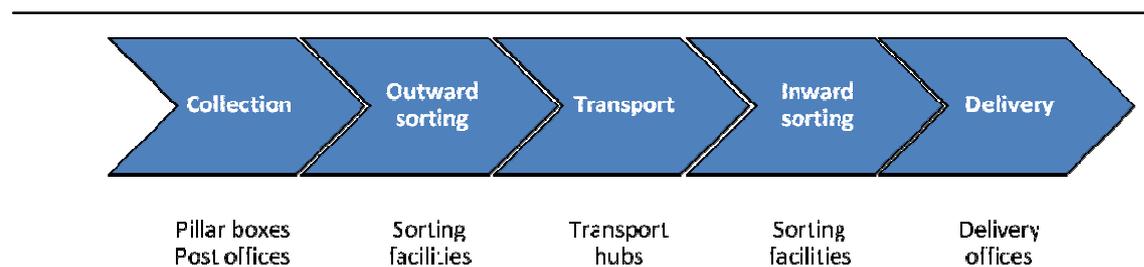
The postal term “printed matter” (or “printed papers”) and the term “direct mail” are similar but not identical. Direct mail includes printed advertisements that are addressed and personalised without altering the nature of the message. In the pre-computer world of postal terms, anything more than minimal personalisation transformed printed matter into letters. In some countries printed matter had additionally been delivered in open envelopes. Moreover, printed matter may include periodicals such as magazines whereas direct mail does not.

Publications, i.e. newspapers, magazines and periodicals, comprise subscribed publications (delivered by a postal operator) as well as customer newsletters or sponsored magazines sent by large institutions and companies, for example as part of their customer care programme.

In the report, we do not consider unaddressed advertising as part of letter post. However, as a low-cost substitute to addressed direct mail we will take unaddressed advertising mail into consideration. Additionally, many incumbent postal operators also distribute unaddressed items (together with letter post items or in separate distribution networks via subsidiaries) and allocate revenues and costs of this activity to their mail business.

THE EVOLUTION OF TRADITIONAL POSTAL VALUE CHAIN TO THE MAIL INDUSTRY VALUE CHAIN

Transactional letters as well as direct mail are usually industrially produced, i.e. their production requires sufficient printing capacities, machines for franking and enveloping and additional preparation for transport. In contrast to single-piece letters and postcards, “industrial mail” is standardized (same weight, same format) and usually pre-sorted (as part of the printing process) and has different collection/transport requirements (e.g. no need for pillar boxes).

Figure 1-4 Traditional postal value chain

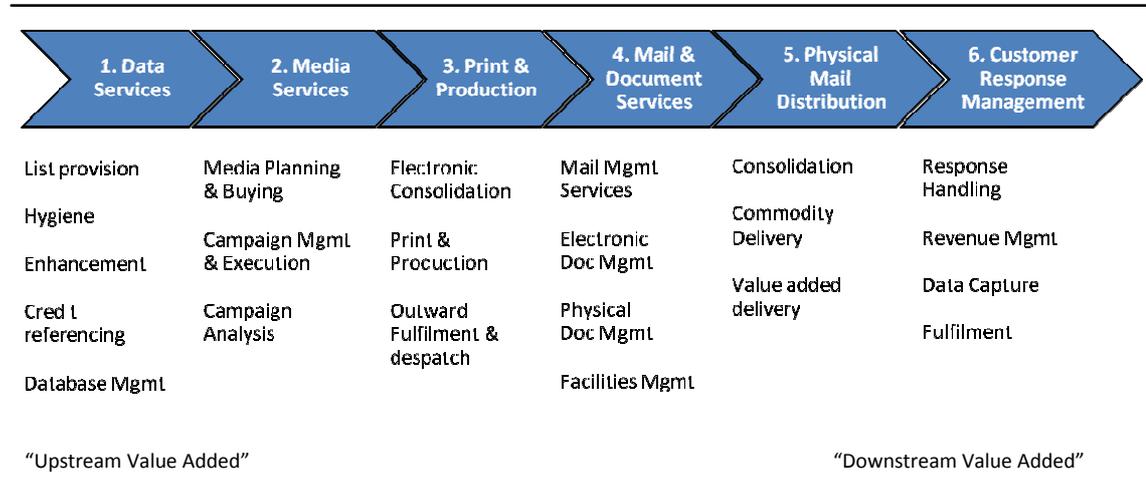
Vertically-integrated value chain traditionally provided by the incumbent postal operator

Source: ITA Consulting / WIK-Consult

Before EU Postal Reform started, the work-sharing between mailers and the national postal operators was generally well-defined: the mailers produced and franked their letters while the postal operator collected, sorted, transported and delivered the letter post items. We call this process the “traditional postal value chain”.

With upcoming industrial mail the traditional postal value chain has been extended to the “mail industry value chain”:

Figure 1-5 The mail industry value chain



Source: Walsh, T. (2007), The European mail manifesto, Second Edition, Figure 1.1.

Today, mailers of single-piece items (including medium-sized and large mailers who also have single-piece items in their daily post) usually rely on the traditional value chain provided by the national postal operator. In contrast, senders of industrial mail have a much broader view on the value chain where physical mail distribution is only one cost factor among others. Large mailers may additionally outsource parts of their activities to third parties, e.g. letter and print shops and may not necessarily use the national postal operator for physical mail distribution.

This study mainly relies on secondary research; therefore we dealt with letter post definitions differently applied by postal stakeholders (essentially the incumbent postal operators and the national regulatory authorities). The key challenge in this report is to consolidate the right figures together and not to compare “apples and oranges”. Generally, postal statistics provide figures for the core elements of the postal value chain i.e. the “traditional” postal services while upstream and downstream services are usually not or only partially covered by market studies or postal statistics.

Commonly used postal statistics (e.g. from UPU) have also enshrined the more traditional view of postal service provision; they do not focus on upstream and downstream activities or even on postal operators other than the public ones. First attempts have been made in recent years to gather data on competing postal operators at EU level by Eurostat with support of the European Commission (Postal Services Unit).¹⁵

¹⁵ See also Art. 22a of Directive 2008/6/EC: “Member States shall ensure that postal service providers provide all the information, in particular to the national regulatory authorities, including financial information and information concerning the provision of the universal service.”

Hence, to estimate the market size, especially in terms of revenues, we have to deal with considerable ‘blurs’. Data availability requires that we predominantly focus on the market size resulting from the “traditional postal value chain”. However, we should have in mind that the mail industry is not limited to these core activities and add information on these aspects whenever possible.

PARCEL POST AND PARCEL & EXPRESS SERVICES

In order to define the product line of the parcel post and parcel & express sectors, this study will consider the following product attributes: Weight of consignment, time sensitivity, network, serviced customer segment and geographical coverage.

Parcel post is positioned between the letter post sector and the Courier, Express and Parcel (CEP) segment. It is the traditional parcel service provided by former postal administrations. Typically, this service represents the sending of parcels over the post office counter (so-called ‘counter parcels’), although over the years, postal administrations also started to offer pick-up services for parcels. Basic services are the collection, the transport and the delivery of small packets and parcels mainly differing in their weight thresholds.

In traditional postal terminology, small packets are postal items weighing less than 1 or 2 kilograms other than correspondence, direct mail, or periodicals. Postal officials consider small packets to be part of the letter post. Volume and revenue figures of national postal operators for the “letter post” in this study may therefore include small packets. Nonetheless, from the standpoint of the Directive, small packets are parcels, and we do not include them in our usage of “letter post”.¹⁶ In contrast, parcels are heavier packages weighing up to 20 kilograms or more and containing any type of item other than letters.

Parcel post services normally use multi-stop networks, which are characterised by a high degree of consolidation and linked pick-up and delivery points in order to increase the utilisation rate of vehicles. Delivery is carried out to national as well as international destinations. Parcel post services do not provide fast or pre-defined on time deliveries, which is reflected by a lower price compared to express services.

Traditionally, parcel post services have targeted private customers focusing on so-called consumer-to-consumer (C2C) services. However, in the last decade parcel post has extended to business-to-consumer (B2C) services.

The Parcel and Express services represent along with Courier services the CEP sector. For a better understanding, all three types of services (Courier, Parcel and Express) are defined below.

¹⁶ Clearly, small packets should be deducted from volume and revenue figures to conform to the categories of the Directive and our non-parcel definition of ‘letter post’. There does not seem to be any practical way to do this, however. The Universal Postal Union stopped maintaining separate statistics for small packets in the early 1990s. At that time, small packets constituted roughly 1.5 to 2.25 percent of the letter post in France and Germany.

Parcel services are transports of largely standardised packages and usually have a non-guaranteed delivery time of 2-3 days. Standard parcels are mostly transported by road based on a (multi-stop) network of mostly scheduled delivery trips. Because of their longer transit time compared to express shipments, parcel services are also referred to as “deferred services” and are economically priced. The maximum weight of their transported goods is considered to be around 30 kilograms across Europe. This limit is an estimation of the maximum weight that can be handled by one man. Traditionally, Parcel services have a strong position in the B2B market, but within the last few years B2C and C2C services have gained in importance.

Express services are time-sensitive, usually guaranteed services and have as delivery time a specific day (in general the next day) and/or a specific time. Unlike courier services, the transport is not done in an exclusive and personal manner. Express services are in general consolidated transports through a hub & spoke network. Transportation is mostly done by air within the service provider’s own worldwide network. The main customers of the express services are the B2B and B2C segments with shipments to national and international destinations.

Courier services are generally urgent shipments sent at short notice and which have the shortest delivery time within the CEP market range of services. Courier services are based on a direct service network, without stops. During the transportation, shipments are under constant personal supervision making the access to the shipments possible at any time in order to make ad-hoc arrangements. Usually, courier services are carried out by city couriers / messengers using as means of transport bicycles or small cars and are delivered on the same day. Courier services target predominantly the B2B customer segment.

This study will focus only on the Parcel and Express services, leaving the Courier services out, as it is considered that these services with their mainly intra-city ad-hoc direct transportation services do not directly compete with the Postal services.

2 Key Steps of Postal Reform in the European Union

2.1 Reasons for EU Postal Reform

At the beginning of the 1990s postal administrations were still responsible for postal service provision in many Member States. At that time the European Union consisted of twelve European countries: Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom (UK). In some of these Member States postal and telecommunication services were still offered by the same organisation. In many cases, postal service provision was partly financed by revenues from telecommunication services. Moreover, postal monopolies often comprised postal delivery of items up to 2 kg and included even express services in some cases. Postal service provision within the EU was characterised by low quality. Services were often offered by inefficient loss-making postal administrations or state enterprises with a considerable lack of customer orientation. Simultaneously, private operators offering reliable express services were upcoming and increasingly challenging the postal administrations.

Acting in response to these changes in traditional national postal markets and in anticipation of the 1992 deadline for the development of a single Community market, the European Commission began a comprehensive survey of the delivery services sector in late 1988. The result was the “Postal Green Paper” adopted in June 1992. The Postal Green Paper highlighted the importance of the postal sector for the whole economy and for the Community to promote social cohesion due to its universal coverage.

The Postal Green Paper confirmed that postal services varied widely in quality and efficiency among Member States and were too often handicapped by unnecessarily extensive public sector monopolies. Differences and poor coordination among national post offices produced a “frontier effect” that tended to impede progress towards a single market. The Postal Green Paper proposed a minimum Community-wide definition of universal postal service, a maximum Community-wide limit to the postal monopoly with the elements of the gradual market opening, liberalisation of cross-border postal services and direct mail, establishment of an independent postal regulator in each Member State and imposition of quality of service standards on universal postal services.

Prior to the publishing of the Postal Green Paper in 1992, the monopoly on parcel services had already gradually fallen within the EU-12 Member States. The last Member State to liberalise parcel services was Italy, where transport of parcels between large cities was still within the reserved area in 1990. Since 1992, parcel services have been fully liberalised and did not fall into the reserved area in all Member States.

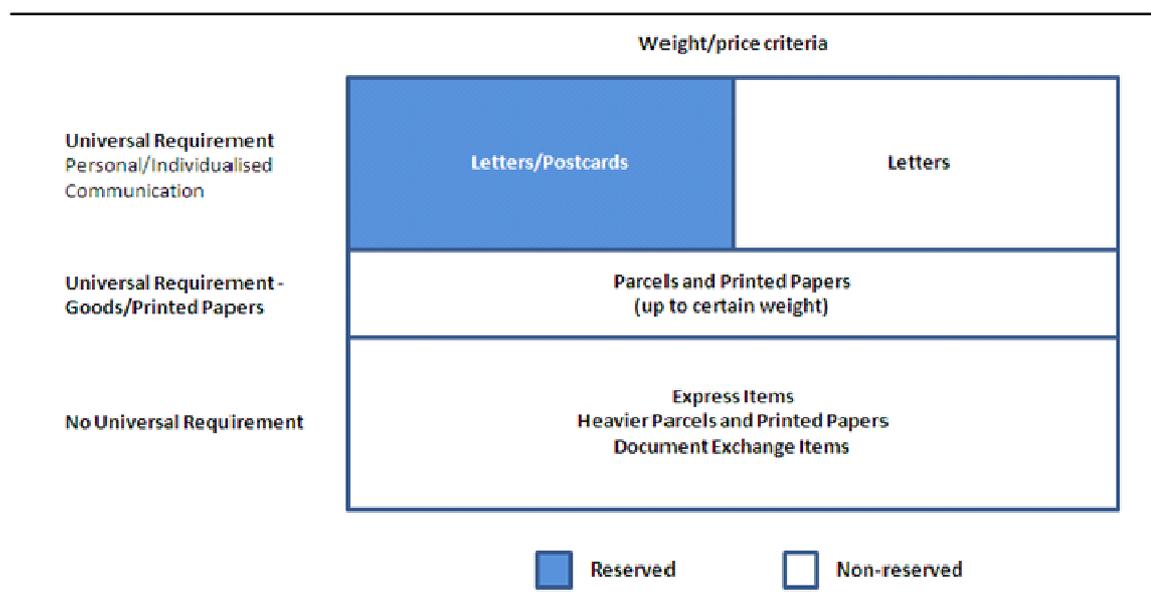
For express services, the situation prior to 1992 was ambiguous. Even though express services were supposedly defined to fall under the non-reserved area, the distinction between express and letter services was not clearly determined. Each Member State defined the split between express and letter services as well as the criteria with regard to the application of the reserved area to express services differently. In 1990, three Member States still treated this market segment as reserved, namely Ireland, Portugal and Spain.

The Commission considered it to be necessary to clarify the relationship between parcel and express services on one hand and letter post services on the other hand. The Postal Green Paper proposed to define the scope of the reserved area by content, weight and price criteria. According to this proposal, essentially addressed correspondence should be part of the reserved area but not, for example:

- newspapers, magazines, or books (printed paper)
- parcels (because they contain goods)
- express (because they provide a value-added service)
- unaddressed items (as they are not addressed)

The legislator (the European Parliament and the Council) largely followed this proposal in the first Postal Directive. However, addressed advertising (at that time usually identical copies, i.e. printed paper) was defined as part of correspondence. The first Postal Directive did not introduce a definition of express services (i.e. criteria for value-added services) in order to draw a clear line between universal postal services and express services. However, the introduction of a lower price threshold helped to better differentiate between express and letter post services within the reserved area.

Figure 2-1 Definition of reserved area



Source: Postal Green Paper

The Postal Green Paper concluded with a set of concrete measures necessary to achieve the identified postal policy objectives, i.a.:

- Establish a set of universal services
- Develop the definition of universal and reserved services
- Separate regulatory and operational functions
- Define obligations of universal service providers, i.a.

- Non-discrimination of postal customers: Access conditions to universal services to be same for all
 - Tariffs of universal services to be related to average costs
 - Terminal dues to reflect delivery costs
 - Service standards for universal services to be set and performance monitored
- Harmonisation appropriate where beneficial to customers (especially with regard to access conditions, service standards and performance monitoring).

The Postal Green Paper successfully stimulated the discussion on postal policy within the European Community and initiated the transformation process. The direct result was the enactment of the Postal Directive in 1997¹⁷ that marks the formal starting point for EU Postal Reform.

2.2 EU Postal Reform: The Postal Directives

In a process lasting more than a decade the objectives of the Postal Green Paper were translated into a concrete Directive offering the Member States a clear timetable for a gradual opening of national and cross-border mail markets and defining a set of measures to be implemented by the Member States in their national postal legislations.

OBJECTIVES OF THE EU POSTAL REFORM

“The purpose of the Postal Directive 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.”¹⁸ This statement of the European Commission briefly describes the two major objectives of EU Postal Reform:

- First, to protect and promote an affordable, reliable and efficient universal postal service and
- Second, to promote a fully operational internal market in postal services.

The measures necessary to achieve these objectives are defined in the Postal Directives.

The first Postal Directive determined the scope of universal postal service and important characteristics with regard to service provision. Recital 11 of the first Postal Directive says that “it is essential to guarantee at Community level a universal postal service encompassing a

¹⁷ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service (OJ L 15/14, 21.2.1998) amended by Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to further opening to competition of Community postal services (OJ L 176/21, 5.7.2002) and by Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services (OJ L 52/3, 27.2.2008).

¹⁸ Communication from the Commission to the Council: The Universal Postal Union Congress 2004, COM/2004/0398 final (27 May 2004), paragraph 23.

minimum range of services of specified quality to be provided in all Member States at an affordable price for the benefit of all users, irrespective of their geographical location in the Community.” Consequently, the Postal Directive set general guidelines while every Member State had to decide on the concrete design of the universal postal service in their country taking into account national characteristics (principle of subsidiarity) and the evolution of the technical, economic and social environment as well as changing needs of postal users (reflecting the dynamic nature of universal service provision).

The second objective is to promote a fully operational internal market in postal services. This requires measures to harmonise postal service provision to an extent that domestic and especially cross-border services can be provided at similar quality levels throughout the European Union. Another important aspect is the full opening of postal markets under conditions ensuring that the universal service provision is still safeguarded.

The requirements of the Postal Directives can generally be structured into three key elements.

- 1) Rules on the provision of universal postal services (including rules on inter-operability and basic requirements to be fulfilled by all mail operators to safeguard universal service provision in an increasingly competitive environment)
- 2) Gradual market opening aiming at the final abolishment of the reserved area and development of competition (general authorisation / licensing systems)
- 3) Requirements related to the establishment and the tasks of independent national regulatory authorities.

FIRST POSTAL DIRECTIVE

In December 1997, after five years of consultation and debate, the European Union adopted the Directive 97/67, the Directive on Postal Services. Under the Directive, the main objectives of Community postal policy became to improve the quality of service and to facilitate the internal market for postal services. Respecting the legal principle of subsidiarity, the Postal Directive required a minimum harmonisation of Community postal services. Regulatory provisions included a minimum definition of the universal postal services that must be guaranteed by Member States and a maximum definition of the scope of postal services that could be reserved to the national post office to the extent necessary to safeguard the universal postal service. The Directive included criteria relating to non-reserved postal services, access to the postal network, tariff principles and the transparency of accounts, quality of service and harmonisation of technical standards. Finally, the Postal Directive required the designation of “one or more national regulatory authorities for the postal sector that are legally separate from and operationally independent of the postal operators” (Article 22 of the first Postal Directive). In sum, the Postal Directive established a harmonised Community framework for postal services which left Member States considerable discretion to adapt national postal law to different national circumstances.

SECOND POSTAL DIRECTIVE

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

Pursuant to the Lisbon decisions, in June 2002 the Council and Parliament amended the Postal Directive by adopting Directive 2002/39. The new directive was derived from a Commission proposal made in May 2000. Under Directive 2002/39, the maximum definition of the reserved service was reduced to correspondence weighing less than 100 grams or costing less than three times the basic tariff; in 2006, the limits were reduced further to 50 grams or 2.5 times the basic tariff. Furthermore, the Directive encouraged liberalisation of outgoing cross-border mail (while permitting some exceptions) and set January 1, 2009, as a possible date for the full accomplishment of the Internal Market for postal services, although this step had to be confirmed or modified by a further act of the European Parliament and the Council.

THIRD POSTAL DIRECTIVE

The second Postal Directive also required the Commission to prepare a progress report every two years on the application of the Postal Directive and other developments in the sector, particularly economic, social, employment and technological aspects and the quality of service. In addition, by the end of 2006, the Commission was required to prepare "a prospective study which will assess, for each Member State, the impact on universal service of the full accomplishment of the postal internal market in 2009" and to submit a proposal "confirming, if appropriate, the date of 2009 for the full accomplishment of the postal internal market or determining any other step in the light of the study's conclusions."

The Commission published these documents together with a proposal for the third Postal Directive in October 2006. After more than one year of discussion the Council and the European Parliament adopted Directive 2008/6/EC further amending the Postal Directive in February 2008. The third Postal Directive sets a deadline for the full market opening by 31st December 2010 for the majority of Member States and offers a later market opening date (by 31st December 2012) to the following Member States: Cyprus, Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia.¹⁹ Most importantly, the third Postal Directive establishes common rules concerning the financing of universal services under conditions that guarantee their permanent provision and requirements that safeguard the provision of postal services in a multi-operator environment, strengthen the

¹⁹ See Notices from Member States (2008), Information of Member States that intend to postpone the implementation of Directive 2008/6/EC until 31 December 2012, in order to continue to reserve services to universal service provider(s), OJ C 265/26 of 18.10.2008.

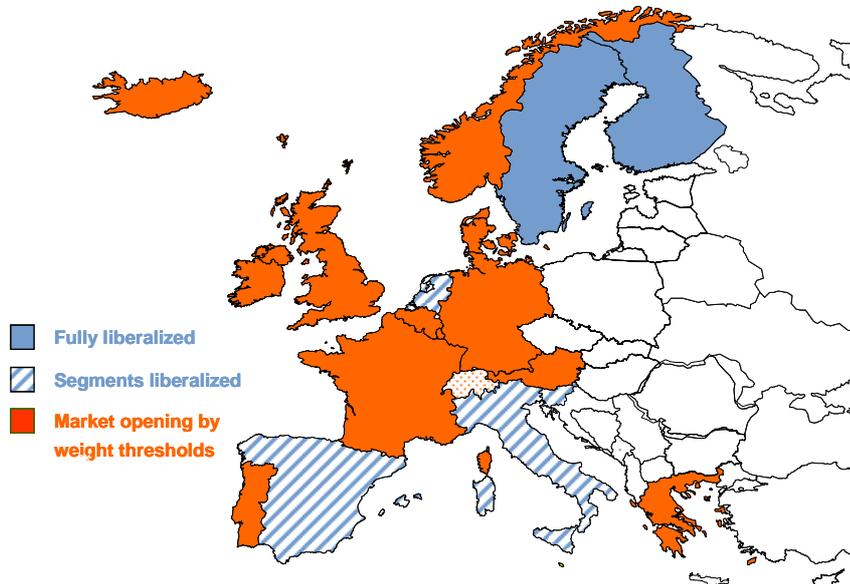
protection of customers in a more competitive postal market, and improve the provision of information to national regulatory authorities.

2.3 Postal Reform in the Member States

The Member States are required to implement the EU Postal Directive into national postal legislation. Generally, EU Postal Reform as enshrined in the Postal Directives addresses two important areas in the development of the postal markets. First, the implementation of rules on universal postal service in order to safeguard the provision of postal services at high quality levels and, second, the stepwise opening of the letters markets.²⁰ The Member States, including the countries that joined the EU in 2004, have made considerable progress with regard to these areas. In this chapter we focus on progress made in market opening and on (legal) transformation of the former postal administrations into customer focused postal companies.

The transformation of former postal administrations refers to measures taken by the Member States in their role as owners to meet the challenges resulting from technological and market developments as well as from full market opening. This has mainly been done by corporatisation and privatisation (which is not required by EU postal reform). This transformation has substantially affected national postal operators' business strategies, and in this way the developments in letter post and parcel & express markets.

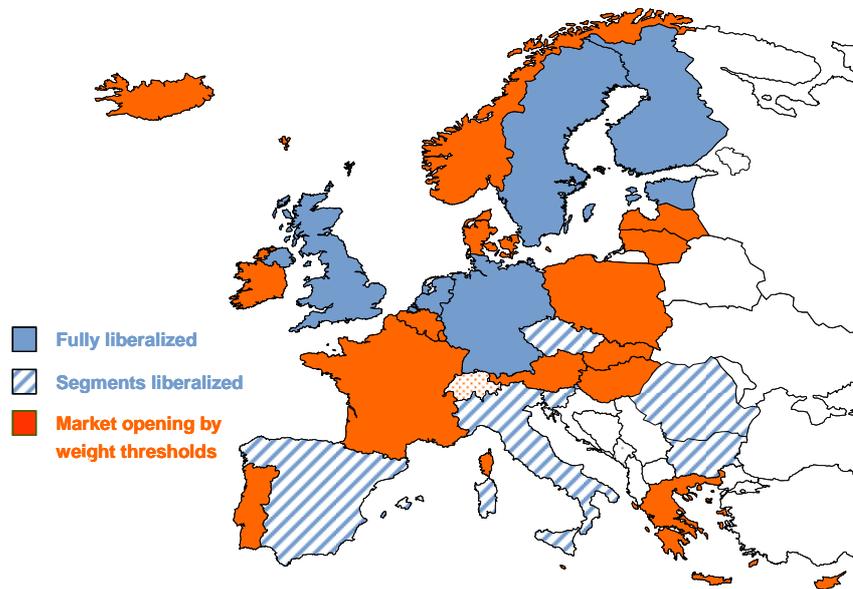
²⁰ The implementation of independent national regulatory authorities is also an important element of EU Postal Reform but not considered into detail in this study which mainly focuses on market and not on regulatory developments. For more information on the role of regulatory authorities see WIK-Consult (2009), *The Role of Regulators in a More Competitive Postal Market*.

KEY STEPS IN MARKET OPENING SINCE 1997**Figure 2-2 1998/1999: Degree of market opening in the EU-15 plus IS and NO, domestic correspondence and direct mail**

Source: ITA Consulting / WIK-Consult

When the first Postal Directive came into force (end of 1997) the monopolies in most of the “old” Member States (EU-15) were defined according to weight and price thresholds (usually above 350g). Only in a handful of countries complete market segments were liberalised: intra-city mail services in Spain and printed matter in Italy, Spain and the Netherlands. Finland and Sweden had already fully opened their letter post markets before they joined the European Community in 1995.

Figure 2-3 2009: Degree of market opening in the EU-27 plus IS and NO, domestic correspondence and direct mail



Source: ITA Consulting / WIK-Consult

The second Postal Directive sets out that correspondence and direct mail can be reserved for items up to 50g and 2.5 times the tariff of the fastest standard category to the extent necessary to safeguard the provision of universal postal service. Today, all Member States comply with these thresholds or even undercut them:

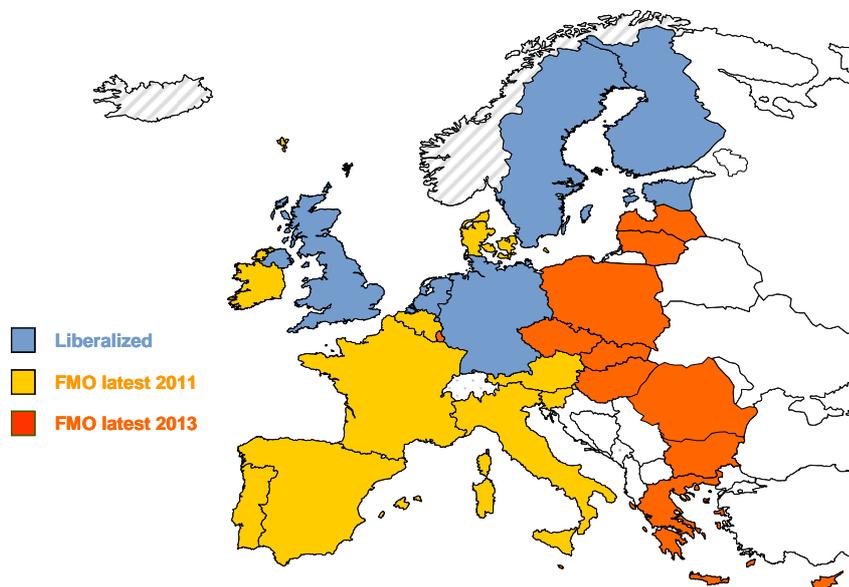
- Six Member States accounting for more than half of the letter post market (in terms of volume) have fully liberalised their postal markets: Estonia (2009), Finland (1991), Germany (2008), the Netherlands (2009), Sweden (1992) and the UK (2006).
- In addition, six Member States accounting for a further 14 percent have at least opened important segments of their domestic postal markets. Important segments have been direct mail, which is open to competition in the “old” Member States Italy and Spain as well as in the “new” Member States Bulgaria, Czech Republic, Romania and Slovenia. In two Member States the delivery of hybrid mail has been opened to competition: in Bulgaria and Slovakia.²¹ Additionally, in Spain intra-city postal services have traditionally been open to competition.
- The remaining fifteen Member States -representing one third of the EU letter post market- as well as the EEA countries Iceland and Norway have opened their domestic markets by reducing the weight and price thresholds following the thresholds of the second Postal Directive.

²¹ Due to change in Slovakian postal law delivery of hybrid mail has been transferred to the reserved area in 2008. The EU Commission found that the re-monopolisation of hybrid mail constitutes a breach of Article 86 in conjunction with Article 82 of the EC Treaty in December 2008 (OJ C322/10 17.12.2008).

Most Member States has opened outgoing cross-border mail to competition at least since 2003. However, in twelve Member States this segment is still part of the reserved area: Bulgaria, Cyprus, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, Poland, Portugal, Slovakia and Spain.

But even if the letter post market is *de jure* fully open to competition other rules may impede competition and create *de facto* monopolies. This applies especially to Estonia and Finland. In both countries specific licence requirements inhibit market entry in the correspondence segment (Estonia) or in the letters market (Finland).²²

Figure 2-4 Third Postal Directive: Full market opening to be achieved in all Member States by 2013 at the latest



Source: ITA Consulting / WIK-Consult

The third Postal Directive has established the time schedule for full market opening within the European Union.

Compared to the EU Member States the picture of the non-European countries is even more mixed. The New Zealand Post has not enjoyed any monopoly rights for more than 10 years now. Japan *de jure* fully liberalised the Japanese postal market in 2001. However, no licence has yet been granted to another postal operator than Japan Post, which results in a *de facto* monopoly in Japan: To obtain a licence for general correspondence delivery the licensee must fulfil the universal service requirements, i.a. nationwide delivery six days per week.²³ Australia still has a significant reserved area for letters weighing up to 50g. The United States have an all-

²² There are additional Member States that have introduced licence requirements including USO elements for all postal operators so that market entry may be inhibited (e.g. Bulgaria and Hungary). However, in these Member States the reserved area is still the major barrier to competition.

²³ See Ecorys (2008), Main Developments in the European Postal Sector, Brief Country Report Japan.

embracing monopoly: the USPS has a mailbox monopoly which prohibits any access to the recipients' mail boxes for private delivery services. Additionally, in the USA it is not allowed to put any unaddressed items into the mailboxes.

UNIVERSAL POSTAL SERVICE IN THE MEMBER STATES

The Member States largely comply with the basic universal service requirements set by the Postal Directive.²⁴ They established rules with regard to delivery frequency (five or six days per week), nationwide coverage and access to postal services (with special focus on postal outlets). However, the detailed national requirements especially with regard to the density of postal outlets are manifold and reflect country-specific characteristics.

All Member States have designated the national postal operator (the former postal administration) as the universal service provider except for Germany. After full market opening at January 1st 2008 the universal service obligation of Deutsche Post ended. As long as the market satisfactorily provides the universal postal service the German state does not oblige any postal operator to provide it.²⁵

The scope of universal postal service in terms of postal items to be transported and delivered is very similar within the EU (i.e. letter post items up to 2kg and parcels up to 10 or 20kg). However, in the Netherlands and in UK the scope to postal products seen as necessary for the general public has been reduced: at least some bulk mail services for business mailers fall outside the scope of universal service.²⁶ The Dutch Ministry of Economic Affairs argues that bulk mail services are already subject to competition and large mailers have a strong position in relation to the postal operators; i.e. the market provides these services without any further need for sector specific regulation.²⁷ In the UK case Postcomm argues similarly:

24 See for example WIK-Consult (2006), Main Developments in the European Postal Sector (2004-2006) for more information on the implementation of the first and second Postal Directives with regard to the universal postal service.

25 Since full market opening Deutsche Post is no longer obliged to provide the universal postal service. However, it is expected that Deutsche Post will continue providing it. The German postal legislation requires the Deutsche Post notifies six months in advance if it wants to discontinue parts of the service. In the case that no other postal operator voluntarily provides the service in question the German regulatory authority have two possibilities: first the regulator may oblige a licensee that has a market dominant position in the relevant segment. Second, the German regulator can solicit bids for the service in question (see German Postal Act, Chapter 3).

26 This does not necessarily mean that all bulk mail services fall outside the scope of the universal postal service: In the UK the most commonly used bulk mail product (Mailsort 1400 for first and second class mail) is still part of the universal postal service (see Postcomm (2005), The Universal Service for Bulk Mailers: A decision document).

27 "Bulk mail forms a part of the market where competitors are already active and where competition is on the increase, as evidenced by the growth of competitors such as Sandd and Selekt Mail. It is expected that competitors will also take advantage of the free market area comprising letters up to 50 grams. In each case this concerns a part of the market where the customer (primarily large institutions and companies) has a strong position in relation to the postal company. Large bulk mail consignments would therefore not have to be regulated in principle since the market would be sufficiently addressed." Dutch Ministry of Economic Affairs (2004); Postal Memorandum, p. 3.

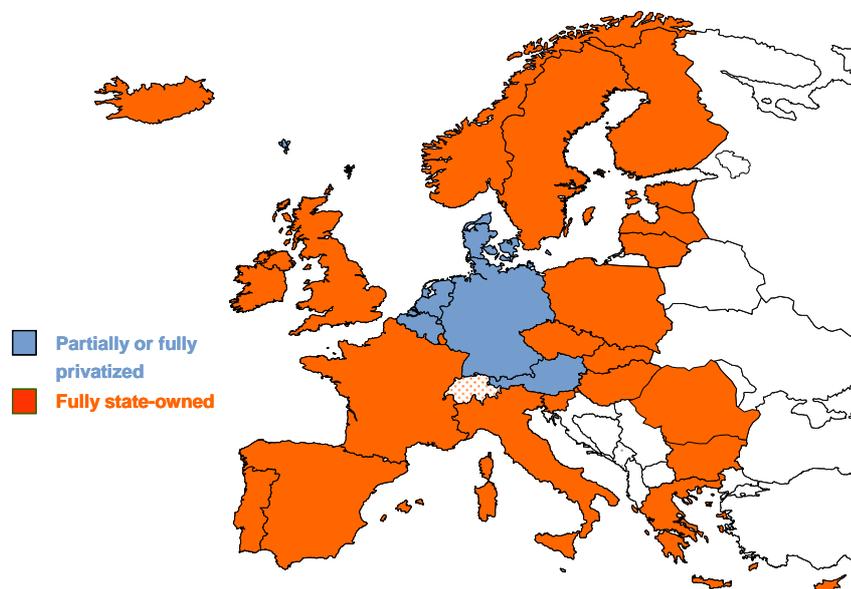
“In general, Postcomm would expect that as competition develops in the UK postal market, the universal service will fulfil the role of a guarantee of a minimum, rather than a comprehensive, range of services.”²⁸

In the UK case the main consequence that selected bulk mail and access products have been excluded from universal service is that they are not subject to the geographically uniform pricing requirement (only universal service products have to be priced at geographically uniform tariffs in the UK).²⁹

All Member States have established a quality of service regulation which defines transit time targets at least for the fastest standard category of universal service. In most Member States such targets have been defined for services relevant to small mailers (i.e. consumers and small business mailers). These targets have usually been monitored by independent institutions under application of the CEN standard EN 13850, the first harmonised measurement standard under Article 20 of the Postal Directive (Harmonisation of technical standards) that became mandatory for all Member States (decided by the Postal Directive Committee). The development of harmonized measurement standards was already recommended by the Postal Green Paper and is now required by the Postal Directive.

CORPORATISATION AND PRIVATISATION OF NATIONAL POSTAL OPERATORS

Figure 2-5 2009: Fully or partly privatised incumbent postal operators in the EU-27 plus IS and NO



Source: ITA Consulting / WIK-Consult

²⁸ Postcomm (2004), Decision document: The UK's universal postal service, S.5.

²⁹ These bulk mail services are not universal service products. However, Postcomm states that they are still within the scope of universal service and therefore subject to price and quality regulations as long as competition is not effective (Postcomm (2004), Decision document: The UK's universal postal service, S.7).

In nearly all Member States traditional postal administrations have been transformed into independent legal entities or even been privatised. Reasons for corporatisation and privatisation and the way how to privatise a national postal operator (going public, sale to an investor like a private equity company as in the Belgium and Danish example) vary between countries and also depend on the respective situation of the national postal operator:

- The revenue of privatisation is for example used to finance the pensions of civil servants employed by the national postal operator (e.g. in Germany)³⁰;
- Access to capital without the constraints attached to funding by government³¹ e.g. to finance the modernisation of postal operations;
- To establish a strategic partnership for transforming the business (e.g. in Belgium)
- To promote efficiency of operations and enhance profitability
- To simplify the establishment of an arm's length relationship between the postal operator and politics³²

All national postal operators in the European Union have been corporatised except for the one in Cyprus which is still a government department. The legal forms of the corporations vary from state enterprises (e.g. La Poste in France, Poczta Polska in Poland) to companies under private law (usually public limited companies). Currently, the French government plans to transform La Poste from a state enterprise to a public limited company (*société anonyme*) with effect from January 1, 2010.

The majority of the national postal operators within the EU are fully state-owned. This also applies to the national postal operators of Norway and Iceland. A handful of Member States decided to partly or even fully privatise their national postal operators. Austria, Germany, Malta and the Netherlands decided to privatise their national postal operators through a stock exchange listing.

- TNT (the Netherlands) went public in 1998, the year after the incorporation of TNT Postgroep (TPG). The company has been fully privatised since the end of 2006.
- Deutsche Post (Germany) has been listed on the stock exchange since 2000. Today, the German state indirectly owns a share of 30.5 percent.
- The share placement of Austrian Post was in 2006. Today, the Austrian state owns more than half of the shares of the company.

30 See Deutscher Bundestag (2000), "Bund will Privatisierungserlöse "grundsätzlich" zur Schuldentilgung verwenden", hib-Meldung 300/2000.

31 Hooper, Richard; Hutton, Dame Deirdre and Ian R Smith (2008), Modernise or decline: Policies to maintain the universal postal service in the United Kingdom—An independent review of the UK postal services sector, p. 71.

32 Hooper, Richard; Hutton, Dame Deirdre and Ian R Smith (2008), Modernise or decline: Policies to maintain the universal postal service in the United Kingdom—An independent review of the UK postal services sector, p. 74: "We believe clearer political separation is necessary in the UK to enable the Royal Mail's management to accelerate the modernisation process."

- Maltapost plc went public in 2008. The private Lombard Bank Malta plc owns 60 percent of Maltapost.

Denmark and Belgium decided to sell a minority stake (i.e. less than 50 percent) to an investor.

- The Danish state sold a significant stake (22 percent) to the British private equity company CVC Capital Partners in 2005. Due to the merger between Post Danmark and Swedish Posten CVC sold back its shares to the Danish state this year (2009). The new holding company (Posten Norden AB) is now commonly owned by the Swedish and Danish states.
- CVC and the Danish Post acquired nearly half of the Belgian postal operator De Post–La Poste in 2006. In July 2009 CVC acquired the stake of Post Danmark (after the merger of Post Danmark and Swedish Posten).

Discussions on partial privatisations have evolved in several Member States, notably in the UK. Based on the recommendations of the Hooper Report the UK government has proposed a part-privatisation of Royal Mail.³³ However, after controversial political discussions and the fact that offers for the 30 percent stake in Royal Mail have not proved satisfactory the UK government recently decided to reconsider the privatisation plan.³⁴

The merger of Post Danmark and Swedish Posten in June 2009 is another important event and marks a new level of development: the establishment of a regional postal operator by merging two national postal companies. The European Commission approved this merger in April 2009.³⁵ The Swedish and the Danish governments plan the public flotation to take place 3-5 years after completion of the merger.³⁶

The non-European incumbent postal operators taken as benchmarks are -without exemption- fully state-owned. USPS is a state enterprise while the other three (Japan Post, New Zealand Post and Australia Post) are public limited companies.

33 Hooper, Richard; Hutton, Dame Deirdre and Ian R Smith (2008), *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom—An independent review of the UK postal services sector*. The Hooper Report recommends “a strategic partnership between Royal Mail and one or more private sector companies with demonstrable experience of transforming a major business, ideally a major network business” (p. 6).

34 See “Peter Mandelson abandons plan for part-privatisation of Royal Mail” press notice in *The Guardian*, July 1st 2009 (www.guardian.co.uk/uk/2009/jul/01/royal-mail-mandelson-part-privatisation).

35 European Commission (2009), “Mergers: Commission approves merger between Posten and Post Danmark, subject to conditions”, 21st April 2009 (IP/09/612). The Commission’s decision is conditional upon the commitment of the parties to divest assets and customer contracts covering their entire overlap in the domestic standard business to business (B2B) parcel delivery services market in Denmark.

36 Michal Birch (2009), “The future of postal services—is privatisation the answer?“, Presentation at the IEA European Postal Services, March 2009, in Amsterdam.

3 The European Postal Market Today

3.1 The European Postal Market

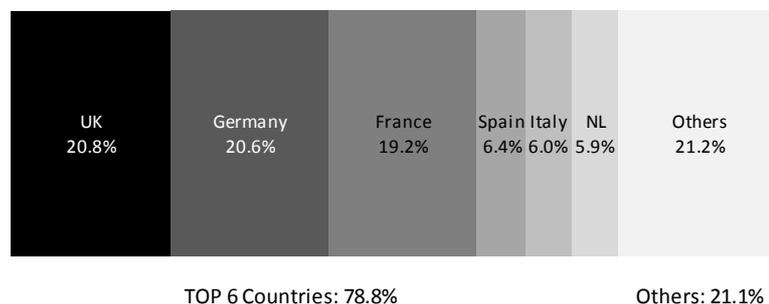
Today, the European Union embraces 27 Member States with nearly 500 million inhabitants and a total size of 4.3 million square kilometres. The Member States are quite heterogeneous in terms of economic development: The gross domestic product per capita (at current prices) goes from EUR 4,400 in Bulgaria to EUR 77,000 in Luxembourg (2008).

We estimate the overall postal sector in the European Union, including letter post, parcel and express services earned total revenues of about EUR 94 billion in 2007. This figure corresponds to 0.7 percent of the gross domestic product (GDP) of the 27 Member States. The largest segment of the market is still the letter post, which accounts for about 56 percent of the revenues. The parcel and express segments combined account for 44 percent.

3.2 The Letter Post Market

In 2007 around 95 billion letter post items were delivered within the European Union. We estimate that the traditional EU letter post business is worth around EUR 53 billion. This estimate actually represents the lower limit of the European letter post business because upstream and downstream activities related to the letter post business (i.e. the activities of letter and print shops, as well as mailroom and document management services) are only included if provided by the incumbent postal operators. Revenues from the traditional letter post business (i.e. excluding upstream activities) are considerably lower. We expect that these revenues have been increasingly coming under pressure due to emerging competition, cost saving activities of customers and the changing communication behaviour.

Figure 3-1 EU-27: The size of the national letter post markets (in terms of letter post volume)

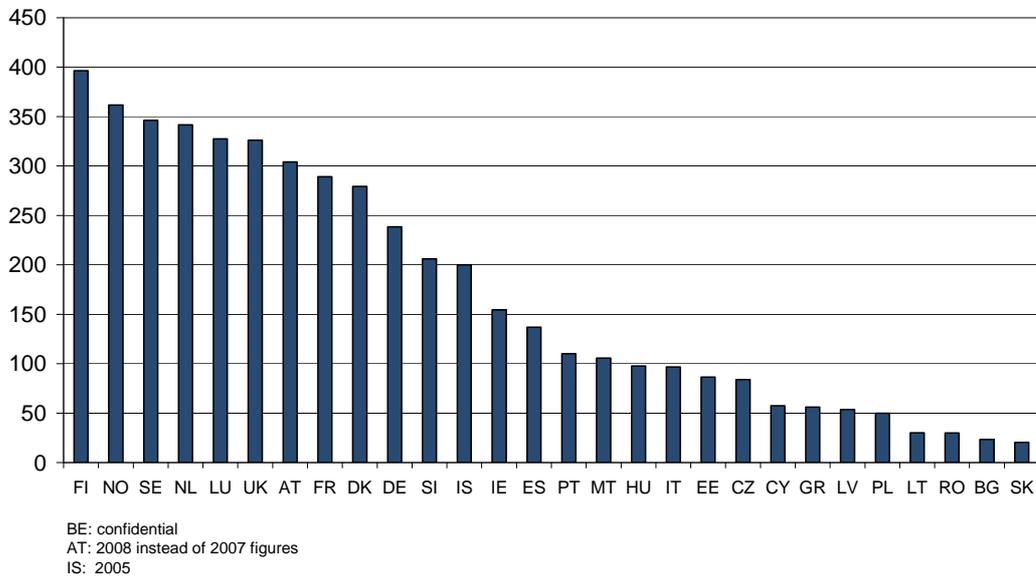


Source: ITA Consulting / WIK-Consult

The six largest national letter post markets (in terms of letter post volumes) account for nearly 80 percent of the EU letter post business: UK, Germany, France, Spain, Italy and the Netherlands. Thirteen Member States have letter post volumes of more than 1 billion per year;

in sum they represent 95 percent of the EU letter post market. In addition to the six countries already listed, these are Sweden, Belgium, Austria, Finland, Poland, Denmark and Portugal.

Figure 3-2 Letter post items per capita in 2007 (EU-27 plus IS and NO)



Source: ITA Consulting / WIK-Consult

The average EU citizen (in the EU-27) receives around 200 letter post items per year delivered by postal operators. In ten Member States more than 200 items per capita are delivered. Finland has the highest figure with nearly 400 letter post items per capita. More than 100 items are achieved in further four Member States. However, there are still four Member States with considerably less than 50 letter post items per capita: Lithuania, Slovakia, Bulgaria and Romania.

BUSINESS AND PRODUCT SEGMENTS

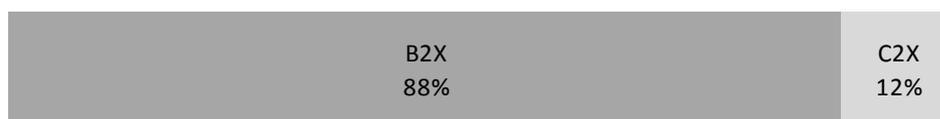
Figure 3-3 EU-27: EU letter post market by product segment



Source: ITA Consulting / WIK-Consult

Based on information about the volume split of domestic letter post between correspondence, direct mail and publications in 22 Member States³⁷ we estimate that about 60 percent of letter post is correspondence, nearly 30 percent is direct mail, and more than 10 percent are publications (delivered by postal operators).

Figure 3-4 EU-27: EU letters market by business segment



Source: ITA Consulting / WIK-Consult

Letters, i.e. correspondence and direct mail, is mainly sent by businesses. We estimate that approximate 88 percent of total letters are originated by business and public mailers while only 12 percent are originated by individuals and very small business customers (using stamped mail).

Figure 3-5 EU-27: Segments of business letters



Source: ITA Consulting / WIK-Consult

Business letters are usually sent to individuals. In most Member States more than 60 percent of business mail is sent to individuals, in some even more than 80 percent. Overall, we estimate that roughly two thirds of letters are sent to individuals while one third is sent between businesses.

KEY PLAYERS IN THE EUROPEAN LETTER POST MARKETS

The key players in the European as well as in the national letter post markets are still the national postal operators i.e. the former postal administrations. Emerging competition in the letters segments (domestic and cross-border) has not substantially changed their position, so far. We estimate that in the domestic letters segments (i.e. correspondence and direct mail) the national postal operators still deliver around 95 percent of the items. The situation is different in the delivery of publishing material (newspapers, periodicals and magazines) and unaddressed advertising (usually considered as part of the direct marketing business). In most Member States these segments are competitively structured. However, the national postal

³⁷ Data from AT (2008 figures), BG, CZ, DE, DK, EE, ES (direct mail includes publications), FI, FR, GR, HU, IE, IT, LT, LU, LV, NL (2005 figures of RBB), PT, RO, SI (direct mail includes publications) and SK.

operators have often achieved an important stake in these segments (but not necessarily a market-dominant position).

However, there are a handful of large and many relatively small postal operators in the EU: Deutsche Post alone accounts for more than 40 percent of total revenues of the national postal operators. The five largest operators (Deutsche Post, French La Poste, Poste Italiane, Royal Mail and TNT) account for more than 85 percent of total revenues.

The letter post business (in some cases including the domestic parcel business) is responsible for less than 40 percent of total revenues (around EUR 57 billion) in 2007. Other important business areas of the national postal operators are express and logistics services as well as financial services.

The national postal operators offer universal postal services in more than 107,000 postal outlets within the EU-27; this corresponds to 2.16 postal outlets per 10,000 inhabitants in the European Union. More than 60 percent of these postal outlets are still classical post offices i.e. run by employees of the national postal operators.³⁸

The national postal operators are often one of the most important employers in their home countries. They employed more than 1.8 million people in 2007. We estimate that in sum around three quarters are employed in the respective home countries of the national postal operators. In Member States with emerging competition additional employment has been generated by competitors while most national postal operators have substantially reduced employment in the course of modernising and reorganising their postal and retail operations.

GLOBAL CONTEXT

Figure 3-6 Letter post market worldwide (domestic letter post, 2007)



Source: ITA Consulting / WIK-Consult based on UPU and own research

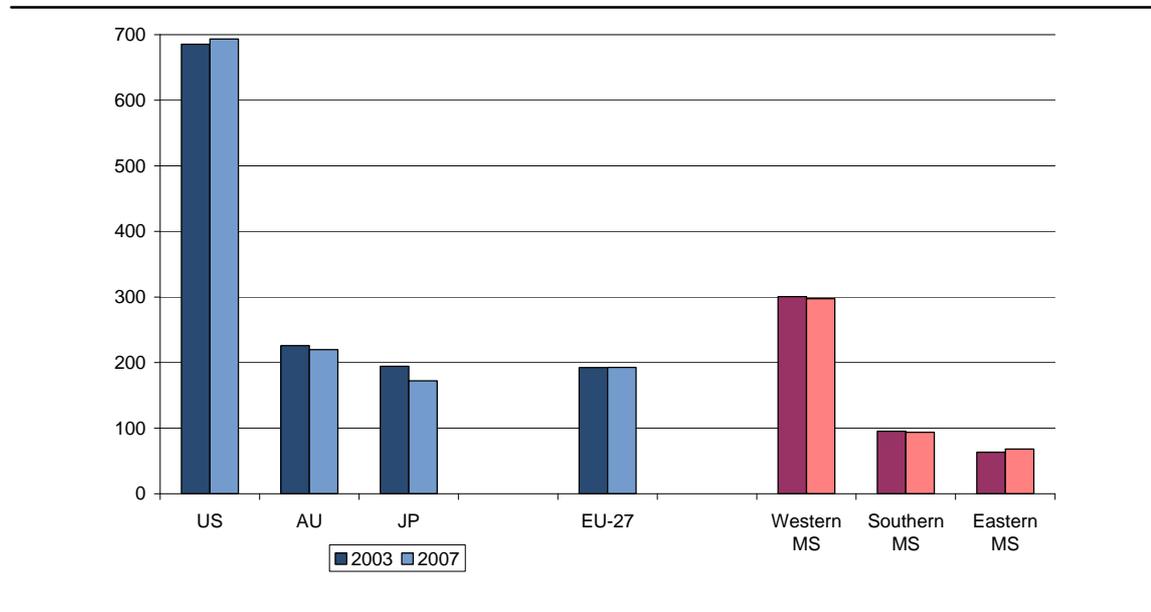
The Universal Postal Union (UPU) states that about 433 billion domestic letter post items were delivered by national postal operators in 2007.³⁹ Taking this figure as a starting point, three quarters of total letter post originate in the European Union, Japan and United States. The US

³⁸ In 2007 the United States Postal Service (USPS) had got 36,721 or 1.22 postal outlets per 10,000 inhabitants; mainly operated as classical post offices (89 percent).

³⁹ Based on UPU, Postal Statistics, www.upu.int. However, it should be noted that information provided by postal administrations and operators are often not complete and domestic letter post sometimes include unaddressed items.

accounts for about half of total domestic letter post in the world while around one fifth originates in the European Union.

Figure 3-7 Global comparison—Letter post items per capita: EU-27, United States, Japan and Australia



Source: ITA Consulting / WIK-Consult

The dominance of the US letter post market is also reflected in the letter post items per capita figure (see Figure 3-7). In the US nearly 700 items are delivered per capita compared to around 200 in the European Union and 300 in the well-developed letter post markets in the Western Member States. However, the per capita figures in Australia and Japan are basically at the same level as in the European Union. This substantial difference in letter post volume between the US and the European Union and other developed countries is partly the result of national peculiarities in postal legislation. The United States Postal Service (USPS) has a mailbox monopoly; other companies providing delivery services (e.g. for newspapers) are not allowed to drop the items into the mailbox.⁴⁰ Additionally, USPS only delivers fully or partially addressed items to the mailbox.⁴¹ Unaddressed advertising (other than leaflets in newspapers) does not play a significant role in the US because of the mailbox monopoly combined with USPS’ requirement only to deliver at least partially addressed items. In contrast to the US, comprehensive mailbox monopolies do not exist in Europe. Unaddressed advertisings delivered

⁴⁰ In the US individuals are used to leave mail in their personal mailboxes to be collected by the postman instead of using public mailboxes. This partly explains why access to private mailboxes is reserved to USPS.

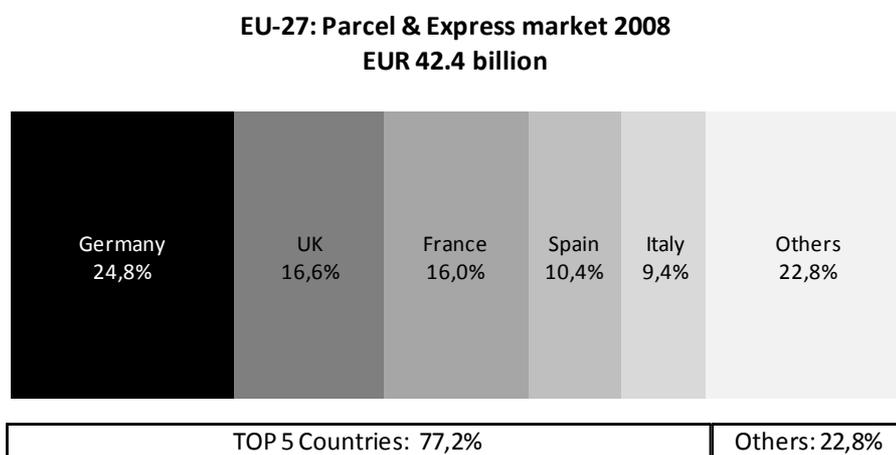
⁴¹ The US Postal Law simply says that the Postmaster General can issue regulations needed for operating the postal service. The basic regulation is the Domestic Mail Manual which also deals with how to address a postal item.

by national postal operators or by other distribution companies play a substantial role which is not reflected in the items per capita figure because they are not considered as letter post.⁴²

3.3 The Parcel and Express Market

The parcel and express market in the EU-27 is estimated at a current market size of EUR 42.4 billion, accounting for 0.34 percent of the total EU-27 GDP. Germany as the largest economy within the European Union also has the biggest parcel and express market (EUR 10.5 billion) accounting for 24.8 percent of the total EU-27 market. The United Kingdom, France, Spain and Italy are ranked second to fifth in terms of market size within the European Union. These five largest national parcel and express markets account (in terms of value) for more than 77 percent of the total EU-27 parcel and express business.

Figure 3-8 EU-27: Parcel & express market by country



Source: ITA Consulting / WIK-Consult

From a geographical perspective, domestic shipments account for an estimated 70-75 percent share of the total EU-27 market value. The intra-European flows add up to approx. 15-20 percent of the market value while intercontinental shipments (to/from the EU) account for an estimated 10 percent share of the market.⁴³ Taking into account higher prices for international and intercontinental shipments, the volume-based shares diverge even more sharply.

Express shipments account for slightly more than one third of the market value while parcel businesses account for slightly less than two thirds of the market revenue.

⁴² See Fouad H. Nader and Michael Lintell (2008), Mail Trends Update. They consider unaddressed advertising as part of total letter post and come to different results for this reason.

⁴³ ITA Consulting estimates.

Figure 3-9 EU-27: Parcel & express market split

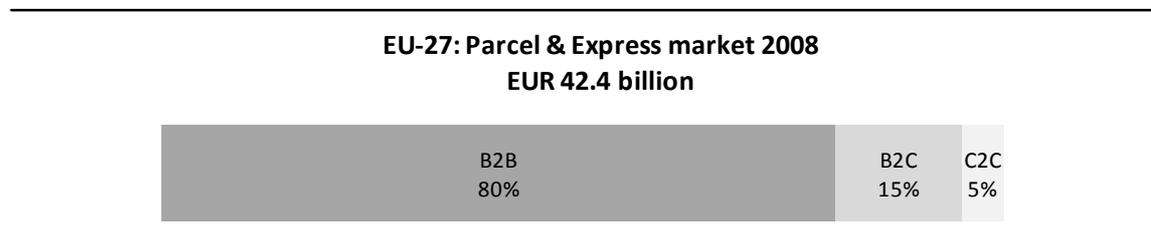


Source: ITA Consulting / WIK-Consult

BUSINESS SEGMENTS

The largest share of the European parcel and express volumes lies within the Business to Business (B2B) area, which is also the most competitive market segment. Traditional private postal parcels are mostly part of the Consumer to Consumer (C2C) market segment. The Business to Consumer (B2C) market consists mostly of parcels from the distance selling business (mail order and internet sales). While in some southern European countries the distance selling market is still quite small, Germany, the UK and France are the largest B2C delivery markets in Europe accounting for 72 percent of total online sales.⁴⁴

Figure 3-10 EU-27: Parcel & express market 2008 by business segment



Source: ITA Consulting / WIK-Consult

LEADING PLAYERS

The leading players in the market are the international integrators DHL (Deutsche Post), TNT, UPS and FedEx alongside the European parcel networks GLS (Royal Mail) and DPD (French La Poste/ GeoPost). The international air express market is dominated by DHL, UPS, TNT and FedEx. In the intra-European market DHL and TNT lead the market ahead of DPD, UPS and GLS.⁴⁵ In most of the national domestic markets the local postal operator and a small number of private local companies also play an important role, often as niche specialists targeting particular customer groups or customers with special requirements.

Many national postal operators have expanded their parcel and express business from a national level to other (neighbouring) countries. Deutsche Post, La Poste, TNT and Royal Mail

⁴⁴ eMarketer, July 2007.

⁴⁵ Courier, Express, and Postal Observer, August 2008, Consolidation of the Package delivery market in Europe.

are present in nearly all national European markets through their subsidiaries DHL, DPD (Geopost), TNT Express and GLS. In Scandinavia, Posten AB, Posten Norge, Post Danmark and Itella (Finland) are also active in the other countries through subsidiaries. The Austrian Post is present in Germany (trans-o-flex) and in some other European countries through different subsidiaries that are increasingly connected through the EURODIS network. The Portuguese CTT Correios actively participates in the Spanish market with its company Tourline Express.

Due to the fact that B2C and C2C deliveries require nationwide coverage these market segments are mostly the area of the national postal operator. Other companies in the B2C market are often directly or indirectly connected with large distance selling companies like German Hermes Logistik Gruppe (a subsidiary of OTTO Group) with its sister companies Mondial Relay (France), Parcelnet (UK), which was recently re-branded to Hermes, and Porta a Porta (Italy). The UK-based Home Delivery Network (HDN) is a merger of several delivery businesses owned by mail order companies.

GLOBAL CONTEXT

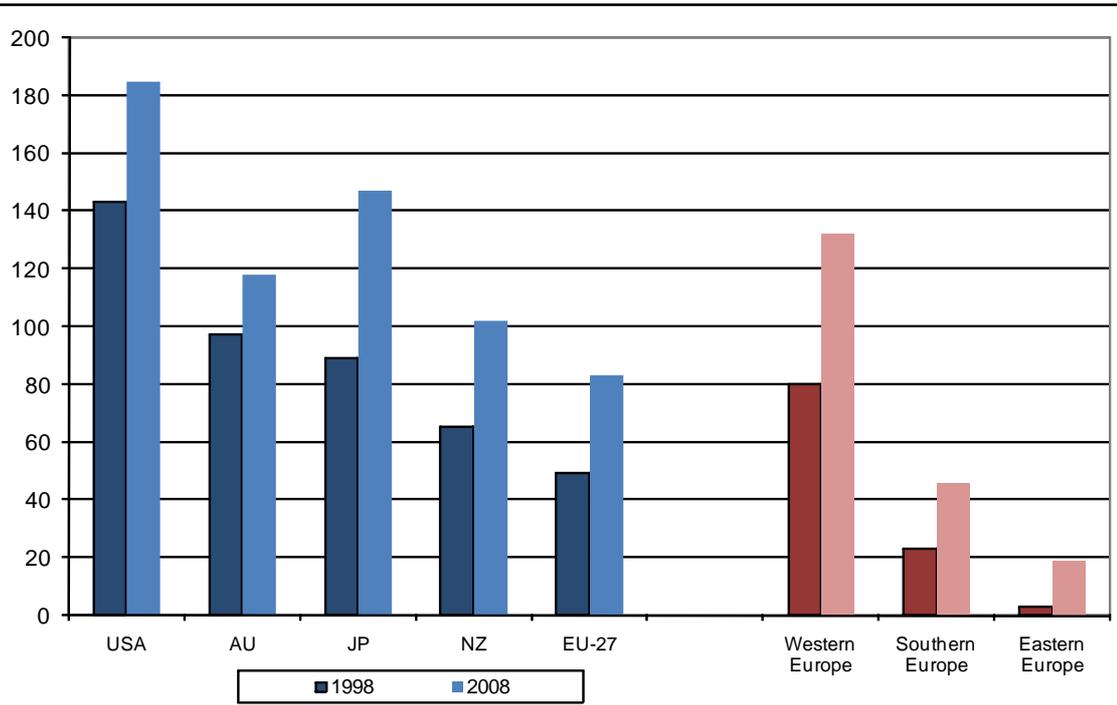
With a market size of EUR 42.4 billion the EU-27 parcel and express market represents 83.5 percent of the US market in size terms and is more than double the size of the Japanese market. Based on an estimated market value for the global parcel and express market of EUR 126.5 billion⁴⁶, the EU-27 countries account for 34 percent of the worldwide market.

On a per capita base, each person in the EU-27 spends EUR 83 per year on parcel and express services which is much less than in New Zealand (EUR 102), Australia (EUR 118), Japan (EUR 147) and the USA (EUR 185).⁴⁷ There is a direct connection between the amount per capita spent on parcel and express services and the maturity status of the market. New Zealand, Australia, Japan and the USA are quite mature parcel and express markets. In the mature western European peer group market, people are spending EUR 132 per year for parcel and express services. The southern European market (EUR 46) and the eastern European peer group market (EUR 19) are still not as mature and are lagging behind.

⁴⁶ Transport Intelligence, European Express Leaders 2005.

⁴⁷ Calculations based on ITA Consulting market figures and EUROSTAT data.

Figure 3-11 Global comparison: Parcel & express value per capita (in EUR)



Source: ITA Consulting / WIK-Consult

Only 10 percent of the total EU-27 market size is generated in the outbound European market segment.⁴⁸ This shows the importance of the EU-27 internal market and a certain level of independence from the global market.

⁴⁸ ITA Consulting estimate.

4 The Evolution of the Postal Markets since 1997

4.1 Introduction

The Postal Green Paper provided a clear analysis of the European Community (EC) postal market at the beginning of the 1990s. At that time the EC had consisted of twelve Member States: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and UK. Austria, Finland and Sweden joined the EC in 1996.

The Postal Green Paper estimates that in 1990 the EC postal market (postal services including parcel and express) was worth around 46 billion ECU; 60 percent generated by postal administrations and 40 percent by private operators (parcel and express service providers). Counter and financial services offered by postal administrations accounted for an additional 13 billion ECU. The postal business' share on the EU's gross domestic product was 1.3 percent in total.

At that time the EU postal market (letter post and parcel & express) was characterised by continuous growth in both volumes and revenues: the average EC citizen received 260 pieces annually. 80 percent of mail was sent by businesses and more than half of the volume was delivered to individuals.

In 1991 the key players in the market were either government departments (in Denmark, Spain, Italy and Luxembourg) or state enterprises (in Belgium, France, Germany, Greece, Portugal and UK) that offered basic letter post and parcel post services resulting in a high volume share, but a relatively low revenue share.⁴⁹ Private express operators offered high quality, value-added parcel and express services generating a relatively high revenue share in the EC postal market.

After 1991 the legal situation of the former postal administrations was subject to continuous change. By 1998/99 all operators were corporatised (EC-15):

- Public limited companies: in addition to Ireland, the Netherlands and Sweden public limited companies had been established in Austria, Finland, Greece, Italy and Portugal
- State enterprises: in Belgium, Denmark, France, Spain and UK the basic postal services were still provided by state enterprises.

The Green Paper revealed a considerable heterogeneity in quality of service offered by the former postal administrations resulting in limited customer awareness and unreliable letter services. The key indicator to measure quality of service is the routing or transit time performance, i.e. the time a letter or parcel needs between collection and delivery. At the time the Green Paper was published neither the application of standardised measurement methods nor measurement by independent institutions had been commonly established. Nonetheless,

⁴⁹ Only the former Dutch and Irish postal administrations had been transformed to public limited companies (Commission of the European Communities (2002), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final, p. 40).

next day delivery, even if required in most of the twelve Member States, was more the exemption than the rule.⁵⁰

The Green Paper also highlighted that the postal operators provided mail services often at considerable losses which sometimes amounted to more than 20, 30 or even 40 percent of total revenues.⁵¹ During the 1990s the profitability of the former postal administrations had improved: in 1998/99 most of the universal service providers (within the EU-15) made profits but some were still loss-making (i.a. the former postal administrations of Austria, Italy and Spain).

Overall, the Green Paper highlighted the risk that the postal administrations might not sufficiently use the opportunities of the growing postal markets. Regulatory measures were needed to improve quality and efficiency in the provision of basic postal services in order to better meet customer expectations and to further develop the national and the Community postal markets. The Green Paper already stressed the strategic importance of the postal services market as part of the broader communication, advertising and transport markets. For this reason progress had to be made in the postal sector first to strengthen and safeguard the role of postal services within this broader context and second not to hamper the developments and business opportunities in these related markets.

In the following sections, we will present the key developments in the European postal market since 1997, the date when the first Postal Directive came into force.

⁵⁰ Commission of the European Communities (2002), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final, chapter 7.1.

⁵¹ Commission of the European Communities (2002), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final, chapter 5. Only the British and the Dutch postal enterprises generated low, but positive profit margins in 1988.

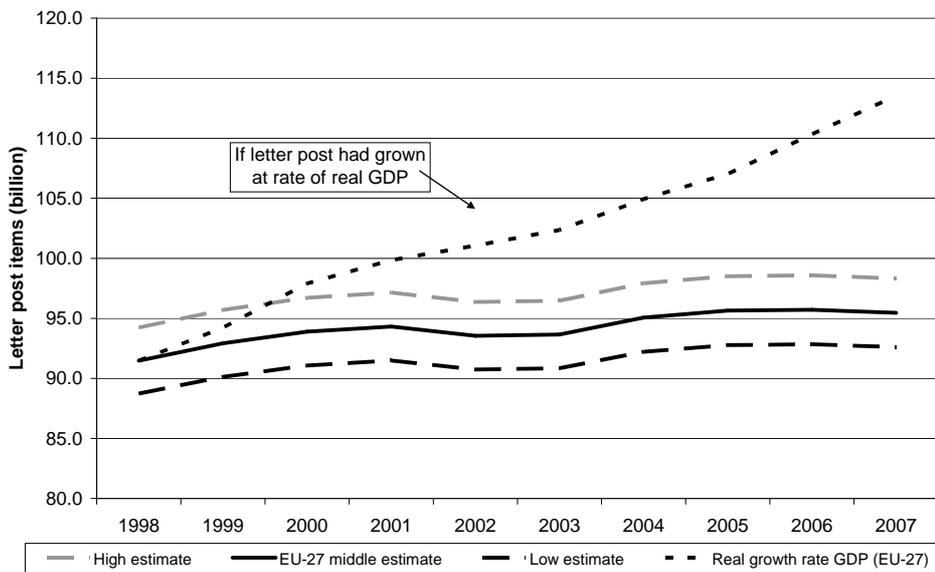
4.2 Letter Post Markets

4.2.1 Developments in letter post volume

4.2.1.1 Domestic letter post volume

We estimate that between 1998 and 2007 total domestic letter post volumes grew slightly with an average growth rate of 0.4 percent per year.

Figure 4-1 EU domestic letter post, 1998-2007



Source: ITA Consulting / WIK-Consult

Based upon a review of available information, we estimate that the total volume of domestic letter post in the European Union (EU-27) in 1998 was roughly 91.5 billion, rising to 94.3 billion in 2001, declining to 93.5 billion in 2002 and finally growing to 95.7 billion items by 2006. Between 2006 and 2007 letter post volume declined to 95.5 billion.⁵² Volume growth after 2003 was accompanied and to some extent driven by considerable economic growth in Europe.

Overall, the share of letters sent by businesses has increased since the publication of the Green Paper. In 1990 business mail accounted for about 80 percent of letters in the twelve Member

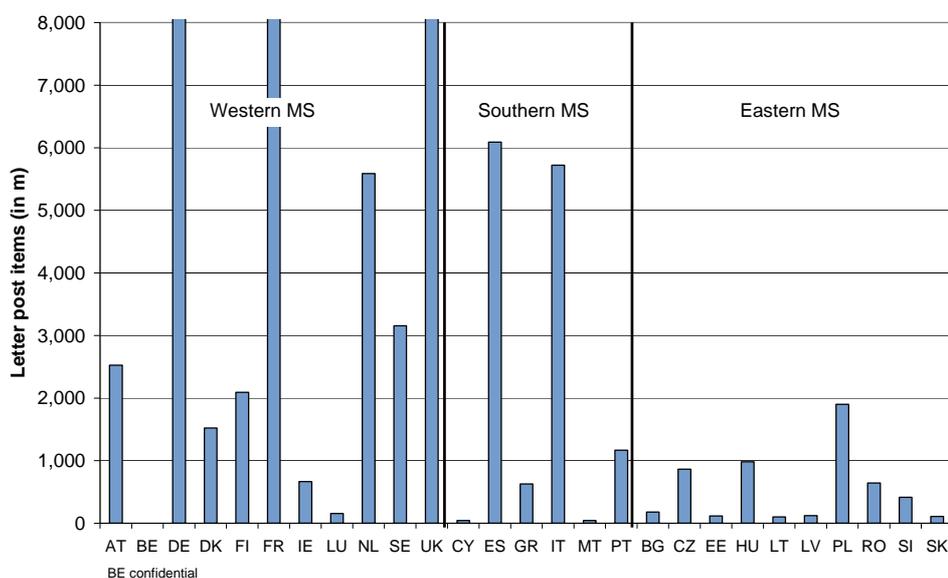
⁵² As already addressed we mainly used secondary research to obtain the necessary information. Key sources we used are market information published by regulatory authorities, volume information gathered in the course of the WIK studies on the “Main Developments in the European postal sector”, figures published in the annual reports of the national postal operators and UPU data. In some cases we asked the postal operators for current mail volume figures. We checked the data on comparability over time and whether the definitions were met or not (e.g. in some cases unaddressed advertising is part of the letter post volume, in other cases cross-border items have been included). For these reasons first the figures in this report differ from our estimations we made in the Main Developments studies; but only in absolute terms; the general volume developments are the same in every of these studies. Second, we introduced an average error of 3 percent in order to take account of data ambiguities.

States (EU-12) covered by the Green Paper. This share has increased to 88 percent in 2008 (average of these twelve Member States). If including letters delivered by competing postal operators (which are not included in the figures presented) the share of business mail may even be higher: Competing postal operators mainly deliver business mail that they usually pick up at the premises of the mailer. For the EU-27 we therefore estimate that more than 85 percent of letters are sent by business customers while the importance of private correspondence in terms of volumes has declined.

However, Figure 4-1 also shows that despite of some growth in letter post volume there is still a significant gap between economic growth and growth in letter post volume, and that this gap is increasing. If letter post had grown at the same pace as the EU-27 gross domestic product (real growth rate), total volume would have reached more than 113.5 billion items by 2007.

We estimate that in 2007 the EU letter post market was worth about EUR 53 billion.⁵³ This figure actually represents an approximation of the European letter post business in terms of revenues because upstream and downstream activities related to the letter post business (i.e. the activities of letter and print shops, as well as mailroom and document management services) are only included if provided by the national postal operators. In contrast, revenues from the traditional letter post business (i.e. excluding upstream activities) are most probably lower. We think that these revenues have been increasingly coming under pressure due to emerging competition, cost saving activities of customers and the changing communication behaviour.

53 This estimation is based on financial data published by the national postal operators, market estimations provided by national regulatory authorities and UPU information. Especially, revenues based on financial figures may include more services than the traditional letter post business. Often it includes the international letter post business and the distribution of unaddressed items (which plays a minor role in the revenue figure), parcel business (in this case the parcel business is relatively small) and upstream activities (e.g. letter and print shop activities, document management services and so on). All in all, it is a very rough estimate, systematically disregarding the provision of upstream services by other than the national postal operators which may result in an overall underestimate of the size of EU letter post business.

Figure 4-2 Domestic letter post volume per Member State (2007)

Source: ITA Consulting / WIK-Consult

Notes: DE, FR and UK have a total letter post volume 19.6, 18.3 and 19.8 billion.

Due to the importance of domestic letter post the EU-27 letter post market is still highly fragmented. It consists of 27 national markets of very different size (depending on the size of the country in terms of population and economy) which are dominated by the respective national postal operator. The six largest national letter post markets (in terms of volume) account for nearly 80 percent of total EU letter post volume (France, Germany, Italy, the Netherlands, Spain and UK). National markets with more than one billion letter post items per year (in sum 13 Member States) account for 95 percent of letter post volume (plus Austria, Belgium, Denmark, Finland, Poland and Portugal). This basically reflects the respective economic weight of these Member States of 91 percent (in terms of GDP).

Figure 4-2 shows that the EU letter post volume is very unevenly distributed within the Community which reflects differences in the size of national letter post markets in terms of population and disparities in their level of development.

Table 4-1 Distribution of domestic letter post volume in the EU-27 (2007)

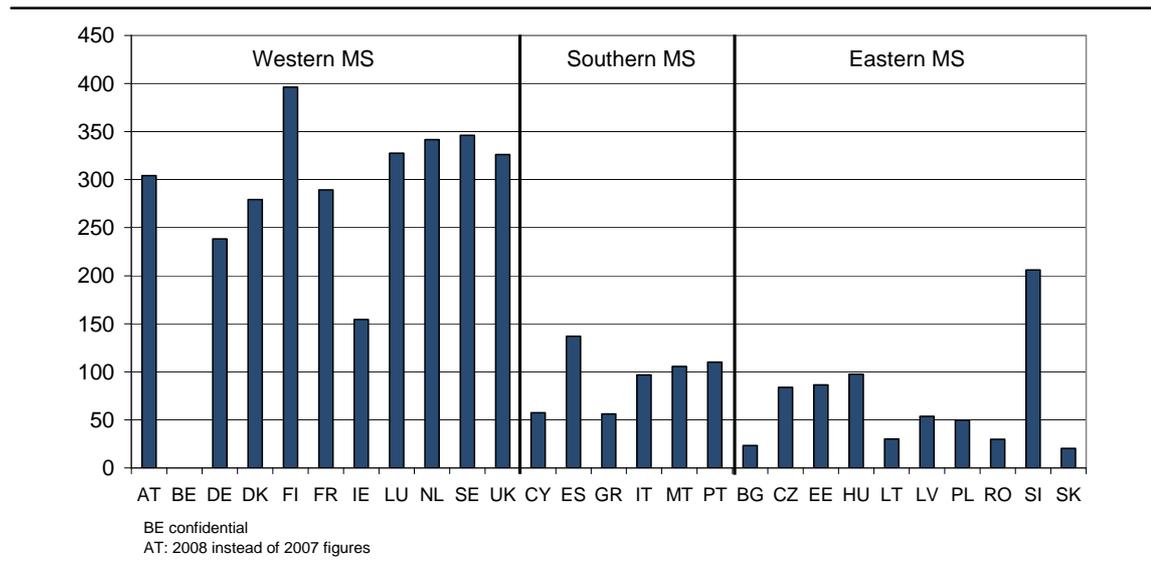
Country group	Share of EU domestic letter post	Letter post items per capita*	CAGR 2003-2007	Share of EU letter post revenues	Share of EU population	Share of EU GDP.
Western Member States	80 %	297	0.2%	81.4%	53.8%	68.9%
Southern Member States	14.3 %	94	1.1%	14.5%	25.6%	24.3%
Eastern Member States	5.7 %	68	2.2%	4.1%	20.6%	6.8%

Source: ITA Consulting / WIK-Consult

Notes: *Weighted average (by population); unweighted average: Western MS 287, Southern MS 108 and Eastern MS 53

The letter post volumes of the Western Member States clearly dominate the EU letter post market: they account for 80 percent of total EU letter post volume. Domestic letter post delivered in the Southern Member States account for 14 percent of letter post volume which is considerably lower than their corresponding share in EU GDP (24 percent). The Eastern Member States achieve a share of 5.7 percent, around one percentage point less than their share in EU GDP.

Figure 4-3 Letter post items per capita in 2007



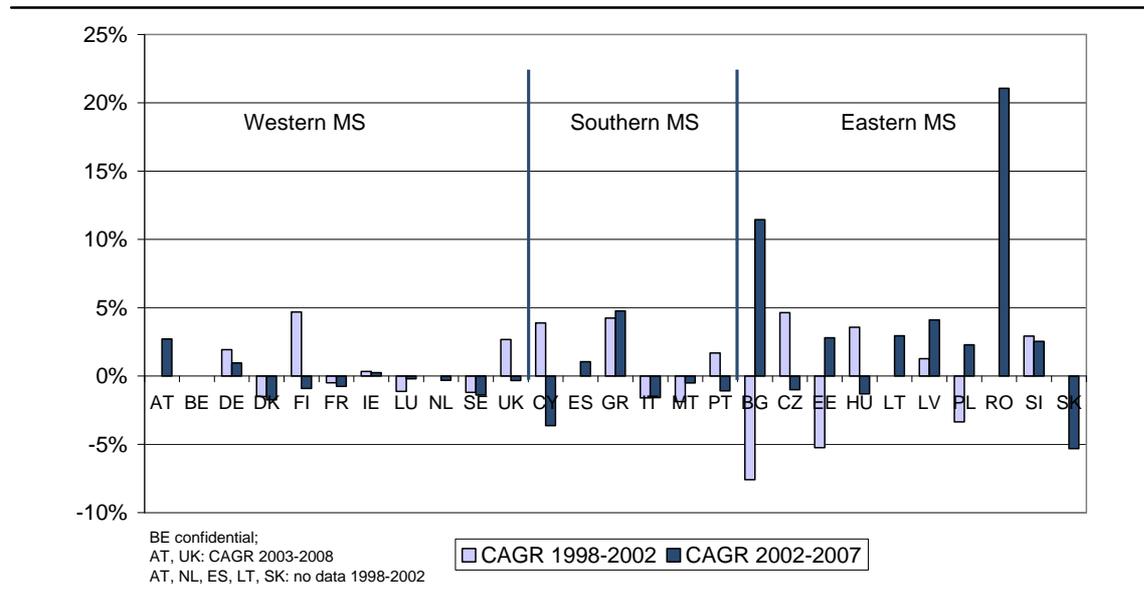
Source: ITA Consulting / WIK-Consult

Figure 4-3 shows that letter post items per capita ranges from nearly 400 items in Finland to only 20 in Slovakia. The enlargement of the European Union has resulted in an increasing range with respect to development levels (in terms of items per capita).

Differences in letter post items per capita may underline disparities in the development level of the domestic letter post markets. This level is closely related with the economic development of the Member States. However, within the group of the Western Member States Ireland has considerably fewer letter post items per capita than the other members of this group which is most probably resulting from a relatively underdeveloped direct mail segment (due to the missing postal code system).⁵⁴ In the Southern Member States Cyprus and Greece are undercutting the average: in both countries around 50 items per capita were delivered in 2007. Malta, one of the 2004 accession countries, has performed quite well. In the group of the Eastern Member States, the youngest EU Member States Bulgaria and Romania as well as Lithuania and Slovakia are the countries with very low items per capita (between 20 and 30). In contrast, Slovenia with more than 200 items per capita has caught up with the Western Member States. Generally, in the Eastern and Southern Member States (except for Slovenia) the items per capita are significantly lower than in the Western Member States (see Table 4-1).

⁵⁴ See ComReg (2009), ECORYS web-based customer needs survey for postal services: Comparison of responses from Ireland and other EU countries, Information Notice, Document No. 09/10, 13 February 2009.

Figure 4-4 Average growth rates of domestic letter post per capita: CAGR 1998-2002 and CAGR 2002-2007 (EU-27)

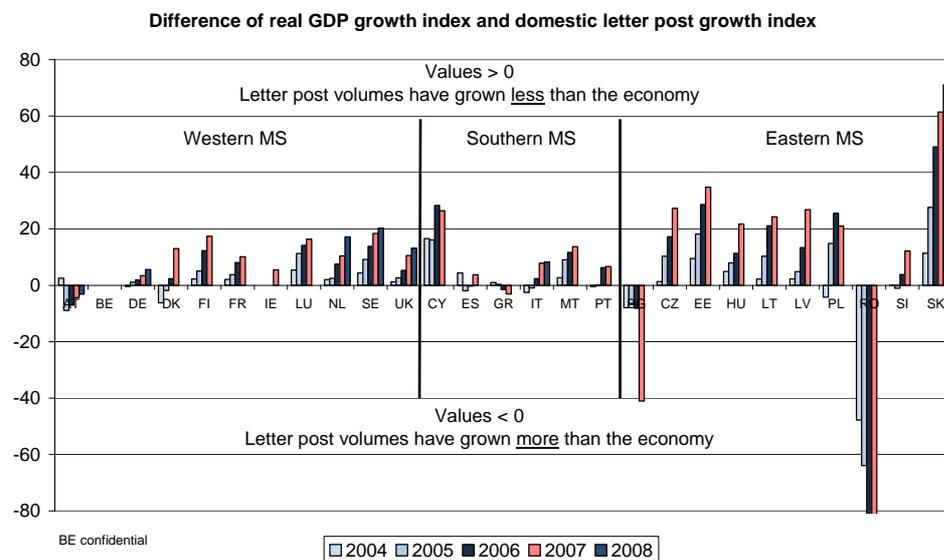


Source: ITA Consulting / WIK-Consult

Figure 4-4 shows the average growth rates before and after 2002. The average growth rates are limited or even negative in many Western and Southern Member States especially during the period 2002 and 2007. However, in the group of the Eastern Member States some considerable growth in letter post volume has emerged after 2002 (except for Czech Republic, Hungary and Slovakia). In the group of the Southern Member States the positive development in Greece is exceptional.

The European Union has achieved considerable economic growth since 2002, especially in the Member States that joined the European Union in 2004 and 2007. However, total letter post volume increased far less than the economy of the European Union.

Figure 4-5 Diverging growth rates of economies and domestic letter post volumes (2003=100)

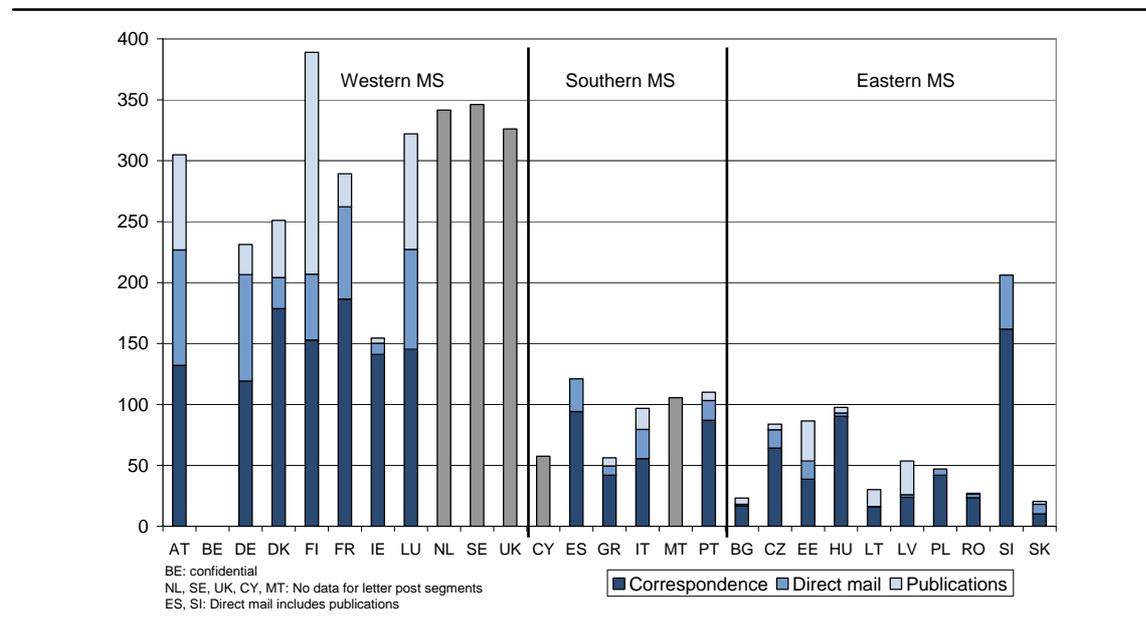


Source: ITA Consulting / WIK-Consult

Figure 4-5 shows for every Member State the gap between the national GDP growth rates (in real terms) and the growth rates in letter post items. Positive values indicate that the growth rates in letter post volume were lower than the economic growth rates and vice versa.

It appears that the growth gap is larger in the new Member States except for Bulgaria and Romania, both starting at a very low level (14, resp. 11 items per capita in 2002). In the “high-volume” Member States Austria, Germany and the Southern Member States the differences are smaller, however, their GDP growth rates are also smaller compared to the Eastern Member States.

Generally, this gap indicates that economic growth is not the only driver for letter post volume. There must be other drivers which limit the impact of the economy on volume growth. In order to understand the developments in domestic letter post volume and their relation to economic growth we consider each of the sub-segments separately. Letter post consists of letters and publications; letters are further segmented into correspondence and (addressed) direct mail. Direct mail consists of addressed advertising mail (in contrast to unaddressed advertising which is not considered as part of letter post); correspondence includes private and office mail as well as transactional mail. Transactional mail comprises, for example, bank statements and invoices. Publications, i.e. newspapers, magazines and periodicals comprise subscribed publications (delivered by a postal operator) as well as customer newsletters or sponsored magazines sent by large institutions and companies, for example as part of their customer care programme.

Figure 4-6 Structure of letter post items per capita in 2007: Correspondence, direct mail and publications

Source: ITA Consulting / WIK-Consult

The structure of letter post volume considerably varies between Member States. Generally, correspondence plays an important role in terms of items per capita in most Member States; with increasing total items per capita the share of correspondence declines. Especially in the Western Member States direct mail plays a more important role than in the Southern and Eastern Member States.

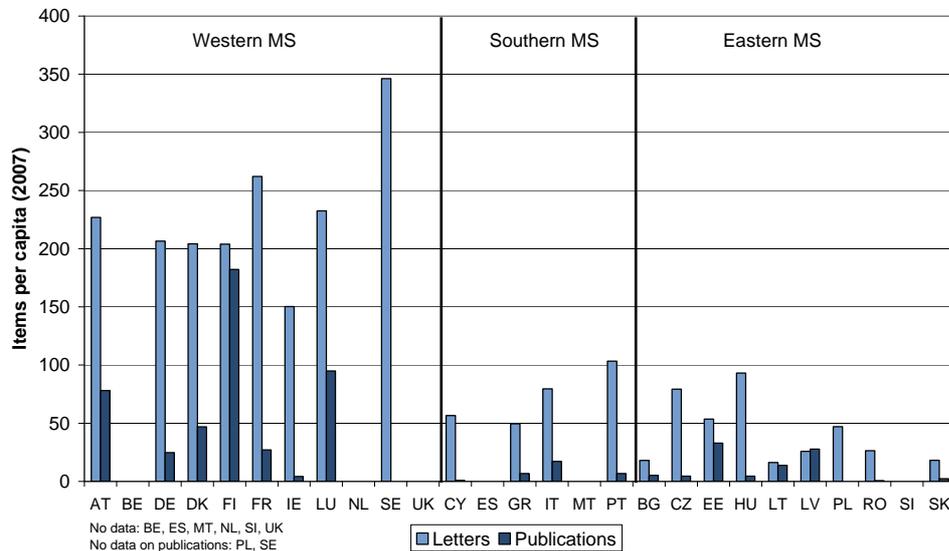
Time series information of volume development of each sub-segment is not available for every Member State. However, we observe the following general trends in volume development:

- Growth in correspondence is generally lower than growth in direct mail.
- Growth rates are higher in the Eastern Member States (i.e. in Member States with relatively low letter post items per capita).
- Publications delivered by national postal operators have declined in many Member States.

In the following we discuss the structure of letter post in the Member States and the developments of each of the sub-segment in more detail.

DEVELOPMENTS IN THE DELIVERY OF PUBLICATIONS BY POSTAL OPERATORS

Figure 4-7 Items per capita in 2007: Letters and publications



Source: ITA Consulting / WIK-Consult

The importance of publications in the letter post business substantially varies between the Member States. The Finnish Itella has actively promoted this business to boost the delivery volumes. In rural areas Itella offers early delivery of newspapers (together with letters). Today, Itella delivers more than 160 publishing items per capita. The delivery of publications is of similar importance in the Baltic countries (Estonia, Latvia and Lithuania). Actually, the Latvian and the Lithuanian universal service providers deliver roughly as many letters as newspapers and periodicals.

However, differences in the importance of publications between Member States could be explained by the structure of publications delivered and the existence of competing distribution networks established by publishing companies. In our definition the segment “publications” consist of two elements: first the delivery of publishing material (subscribed newspapers and magazines) and second the delivery of customer or employee magazines.⁵⁵ The discussion below is based on information about a relatively low number of Member States. However, it will provide some insights about developments in this special market segment.

- The first category, subscribed newspapers and magazines, are delivered either by publishing companies (and related subsidiaries) or by a postal service provider. In the past publishing companies have established their own distribution networks focusing on the early delivery of subscribed newspapers (a service not offered by many national postal

⁵⁵ We are not aware whether this definition is widely applied in the statistics published by UPU or the national postal operators. It depends whether these customer magazines are more considered as direct mail or as a magazines by the postal operator. In Germany Deutsche Post subsumes both product categories under the division Press Services (see Deutsche Post, Annual Report 2008, p. 54).

operators in the EU). These networks usually cover a local area (e.g. one city or a group of cities). Therefore, some of the publishing material (newspapers of national relevance) has been handed over to the national postal operator for delivery in rural areas. For this reason we think that in many Member States the delivery of newspapers is usually provided under competitive conditions (at least in urban areas).

- However, in some Member States the market shares of national postal operators in the delivery of subscribed periodicals and magazines (i.e. excl. newspapers) are significant. Austrian Post, for example, claimed that the company was the market leader in weeklies and monthlies with a share above 85 percent in terms of volume.⁵⁶ The strong market position is partly the result of state compensation paid for the delivery of press items because of their social importance. This compensation has been paid to the national postal operators. In Austria and Denmark these payments were abolished some years ago⁵⁷ while in France, Italy and Belgium this compensation still exists.⁵⁸ However, such subsidies (even if they have already been phased out) may explain the relatively strong market position of national postal operators in some Member States, e.g. in Austria and Denmark.
- The use of customer and employee magazines might differ between the Member States. However, where they exist it is highly probable that mostly national postal operators deliver these items because of their nationwide delivery network. However, in Member States with some competition, as for example in the Netherlands, the competitors are also active in this market segment of non time-critical publications.⁵⁹

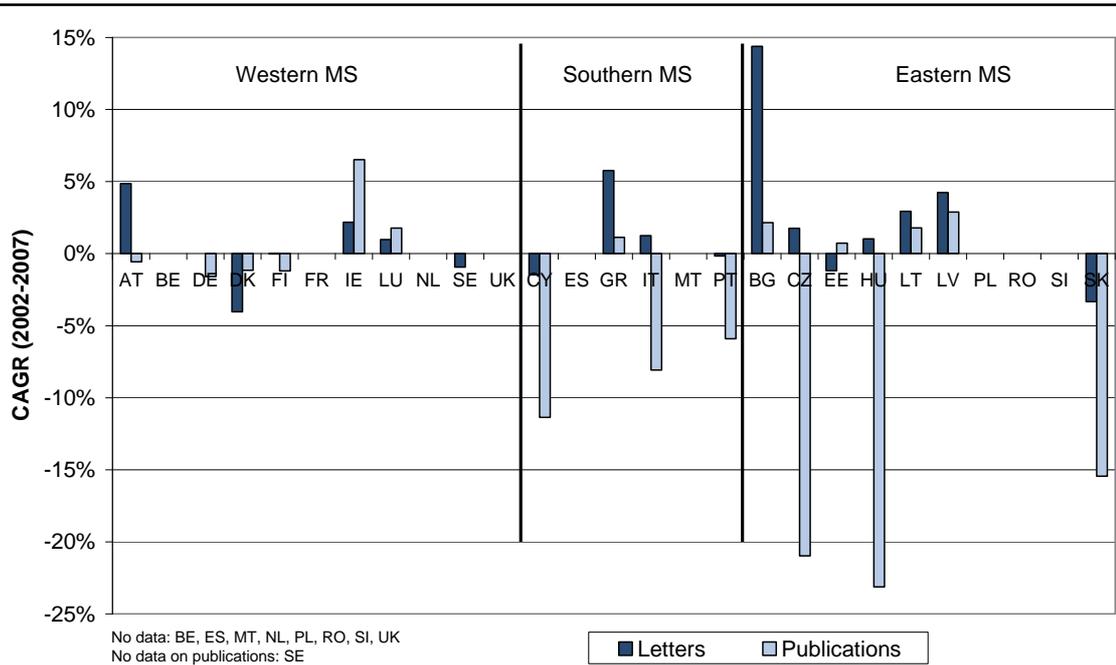
⁵⁶ See Austrian Post, Jahresbericht 2003, p. 49. As the number of publications has remained fairly stable between 2003 and 2008 we assume that the market shares have not significantly changed. Another supporting argument is the pricing strategy of Austrian Post mentioned in the same annual report: similar to Deutsche Post the company has introduced zonal tariffs for the delivery of publications (i.e. lower tariffs in densely populated areas).

⁵⁷ In Austria the compensation paid to Austrian Post ended in 2001 (see Austrian Post, Geschäftsbericht 2001, p. 45); in Denmark 2004 (see Post Danmark, Annual report 2003, p. 15).

⁵⁸ See De Post–La Poste, Annual Financial Report 2007, p. 78-79; Poste Italiane received in total EUR 675 million in 2007, thereof 304 million for publisher and electoral tariff subsidies (see Poste Italiane, Annual Report 2007, p. 179). In France the government contribution was EUR 242 million ARCEP (2008), Statistical Observatory on Postal Activities in France—2007, p. 36.

⁵⁹ See RBB Economics (2007), Postmarktmonitor – Openbare Versie.

Figure 4-8 Average growth rates: Letters and publications (CAGR 2002-2007)



Source: ITA Consulting / WIK-Consult
Notes: No data available for BE, ES, FR, MT, NL, PL, RO, SI and UK.

Figure 4-8 presents the average growth rates of the letter post segments (letters and publications). The development in publications delivered by national postal operators is very heterogeneous. In particular, the Eastern national postal operators have faced considerable volume decreases (notably Czech Republic, Hungary and Slovakia). Reasons could be first a general decline in volume and/or second emerging competition in the distribution of publications. It appears that at least in the Eastern Member States the second reason plays an important role. The loss of volume and emerging competition might be particularly promoted by significant tariff increases.⁶⁰

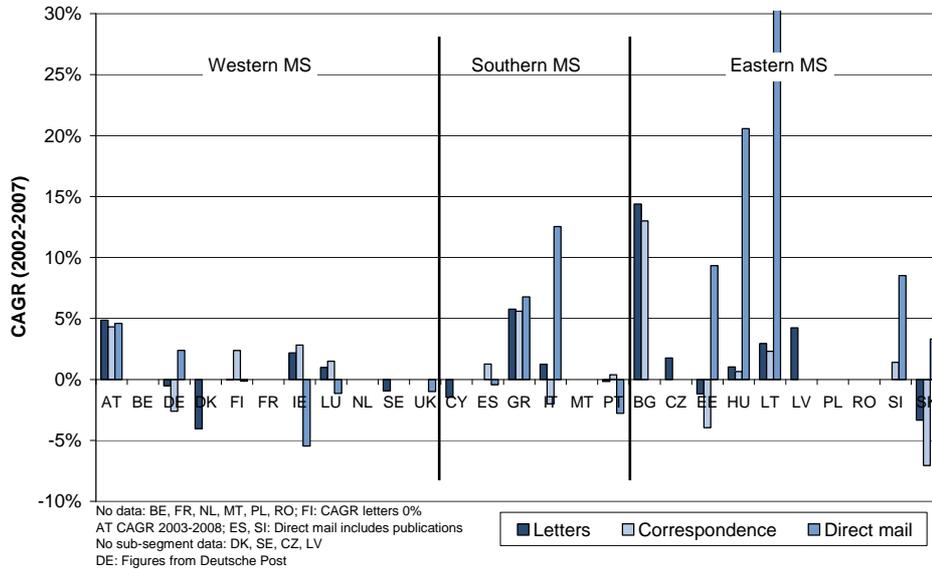
The first reason may dominate the development in the Western and Southern Member States: the number of delivered publications has declined (most probably in Denmark, Austria and Germany). Generally, the establishment of internet newspapers may challenge the publishing industry which results in lower volumes of subscribed newspapers and magazines.⁶¹ On the other hand specialised magazines have considerably increased which are mainly distributed via the delivery network of the national postal operator. However, publications also include customer magazines and similar publications which may be less affected by the internet.

⁶⁰ The basic tariffs (20g letter) have considerably increased especially in Hungary and the Czech Republic (see for example Figure 4-34 on page 99). We assume that in the course of aligning costs and prices of services also the tariffs for publications have been considerably increased.
⁶¹ In Germany, for example, the number of subscribed newspapers and magazines has declined between 1997 and 2008 from 19.1 to 15.1 million items (CAGR -2.1%) (see The Federation of German Newspaper Publishers, www.bdzv.de/schaubilder+M52837a5d106.html).

Summing up, the relationship between economic growth and delivery of publications by postal operators seems to be relatively weak.

DEVELOPMENTS IN LETTERS VOLUME

Figure 4-9 Average growth rates: Letters, correspondence and direct mail (CAGR 2002-2007)



Source: ITA Consulting / WIK-Consult

We also observe limited or even negative average growth rates for letters in the high-volume Western Member States and generally higher growth rates in the low-volume Eastern Member States. However, the sub-segments of letters, correspondence and direct mail, have developed very differently.

In some Member States direct mail has grown while the growth in correspondence has been lower or even negative: in Germany (figures from Deutsche Post), Italy, Estonia, Hungary, Lithuania, Slovenia and Slovakia. However, there are also Member States where both segments have grown at similar growth rates (Austria and Greece) or correspondence has grown at higher rates than direct mail (Finland, Ireland, Luxembourg and Portugal).

This very mixed outcome suggests that there are also country-specific factors responsible for differences in volume growth behaviour additional to general influence factors like growth in population and economy. The examples below shall illustrate these specific circumstances.

- Germany: the loss in correspondence is also caused by lost market shares to competing postal operators. In particular, business correspondence (B2B/C) has remained fairly stable while private correspondence has continuously been declining.⁶²

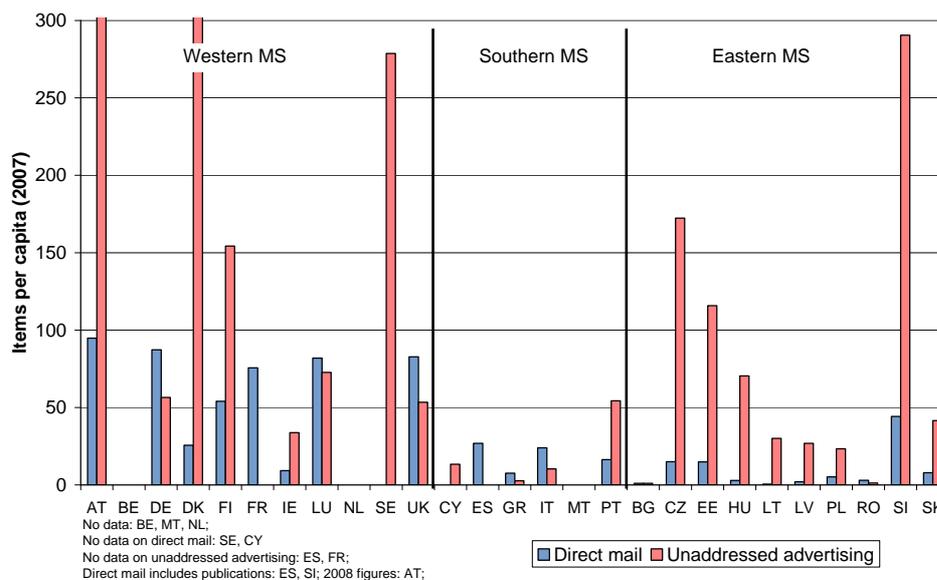
⁶² See WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers' demand for postal services], p. 6-7.

- Ireland: the decline in direct mail might be caused by deficits in the postal infrastructure; Ireland is the only Member State without any postal code system. Such a postal code system considerably simplifies the development of effective direct mail campaigns.⁶³
- Italy: Poste Italiane has considerably increased the postal tariffs of basic letter services by abolishing the second class service for the general public which at least partly explains the sharp decline in correspondence between 2006 and 2007.

The examples show that volume developments in correspondence and in direct mail are influenced by a bundle of factors, i.a. competition with other communications or advertising media, pricing and quality of service. In the following, first the important drivers for use of direct mail and, second, important drivers for the posted volume of correspondence are considered in more detail.

DEVELOPMENTS IN LETTERS VOLUME: DIRECT MAIL

Figure 4-10 Direct mail versus unaddressed advertisements delivered by national postal operators (per capita, 2007)



Source: ITA Consulting / WIK-Consult

With regard to the use of direct mail there are structural differences between the Member States (Figure 4-10). In the Eastern and Southern Member States direct mail is often not yet established as a commonly used advertising form; these markets are still developing which explains the relatively high growth rates (see Figure 4-11).⁶⁴ In most Western Member States between 60 and more than 80 direct mail items per capita were delivered in 2007 (exceptions are only Ireland with 9 and Denmark with 26 items per capita). In the Southern Member States the figure is considerably lower and lies between 20 and 30 items. Most of the Eastern Member

⁶³ See ComReg (2005), Postcodes, Document No. 05/07, 26 January 2005.

⁶⁴ The figures usually refer to 2007 data. This information can be found in the country fiches.

States have less than 10 direct mail items per capita; Slovenia has nearly achieved the level of the Western Member States with more than 40 items per capita (this figure includes publications). In countries with relatively low use of direct mail switching from direct mail to other advertising media is therefore not the key option but to actually start using direct mail as instrument for advertising and customer retention. But what are the factors influencing the growth potential of direct mail besides economic growth?

- Acceptance by recipients (do the recipients like to read advertising mail): Deutsche Post Global Mail⁶⁵ has published an international survey i.a. dealing with the acceptance of mailings by consumers. In the national surveys consumers were i.a. asked whether they usually read the mailings they receive and whether they have reacted to a mailing during the last 12 months. The results indicate that there are substantial differences between countries. The share of consumers usually reading the mailings varies from 30 percent in the UK to 59 percent in Poland. The share of consumers who had reacted to mailings during the last twelve months ranges from 29 percent in Sweden to 63 percent in Poland. Another indicator is the degree of individuals' refusal to accept advertising mail: in case of unaddressed advertising recipients can easily refuse acceptance of such items by placing a "no advertising" sign on their private letter box. An analogue instrument for direct mail is the so-called "Robinson-List" i.a. applied in France, Germany or the Scandinavian countries. Individuals who do not want to receive addressed advertising can put their name on this list. The advertising industry is usually bound to observe this list.⁶⁶
- Data protection legislation: generally, it appears that direct mail has a competitive advantage compared to electronic advertising: while opt-out rules are generally applied with regard to direct mail, customers have to explicitly allow advertising via telephone, fax or e-mail (opt-in rule).⁶⁷ Denmark applies an opt in-rule for direct mail that explains the relative low importance of direct mail in this country.⁶⁸ Recently, the German government decided to introduce an opt-in rule especially with regard to the transmission of individual addresses and related information to third parties to improve data protection.⁶⁹ The German direct mail industry expects that this change in data protection rules will handicap the acquisition of new customers via direct mail.⁷⁰

⁶⁵ See Deutsche Post Global Mail (2008), *Weltweit werben. Zielgruppen effizient erreichen*. The survey covered many European countries and some non-European countries. 14 EU Member States plus Norway are included: AT, CZ, DE, DK, ES, FI, FR, HU, IT, NL, PL, SE, SK, UK. In every country at least 500 consumers have been interviewed.

⁶⁶ This is the case for example in Germany and Norway. In Norway for example about one third of individuals have been registered in such a list (see Swiss Post International).

⁶⁷ A comprehensive survey on data protection and marketing legislation is regularly published by FEDMA (2007 *Data Protection & Marketing Legislation in Europe and the United States*). Another source of information is a publication of Deutsche Post Global Mail, *Direkt Marketing Monitor International 2008* or of Swiss Post International, *International AddressGuide*.

⁶⁸ See Swiss Post International, *International AddressGuide*. According to this publication Slovenia and Slovakia also apply opt-in rules with regard to direct mail.

⁶⁹ See decision of the German government (Kabinettsbeschluss) of December 10th, 2008: *Entwurf eines Gesetzes zur Regelung des Datenschutzaudits und zur Änderung datenschutzrechtlicher Vorschriften* [Revision of the national data protection legislation].

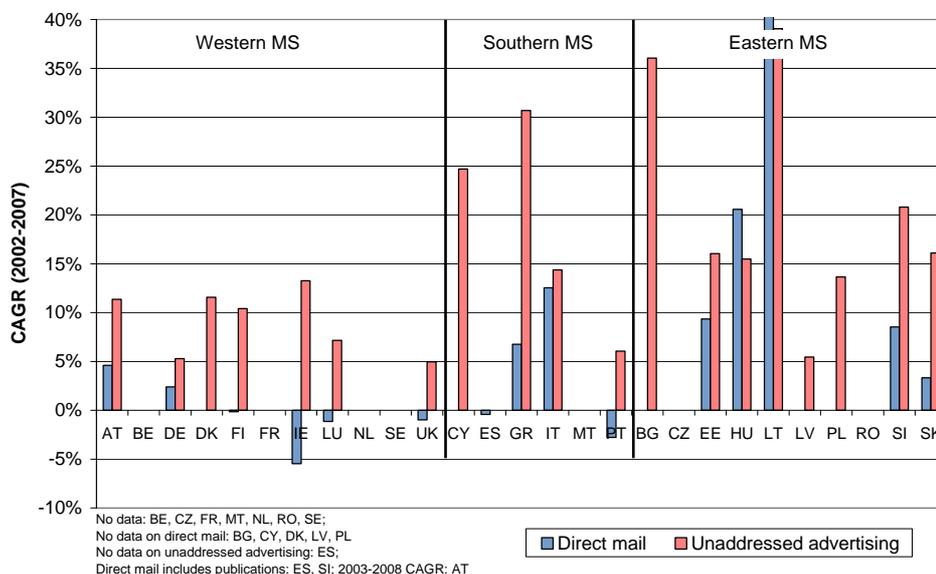
⁷⁰ See the website of the German Dialogue Marketing Association (www.ddv.de).

- Existence of sophisticated high-quality address material (related to the data protection legislation): inadequate address data quality could be therefore one reason for the predominant use of unaddressed advertising mail in the Eastern Member States (and Ireland).
- Relative price and effectiveness (measured by response rates) compared to other advertising media (i.a. unaddressed advertising, advertising using other communication channels like newspapers/magazines, TV, radio, internet, SMS, e-mail and telephone) and importance of direct mail as part of the marketing mix (i.e. use of more than one channel to advertise)
- The existence of postal operators providing reliable delivery services (local and nationwide) and offering attractive direct mail products

However, there is also a tendency to combine correspondence and direct mail by sending it together. It appears that the awareness of direct mail is better when attached to a bill.⁷¹ These combined items are usually sent as correspondence and are not included in the direct mail figures presented above. Insofar, the number of letters including advertising material is higher than the pure number of direct mail items.

In the following, the relationship between direct mail and unaddressed advertising is considered in more detail. Generally, the distribution of unaddressed advertising plays an important role in most Member States. The number of unaddressed items delivered by the national postal operators depend i.a. on its position in the market. In most Member States the delivery of unaddressed items is provided under competitive conditions. However, it appears that at least the universal service providers of Austria, Denmark and most likely of the Czech Republic, Estonia, Slovenia and Sweden have significant market shares in this business.

⁷¹ In Sweden a higher share of consumers read leaflets sent in the same envelope as a bill than addressed direct mail (2009 results, see Swedish Posten AB (2009), 2009 Survey of Postal Letter Habits – A report about Swedes' habits and attitudes regarding physical and electronic communication, p. 6.

Figure 4-11 Average growth rates of direct mail and unaddressed advertisements delivered by the universal service providers (CAGR 2002-2007)

Source: ITA Consulting / WIK-Consult

Figure 4-11 contrasts the average growth rates of direct mail and unaddressed items delivered by national postal operators. We observe that the highest growth rates have been achieved by the distribution of unaddressed items (delivered by the national postal operators). This does not necessarily mean that the market volume of unaddressed items has been increasing; it could also imply increasing market shares of national postal operators in this business (or a combination of this). It is remarkable that especially the Eastern Member States have extraordinarily high growth rates.

Economic growth appears to be one important driver for advertising items (direct mail and unaddressed advertising). However, in some Member States direct mail volume has decreased, notably in the UK. The UK is a country with a highly-developed direct mail segment (around 80 items per capita). The use of direct mail reached its peak in 2003. Since that year the volumes have been in decline (around 14 percent between 2003 and 2007).⁷² Postcomm noted in its Competitive Market Review 2008 that reasons for the decline could be first the increasing use of digital advertising and second a turning away from large mass mailing campaigns to more target-oriented mailings.⁷³

Unaddressed and addressed advertising are to some extent substitutes. However, the degree of substitution strongly depends on quality and price level of unaddressed advertising. It appears that in some Member States the boundaries of addressed and unaddressed advertising have increasingly been blurring. This is highlighted by the following examples:

⁷² See DMIS (2007), Consumer Panel Results, Presentation (www.dmis.uk.com).

⁷³ See Postcomm (2008), Competitive Market Review 2008, p. 11-16.

- Sweden: Swedish Posten offers two quality levels for the distribution of unaddressed items: UDM Standard and UDM Exclusive.⁷⁴ In terms of volume UDM Exclusive accounted for around one fifth of total unaddressed advertising (distributed by Posten) in 2006.⁷⁵ UDM Exclusive costs around the double of UDM Standard (for households: SEK 1.62 compared to SEK 0.805).⁷⁶ Unsorted, addressed direct mail costs SEK 3.13 per item i.e. less than double the tariff of UDM Exclusive.⁷⁷ The relevant target groups of both products differ: while UDM Standard can be sent to households, houses and holiday homes (June-August) UDM Exclusive can additionally be sent to businesses, offices and farms. Distribution takes place on Mondays or Thursdays (UDM Standard) and on Tuesdays, Wednesdays and Fridays (UDM Exclusive). Geographical coverage varies from the county or municipality to selected blocks of postal codes.
- Denmark: since 2004 Post Danmark has introduced advertising mail products positioned between the simple and undifferentiated unaddressed item and addressed direct mail:⁷⁸ Geo-Zones (the customer decides the area of distribution), Segmented Unaddressed Mail (customer defines the target group and Post Danmark generates the address file), Household Direct (Unaddressed advertising to households drawn from customer's own dataset or from bought address lists). These products allow for more target-oriented advertising campaigns with unaddressed advertisements. Due to the closeness to addressed direct mail Post Danmark expects that these products to some extent cannibalise existing (direct mail) products. However, due to strict data protection legislation (opt-in rule for use of addressed direct mail) direct mail does not play an important role in Denmark. Moreover, Post Danmark expects to win back market shares from competitors (in distribution of unaddressed advertising) and to attract new customers so that lost revenues would be more than compensated.
- Germany: Deutsche Post offers two quality levels of unaddressed advertising: a standard product (Postwurfsendung) and a special service (Postwurfspezial). The special feature of this second product is that the item is partly addressed (without name of the addressee) and allows target group specific distribution of unaddressed items.
- UK: Postcomm notes in its Competitive Market Survey 2008 that many specialized unaddressed mail distribution companies "are developing increasingly sophisticated targeting tools, allowing mailings to be aimed at particular streets. [...] These tools can overlay postcode areas with social and demographic data to identify areas with high

⁷⁴ See Posten AB (2009), Fact Sheet Unaddressed Direct Mail—UDM, valid from January 1st, 2009.

⁷⁵ See Posten AB (2006), Substitution, Presentation held in Prague, April 27 2006, Slide 17.

⁷⁶ See Posten AB (2009), Posten's Price List for UDM (prices excl. VAT).

⁷⁷ See Posten AB (2009), Price List for Addressed DM (prices during normal traffic excl. VAT). When consigning during high traffic, the price of postage is higher. The surcharge is SEK 0.13 per item for sorted shipments and SEK 0.16 per item for unsorted shipments. In 2009 the high traffic period is from the 18th to the 23rd of each month (in July there is only normal traffic).

⁷⁸ See Anders Due (2009), Growing revenues from Direct Mail, Presentation held at the European Postal Services Conference in Amsterdam, March 2009.

concentrations of the target population for a marketing campaign, while postcode areas with low penetration of the targeted demographic can be removed from the campaign.”⁷⁹

DEVELOPMENTS IN LETTERS VOLUME: CORRESPONDENCE

It is sometimes argued that the difference between the growth rates of the economy and of letters indicates the “technological gap” or the “technological edge”.⁸⁰ This presumes that the gap results from evolving substitutes due to technological progress especially in electronic communications. However, it is difficult to prove that only one factor is responsible for this increasing gap. Generally, a business customer has more than one option to react e.g. on price increases or increasing needs for cost saving, given that he is interested to continue being in contact with his customers. Generally, the private customer has the same options to react as the business customers.

- First, the customer stays with the national postal operator and optimises his mailing behaviour given the opportunities offered by the postal sector. This issue will be considered in more detail in section 4.2.3.
- Second, he switches to a competitor, if available. In this case the volume is not lost for the market but may not be visible in the statistics (if market information does not exist). Emerging competition in letters markets is considered in more detail in section 4.2.2.
- Third, he switches to other communication media to reduce physical delivery of correspondence.

Of course, these options are not mutually exclusive. A mix of all options is conceivable and probable depending on the country-specific situation. In the following, the third option—switching of correspondence from physical to electronic delivery—shall be considered in more detail.

What are the driving factors for mailers (irrespective whether private or business customers) to use electronic instead of physical delivery of correspondence?

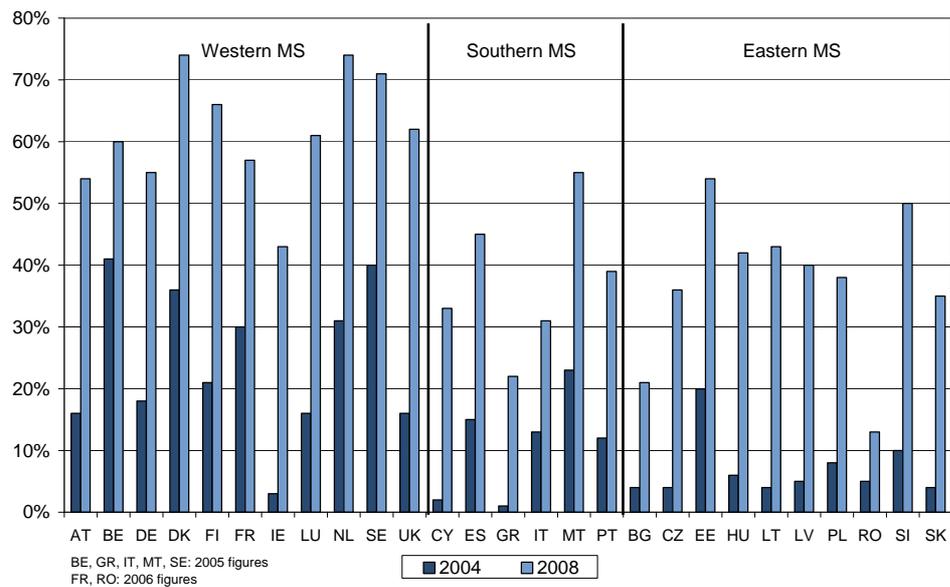
- First, electronic delivery of mail items should be as convenient and easy as opening and clearing the private letter box i.e. the technical conditions must exist (i.a. quick internet access via broadband for private households and businesses, user-friendly websites or internet services simplifying the access and the administration of electronic correspondence).
- Second, legal barriers may limit the use of electronic delivery: e.g. acceptance of electronic invoices by tax administrations (mostly relevant for B2B mail), or invoices can only be paid if reliably delivered to the recipient (postal delivery generally meets this requirement).

⁷⁹ See Postcomm (2008), Competitive Market Survey 2008, p. 17.

⁸⁰ See for example Hooper, Richard; Hutton, Dame Deirdre and Ian R Smith (2008), “Modernise or decline: Policies to maintain the universal postal service in the United Kingdom—An independent review of the UK postal services sector”, p. 9 and Swedish Posten, Annual Report 2008, p. 14.

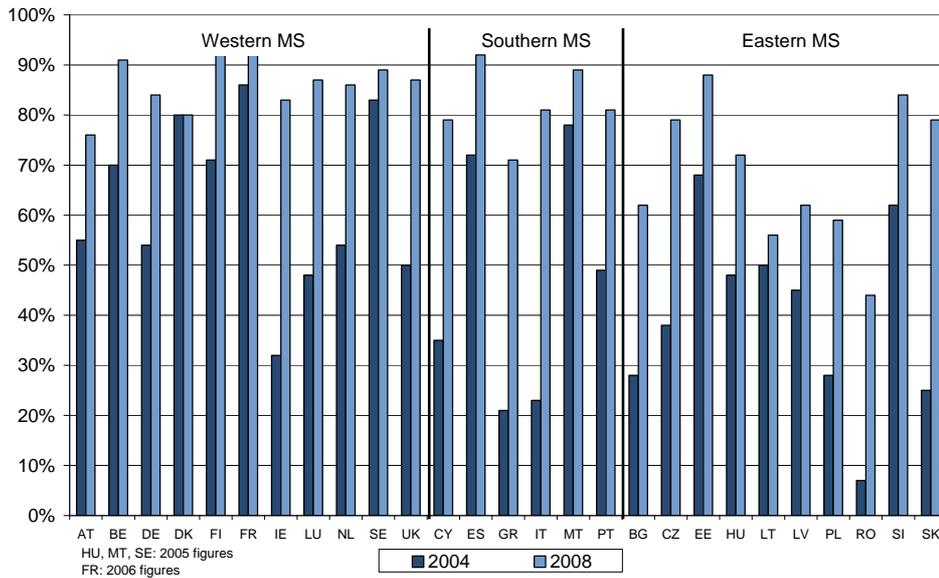
- Third, the acceptance of the recipients for electronic delivery of correspondence matters: the recipient has to agree to electronic delivery.⁸¹ A business mailer could set incentives to promote the electronic delivery but he can not oblige his customer or business partner to accept it. The willingness to accept electronic delivery depends on several factors like convenience, data security and internet affinity of the recipient. To some extent, this is also a generational question (younger people are usually more open to new media than older people).

Figure 4-12 Development in broadband access of households (2004/2008)



Source: ITA Consulting / WIK-Consult based on Eurostat

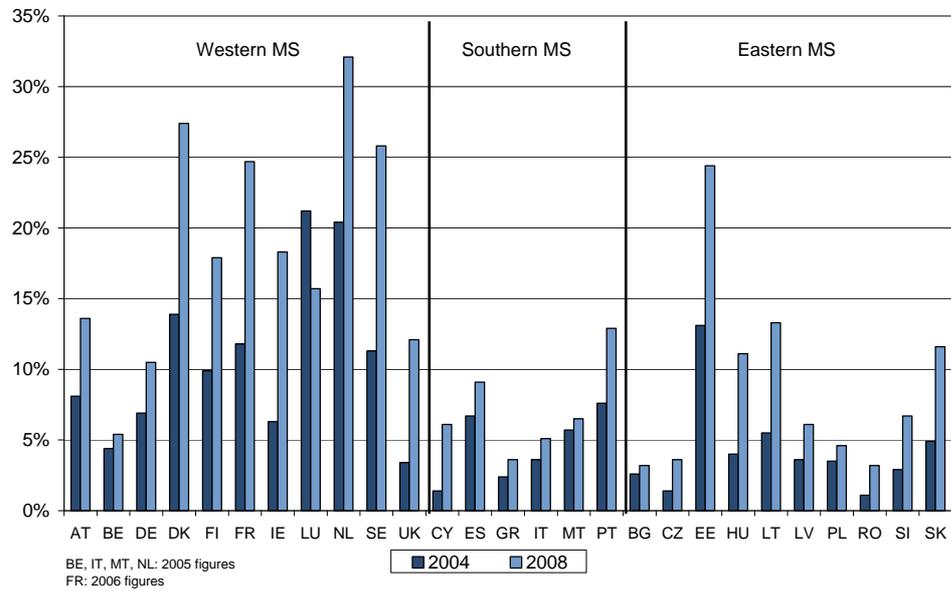
⁸¹ See WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers' demand for postal services], p. 64.

Figure 4-13 Development in broadband access of companies (2004/2008)

Source: ITA Consulting / WIK-Consult based on Eurostat

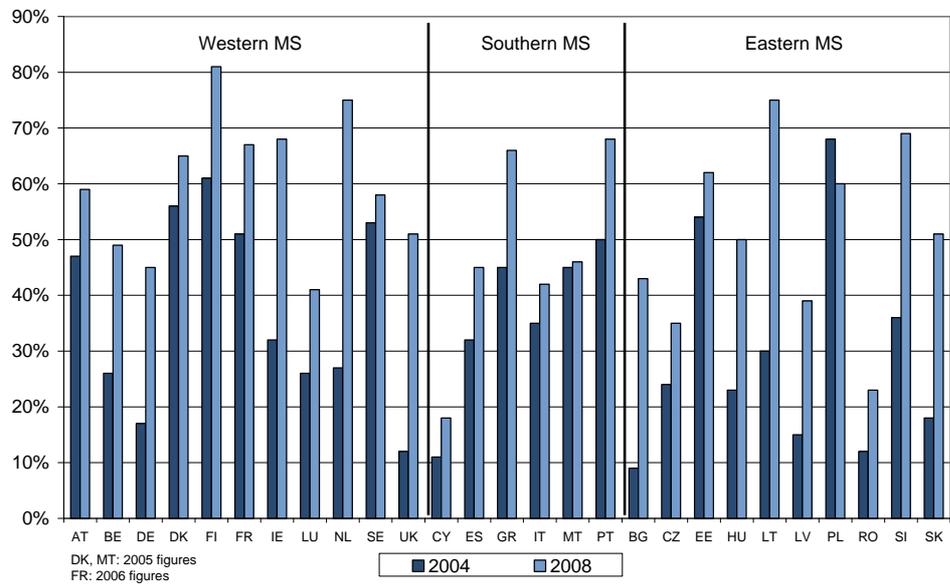
The technological environment has considerably improved in the last five years by the establishment of broadband access. Since 2004 the share of households and companies having broadband access has grown dramatically in all Member States (see Figure 4-12 and Figure 4-13). Generally, the share of companies (with more than 10 employees) is higher than the share of households with broadband access. However, the level still differs between and within the country groups. In the Western Member States usually more than 50 percent and especially in the Scandinavian countries even more than 70 percent of the households had broadband access in 2008. In the Southern Member States only Malta has achieved a share above 50 percent; in the other countries the share is between 22 (Greece) and 39 percent (Portugal). In the group of the Eastern Member States more than half of the Estonian and Slovenian households had access to broadband. Romania (13 percent) and Bulgaria (21 percent) have— together with Greece—the lowest penetration rate. In nearly half of the Member States more than half of the households have broadband access.

Figure 4-14 Development in the use of eGovernment (electronically sending back of filled forms) by households (2004/2008)



Source: ITA Consulting / WIK-Consult based on Eurostat

Figure 4-15 Development in the use of eGovernment (electronically sending back of filled forms) by companies (2004/2008)



Source: ITA Consulting / WIK-Consult based on Eurostat

Another important development potentially affecting demand for physical correspondence is driven by EU-wide eGovernment initiatives.⁸² eGovernment is about using the tools and systems made possible by Information and Communication Technologies (ICTs) to provide better public services to citizens and businesses. The eGovernment initiatives include measures to simplify secure electronic communication between public authorities and companies as well as individuals. Figure 4-14 and Figure 4-15 present the developments in the use of eGovernment services by households and businesses in 2004 and 2008. “Use” means in this case that users (companies and households) have electronically sent back filled forms (e.g. tax forms). It is not surprising that companies (with more than 10 employees) make generally more use of these eGovernment services than households. In most Member States less than 20 percent of the households have sent back filled forms during the last three months. Exemptions are Denmark, France, the Netherlands, Sweden and Estonia. This indicates that the implementation and the acceptance of eGovernment tools are more advanced in these countries. In contrast to households, more than 40 percent of companies have sent filled forms back via internet in most Member States. Member States with a relatively low penetration rate for both groups of users are Germany (Western Member States), Cyprus (Southern Member States) and some Eastern Member States (Czech Republic, Latvia and Romania). The establishment of effective eGovernment tools is still ongoing and will deploy their full impact in the coming years.

However, high shares of households and companies having broadband access or using eGovernment tools do not necessarily imply that substantial shares of physical correspondence have been substituted by electronic correspondence in the past. Customer surveys dealing with this question from the viewpoint of mailers and recipients indicate that there has been some substitution in the past but to a limited extent. The following examples shall illustrate the past trends in electronic delivery of correspondence.

- Finland: The Finnish postal operator Itella is an important provider for electronic invoicing solutions in Finland but also within Scandinavia, in the Baltic countries and in Germany. It offers hybrid solutions combined with the option to deliver the bills electronically or physically (by handing over the items to a postal operator). In spring 2008 Itella carried out a survey on the acceptance of e-invoicing of businesses and individuals in the Scandinavian countries (Denmark, Finland, Norway and Sweden) and in Germany.⁸³ While e-invoicing is well-established by Finnish business, Finnish consumers seem to be reluctant to use this tool. Itella also pointed out that hard copies of bills are still the most common invoice format in these countries except for Denmark. Denmark appears to be special: “Denmark is in a class of its own with regard to e-invoicing. Only 32 per cent of Danish people nowadays report that they receive their invoices primarily in hard copy format. In the other countries around 75 per cent of consumers receive their invoices primarily in hard copy format. The Danes receive their e-invoices through both the online bank and invoice issuers’ websites

⁸² A comprehensive survey on initiatives on EU and country level can be found on the website http://ec.europa.eu/information_society/activities/egovernment/index_en.htm.

⁸³ See Itella (2008), Finland still lagging behind in consumer e-invoicing, press notice of 1 September 2008 (www.itella.com).

or invoice and e-commerce portals.” It appears that German consumers and businesses’ acceptance of e-invoicing is relatively low, so far:

- Germany: Electronic substitution is a relevant issue for business customers. In particular, large mailers pointed out that the use of electronic instead of physical delivery is mainly driven by the acceptance of the recipients. One large mailer (from mobile telecommunications) delivers around half of his invoices electronically (via applying an opt-in procedure; only those customers receive a paper invoice when actively requiring for it) while especially insurance companies state that their customers are often reluctant to receive bills and statements electronically.⁸⁴ Another survey addressing especially internet affine consumers concludes that consumers increasingly use e-mails instead of physical delivery for official letters as well as for private correspondence.⁸⁵
- Ireland: interviews with more than 50 large Irish mailers revealed that about half of the respondents (in sum 28) had switched at least some mail volume to electronic delivery; 12 of them even more than 20 percent of their mail volume.⁸⁶ Even if this survey is not representative it appears that electronic substitution represents a severe challenge to An Post but has not reduced letters volume, so far. Physical delivery of correspondence has even increased during the last few years (see Figure 4-9). It appears that electronic substitution has only limited the growth in correspondence in Ireland.
- Sweden: since 2005 Swedish Posten has carried out an annual consumer survey asking for Swedes’ habits and attitudes regarding physical and electronic communication. More than 80 percent of Swedes still prefer to receive hard copies of bills. The attitude with regard to the ability to receive bills electronically considerably varies between the gender and especially the age groups: Nearly 60 percent of the group aged 15-29 years think that this is very or fairly important while with increasing age the share is declining to less than 50 percent (30-49 years) to 35 percent (50-64 years) and 13 percent (above 64 years).⁸⁷
- UK: a recently published customer survey commissioned by the British postal regulator Postcomm⁸⁸ presented the following observations: 19 percent of the SMEs receive their financial statements electronically and 21 percent pay their bills electronically (instead of sending cheques). In contrast, more than 50 percent of the consumers prefer electronic payment of bills. However, more than 90 percent of the consumers prefer sending greeting cards with Royal Mail.

In our view electronic substitution of physical correspondence is one important reason for the diminishing linkage between economic and letter post growth. The use of electronic instead of

⁸⁴ WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers’ demand for postal services].

⁸⁵ Smart Research (2008), Erfolgsfaktoren im liberalisierten Briefmarkt – Eine empirische Untersuchung der Kundenanforderungen [Success factors in a liberalised letters market – An empirical study on customer needs].

⁸⁶ ComReg (2009), ECORYS web-based customer needs survey for postal services: Comparison of responses from Ireland and other EU countries, Information Notice, Document No. 09/10, 13 February 2009.

⁸⁷ See Posten AB (2009), 2009 Survey of Postal Letter Habits. [Brevvanor— En rapport om svenska folkets vanor och attityder till fysisk och elektronisk kommunikation], p. 9.

⁸⁸ Postcomm (2009), Postcomm Customer Survey 2008: Report of Findings From Research with SMEs and Consumers, p. 22 (SMEs) and p. 56 (consumers).

physical delivery has at least limited the growth in correspondence. It also appears that private correspondence has been more affected by a switch from physical to electronic delivery than business correspondence, so far. It can not be excluded that this has also resulted in a decline in correspondence in some Member States (e.g. in Estonia, Sweden and the Netherlands). However, technological progress in electronic communications may also generate new letter post volume. The establishment of online banks (i.e. financial institutions only accessible via their internet portals) for example generated additional volumes in correspondence (bank and tax statements, confirmations of transactions) and in direct mail. Most importantly, the pace of substitution is largely determined by the willingness of individuals and businesses to accept electronic delivery. Furthermore, the recipients should have the freedom to decide how they receive their mail: As stated in the consumer survey of Swedish Posten on the Swedes' habits and attitudes regarding physical and electronic communications:

“Individuals want to be able to choose how they receive important information. Less freedom of choice causes annoyance. In addition, the changing attitude to the increasing share of electronic communication in society shows that it's important to offer various options to meet the different needs of recipients.”⁸⁹

However, postal operators are not at the mercy of these developments. They can accept the challenge and find ways to convince the mailers and, most importantly, the recipients from the value added of letters compared to other communication media. For the future we assume that the challenges arising from electronic substitution will substantially increase for the letters markets.⁹⁰ We share the opinion of the Swedish postal regulator, Post & Telestyrelsen (PTS), which stated in its 2008 market survey:

“When looking ahead as regards administrative bulk mail, PTS would like to draw attention to a phenomenon that suggests that volumes may reduce. In the assessment of PTS, e-billing is very likely to increase over the next few years; for example, all government authorities are to go over to e-billing by 2008. [...] According to the Swedish Tax Agency, another example of electronic communications taking volumes from the letters market is that in 2007, just over 3.1 million Swedes chose to do their tax returns electronically by means of the Internet, telephone or SMS.”⁹¹

IMPACT ON POSTAL REVENUES

The delivery of letters (comprising correspondence and addressed direct mail) still represents the core business of national postal operators in most Member States. We assume that the letters business and especially the delivery of correspondence is the key revenue generator of the letter post business and is responsible for a significant share of the letter post revenues. Examples from large national letter post markets support this thesis:

⁸⁹ Posten AB (2009), 2009 Survey of Postal Letter Habits. [Brevvanor— En rapport om svenska folkets vanor och attityder till fysisk och elektronisk kommunikation], p. 7.

⁹⁰ We will pick up this specific issue in section 6.1 of this report.

⁹¹ PTS (2008), Service and competition 2008, p. 15-16.

- In the German letter post market for example, the share of domestic letters of total letter post revenues was 84 percent in 2007, thereof 60 percent for correspondence and 24 percent for direct mail. In terms of volume, letters accounted for 87 percent: 50 percent correspondence and 37 percent direct mail.⁹² The German case shows that correspondence is the major contributor to (market) revenue.
- In the French letter post market we find a similar picture in 2007: letters account for nearly 90 percent of domestic letter post volume (including “circuit postale” of publishing material): Correspondence contributes 61 percent and direct mail 29 percent. The contribution of direct mail to total revenue is slightly less than 20 percent; 75 percent of total letter post revenues came from the delivery of correspondence.⁹³
- In 2008 about one quarter of total letter post delivered by Poste Italiane⁹⁴ was direct mail (2008), nearly 60 percent correspondence. The respective revenue shares were 85 percent and less than 10 percent.

These examples indicate that correspondence is the key pillar in the letter post business of the national postal operators while the contribution of direct mail is more limited. Increasing substitution of correspondence by electronic devices will therefore challenge revenues and profitability of postal operators.

4.2.1.2 Cross-border letter post

Due to incomplete data we can only summarise the development of mail volumes for a subset of Community USPs.⁹⁵ The subset consists of 22 universal service providers for cross-border outbound. The regulatory authorities of two Member States (France and Germany) have published market related figures on cross-border outgoing letters (Germany) respectively letter post items (France). These 22 USPs account for more than 80 percent of the Community letter post in 2007. It is not clear whether they represent a similar percentage of the Community cross-border letter post. For these 22 Member States, the volume of outgoing cross-border letter post was about 2.1 billion items in 2007, or 2.8 percent of the domestic letter post (of these countries).⁹⁶ Overall, the outgoing cross-border letter post declined about 9 percent from 2003 to 2007. Domestic letter post increased about 2.5 percent during the same period.

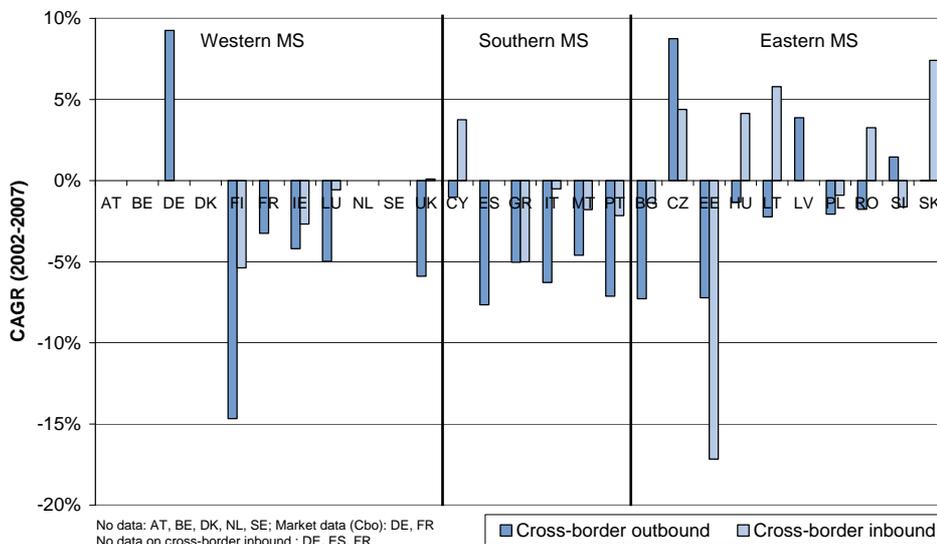
⁹² See WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers' demand for postal services], p. 3.

⁹³ Based on figures provided by ARCEP (2008), Statistical Observatory on Postal Activities in France—2007”.

⁹⁴ Based on figures provided by Poste Italiane, Bilancio 2008, p. 54.

⁹⁵ Data on cross-border outbound is not publicly available (mainly UPU statistics) for the Western Member States Austria, Belgium, Denmark, Netherlands and Sweden.

⁹⁶ However, the importance of international mail in the Member States depends on the size of the country: In Luxembourg, cross-border mail plays a more important role than for example in Germany.

Figure 4-16 Developments in cross-border letter post (inbound and outbound) processed by national postal operators (CAGR 2002-2007)

Source: ITA Consulting / WIK-Consult

Information on the share of cross-border mail delivered within the Community is usually not available. However, the French regulator ARCEP stated that in 2007 73 percent of cross-border outgoing postal items (including parcels) were sent to other EU Member States.⁹⁷

Generally, it appears that outgoing cross-border mail collected by universal service providers has further been going down in many Member States, especially in the Southern Member States where cross-border outgoing mail is still part of the reserved area. It should be noted that in most Member States no figures are available on international mail collected by competing postal operators or agents (like Spring or Swiss Post International). Another important segment not covered by these figures is direct entry. Direct entry means that letter post items originated in country 'A' are transported to access points of the national postal operator in the target country 'B'. This type of physical transport has been supplemented by electronic data transfer to print centres in the destination country (hybrid mail).⁹⁸ These types of mail are not different from domestic letter post.⁹⁹ Direct entry has the advantage that the mailer (or his agent) can benefit from rebates provided to domestic bulk mailers but not available to foreign bulk mailers. While "official" cross-border outgoing volumes have strongly been declining this has not necessarily been the case for total international mail including competitors' volumes and direct entry. For this reason the seemingly clear frontiers between

⁹⁷ ARCEP (2008), Statistical Observatory on Postal Activities in France -2007, p. 29. In an early EU study the authors estimated that in 1996 the 65 percent of international mail (inbound and outbound) is intra-Community cross-border mail (based on EU-15); PricewaterhouseCoopers (1998), Liberalisation of incoming and outgoing intra-Community cross-border mail, p. 25.

⁹⁸ See Ecorys (2008), Main Developments in the Postal Sector 2006-2008, p. 177.

⁹⁹ ARCEP noted that "Import is not subject to authorisation, and intermediate operators that fetch traffic from abroad and hand it over to the final delivery operator are placed in the same category as mailing houses." (ARCEP (2008), Statistical Observatory on Postal Activities in France -2007, p. 30).

cross-border and domestic letter post have increasingly been blurring. Another reason for volume decline (in conjunction with relatively high tariffs and low speed) might be the impact of electronic communication. A key player in the cross-border mail market, TNT (via its subsidiary Spring), notes that cross-border mail volumes were strongly influenced by electronic communications. The speed and cost advantage of electronic media were the main reasons for stronger volume declines.¹⁰⁰

¹⁰⁰ See TNT, Annual Report 2008, p. 42.

4.2.2 Developments in competition

4.2.2.1 Market opening strategies and the evolution of competition in letters markets

The development of competition must be seen against the background of the market opening policies implemented by the Member States which have often been the result of EU Postal Reform. At the beginning of the 1990s the national letters markets were characterised by extensive legal monopolies. The scope of the reserved areas varied between the Member States: the weight thresholds ranged from 500g (Netherlands) over 1,000g (in Germany and Denmark) to 2,000g (in the rest of the twelve Member States). The delivery of printed matter was not part of the postal monopoly e.g. in Italy, Spain and the Netherlands. This explains why these Member States did not reserve direct mail when implementing the first Postal Directive. Already during the 1990s Germany started opening the direct mail segment by reducing the weight threshold from 1,000g to 200g in 1995 and 100g in 1996. In Spain intra-city delivery of postal items has traditionally been open to competition. Sweden and Finland, who joined the Community in 1995, had already abolished the reserved area before that date.

The implementation of the first Postal Directive with regard to the establishment of reduced reserved areas took several years (1998-2002) within the EU-15. Most of the Member States applied the maximum weight thresholds possible under the Postal Directive (i.e. 350g), but some introduced lower weight thresholds (Germany 200g, Denmark 250g and the Netherlands 100g). Additionally, two countries chose alternative ways to further open their letters markets:

- UK: in 2002, the British national regulatory authority Postcomm decided to promote competition in the B-to-C segment by liberalising business mail.¹⁰¹
- Germany: the postal legislation defined that letter services distinct from universal services are not part of the reserved area (services subsumed under the so-called D-licence). The regulator determined which service characteristics were needed to get a D-licence.

The UK letters market was fully opened in 2006, the German one in 2008. On April 1st, 2009 the Netherlands and Estonia abolished the reserved area.

The Member States who joined the EU in 2004 and 2007 usually started with the second resp. the third stage of market opening. Only Poland was allowed to apply the 350g threshold until 2006 (and then to continue with the third stage of market opening, i.e. 50g). Already before joining the EU most of the new Member States had already implemented the weight threshold (350g) defined by the first Postal Directive. Furthermore, direct mail was not part of the reserved area in Bulgaria, Romania¹⁰², the Czech Republic and—since 2004—in Slovenia. Additionally, the delivery of hybrid mail services has not been part of the reserved area in Bulgaria¹⁰³ and Slovakia. In 2008 Slovakia extended the reserved area to the delivery of hybrid mail items. In October 2008 the European Commission decided that this extension infringes EC

¹⁰¹ See Postcomm (2002), Promoting Effective Competition in UK Postal Services: A Decision Document.

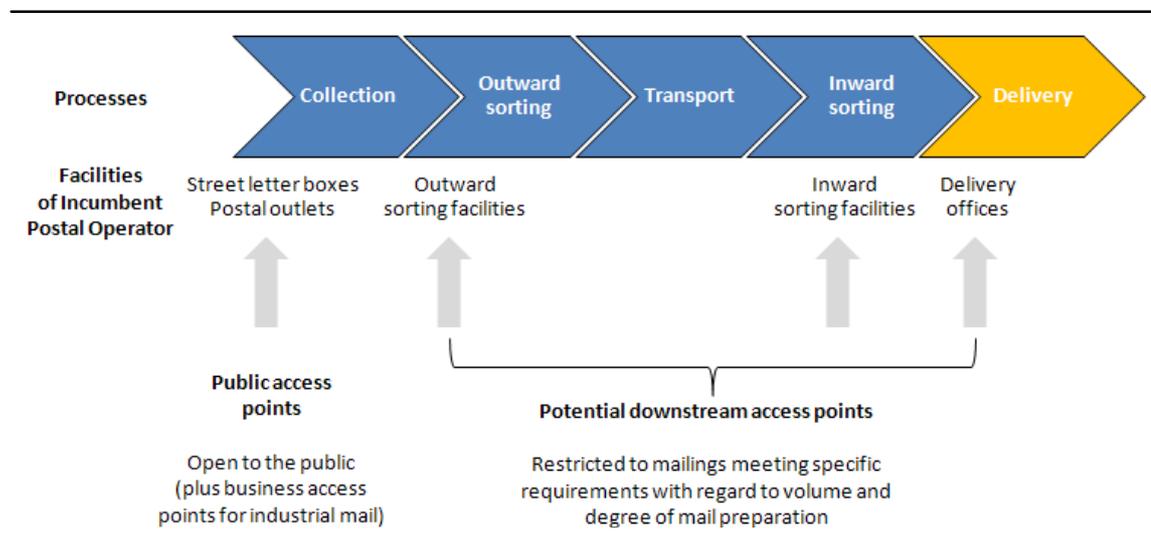
¹⁰² In Romania, direct mail is even not part of the universal postal service.

¹⁰³ In Bulgaria hybrid mail is not part of the universal service. For this reason, this service cannot be reserved.

Treaty rules on the abuse of a dominant market position.¹⁰⁴ Estonia had first fully opened its letters market but then introduced a reserved area for correspondence weighing less than 50g in 2006. Recently, at the same date as the Netherlands, Estonia fully liberalised the letters market.

In addition to domestic (and cross-border inbound) letter services, the Member States were generally allowed to reserve cross-border outbound letter services until the end of 2002 (to the extent necessary to safeguard the universal postal services). Since 2003 exemptions have been allowed but have to be separately justified. So far, cross-border outbound (within the regular weight limits) is reserved in twelve Member States: Bulgaria, Cyprus, Greece, Hungary, Italy, Luxembourg, Latvia, Malta, Poland, Portugal, Slovakia and Spain.

Figure 4-17 Downstream access



Source: ITA Consulting / WIK-Consult

Usually, the reserved area refers to the collection, sorting, transport and delivery of postal items within the specified weight and price thresholds. In terms of cost shares the delivery of postal items is the most important activity: the delivery usually accounts for around 40-60 percent of operational costs.¹⁰⁵ The share of delivery costs on total costs depends on the

¹⁰⁴ See European Commission, Commissions Decision of 7 October 2008 on the Slovakian postal legislation relating to hybrid mail services, C(2008) 5912. The Commission decided that "Article 5(2) of Act No. 507/2001 Coll. on Postal Services as amended, the General Authorisation of the Postal Regulatory Office of 18 July 2008, the interpretation of these acts and their preceding versions by the Slovak authorities, in particular by the Postal Regulatory Office, as well as enforcement measures undertaken against private operators, are contrary to Article 86(1) of the EC Treaty, read in conjunction with Article 82 of the EC Treaty to the extent that they reserve to Slovenská Posta the delivery of hybrid mail items which was previously open to competition and that they enforce such a reservation." (Article 1 of the decision).

The Commission's decision was directly legally binding on Slovakia, which had to inform the Commission within one month of the measures undertaken to ensure that hybrid mail services remain open to competition (IP/08/1467).

¹⁰⁵ See for example Postcomm, Regulatory Financial Statements 2007-08, Part 2: Unaudited financial information, p. 13.

number of letter post items per capita processed and delivered by the postal operator: the importance declines with increasing letter post items per capita.¹⁰⁶ A substantial share of delivery costs are fixed because postal items have to be delivered nationwide on five or six days per week independent on the number of postal items. Consequently, there are substantial economies of scale in this activity. For this reason it was widely discussed to promote competition in the upstream activities by establishing a mandatory downstream access while the national postal operator remains responsible for the final delivery. The upstream activities of collection, sorting and transport of postal items can be done either by the national postal operator, by competing service providers (like consolidators, letter shops or mailing houses) or by the senders themselves. Additionally, access to the infrastructure of the national postal operator may also support the introduction of end-to-end competition at least during a transition period as long as the competing postal operator has not established an own nationwide delivery network.

The EU Postal Directive leaves it up to the Member States to introduce mandatory downstream access. However, the Postal Directive requires that access to the infrastructure of the universal service provider should be non-discriminatory.¹⁰⁷ This means that if the national postal operator offers large mailers access to e.g. sorting centres for handing over pre-sorted bulk letters at preferential tariffs the operator has to offer the same option to third parties (e.g. consolidators). So far, in three Member States downstream access has been promoted by regulatory measures:

- In the U.K., Royal Mail is required to grant access to its competitors by licence.¹⁰⁸ While Royal Mail has formally negotiated access agreements with several other operators on a voluntary basis, these agreements were reached only after subtle intervention of the NRA.
- In Germany, the right for competitors to obtain access was being interpreted only to refer to services outside the scope of the reserved area. After decisions from the European Commission¹⁰⁹, the German competition authority¹¹⁰ and an additional judicial decision Deutsche Post made first access agreements with consolidators at the end of April 2005.
- In Spain, since the end of 2006 Correos has had to allow access to postal operators with an authorisation to provide postal services within the scope of the universal postal service.¹¹¹

106 See Cohen, Robert; Robinson, Matthew; Scarfiglieri, Gennaro; Sheehy, Renée; Visco Comandini, Vincenzo; Waller, John and Spyros Xenakis (2004), *The Role of Scale Economies in the Cost Behaviour of Posts*.

107 Another important aspect is the so-called multi-operator environment which deals with problems arising from the existence of more than one postal operator (e.g. in case of wrong delivery) or access to P.O. Boxes for delivery purposes. The third Postal Directive addresses this issue because it will become increasingly relevant after full market opening. For more information see also WIK-Consult (2009), *The Role of Regulators in a More Competitive Postal Market*.

108 See Postcomm (2003), *Amended Licence Granted to Royal Mail Group Plc.*, condition 9.

109 See Draft Commission Decision in Case COMP/38.745, 20 October 2004 (Deutsche Post restrictions on mail preparation).

110 See Germany, Federal Cartel Office, *Beschluss B 9-55/03* (2005).

111 Real Decreto 1298/2006, de 10 de noviembre, por el que se regula el acceso a la red postal pública y se determina el procedimiento de resolución de conflictos entre operadores postales (BOE núm. 280).

DEVELOPMENTS IN END-TO-END COMPETITION

In Member States that have not opened substantial segments of the letters market noticeable competition has usually not emerged. The past development has shown that reducing weight and price thresholds is not sufficient to attract sustainable market entry. Therefore, potential candidates for some competition in the letters markets are:

- Estonia, Finland, Germany, the Netherlands, Sweden and UK because they have fully opened their market;
- Bulgaria, the Czech Republic, Italy, Romania, Slovakia, Slovenia and Spain because they have opened (potentially) significant parts of their domestic letters markets.

However, there are also exemptions from the (assumed) rule: It appears that some noticeable competition is emerging in Poland which should be considered in more detail below. Additionally, we will shed light on the developments in the UK, German, Spanish and French upstream markets.

When combining published market surveys (where existing) and the regulators' perception on the levels of competition in postal markets we observe that competition in most of the above listed Member States is still very limited. The Slovenian regulator even states that there is no competition in the Slovenian letters market (2008) although the direct mail segment has been open since 2004. Competition in Finland¹¹² and Estonia is limited due to additional restrictions for postal operators when offering postal services only in parts of the country.

Moreover, the direct mail markets especially in the Eastern Member States appear not to be well developed which is reflected in very low direct mail items per capita (see in section 4.2.1). Competition with cheaper unaddressed advertising is often fierce (e.g. in the Czech Republic and in Slovenia).¹¹³

Interesting developments in competition have evolved in Slovakia and Poland:

- In Slovakia, the delivery of hybrid mail items is not part of the reserved area. In April 2007 the postal delivery company Slovak Mail Services was founded. At the end of 2007 88 percent of Slovakian households were covered by the delivery network of this company. The hybrid mail service provider Cromwell used Slovak Mail Services for final delivery of the printed mail items. They started the co-operation in June 2007. Another company, Prvá Doručovacia (PD), offers both printing and delivery of hybrid mail items since 2005 and reaches 65 percent of the Slovakian households. In 2007 PD delivered 5.8m hybrid mail items; this is a significant share of the letters market (about 5 percent of total domestic letters and about 9 percent of total correspondence). The third competitor in this market is a subsidiary of TNT, Shiculka & Macatch S.R.O, which has recently entered this business.

¹¹² However, one competitor (Posten Åland) exists but he only plays a local role in Åland, a group of islands located between Finland and Sweden subject to a special postal law. See Ficora (2008), Postal and small freight delivery statistics 2007, p. 11.

¹¹³ Limited access to reliable address databases may be a further reason for less developed direct mail markets. This is especially an issue for most of the Eastern Member States.

After the extension of the reserved area to the delivery of hybrid mail items the key competitors, PD and Slovak Mail Services, lost a substantial part of their business.¹¹⁴

- It appears that in Poland some competition is emerging. One upcoming competitor is InPost, which started business in 2006. They estimate that in 2008 competing postal operators delivered 43.5m items of correspondence (not including direct mail) reaching a market share of 2.5 percent (in terms of volume).¹¹⁵ The Polish regulator UKE reports a market share of 1.2 percent in 2007.¹¹⁶ InPost aimed at achieving a market share of 4.5 percent at the end of 2009. In order to circumvent the weight threshold of the reserved area InPost invented the “50g envelope”. Additionally, they are establishing a retail network in Poland mainly targeting cities. Currently, they have 800 customer service points and are present in nearly 200 Polish cities.¹¹⁷ This development may be supported by the particular attitude of Polish consumers: a consumer survey (carried out in 2006) revealed that nearly 90 percent of Polish consumers wish to have choice between different postal operators.¹¹⁸

The Slovakian hybrid mail case is very interesting; excluding the delivery of hybrid mail from the reserved area is nearly unique in the European Union.¹¹⁹ In nearly all Member States the physical delivery of letters whether hybrid mail or not has been part of the reserved area within the respective weight thresholds.

114 See European Commission, Commissions Decision of 7 October 2008 on the Slovakian postal legislation relating to hybrid mail services, C(2008) 5912.

115 See Rafał Brzoska (2009), Building a competitive retail network in Poland, presented at the IEA in Amsterdam (24th March 2009). Rafał Brzoska is president of the management board of InPost, a subsidiary of the INTEGER.pl.

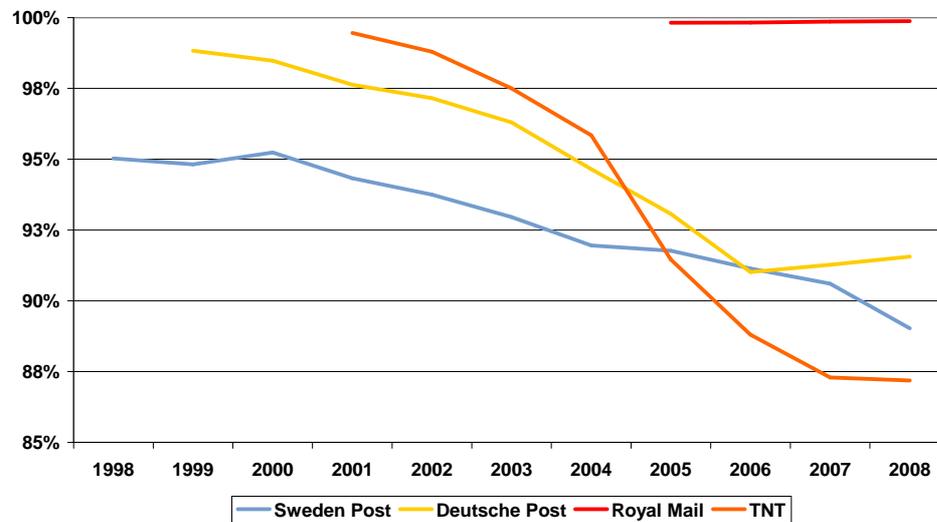
116 See UKE (2008), Raport Prezesa UKE o stanie rynku usług pocztowych w Polsce w 2007 roku (English summary: Postal services market in 2007).

117 See Rafał Brzoska (2009), Building a competitive retail network in Poland, presented at the IEA in Amsterdam (24th March 2009). Rafał Brzoska is president of the management board of InPost, a subsidiary of the INTEGER.pl.

118 For six Member States (Austria, Belgium, Germany, Poland, Sweden and UK) consumer surveys have been carried out in the course of the EC funded project “Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE)” (see www.pique.at for the summary report and related publications). The attitude of the consumers of the other countries ranges from 21 percent (Austria) to 37 percent (Belgium and UK) (PIQUE Summary Report, p. 81).

119 However, in Italy a similar situation existed before 1999. The delivery of hybrid mail items was not explicitly part of the reserved area and therefore open to competition (see European Commission (2000), Commission Decision of 21 December 2000, concerning proceedings to Article 86 of the EC Treaty in relation of certain new postal services with a guaranteed day- or time-certain delivery in Italy, OJ L63/59, 3.3.2001).

Figure 4-18 Development of incumbents' market shares in Germany, the Netherlands, Sweden and UK (in percent of mail volume)



Source: ITA Consulting / WIK-Consult; based on market surveys published by Postcomm (UK), Post & Telestyrelsen (Sweden), Bundesnetzagentur (Germany) and OPTA (the Netherlands)

Notes: DE: Market share refers to the licensed area (letters up to 1,000g)
 NL: Market share refers to letter post (including publications)
 SE: Market share refers to letters (correspondence and direct mail)
 UK: Market share refers to the licensed area (letters up to 350g)

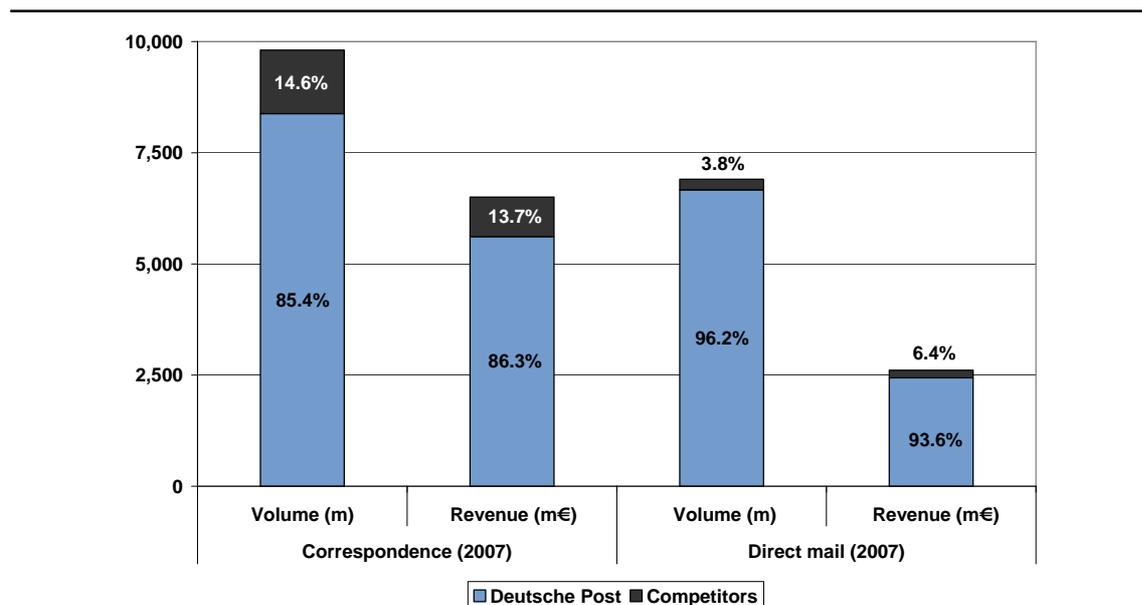
The development of competition has been closely observed by the national regulators in four Member States with significantly or fully opened letter post markets: Germany, the Netherlands, Sweden and the UK. Figure 4-30 represents the development of the incumbents' market shares in terms of mail volume.

First, we observe that today all incumbents have still market shares above 85 percent in their national mail markets. Second, at the beginning of the process it took some years before competition could achieve market shares greater than 5 percent. In Sweden, competition started in 1991/1992 and the 5 percent threshold was hit in 1998. Third, there are significant differences in the development of competition between these Member States:

- The UK fully opened its letters market in 2006. Since 2002 bulk mail (consignments above 4,000 items) had already been opened to competition. Both measures have not resulted in significant end-to-end competition. So far, the market share of competing delivery companies (essentially DX, a niche player in the B2B segment) is about 0.3 percent (with decreasing tendency). In contrast to end-to-end competition, upstream competition has very quickly emerged since the establishment of the first access contracts in 2004. Relatively low access tariffs have impeded the development of end-to-end competition in the UK letters market.

- In Sweden, the key competitor of Swedish Posten is Bring Citymail (a subsidiary of Norwegian Posten Norge), which has specialised in pre-sorted industrial mail which has a share of 70 percent of the Swedish letters market in terms of volume.¹²⁰ 97 percent of competitors' letters volume is delivered by Bring Citymail. The company delivers letters two times per week and its distribution network covers around 54 percent of the Swedish households (2008). The Swedish regulator concludes in its 2008 market survey that competition was mainly price competition resulting in considerably lower prices for large mailers.¹²¹ However, competition has not emerged smoothly. Since full market opening in 1993 the Swedish competition authority has dealt with more than one hundred competition cases in this area. The Swedish regulator PTS stated that the decisions provided clarifications concerning exclusive agreements, loyalty rebates and annual bonuses. Additionally, it was also clarified that Swedish Posten was not allowed to apply zonal tariffs (i.e. geographically differentiated prices) only in order to undercut local competitors. The phase of legal disputes between Posten and Bring Citymail was closed in 1999.¹²²

Figure 4-19 Germany: Market structure of the market segments correspondence and direct mail (2007)



Source: WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers' demand for postal services] based on market surveys of BNetzA

- In Germany, competition was significantly promoted by the introduction of the so-called D-licence which allowed the delivery of letters if the service was different from universal postal service ("value-added services"). For this reason, competition has mainly developed

¹²⁰ See Post & Telestyrelsen (2008), "Service and competition 2008".

¹²¹ Post & Telestyrelsen (2008), "Service and competition 2008".

¹²² Post & Telestyrelsen (2007), "The liberalised Swedish postal market: The situation after 14 years after the abolition of the monopoly.", p. 10-11.

in the segment of correspondence. While the competitors' market share in the direct mail segment is less than 4 percent, the share in the correspondence segment is about 14 percent (in terms of volume, see Figure 4-19). Key reasons are first, the direct mail segment had been part of the reserved area (until end of 2007) and second, Deutsche Post has offered direct mail services at relatively low tariffs (a 20g direct mail item costs less than half of the standard 20g tariff). The revenue share of competing postal operators in the correspondence segment is lower which indicates that competition is more based on prices than on value added services (i.e. quality). Competitors have to undercut Deutsche Post's standard tariffs. In contrast to the Dutch and the Swedish situation, Deutsche Post's letter services are VAT exempted which creates additional problems for competitors when attracting customers that cannot deduce VAT (e.g. from the public or the financial sector). The local scope of competing postal operators restricts their business opportunities to small and medium-sized customers. However, in the past this group of customers have not substantially benefited from discounts offered by Deutsche Post. The development of their market share shows that the strategy has had some success. In the last few years, TNT Post and the PIN group in particular extended the coverage of their delivery networks by close co-operation with local competitors. TNT Post claims that their delivery network covers 90 percent of Germany.¹²³ TNT Post has successfully attracted large mailers from the telecommunications sector. TNT Post offers large mailers the possibility to closely control its postal service provision (high degree of transparency and ongoing exchange of information on the status of mail transportation) and to manage returned mail. However, due to the VAT problem large mailers from the financial or the public sector are still difficult to attract.

Similar to the Swedish example, competition has not emerged smoothly. The process was characterised by a considerably high number of legal actions taken by Deutsche Post to limit the activities of competing letter services providers. The German regulatory authority has defined the criteria of the value-added services i.e. which elements were necessary to provide a letter service distinct from the universal postal service offered by Deutsche Post (e.g. same day delivery or delivery on the next working day before 9). Deutsche Post has attacked the regulator's definitions in court cases which resulted in substantial legal uncertainty for the competitors. After full market opening these discussions should be finished. However, other barriers, like the sector-specific minimum wage introduced at the end of 2007 increased the fixed costs of competing postal operators, and the existing VAT exemption of universal postal services provided by Deutsche Post, still hinder the development of competition. The PIN group has gone bankrupt for different reasons (including the minimum wage).¹²⁴ Additionally, Deutsche Post has now started gaining back lost customers by changing the pricing and rebate schedules.¹²⁵ After years of steadily

123 See TNT Post (2009), "TNT Post in Germany broadens household coverage through a strategic partnership with the Georg von Holtzbrinck publishing group", press release of June 16, 2009.

124 Publishers that originally owned the PIN group subsidiaries have partly bought back their former subsidiaries. TNT Post and one of the publishers (Holtzbrinck) have recently decided to closely co-operate (see TNT Post (2009), "TNT Post in Germany broadens household coverage through a strategic partnership with the Georg von Holtzbrinck publishing group", press release of June 16, 2009).

125 With full market opening (January 1, 2008) Deutsche Post has for example increased the rebates for access products by five percentage points. Additionally, Deutsche Post has reduced the volume thresholds for medium-sized and large letters (from 4,000 items to 500 items per consignment). These tariffs are applicable to customers as well as to consolidators.

losing market shares Deutsche Post regained market shares (in terms of letters volume) in 2007 and 2008 (see Figure 4-18).

- In the Netherlands, competition has developed in the traditionally open direct mail and publication segments (“printed matter”). Key competitors of TNT Post in this segment are Sandd N.V. and Selekt Mail, a subsidiary of Deutsche Post. Both offer “low-cost” services, i.e. they deliver two times the week nationwide at lower prices than TNT Post. Last year, TNT Post itself established its own “low-cost” product which is delivered once a week by its subsidiary VSP (usually distributing unaddressed items). It appears that this new product actually stabilised the market position of TNT Post. Its decline in market share stopped in 2008.

Other Member States with emerging competition are Spain and Italy.

- For Italy, however, reliable market data is not publicly available. TNT Post is the most important competitor of Poste Italiane in the delivery of registered items and letters; additionally, TNT also offers upstream services (printing and mail preparation) for transactional and direct mail.¹²⁶ In 2006 TNT Post reported a national coverage of 13 percent with ambitions to achieve 35 percent in 2008.¹²⁷
- In Spain the postal operator Unipost is the most important competitor of Correos. Unipost was founded in 2001 and has established a network of local mail operators (essentially city carriers). Unipost reported a national coverage of 70 percent (2004) and plans to establish a nationwide network. Deutsche Post acquired a 38 percent stake in Unipost in 2004. Ecorys estimates the market share of Unipost to about 8 percent (in terms of volume) and the share of all competitors to about 10 to 12 percent.¹²⁸

In both Member States competition cases indicate that Spanish Correos as well as Poste Italiane have tried to hamper emerging competition by abuse of their market-dominant position. Abusive behaviour of the market dominant position of incumbent postal operators has permanently been subject to investigation by competition authorities.¹²⁹ In letters markets fully opened to competition rebates will continue to be an important instrument for incumbent postal operators to retain and re-attract customers. This behaviour of incumbent postal operators may create severe risks for emerging competition and can only be met by the consequent application of competition rules and clearly defined responsibilities between regulatory and competition authorities. The experiences made in Sweden also suggest that the process of emerging competition has to be closely accompanied by the responsible institutions.

¹²⁶ Ecorys (2008), Country Sheet: Italy.

¹²⁷ TNT Post (2006), “Our face in Europe”.

¹²⁸ See Ecorys (2008), Country Sheet: Spain.

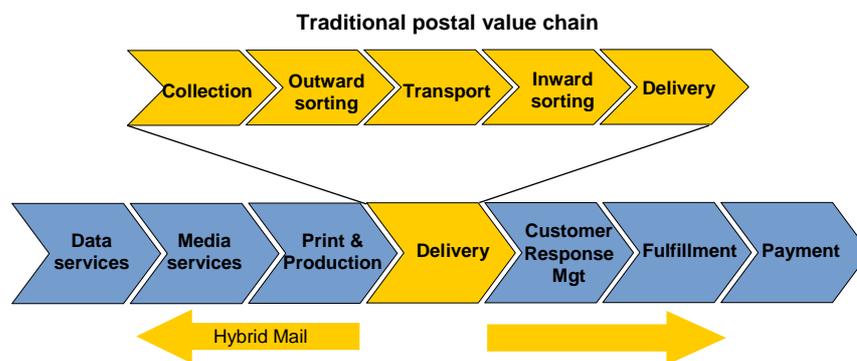
¹²⁹ See WIK-Consult (2006), Main Developments in the European Postal Sector (2004-2006), Annex II and WIK-Consult (2009), The Role of Regulators in a More Competitive Postal Market.

DEVELOPMENTS IN UPSTREAM COMPETITION

Emerging upstream competition can particularly be observed in countries with mandatory downstream access.

- In 2004 a relatively low priced downstream access regime has been established and promoted by Postcomm: In 2004/05 access products accounted for 0.4 percent of total volume; in 2008/09 these products account for nearly every third item (29 percent); about two third are handed over by competing operators.¹³⁰ Today, Royal Mail Wholesale (responsible for the access products of the Royal Mail) is the largest customer of Royal Mail. Key players in the upstream segment are UK Mail, TNT Post and DHL Global Mail; Royal Mail itself is not involved in this business.
- In Germany, consolidation services have considerably been grown since 2005: Starting in 2005 with 29 million items growing to estimated 500 million items (2006) and 750 million items (2007) in 2008 about one billion letters were handed over to Deutsche Post by consolidators, nearly 6 percent of the letters volume.¹³¹ Key players in this market are Williams Lea (subsidiary of Deutsche Post), PostCon (subsidiary of TNT Post) and Freesort (subsidiary of Francotyp Postalia). In contrast to the UK situation, Deutsche Post itself is active in this business through its subsidiary Williams Lea.
- For Spain, no information is available on the impact of the recently introduced downstream access regime.

Figure 4-20 The extension of the traditional postal value chain



Source: ITA Consulting / WIK-Consult

Upstream competition due to mandatory downstream access is restricted to collection, sorting and transporting of letters items to hand them over to the incumbent postal operator for final delivery. However, incumbent postal operators themselves have been providing more and more vertically integrated services including printing and mail preparation to offer their

¹³⁰ See Postcomm (2009), Quarterly Market Update, Q4 2008/09, January – March 2009.

¹³¹ Bundesnetzagentur, Annual Report 2008, p. 126.

customers a “one-stop-shopping” solution (see Figure 4-20).¹³² Consequently, national postal operators compete with independent service providers (print and letter shops, mailing houses). This trend may increase the risk that national postal operators may use their dominant position in the delivery services to extend their market power to the upstream segment. Mailing houses or letter shops usually hand over the letters to the national postal operator for final delivery. If the national postal operator is simultaneously competing with these providers the incumbent may discriminate these providers when accessing its postal infrastructure. Competition cases in France and Italy are examples for such behaviour.

- In 2006 the Italian competition authority fined Poste Italiane for abusing its dominant market position. The authority claimed that Poste Italiane was blocking competition in the deregulated hybrid electronic postal services sector, which includes the mass distribution of bills and bank statements. It did concede, however, that Poste Italiane was not entirely to blame, as it was simply taking advantage of a 1999 law that made it much easier for it to dominate the market. At that time the day- or time-certain delivery of hybrid mail items was part of the reserved area. In 2000 the European Commission decided that the article reserving these types of service infringed Arts. 86 (1) and 82 of the EC treaty.¹³³
- In 2005 the French competition authority “Conseil de la concurrence” fined the La Poste group for having practiced discriminatory prices in favour of certain mail senders and its subsidiary Datapost. The investigation revealed that La Poste did not offer its preferential rates uniformly in all parts of France. Numerous instances of discrimination were observed in the way prices were offered to customers. La Poste granted for example discounts on franking to certain customers even if they failed to meet the conditions officially required in order to benefit from the preferential rates, namely that their mail should be pre-sorted and sent in minimal quantities (access thresholds). In addition, the case file shows that, between 1995 and 1999, Datapost (a subsidiary of La Poste specialised in mail preparation and consolidation) was granted an exclusive discount by its parent company, without being required to provide any guarantees regarding mail volumes. This discrimination gave Datapost a clear competitive advantage over competing mail consolidators. In particular, the subsidiary was able to win contracts with Edf-Gdf (French electricity and gas supply company) for the Nice Côte d'Azur and Gard-Cévennes regions.¹³⁴

The second and the third Postal Directive require non-discriminatory access to special tariffs in Article 12:

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

-- [...]

-- tariffs shall be transparent and non-discriminatory, whenever universal service providers apply special tariffs, for example for services for businesses, bulk mailers or consolidators of mail from different users, they shall apply the principles of transparency and non-discrimination with regard both to the tariffs and to the

¹³² See also section 4.2.2.2 on business developments of national postal operators.

¹³³ See Italian competition authority, Decision of April 10, 2006, and European Commission (2000), Decision of 21 December 2000, OJ L63/59 3.3.2001.

¹³⁴ See European Commission, Decision of 23 October 2001, OJ L120/19 of 23.10.2001.

associated conditions. The tariffs, together with the associated conditions, shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services. Any such tariffs shall also be available to users, in particular individual users and small and medium-sized enterprises, who post under similar conditions.”¹³⁵

These examples make clear that there is a need for close supervision by regulatory and / or competition authorities to safeguard competition in the upstream segments. This should also contain that contracts about special tariffs and service bundles (combined upstream and delivery services) offered by incumbent postal operators should be made available to responsible institutions (i.e. national regulatory or competition authorities) in order to prevent abusive behaviour.¹³⁶

The past evolution of end-to-end and upstream competition (related to mandatory downstream access) shows that upstream competition have emerged much more dynamically within two or three years compared to end-to-end competition which has emerged considerably slower. The different developments are inter alia the result of significant differences in the cost structure of upstream and delivery activities: delivery activities are characterised by a high share of fixed costs (driven by geographical coverage and frequency of delivery per week) resulting in substantial economies of scale and scope for the incumbent postal operators. It needs several years and considerable financial power to establish a smoothly working delivery infrastructure for reliable letter services. Furthermore, the UK example shows that relatively low access tariffs can even impede the development of end-to-end competition.

BARRIERS TO COMPETITION

During the last two decades national postal operators have put substantial effort into establishing highly reliable delivery services; in combination with their role as universal service providers many national postal operators have established a quite good reputation. Additionally, reliability of letter post delivery is one of the most important service

¹³⁵ This is the version of Article 12 determined in the third Postal Directive. The first Postal Directive has simply required: “— tariffs must be transparent and non-discriminatory”; this paragraph was extended in the second Postal Directive: “— whenever universal service providers apply special tariffs, for example for services for businesses, bulk mailers or consolidators of mail from different customers, they shall apply the principles of transparency and non-discrimination with regard both to the tariffs and to the associated conditions. The tariffs shall take account of the avoided costs, as compared to the standard service covering the complete range of features offered for the clearance, transport, sorting and delivery of individual postal items and, together with the associated conditions, shall apply equally both as between different third parties and as between third parties and universal service providers supplying equivalent services. Any such tariffs shall also be available to private customers who post under similar conditions.” The requirement that special tariffs shall take account of avoided costs has been removed in the third Postal Directive.

¹³⁶ The presentation of such contracts is not self-evident. German postal law, for example, requires the presentation of contracts with business customers (“Teilleistungsverträge”). However, it was unclear whether only the pure delivery contract should be presented or the complete contract comprising all services offered by Deutsche Post (or its subsidiaries). Recently, the Federal Administrative Court decided that Deutsche Post has to present all contracts, not only those parts dealing with the physical delivery. This duty results from the market-dominant position of Deutsche Post in the delivery market (See Bundesnetzagentur (2009), “BVG Urteil bestätigt Auskunftsanordnung” press notice of 10 June 2009).

characteristics in the view of postal customers.¹³⁷ Customers therefore require from competing postal operators at least similar quality standards as offered by the incumbent postal operator. Moreover, the incumbent postal operators have achieved substantial economies of scale and scope particularly in the delivery of postal items. Against this background new entrants have to establish a delivery infrastructure operating at substantially lower costs to be competitive. Experiences made in the German, Swedish and Dutch letters markets have shown that competition has been mainly based on prices than on quality. How have the competitors tackled these challenges in the three countries?

- Swedish Bring Citymail has focused on the delivery of second class mail two times a week. In order to operate at full capacity the postman travels each route every third day and covers three routes per week resulting in a reduction of fixed delivery costs to one third (compared to five or six day delivery in case of a first class service). Additionally, Bring Citymail has specialised on industrial mail comprising non time critical transactional mail and direct mail. Sorting to delivery sequence takes place when the mailer (or a mailing house) prints the items. Investments in sorting technology were therefore not necessary and collection costs were minimised (pick-up service). Finally, Bring Citymail does not provide nationwide delivery services but focus on the more densely populated southern part of Sweden.
- The key competitors of TNT Post in the Netherlands, Sandd and Selekt Mail, also focus on second class service (direct mail and publications until full market opening): They deliver mail items two times per week. Both companies provide nationwide delivery services. Payment is based on the number of items delivered: delivery costs vary with mail volume (low share of fixed delivery costs).¹³⁸
- In Germany, many postal operators have focused on local delivery at a relatively small scale so that investments in sorting technology were limited. They usually deliver 5 days per week. Larger competitors are either owned by publishers or by foreign postal operators (e.g. TNT Post). National coverage has been mainly achieved by cooperation between local operators: especially TNT Post is promoting the establishment of a nationwide delivery network.¹³⁹ Generally, competitors primarily employ part-time workers.¹⁴⁰

Against this background it is not surprising that competing postal operators often need years to become profitable as the Swedish example shows. Bring Citymail entered the Swedish letters market in 1991, starting its business in central Stockholm, two years before liberalisation. It went bankrupt twice, in 1992 and again in 1995. It restarted its business in 1996.¹⁴¹ The

¹³⁷ For developments in customer satisfaction see section 4.2.6 in this report.

¹³⁸ See Ecorys (2008), Main Developments in the Postal Sector (2006-2008), Country Sheet: The Netherlands, p. 676-679. This payment system is also applied by the TNT Post's subsidiary Netwerk VSP. In the course of the parliamentary preparation of the new Postal Act labour conditions were intensively discussed. It appears that Sandd, Selekt Mail, and Netwerk VSP have adapted the payment system.

¹³⁹ WIK-Consult (2009), The Role of Regulators in a More Competitive Postal Market.

¹⁴⁰ See Bundesnetzagentur (2008), Arbeitsbedingungen im lizenzierten Bereich. Endergebnis der Auskunftsanordnung gemäß § 45 PostG vom 22. Juni 2007, February 2008, Berlin/Bonn; Dieke, A. and M. Zauner (2007), Arbeitsbedingungen im Briefmarkt, WIK Discussion Paper no. 295, Bad Honnef.

¹⁴¹ See Andersson, Peter (2006), The liberalisation of postal services in Sweden—goals, results and lessons for other countries, p. 32-33.

ownership of Bring Citymail changed several times; today, Bring Citymail is part of Posten Norge (under the recently introduced label Bring). Bring Citymail provides delivery services at lower costs (due to the lower delivery frequency per week, not because of considerably lower wages) and has been profitable since 2005.¹⁴² Based on the experiences made in the Swedish letters market Professor Peter Andersson concludes

“There is little evidence in the world concerning entry on a large scale. Several factors may be decisive. One crucial factor is the capital market and whether any financial institutions would be willing to lend money to a new postal operator that would challenge a state incumbent monopolist on a nationwide scale. Moreover, it depends on the willingness of large customers to change operators, which could depend on the image of the trademark and reliability of the operators. In Sweden, it took City Mail a decade to become profitable and had the original founders not been unexpectedly successful in gaining new financial support, it would have exited the market.”¹⁴³

Obviously, legal barriers to entry have dominated the pace of competition over the last decades.¹⁴⁴ The reserved area is the key barrier to competition in the delivery of letters in the past. Reserved areas defined by weight and price thresholds hinder competing postal operators to offer a comprehensive business solution to the customer. From the customers' point of view it would be inconvenient and create additional costs to split mail volumes to separate postal operators. Additionally, competing postal operators would not attract enough mail volume to establish a financially viable delivery network. Further legal barriers are regulatory uncertainty and specific licence requirements which oblige the licensee to offer delivery services at a specific quality and geographic coverage (e.g. in Bulgaria, Finland and Hungary). Regulatory uncertainty (resulting in legal actions as happened in Germany) has jeopardised the business models of competing postal operators: investments can not be undertaken without sufficient legal certainty. Furthermore, banks are not been willing to provide any credit to competing postal companies that face legal uncertainty.

Another legal obstacle for emerging competition in letters markets is the different application of VAT rules on postal services provided by incumbent postal operators (in their role as universal service providers) and on postal services provided by competing postal operators. In the Netherlands and in Sweden this is not a relevant issue: in Sweden postal services are generally not VAT exempted and in the Netherlands only letter services priced at the standard tariff are VAT exempted (i.e. bulk mail products are not VAT-exempted). In Germany and the UK Deutsche Post and Royal Mail still benefit from the VAT exemption. In Germany competing postal operators have therefore difficulties to target customer groups like financial and insurance companies or public authorities that can not deduct VAT (VAT standard rate of 19 percent). In Germany the revision of the current VAT legislation with regard to postal services

¹⁴² See Andersson, Peter (2006), “The liberalisation of postal services in Sweden—goals, results and lessons for other countries”, p. 32-33.

¹⁴³ See Andersson, Peter (2006), “The liberalisation of postal services in Sweden—goals, results and lessons for other countries”, p. 16.

¹⁴⁴ See Ecorys (2005), “Development of Competition in the European Postal Sector”, p. 87.

has recently been postponed. The idea was, similar to the Netherlands, to restrict the exemption on postal services used by individuals and other small postal customers.¹⁴⁵

DEVELOPMENTS IN COMPETITION OF CROSS-BORDER LETTER POST

In addition to domestic (and cross-border inbound) letter services, the Member States were generally allowed to reserve cross-border outbound letter services until 2003 (to the extent necessary to safeguard the provision of the universal postal services). Exemptions are allowed but had to be separately justified. Today, more than half of the Member States have completely opened outgoing cross-border mail for competition: all Western Member States (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden and UK) and five Eastern Member States (Czech Republic, Estonia, Lithuania, Romania and Slovenia). In all Southern Member States this segment is still part of the reserved area.¹⁴⁶

Deutsche Post estimates the size of the global market for cross-border mail to be about 10.3 billion EUR in 2003 being rather stable until 2007 (10.4 billion EUR).¹⁴⁷ National postal operators are still playing an important role because ingoing cross-border mail is still subject to the reserved area in most Member States. According to Deutsche Post in 2007 DHL and USPS are the major player in the market (both 14 percent), followed by Royal Mail (9 percent), La Poste (7 percent), Swiss Post International (6 percent) and TNT/Spring¹⁴⁸ (5 percent). This indicates that the cross-border letter post business is still dominated by national postal operators or their affiliates.

Table4-2 Perceived degree of competition of outbound cross border letter post (2008)

<i>Degree of competition</i>	<i>Regulators' perception</i>	<i>Incumbent postal operators' perception</i>
<i>None</i>	<i>CY, EE, GR, HU, LT, LV, MT, PL, SI</i>	<i>CY, LT, LV, NL, PL, SI</i>
<i>Emerging</i>	<i>CZ, DE, DK, IE, LU, PT (↗), RO (↗), SE, SK (↗)</i>	<i>FI, HU (↗), SK</i>
<i>Substantial</i>	<i>FR</i>	<i>BE, CZ (↗), DK, IE, IT, PT, SE (↗)</i>
<i>Intense</i>	<i>ES</i>	<i>DE, ES</i>
<i>No answer</i>	<i>AT, BE, BG, FI, IT, NL, UK</i>	<i>AT, BG, EE, FR, LU, MT, RO, UK</i>

Source: ITA Consulting / WIK-Consult

Notes: Based on survey results of WIK-Consult (2009), The Role of Regulators in a More Competitive Postal Market. Arrows indicate a change in perception compared to 2005. No answers received from AT, BG, UK.

Since 2005 the perceived degree of competition in the view of national postal operators and regulatory authorities has increased in some Member States. Although open to competition the degree of competition appears to be limited which underlines the strong market position of the

¹⁴⁵ See Deutscher Bundestag (2008), "Gesetzentwurf der Bundesregierung—Entwurf eines Dritten Gesetzes zur Änderung des Umsatzsteuergesetzes", Drucksache 16/11340 of 10 December 2008. Additional to Finland and Sweden, postal services are not exempted from VAT in Norway and Slovenia. In Spain, only reserved letter services are VAT exempted, see WIK-Consult (2006), "Main Developments in the European Postal Sector (2004-2006)".

¹⁴⁶ So far, cross-border outbound (within the regular weight limits) is reserved in twelve Member States: Bulgaria, Cyprus, Greece, Hungary, Italy, Luxembourg, Latvia, Malta, Poland, Portugal, Slovakia and Spain.

¹⁴⁷ See Deutsche Post, Annual Report 2008, p. 54 and Annual Report 2004 p. 44.

¹⁴⁸ 67.55% of Spring is owned by TNT, a minority stake hold by Royal Mail. See TNT (2009), TNT announces changes to shareholder structure Spring Global Mail, press item of 24.4.2009.

incumbent postal operators. In contrast to outbound cross border letter post, the perceived degree of competition of outbound cross border express (which includes the transport of documents) is much higher; it ranges from substantial to intense in most Member States.

However, additional competition is emerging by direct entry (physical or via hybrid mail), by electronic communications and by express service providers especially with regard to important documents (as mentioned above). The success of direct entry strongly depends on non-discriminatory access to domestic bulk mail tariffs. The REIMS II agreement has introduced a so-called Level 3 access.¹⁴⁹ The parties of the REIMS agreement are bound to grant access to domestic bulk mail rates to each other. The situation may also improve after the clarification of the European Court on non-discriminatory access for consolidators to special tariffs for business customers. According to this decision the Article 12, 5 of the Postal Directive “must be interpreted as precluding refusal to apply to businesses which consolidate, on a commercial basis and in their own name, postal items from various senders the special tariffs which the national universal postal service provider grants, within the scope of its exclusive licence, to business customers for the deposit of minimum quantities of pre-sorted mail at its sorting offices.”¹⁵⁰

Large and possibly medium-sized mailers using cross-border services have benefited from emerging competition in the cross-border letter post markets in many Member States. They have more choice between different ways of forwarding cross-border letters: the traditional way by handing to the incumbent postal operator or by using a competing service provider that manage transport and handing over to the postal operator in the destination country. Competition has also lead to lower tariffs for large mailers. However, differences in pricing schedules and operational requirements (shape, how to address, use of PPI and so on) plus the diversity of languages and cultures within the EU limit the development of the EU cross-border mail market especially with regard to B2C business (e.g. direct mail).

Individuals and small business customers are still bound to the offer of the universal service providers. However, in the Eastern Member States cross-border letters have become relatively cheaper compared to the domestic mail. Additionally, individuals as well as business customers have benefited from the considerably improved reliability of cross-border letter services achieved over the last decade.

4.2.2.2 National postal operators: Key players in national letters markets

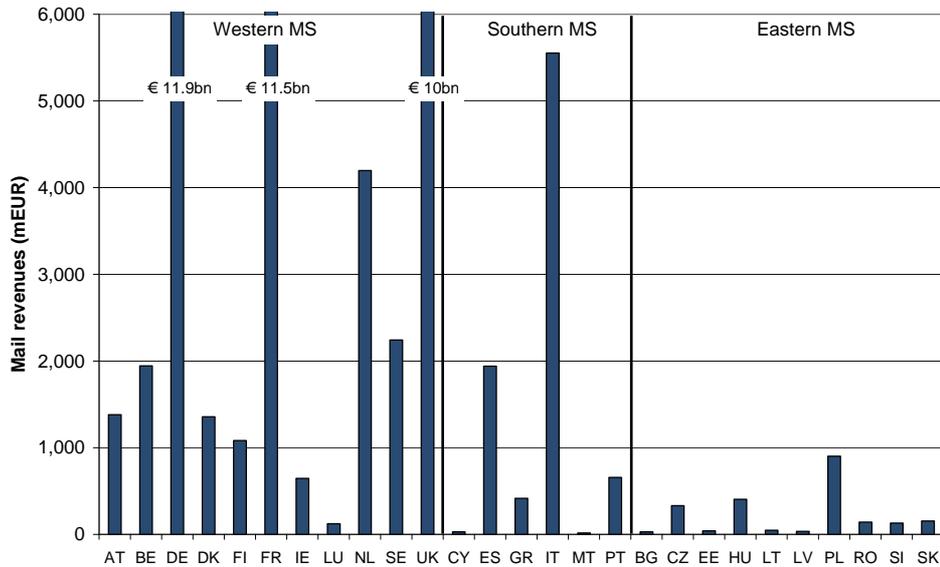
As outlined in the previous section the national postal operators still play an important role in the letters markets. Although competition has gained momentum in some Member States the incumbent postal operators have often market shares above 98 percent. The national letter post business plays a central role in the operations of most public postal companies in terms of revenues and profitability.

¹⁴⁹ The contents of the REIMS III agreement, entering into force January 1st, 2008, are not publicly available. However, we assume that the Level 3 access is also part of the REIMS III agreement. See Commission Decision of October 23, 2003, Case COMP/C/38.170—REIMS II renotification, OJ L 56/76, 24.2.2004.

¹⁵⁰ Judgement of the Court, 6 March 2008, In Joined Cases C-287/06 to C-292/06.

The mail business comprises all activities related to letter post. This includes upstream and downstream services and other value-added services offered in combination with standard postal services. Additionally, most postal operators consider the distribution of unaddressed items as part of the mail business.

Figure 4-21 Mail revenues (million EUR, 2007)

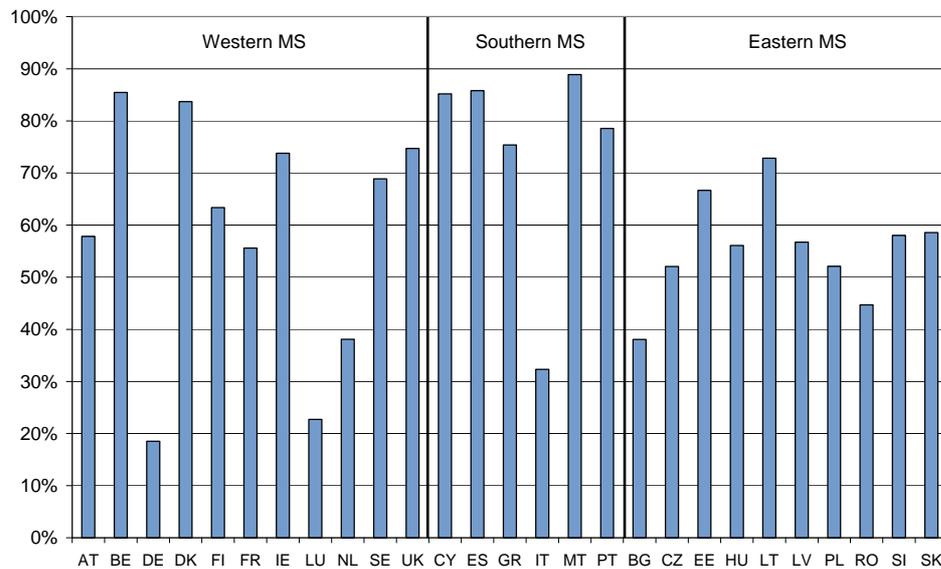


Source: ITA Consulting / WIK-Consult based on annual reports of national postal operators and UPU

Notes: CZ, IE, IT, LU, MT, SI, SK—including revenues from parcel and express business;
 NL—includes revenues from domestic parcel business.

The level of mail revenues as presented in Figure 4-21 reflects the size of the respective national markets: Deutsche Post, French La Poste and UK Royal Mail generate the highest mail revenues followed by Poste Italiane and TNT (Netherlands). TNT is a special case because first the revenue figures include revenues from the domestic parcel business and second revenues generated within the European Mail Network (EMN), i.e. outside the Netherlands, accounts for about one quarter of total mail revenues.

Figure 4-22 Business focus: Share of mail revenues (2007)



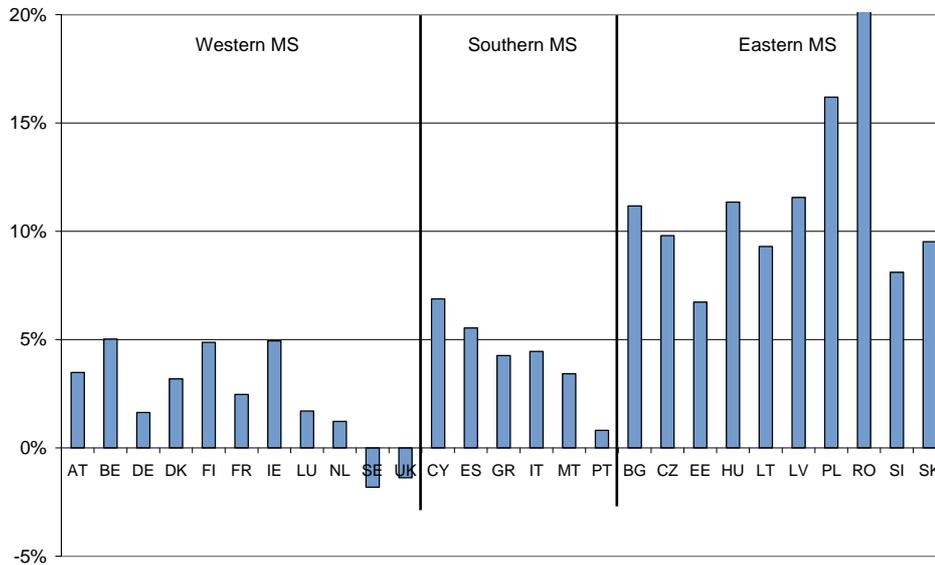
Source: ITA Consulting / WIK-Consult based on annual reports of national postal operators and UPU

Notes: CZ, IE, IT, LU, MT, SI, SK—including revenues from parcel and express business;
 NL—includes revenues from domestic parcel business.

However, the importance of the mail business varies between and within the country groups depending on the degree of international activities and the role of parcel and express and financial services in the business of the national postal operators.

Most national postal operators still focus on the mail business, but the scope of services offered has been extended beyond traditional bounds.¹⁵¹ Today, many postal operators additionally provide upstream services such as mail production and preparation services, hybrid mail services, and mailroom and document management. Some national postal operators offer these services even outside their home markets (notably Deutsche Post, Austrian Post and Finnish Itella).

¹⁵¹ WIK-Consult (2004), Main developments in the European postal sector, p. 103.

Figure 4-23 Average growth rates in mail revenues (in national currency, CAGR 2002-2007)

Source: ITA Consulting / WIK-Consult based on annual reports of national postal operators and UPU

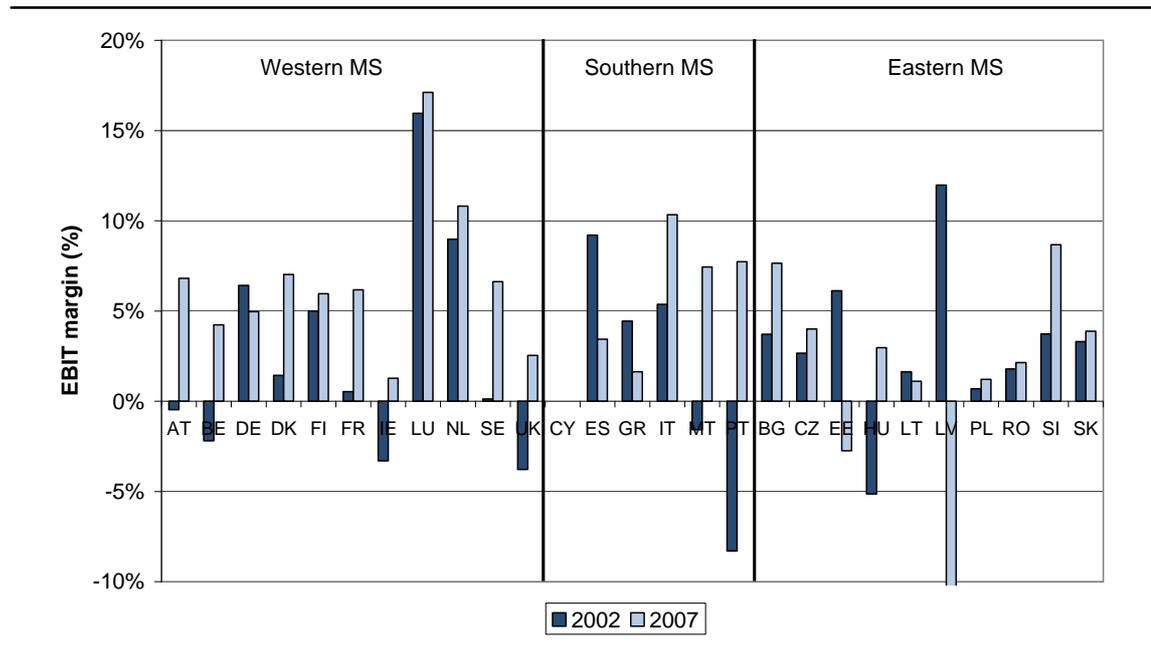
Notes: CZ, IE, IT, LU, MT, SI, SK—including revenues from parcel and express business;

NL—includes revenues from domestic parcel business.

The development of mail revenues substantially differs between the national postal operators within the European Union:

- Especially in the Eastern Member States mail revenues have increased with higher average growth rates than in the Western and Southern Member States.
- In the Eastern Member States as well as in some Southern and Western Member States (notably Belgian De Post–La Poste, Irish An Post, Greek ELTA and Poste Italiane) this growth is the result of increasing volumes and increasing postal tariffs (see section 4.2.1 and section 4.2.4.2 in this report).
- Additionally, in the Western Member States the national postal operators have extended their letter post activities from the traditional to the upstream and downstream segments of the business (i.e. mail production and mail preparation as well as document management services downstream); this has also resulted in increasing revenues of their mail business segments.

Figure 4-24 Development of profit margins of national postal operators (EBIT margin, 2002 and 2007)



Source: ITA Consulting / WIK-Consult

Notes: CY: No reliable financial data available (because of its status as government department)

GR: EBITDA margin

PL: Based on UPU data

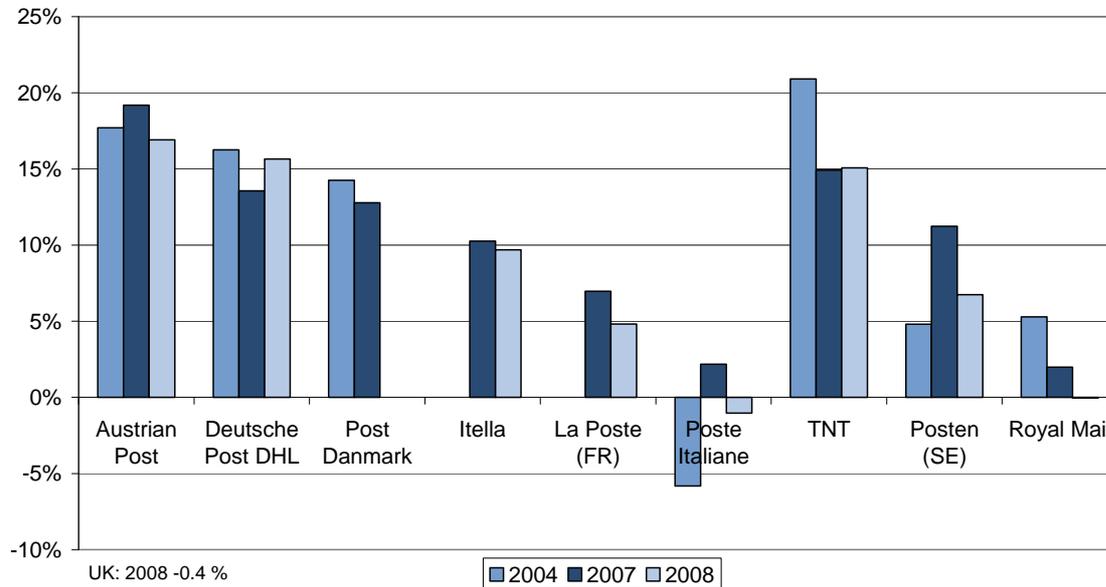
Generally, compared to the profit margins achieved in 2002 the situation has considerably improved for many national postal operators.

- Western MS: All Western national postal operators have improved their profit margins except for Deutsche Post. The profit margins are around 5 percent: Irish An Post and Royal Mail have achieved significant lower levels while Dutch TNT and PTT Luxembourg have achieved margins above 10 percent. PTT Luxembourg is a special case because it still provides telecommunications and postal services under the same roof.
- Southern MS: The profitability of Poste Italiane, Maltapost and CTT Correios (Portugal) has considerably improved. The result of Poste Italiane is driven by its financial business; the mail business of Poste Italiane is less successful.¹⁵² The profitability of the Greek and the Spanish postal operator has decreased compared to 2002.
- Eastern MS: In the Eastern Member States the development in profitability is mixed. Profit margins are generally not higher than 4 percent except for the Bulgarian and Slovenian postal operators. Two Baltic postal operators have even made losses (the Estonian and the Latvian national postal operator). For the Latvijas Pasts (Latvia) this situation may even

¹⁵² Poste Italiane receives a state compensation for losses in universal services and the delivery of publications. In 2008 the company received EUR 706 million from the Italian state.

threaten its financial stability: since 2004 its equity share has declined from 50 percent to less than 7 percent in 2007.

Figure 4-25 Profitability of the mail business (EBIT margin, 2004, 2007 and 2008)



Source: ITA Consulting / WIK-Consult

Since 2004 an increasing number of postal operators publish segmental financial results: most of them are located in the Western Member States (except for Poste Italiane). The mail businesses of Poste Italiane and Royal Mail were loss-making in 2008. The mail business of Poste Italiane is traditionally loss-making: for many years the Italian state has partly compensated Poste Italiane for providing the universal postal service.¹⁵³ Royal Mail is—according to Postcomm—less cost efficient than comparable letter services providers.¹⁵⁴ In 2007 six out of nine operators published EBIT margins above 10 percent; two have even achieved margins of 15 percent or more (Austrian Post and TNT). Furthermore, in most of these companies total profit are mainly generated by the mail segment and less by other business activities:

- Austrian Post's parcel business was loss-making in 2004 and 2008. In the intermediate years the profit margins ranged from 7.5 and 1.7 percent.¹⁵⁵

¹⁵³ Between 2000 and 2008 Poste Italiane received more than € 3.5bn from the Italian State. See Poste Italiane, Annual Reports, and European Commission, Aiuto di Stato NN 51/2006 – Italia, Poste Italiane SpA, Compensazione statale dell'onere del servizio postale universale 2000-2005, C(2006) 4206 def, 30 September 2008 and State aid n. NN24/08—Italy, Poste Italiane SpA, State compensation for universal postal service obligations 2006-2008, C(2008) 1606 fin, 30 September 2008. The Commission has decided to consider the aid compatible with the EC Treaty. However, “[t]he Commission regrets that Italy put the aid in question into effect, in breach of article 88(3) of the EC Treaty.” (European Commission (2008), State aid n. NN 24/08, p. 19).

¹⁵⁴ See Postcomm (2007), “Postcomm’s Strategy Review: The Postal Market 2010 and Beyond”.

¹⁵⁵ See Austrian Post, Annual Reports 2004-2008.

- Deutsche Post's parcel and express business as well as the logistics business have been considerably underperforming compared to the mail business. The express segment has never produced significant profit margins. The EBIT margin fluctuated around null profit; in 2008 Deutsche Post made a considerable loss in this segment (-15.7 percent) mainly driven by losses in the US American business. The logistics segment has generated EBIT margins around 2 and less than 4 percent. The financial services segment (Postbank) generated high profit rates (around 10 percent) but still lower than the mail segment. Due to the financial crisis Postbank made a loss in 2008.¹⁵⁶
- Post Danmark's parcel and logistics business also generated high losses between 2005 and 2007 (around -15 and -20 percent).¹⁵⁷
- Finnish Itella's results in the logistics and the information/IT segments have also underperformed compared to the mail business with margins around 4 percent or less.¹⁵⁸
- The contribution of Swedish Posten's new business activities to total profit has also been very limited, so far (margins below 1 percent).¹⁵⁹

However, there are also examples for a successful implementation of new business segments: Dutch TNT, French La Poste and British Royal Mail have established parcel businesses generating profit margins around 6 (La Poste) and 8 to 10 percent (GLS/Royal Mail); at least in the British example the parcel business has outperformed the mail segment. TNT's express business achieved profit margins of around 9 percent until 2007.

The postal companies have usually justified the extension of their business activities into other segments by the need for the new activities to compensate expected profit reductions in the traditional mail business resulting from market opening. So far, profit reduction in the mail segment due to competition appears to be limited: Additionally, it seems that in some cases the success of the diversification strategy was quite limited. The limited success also resulted from the fact that the markets the national postal operators have entered are usually highly competitive. In this environment profit margins above 10 or 15 percent are difficult to achieve.

¹⁵⁶ See Deutsche Post World Net [Deutsche Post DHL], Annual Reports 2000-2008.

¹⁵⁷ See Post Danmark, Annual Reports 2004-2007. In the 2008 annual report Post Danmark has not published any financial results of the business segments.

¹⁵⁸ See Itella (Posti), Annual Reports 2004-2008.

¹⁵⁹ See Posten, Annual Reports 2004-2008.

Some national postal operators have extended their activities into other business areas (financial services, parcel/express and logistics) and/or into national postal markets in other countries mostly by acquisition.

Table 4-3 International expansion of national postal operators

Activities	National/Regional scale	European scale	Worldwide scale
<i>Parcel & express activities</i>	<i>Austrian Post (Trans-o-flex) Post Danmark (Scandinavian region) Itella (Scandinavian and Baltic region) CTT Correios (Tourline Express, Spain)</i>	<i>La Poste (DPD/(Geopost) Royal Mail (GLS)</i>	<i>Deutsche Post (DHL) TNT</i>
<i>Cross-border letter post services</i>		<i>De Post–La Poste (BPI)</i>	<i>TNT/Royal Mail (Spring) Deutsche Post (DHL Global Mail) La Poste Swiss Post (SPI)</i>
<i>Domestic letter post services in other MS</i>	<i>TNT Post (Austria, Germany, Italy, Slovakia) Deutsche Post/DHL Global Mail (Netherlands, Spain) Norwegian Posten Norge (Sweden, Denmark)</i>		
<i>Upstream services (letter post) in other MS</i>	<i>TNT Post (Germany, UK, Italy) Deutsche Post/DHL Global Mail (France, UK) Austrian Post (meiller, Germany) Itella (Germany, Baltic countries, Scandinavian countries) Belgian De Post–La Poste (Asterion, France; until 2007) Swedish Posten (Stralsfors, Scandinavian region, since 2006) Swiss Post (GHP, Germany)</i>		

Source: ITA Consulting / WIK-Consult

In domestic letter post markets of foreign countries their subsidiaries are often important competitors of the respective national postal operator:

- Selekt Mail, a subsidiary of Deutsche Post, is one of the key competitors of TNT Post in the Netherlands.
- Unipost is the largest competitor of Correios in Spain. Deutsche Post has a stake of 30 percent in Unipost.
- After the bankruptcy of PIN AG, TNT Post Germany is the largest competitor of Deutsche Post in the German letters business.
- Bring Citymail owned by Posten Norge is the most important competitor of Swedish Posten and, recently, of Post Danmark.
- TNT Post Milano is the most important competitor of Poste Italiane in Italy.

4.2.3 Process innovations in postal operations

Over the last decade considerable technological progress in postal operations has emerged driven by information technologies and the widely accepted need to improve quality and control of the postal pipeline.¹⁶⁰

Highly profitable mail segments indicate that postal operators like TNT, Deutsche Post and the Scandinavian postal operators have made considerable progress to increase the cost efficiency of their traditional letter post business. The profitability is strongly related to certain measures which enhance efficiency and cost flexibility of service provision. In the following we focus on measures established mainly by national postal operators to increase efficiency of postal operations. This shall be exemplified by the modernisation process of Austrian Post:¹⁶¹

Austrian Post was incorporated March 1999: the Postal Services and the Postal Transport Divisions were spun off from Post and Telekom Austria AG and transferred into the Austrian Post AG (Austrian Post AG). In that year the company started to analyse the logistical processes and to plan the re-organisation of the postal logistics for letter post and parcel services. Austrian Post aimed at substantially improving reliability and speed of postal delivery and efficiency in postal operations. Between 2000 and 2004 the “Speed”-programme was implemented with the objective to improve efficiency and quality of service. This programme includes the following elements

- The total number of letter post sorting centres has been reduced from 16 to 6 (investment of EUR 276 million) and equipped with modern sorting machines. This resulted in an increasing share of letter post items sorted by machines.
- A common IT basis was established to guarantee a smooth information flow within the organisation.
- The number of delivery offices where postmen prepare and sort the mail for final delivery has been reduced from 1,900 to less than 600.
- The decline of the number of sorting centres and delivery offices has substantially reduced the number of transport relations. Transport services have been increasingly outsourced.
- The street delivery was substantially re-organised (e.g. delivery teams were responsible for defined areas). Ongoing optimisation of delivery routes leads to a substantial reduction of delivery rounds: the number of postmen has been reduced from about 14,000 (1999) to circa 12,000 in 2004.
- The branch network was modernised i.a. by establishment of a common IT network (programme “Postamt Neu”, investment of EUR 145 million) and change in organisation:

¹⁶⁰ Product innovations will be considered in section 4.2.4.2 and 4.2.4.3 on service offerings for individuals and business customers.

¹⁶¹ See Annual Reports of Austrian Post (1999-2008).

instead of different counters per service all services were offered by the same counter in order to reduce waiting time.

- Franchised outlets (“Post-Partner”) have been introduced; their share increased from 8 to 32 percent between 1999 and 2008. In 2002 the total number of postal outlets was reduced from 2,300 to less than 1,700.
- In the area of sales and distribution a key account management for important customers has been established. Information centres for direct marketing were opened and a new advertising products like “Info-Mail select” (partly addressed advertising) were launched.

The modernisation of Austrian Post has substantially improved the quality of service: the transit time performance of next day delivery increased from less than 80 percent in 2001 to more than 96 percent in 2007. Efficiency of operations and labour productivity has increased: Revenue per employee (per full time equivalent) has nearly doubled between 2000 and 2008 (from EUR 48,500 to EUR 93,400). Company employment has been reduced by more than one quarter due to increasing efficiency and outsourcing of activities. The number of civil servants has been reduced by one third. In 2008 they accounted for 44 percent of total employment (headcount) compared to nearly 60 percent in 2000.

The Austrian example is typical for the modernisation processes implemented by national postal operators. The fundamental re-structuring of logistics network designed for nationwide coverage and daily delivery services needs around 5 years and some investment. The total investment depends on the size of the country and total letter post volume. Sorting machines, for example, can only effectively be used if there is enough mail volume: To enhance mail volume per sorting centre it is necessary to reduce the number of sorting facilities. For this reason postal logistics have been re-organised to “hub-and-spoke” systems, characterised by a relatively low number of large and medium-sized sorting centres. However, in countries with very low letter post items per capita an investment in sorting machines and centralised sorting might not be reasonable. Today, the use of sorting machines at least for small letters is quite common. Since some years delivery sequency sorting machines have been increasingly used to minimise the manual sorting by postmen. In this way, the “street time” of postmen could be extended resulting in either larger delivery rounds or more part-time deliverer and, consequently, to a decline in employment (in terms of full time equivalents). Sorting technologies have continuously been refined in order to improve speed and share of automatically read letter items.

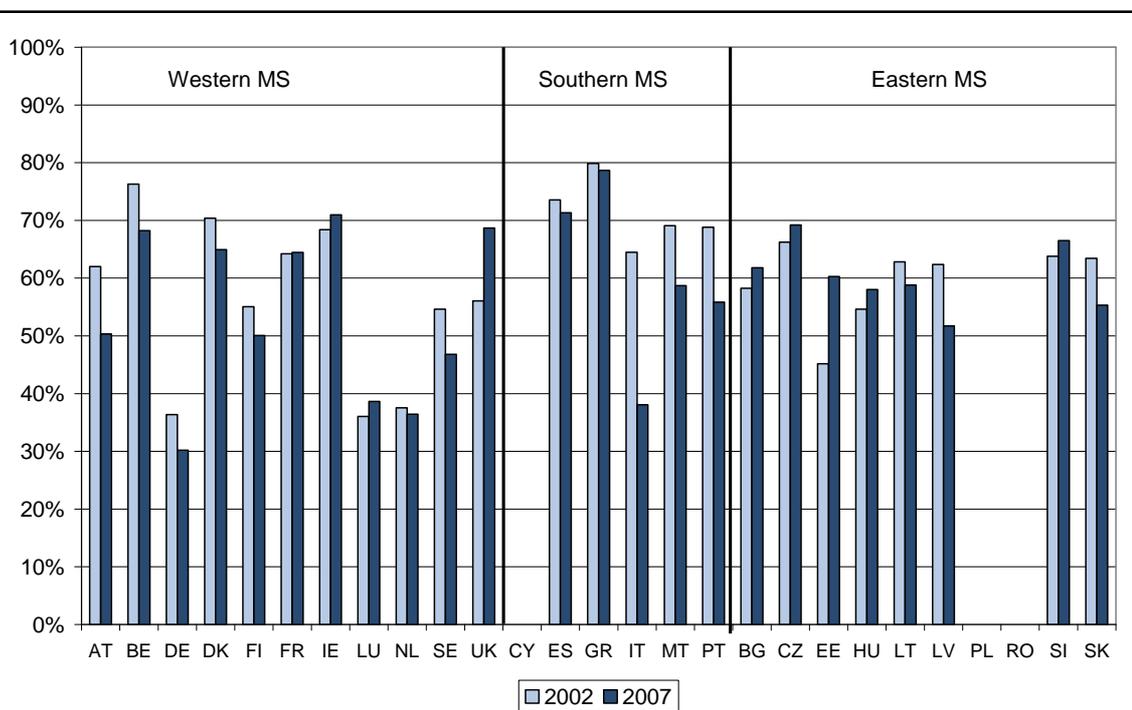
Cost flexibility has been increased by outsourcing collection, transport and even delivery activities to third parties. This also included the increasing use of franchised postal outlets. Since 1998 the number of postal outlets has been moderately reduced (see section 4.2.5.3 in this report). Especially in the Western Member States the share of postal agencies has been increased: Scandinavian postal operators, TNT and Deutsche Post have already established a low cost network. TNT and Deutsche Post plan to fully replace post offices by franchised outlets in the next years.

The technological progress has affected all elements of the postal value chain. It appears that at least most of the Western national postal operators have achieved the technological edge. In

most Eastern and Southern Member States postal operators are still in the process or at the very beginning of modernising their business. Improving transit time performances¹⁶² of these postal operators indicate that they have also made considerable progress in modernising their logistics. However, the network of postal outlets of most Eastern postal operators¹⁶³ are still dominated by post offices i.e. they were not able to achieve considerable cost savings in this area, so far.

Automatisation and the changes in work organisation have mostly resulted in declining employment which is also reflected in the development of the cost structure of national postal operators.

Figure 4-26 Share of labour cost (2002, 2007)



Source: ITA Consulting / WIK-Consult

Notes: MT, UK: Financial years 2006/07 and 2007/08; CY, PL, RO: No data

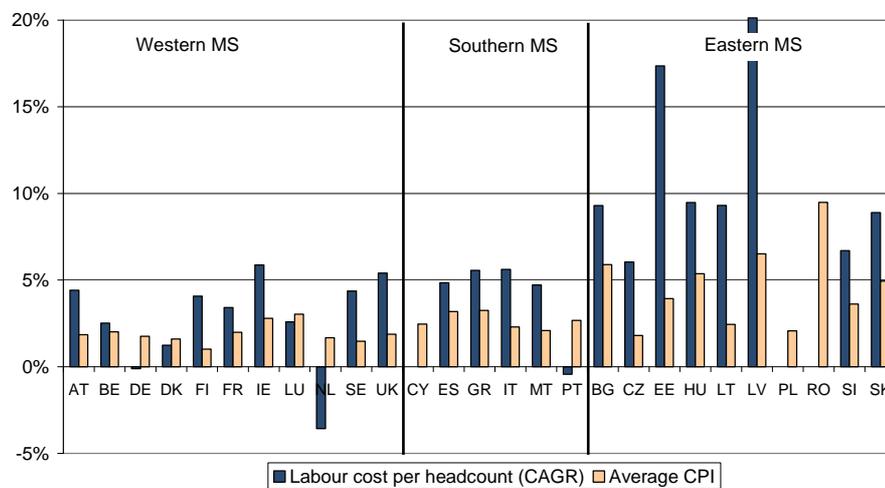
Postal and especially letter post operations are very labour intensive. The highest cost shares result from sorting and delivery processes. Centralisation and automating of sorting processes and optimisation of transport and delivery routes therefore result in a decline in employment and thus a reduction in labour cost and in the share of labour on total cost given constant wages. Outsourcing of non-core activities and transport services has further promoted this process. Figure 4-26 shows the development in the share of labour cost on total operating expenses between 2002 and 2007. In most cases the share is higher than 50 percent. In 2007 it

¹⁶² See section 4.2.5.2 for more information on developments in domestic and cross-border transit time performance.

¹⁶³ See section 4.2.5.3 for more information on developments in number and structure of postal outlets.

ranges from 30 percent up to nearly 80 percent. Generally, the share of labour cost has been reduced mainly due to outsourcing as well as automation and technological advancements. The level of labour cost partly depends on the business strategy. Postal operators with a focus on more capital intensive businesses like telecommunications (PTT Luxembourg), express/logistics (Deutsche Post, TNT) or financial services (Poste Italiane) tend to have relatively low shares around 30 to 40 percent. However, the share of labour cost has considerably increased for example in the UK and Estonia.¹⁶⁴ Particularly in the Eastern Member States labour expenses have increased because of substantially growing wages as illustrated in the following figure.

Figure 4-27 Development of labour cost per headcount (national currency) in relation to the average inflation rate (CAGR 2002-2007)



Source: ITA Consulting / WIK-Consult
 Notes: CY, PL, RO: No data

In most Member States average labour costs have grown at higher rates than the average inflation rate. However, some postal operators realised reductions in average costs per headcount, notably Deutsche Post, Dutch TNT and Correios (Portugal). Reductions can be achieved by very moderate wage increases (less than the inflation rate), an increasing share of part-time employees and by nominal wage reductions. The “part-time” effect plays a role for Deutsche Post and TNT; both have increasingly used part-time workers for sorting and delivery activities. Wage reductions are also worth mentioning e.g. in Germany: Based on collective labour agreements between Deutsche Post and the unions, new employees usually receive a lower wage than employees that joined Deutsche Post before 2001.¹⁶⁵ In the Eastern Member States, generally, the dynamic economic development resulted in substantial wage increases in the whole economy. Moreover, inflation rates have been higher than in the Southern and

¹⁶⁴ These changes are not necessarily driven by actually increasing labour cost but by changing rules in financial accounting: e.g. Royal Mail’s labour cost share has increased as result from applying IFRS requirements, see Royal Mail Holding, Annual Report.
¹⁶⁵ See Alex Dieke and Martin Zauner (2007), Arbeitsbedingungen im Briefmarkt [Working conditions in the German letters market], WIK-Discussion Paper No. 295.

Western Member States which have additionally pushed up the wages. This is also visible in the average labour cost development of some Eastern postal operators.

Obviously, even increasing average labour costs of some Eastern postal operators have had a limited effect on the effective share of total labour cost in these companies. This indicates that these postal operators have also started modernising their postal operations resulting in less employment and increasing transport costs and depreciations (e.g. on sorting machines) as figured out below.

Table 4-4 Distribution of total employment among national postal operators (headcount)

Country group	1998	1998	2007	2007	CAGR 1998-2007
	Total (in thousands)	Share	Total (in thousands)	Share	
National postal operators of the Western Member States	1,081	65.6 %	1.352	72.5 %	2.6 %
National postal operators of the Southern Member States	278	16.9 %	246	13.2 %	-1.3 %
National postal operators of the Eastern Member States	288	17.5 %	266	14.3 %	-0.9 %
All postal operators	1,647	100 %	1,864	100 %	1.4 %

Source: ITA Consulting / WIK-Consult

Notes: FR, IT—Full time equivalents

The internationalisation of some postal operators by acquiring large companies (notably driven by Deutsche Post) has increased total employment of the national postal operators. This “Deutsche Post” effect is visible in the group of Western postal operators. In the other groups (Southern and Eastern postal operators) employment has decreased; in these countries the companies have focused on the national business.

Table 4-5 Distribution of national employment among national postal operators (headcount) and share of national on total employment

Country group	National employment (in million)		CAGR 1998-2007	Share of total employment	
	1998	2007		1998	2007
	National postal operators of the Western Member States	1,003	853	-2.0 %	92.8 %
National postal operators of the Southern Member States	278	243	-1.5 %	100 %	98.7 %
National postal operators of the Eastern Member States	288	266	-0.9 %	100 %	100 %
All postal operators	1,569	1,362	-1.7 %	95.3 %	73 %

Source: ITA Consulting / WIK-Consult

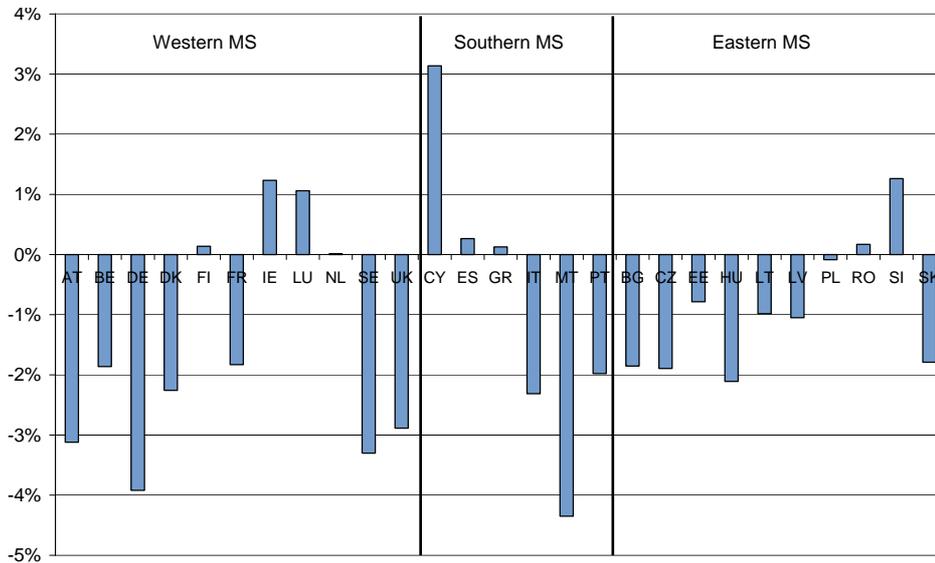
Notes: AT, MT: 1999 instead of 1998 figures;

FR, IT: Full time equivalents;

AT, DE, ES, FI, FR and PT: National employment estimations based on company employment:

Here, it is obvious that employment has decreased in all country groups, also in the Western ones. This is even clearer when looking at the employment developments at the level of each of the national postal operators.¹⁶⁶

Figure 4-28 Average growth rates in national employment (headcount, CAGR 1998-2007)



Source: ITA Consulting / WIK-Consult

Notes: AT, MT: CAGR 1999-2007; FI: CAGR 2000-2007; FR: CAGR 2001-2007; UK: CAGR: 2003-2007

FR and IT: Full-time equivalents;

National employment equates with company employment (instead of corporate employment): AT, DE, ES, FI, FR, PT.

¹⁶⁶ The results are also confirmed by the PIQUE summary report (2009) "Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE)", p. 25-27. The study considers developments in specific public sectors (including postal services) of the Member States Austria, Belgium, Germany, Poland, Sweden and UK.

Table 4-6 Developments of civil servants employed by national postal operators

National postal operator	Civil servants (headcount)		CAGR 1998-2008	Share of total employment	
	1998	2008		1998	2008
Austrian Post (AT)	23,016	12,991	-6.2%	61%	44%
De Post–La Poste (BE)	38,110	23,538	-4.7%	86%	67%
Deutsche Post (DE)	97,815	50,601	-6.0%	38%	28%
Post Danmark (DK)	14,339	6,403	-7.7%	56%	32%
Correos (ES)	46,821	29,684	-4.6%	72%	44%
La Poste (FR)	236,409	152,287	-4.5%	77%	51%
PTT Luxembourg (LU)	2,695	n.a.	n.a.	100%	n.a.

Source: ITA Consulting / WIK-Consult

Notes: AT: 1999 instead of 1998 figures;
 DE: Based on company data (Deutsche Post AG)
 DK, FR: Full time equivalents.

The evolution of the former postal administrations to commercial companies has also reduced the importance of civil servants in postal operations: The number of civil servants employed by national postal operators has continuously declined. We understand that in seven Member States national postal operators still employ civil servants (based on information provided in annual reports). The development of number and importance of civil servants is presented in the Table 4-6.

However, the decline in employment of incumbent postal operators has been partly compensated by emerging upstream and end-to-end competition in national letter post markets as the following examples show:

- Sweden: Bring Citymail employs more than 1,000 full-time employees (including deliverers).¹⁶⁷
- Germany: Since the enactment of the Postal Act in 1998 the German regulator has provided annual employment statistics for the entrants. The number of employees has increased gradually to 48,000 persons in 2006, mostly part-time workers. In 2008 the number of employees has substantially declined to 29,000 due to a fierce consolidation process and the increasing use of sub-contractors.¹⁶⁸
- Netherlands: Sandd and Selett Mail employ around 1,500 people and around 24,000 part-time deliverers.¹⁶⁹
- In the UK, Europe Economics estimated that an extra 3,300 jobs had been created in the UK by competitors, and estimates that by 2016 another 6,600 jobs would be created.¹⁷⁰

¹⁶⁷ See Ecorys (2008), Main Developments in the Postal Sector (2006-2008), Country Sheet: Sweden.

¹⁶⁸ See Bundesnetzagentur, Annual Report 2008, p. 127.

¹⁶⁹ See Ecorys (2008), Main Developments in the Postal Sector (2006-2008), Country Sheet: The Netherlands.

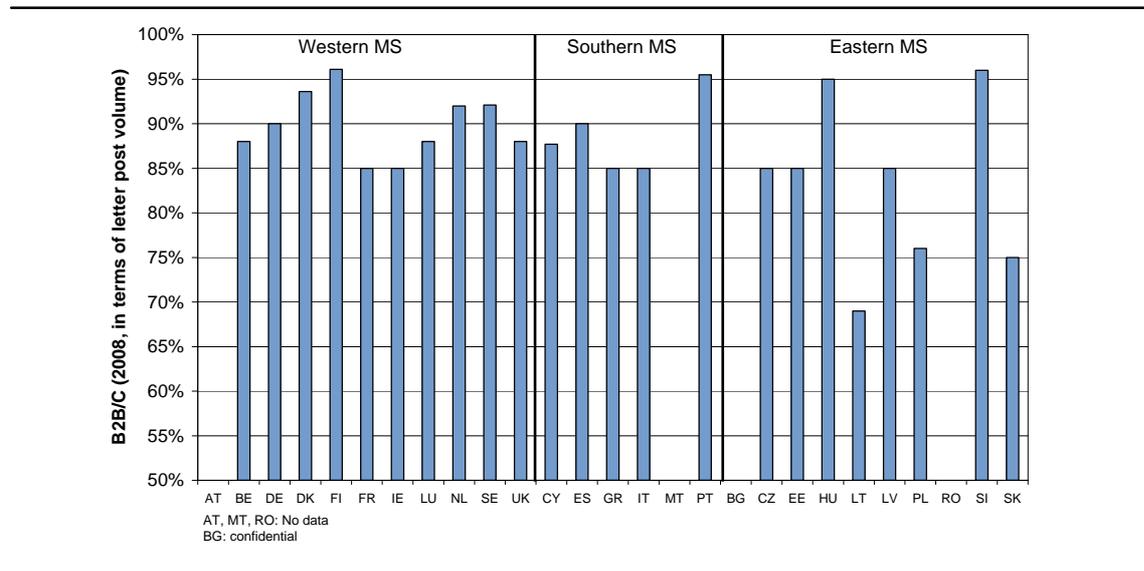
¹⁷⁰ See Europe Economics (2008), The Benefits of Competition in the UK Mail Market.

4.2.4 Developments in demand, service offerings and pricing

4.2.4.1 Demand structure of letter post services

In most Member States more than 85% of mail items are sent by businesses. Only in some Eastern Member States the share is lower (Lithuania, Poland and Slovakia, see Figure 4-29). The low share could be the result of relative low volume per capita, i.e. businesses sent either less letters or they use other postal operators (e.g. competing postal operators or express and courier services).

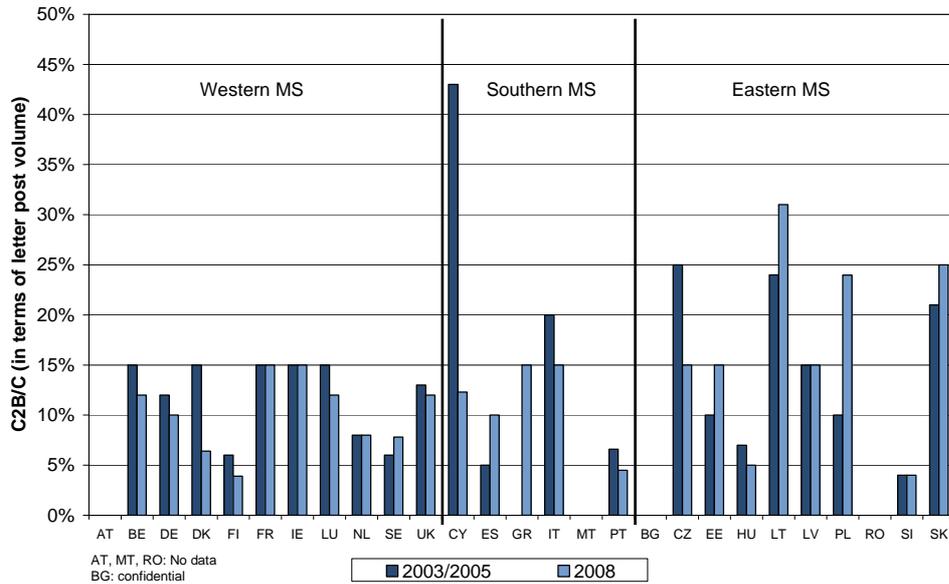
Figure 4-29 Share of business mail in 2008



Source: ITA Consulting / WIK-Consult

Notes: Demand structure based on statements of regulatory authorities or universal service providers (competitors' volumes not included)

Figure 4-30 Development of the share of private correspondence

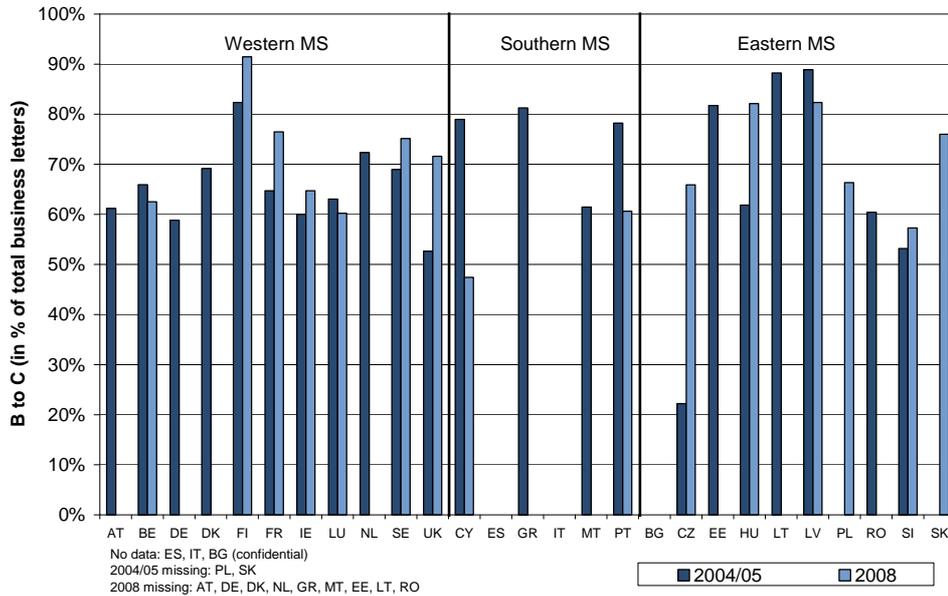


Source: ITA Consulting / WIK-Consult

Notes: Demand structure based on statements of regulatory authorities or universal service providers (competitors' volumes not included)

As already pointed out it appears that private correspondence is more affected by the use of electronic communication channels, especially e-mail, than business correspondence (especially B2C). This is in line with the general trend of declining shares in private correspondence as illustrated in Figure 4-30. The importance of individuals as mailers is decreasing especially in the Western Member States. Additionally, it appears that in Member States with relatively low number of letter post items per capita the importance of private correspondence is higher than in "high-volume" Member States (e.g. Latvia, Poland and Slovakia). Low direct mail volumes are one reason for significantly lower items per capita; especially in many Eastern Member States direct mail does not play a significant role (see section 4.2.1.1). As this product is mainly used by business customers the share of business mail on total mail should be lower in these Member States.

Figure 4-31 Share of letters sent to individuals on total business letters



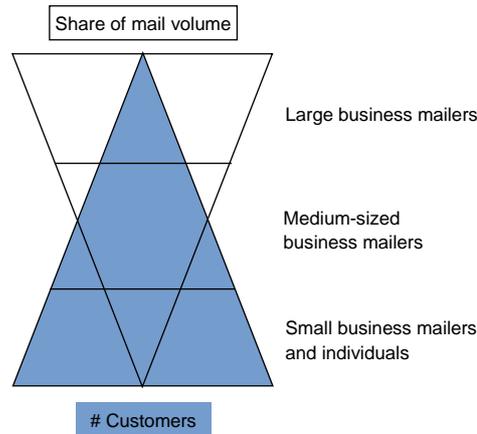
Source: ITA Consulting / WIK-Consult

Notes: Demand structure based on statements of regulatory authorities or universal service providers (competitors' volumes not included)

Business letters are usually sent to individuals (B2C, see Figure 4-31): In most Member States more than 60 percent of business mail is sent to individuals, in some even more than 80 percent. Moreover, this share has increased in many Member States. In the Eastern Member States, especially in the Baltic countries, high shares of B2C may indicate that businesses mainly use the national postal operator for mail addressed to individuals while mail addressed to businesses may be either sent by competition postal operators or delivered electronically (which might be the case in Estonia). Electronic delivery of B2B (mainly e-invoicing) is also an important issue in Denmark and Finland.¹⁷¹ In Finland the share of B2B on total business letters has sunk from around 18 percent in 2004 to 8 percent in 2008. Overall, in most countries B2C has become more important.

¹⁷¹ This is discussed in section 4.2.1 in more detail.

Figure 4-32 Typical customer structure of a postal operator (letters business)



Source: ITA Consulting / WIK-Consult

Information on the customer structure of national postal operators is limited. Examples show that a low number of large business mailers are responsible for a high volume share while a large group of small business mailers and individuals only generates relatively low volume share (see Figure 4-32). In the UK for example the TOP 50 customers send 40 percent of the letter volumes or around 8.5 billion items.¹⁷² Around 1,000 large customers further generate 5 billion items. More than 30,000 medium sized customers are responsible for 3 billion items and around 2.5 billion items are generated by small business mailer (more than one million companies).¹⁷³ The final shape of the triangle depends on the importance of the B2C business because this business generates the highest mail volumes (and usually requires nationwide delivery services). B2C is dominated by industrial mail, i.e. industrially produced transactional mail and direct mail. Large mailers are usually coming from the financial sector, the telecommunications sector, the retail and wholesale sector (especially mail order companies) and from the public sector.¹⁷⁴ We assume that, generally, the B2C customer structure is similar in the Member States.¹⁷⁵

This asymmetric customer structure has affected the development of service offerings for the different customer groups. The former postal administrations had offered a limited range of standard postal products with little differentiation between customer groups. Some rebate systems usually related to volume existed¹⁷⁶ but more sophisticated, customer-oriented services have generally not been offered. This situation has fundamentally changed in the last

¹⁷² See Hooper Report (2008), *Modernise or decline: Policies to maintain the universal postal service in the United Kingdom*, p. 37.

¹⁷³ See Tim Brown, Chief Executive of Postcomm (2009), *Regulating an Evolving Market*, Presentation held at the European Postal Conference in Amsterdam on 25th March 2009, slide 6.

¹⁷⁴ See for example Postcomm (2006), *Competitive Market Survey 2006*.

¹⁷⁵ This depends to some extent on the economic structure of a country. Countries where the services sector (including i.a. financial, telecommunications and retail services) is relatively small) have most likely lower letter post volumes than countries with large services sectors (assuming that the size of the country in terms of population is similar).

¹⁷⁶ See European Commission (1992), *Green Paper on the Development of the single market for postal services*, COM(91) 476 final, p. 93.

two decades. Today, the postal operators offer more sophisticated services to large (and possibly medium-sized) business customers while basic services are offered to the general public (small business mailers and individuals).

4.2.4.2 Service offerings to individuals and small mailers

Generally, the number of basic postal services offered to individuals has not substantially increased over time. However, the key characteristics of service provision have often improved. Key developments in the provision of basic postal services for individuals and small businesses are

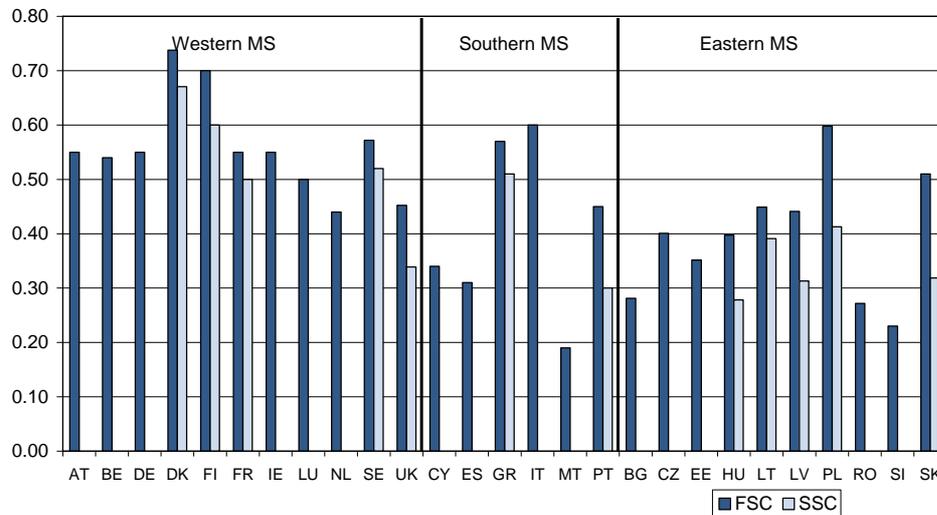
- Launching of standard next-day delivery letter services in nearly all Member States: While in the Western Member States this service has already been offered before 1998 (however, at different quality levels), most national postal operators of the Southern and Eastern Member States have introduced these services over the last decade.
- Considerably improved reliability and transit time performance of letter services (see section 4.2.5)
- Ambiguous developments in the accessibility: improved accessibility to postal services due to longer opening hours of postal outlets, however, the density of postal outlets has been reduced by many national postal operators (see section 4.2.5.3)

Technological progress in electronic communications sector has also affected basic service provision for individuals:

- The availability of information on postal services has improved (via different channels including sophisticated Web presentations)
- From the recipients' point of view the delivery of postal items has been changing: Especially in the Scandinavian countries, the recipients have got the choice whether they would like to receive their letters physically or electronically (Examples: E-Boks in Denmark; Netposti in Finland).
- New services: e.g. "Individualised stamp": Individuals can design their own stamps on the internet (e.g. TNT Post: "Persoonlijke Postzegel", Deutsche Post: "Internetmarke").
- More sales channels for stamps: Stamps can be bought via internet or mobile phone (e.g. Deutsche Post: "Handyporto" and "Internetmarke")

In contrast to service offerings of business customers the basic services offered to individuals and very small businesses are usually subject to close regulatory oversight. As outlined in section 4.2.2 of the report this customer group is less attractive for competing postal operators even in countries with significantly or fully opened letters markets. For this reason the basic tariffs for letter services have been subject to close regulation in nearly all Member States.

Figure 4-33 Basic tariffs for 20g letter of fastest and second fastest standard category in EUR (2008)



Source: ITA Consulting / WIK-Consult

Notes: Tariffs converted to EUR using average exchange rate for 1998 respectively 2008 (based on Eurostat)

FI, SE, SI—the tariffs include VAT

FI: SSC requires a minimum number of 20 mail items and posting at the post office

The most important postal tariffs are those for standard letters usually weighing 20g sent as first (D+1) or—if offered by the universal service provider—as second class service (D+1+x). As Figure 4-33 shows the price range goes from 0.19 EUR in Malta to 0.74 EUR in Denmark in 2008. In 1998 the nominal tariffs ranged from 0.08 EUR in Slovenia to 0.62 EUR in Italy. A couple of reasons may influence the price level (apart from price regulation):

- In most Member States universal postal services are exempt from value added taxes (VAT). However, some Member States have abolished the VAT exemption i.e. their public postal tariffs include VAT: Finland (22 percent), Slovenia (20 percent) and Sweden (25 percent).
- Different quality levels are another source for price differences. Generally, the fastest standard category refers to a D+1 letter service, i.e. most of these letters are delivered on the next working day. However, at least in two Member States the fastest standard category is not a D+1 but a slower service: in Spain (D+3) and Romania (D+5)¹⁷⁷.
- A third source of price differences are—of course—differences in costs. As the labour cost is the major cost element in letter post operations different levels in labour cost should be also reflected in different tariff levels (which should be based on costs according to the Postal Directive).

¹⁷⁷ Posta Romana has introduced a separately priced D+1 service in 2009 (see price list for 2009, http://www.posta-romana.ro/services/tarif/scrisoni-carti-postale_85/corespondenta-interna_36). Before 2009 the first and second class service had the same price (RON 1). For this reason we understand that Posta Romana has not offered a regular D+1 service.

Today, in twelve Member States individuals have a choice between a first and a second class service (Denmark, France, Greece, Hungary, Portugal, Latvia, Lithuania, Poland, Romania (since 2009), Slovakia, Sweden and UK). Five eastern national postal operators introduced a regular D+1 letter service; the former standard service became the second class product: in Poland (2002), Hungary (2004), Latvia (2007), Lithuania (2007) and Romania (2009). We assume that the introduction of a regular next working day delivery service for letters is mainly driven by regulation (for domestic and cross-border mail) and less by demand.

- First class letters account for a relatively low share of total letters. In Hungary for example the share of priority mail on total letters is below 5 percent.¹⁷⁸
- Terminal dues for cross-border mail are linked to domestic letter tariffs in the country of destination¹⁷⁹; therefore the revenues from cross-border services are higher in case of a domestic priority service compared to the regular non-priority service.

In four Member States the second class service has been phased out for individuals and small customers:

- Since 2003 Finnish Itella requires a minimum number of 20 mail items and posting at the post office when using the second class service.
- Poste Italiane has abolished the second class service for individuals and small mailers in 2007 which resulted in a substantial price jump¹⁸⁰ from EUR 0.45 to EUR 0.60 (plus 33 percent).
- Belgian De Post–La Poste has phased out the second class service for stamped correspondence at the end of 2007 resulting in a price increase from EUR 0.46 to EUR 0.54 (plus 17 percent).
- Pošta Slovenije (Slovenia) has stopped the second class service at the end of 2003 resulting in a price increase from EUR 0.16 to EUR 0.20 (plus 25 percent).

We assume that the following reasons play a role for phasing out second class services for individuals:

- Transaction costs for separating first and second class mail posted in street letter boxes (may be relevant in the Belgian and in the Finnish case).
- Non-priority letter services for individuals may not be operated at substantially lower costs than priority mail (may be relevant in the Belgian and Slovenian case).
- Phasing out economy services for individuals and small or medium-sized customers may result in increasing revenues due to inelastic demand (the negative effect of the volume

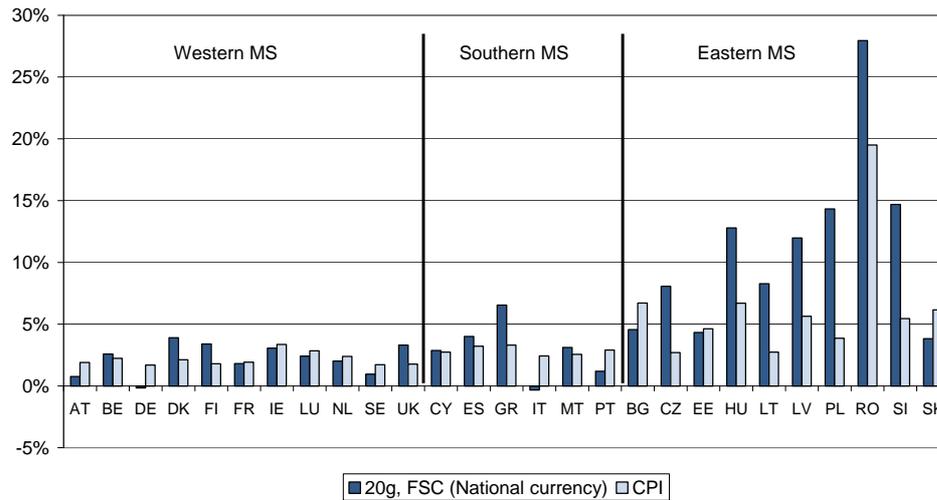
¹⁷⁸ See Magyar Posta, Annual Report 2006, p. 12, and Annual Report 2007, p. 11.

¹⁷⁹ See European Commission, Case COMP/38.170 — REIMS II Terminal Dues, OJ C 94/3, 23.4.2003, p. 6. We assume that this principle is also applied in the current REIMS agreement.

¹⁸⁰ It is a price jump especially in the view of those individuals and very small businesses that would have preferred the former second class service.

reduction is outweighed by the price increase). It appears that this has not happened in Italy: Total revenue of priority letter services (including cross-border inbound) has declined between 2007 and 2008.¹⁸¹ However, it is possible that the volume decline in priority mail is additionally the result of the starting economic recession in 2008.

Figure 4-34 Price development of 20g letter of the fastest standard category (national currency) compared to the development of the consumer price index; CAGR 1998-2008



Source: ITA Consulting / WIK-Consult

The replacement of slower letter services by a regular D+1 service as fastest standard category explains the tariff jumps in Hungary, Latvia, Lithuania and Poland (see Figure 4-34). In 1998 the fastest standard category had been a slower letter service until the D+1 product was implemented as regular fastest standard category. Most probably, the customers (especially the consumers) now mainly use the second class service while the first class service may be more relevant for business customers and, especially, for cross-border mail to achieve the REIMS quality thresholds.

In nominal terms the price for the 20g letter has grown in most Member States. However, the strongest increases have occurred in most of the Eastern Member States of the European Union. Only in Germany and Italy the price for 20g letter of fastest standard category has slightly decreased between 1998 and 2008 (even nominally, but starting at a relatively high level).

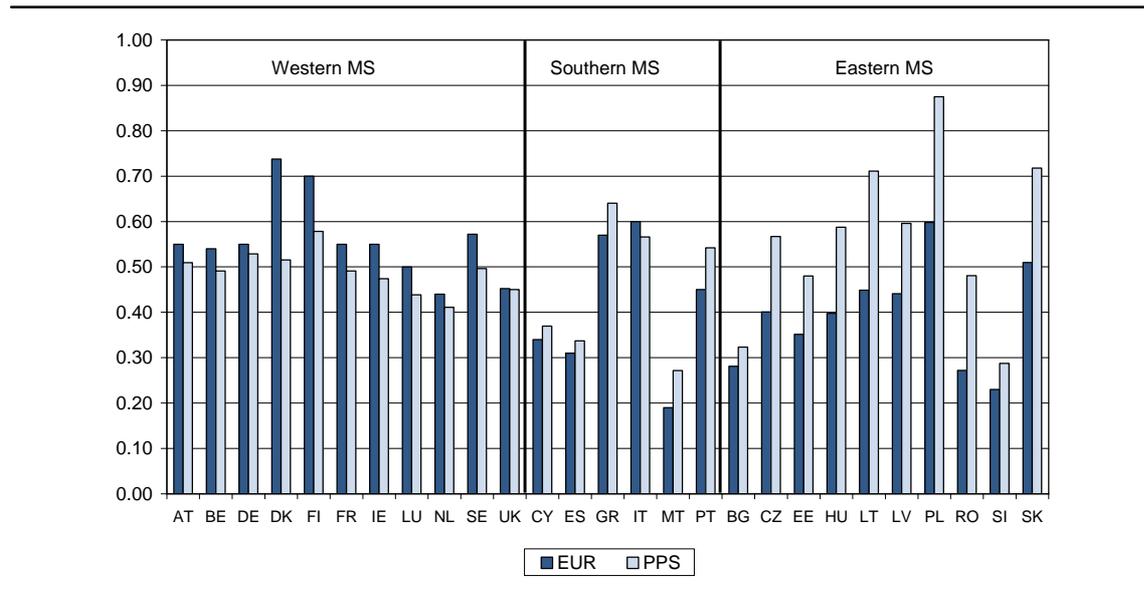
In real terms the tariffs have been fairly stable or even declining in most of the Western Member States except for Denmark, Finland and UK; in most Southern Member States except for Greece; and in two Eastern Member States: Estonia and Slovakia. It should be noted that especially the Eastern Member States have started from a relatively low price level compared

¹⁸¹ See Poste Italiane, Annual Reports 2007 and 2008.

to the EU-15 Member States. The considerable real price increases in some Eastern Member States might be caused by a lack of cost-orientation at the beginning of the period. The price developments in these countries also show that they are on the way to more cost-oriented price-setting.

AFFORDABILITY OF BASIC LETTER SERVICES

Figure 4-35 Basic tariffs for 20g letter of fastest standard category in EUR and PPS (2008)

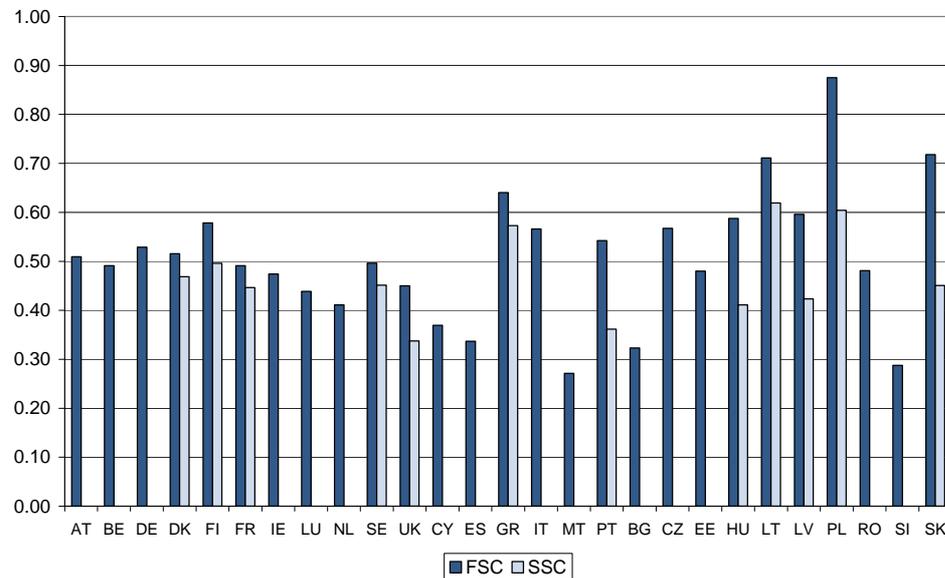


Source: ITA Consulting / WIK-Consult

Notes: Tariffs converted to EUR using PPP for 1998 respectively 2008 (based on Eurostat)
 FI, SE, SI—the tariffs include VAT

With respect to affordability, the PPS columns in this figure suggest that postal service is relatively costly to consumers in several Member States; including Poland, Slovakia, Greece and Lithuania.

Figure 4-36 Basic tariffs for 20g letter of fastest and second fastest standard category in PPS (2008)



Source: ITA Consulting / WIK-Consult

Notes: Tariffs converted to EUR using PPP for 1998 respectively 2008 (based on Eurostat)

FI, SE, SI—the tariffs include VAT

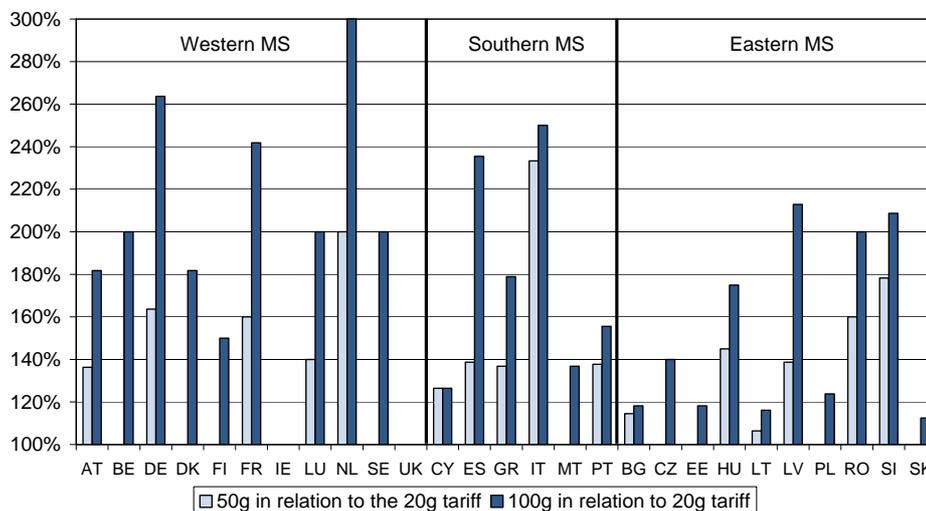
A simple comparison of 20g first FSC prices does not tell the whole story. In twelve Member States, a second class service is also offered for letters. In some of these Member States, the fastest standard category appears to be relatively unimportant in terms of volume (e.g. in Greece, Hungary, Portugal and Slovakia). Figure 4-36 presents the 20g tariffs for the fastest and second fastest standard category (i.e. first and second class service) in PPS. Especially in most Eastern Member States the second class service is substantially cheaper (in EUR and PPS) than the first class service. However, Lithuania and Poland still remain relatively expensive.

In order to assess the affordability of postal tariffs it is also useful to have a look at expenditure behaviour of households.¹⁸² Expenses for communications (includes postal services) account for 3.3 percent of total expenditures of an average household. For low income households this share increases to 3.7 percent. The major part of these expenses is devoted to electronic communications while expenses for postal services have a share of approximately 0.1 percent or less of total expenditure in all Member States: Even significant price increases in letter tariffs would not significantly increase the financial burden of households. Against this background we conclude that letter services widely been affordable within the European Union over the last decade.

¹⁸² See Eurostat Newsrelease (2008), “Households dedicated more than half of their expenditure to housing and food” STAT/08/88 of 19 June 2008 and detailed expenditure data of the Household Budget Survey 2005 in the EU-27.

TARIFF STRUCTURE BY WEIGHT CLASSES

Figure 4-37 Tariff structure by weight: 100g and 50g in percent of 20g basic tariff (2008)



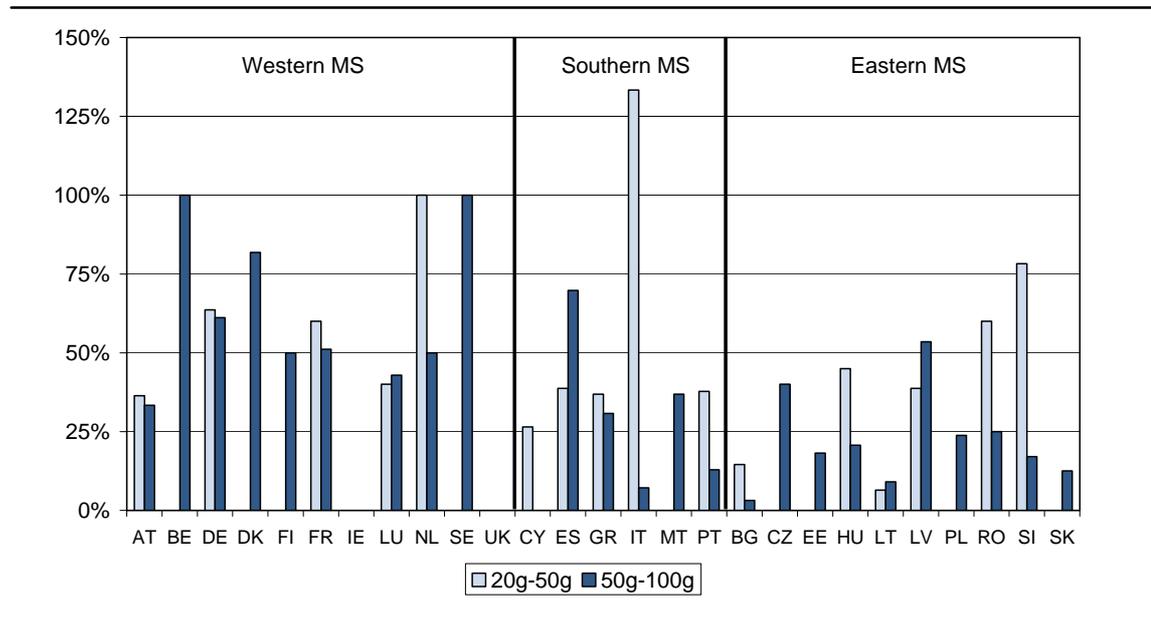
Source: ITA Consulting / WIK-Consult

Figure 4-38 illustrates how postal tariffs are structured by weight classes. Tariffs of letters of the fastest standard category weighing 50g and 100g are expressed in percent of the 20g tariff. In Sweden, for example, 100 percent indicates that the price for a 50g letter is the same as for a 20g letter. 200 percent indicates that the tariff for a 100g letter is the double of the 20g tariff.

The figure makes clear that tariff structures widely vary between the Member States. About half of the universal service providers have different tariffs for 20g, 50g and 100g letters (14 out of 27). In nine Member States the first weight class ranges from 0g to 50g (Belgium, Denmark, Finland, Sweden, Malta, Czech Republic, Estonia, Poland and Slovakia), in two even from 0 to 100g (Ireland and UK); in Cyprus the second weight class ranges from 20g to 100g.

The price differences between the weights classes (20/50/100) considerably vary between the remaining fourteen countries: the Dutch TNT, for example, applies a very simple calculation rule resulting in considerable tariff jumps per weight class: the 50g letter is double and the 100g letter is three-times the tariff of the 20g letter. The difference between the 20g and 50g tariffs varies from 106 percent (in terms of the 20g letter) in Latvia to 233 percent (Poste Italiane).

Figure 4-38 Tariff jumps between weight classes: from 20g to 50g and from 50g to 100g (2008)



Source: ITA Consulting / WIK-Consult

The existing differences in price jumps between different weight classes are difficult to explain (Figure 4-38). They may be to some extent caused by different costs (e.g. more manual sorting of heavier letters). Different applications of the VAT rules with regard to reserved and non-reserved postal services may also explain some of the price differences: e.g. in Spain where non-reserved letters (above 50g) are not VAT exempted.

The figures only show the lowest tariff of a letter in the respective weight class. However, in many Member States postal tariffs depend on the weight and the shape of the letter, i.e. postal operators distinguish at least between letters in small and large sized envelopes (flats). The change from purely weight-based to weight/shape-based pricing schedules is mainly driven by cost considerations. A key cost driver in modern postal operations is the shape and the ability of the item to be processed automatically (by sorting machines). Depending on the shape of the letter different types of sorting machines (or even manual sorting) are necessary. As there is a linkage between weight and degree of automatic processing, more and more postal operators have replaced purely weight-based tariffs by combined weight/shape-based tariffs.

- The most prominent example was the change from weight based to “pricing in proportion” introduced by Royal Mail in 2006.¹⁸³
- In Ireland, An Post reduced the number of weight classes: the 25g threshold was abolished; since 2003 the first weight class has gone up to 50g.

¹⁸³ This change in the pricing structure had to be approved by the British postal regulator Postcomm. Postcomm carried out an extensive consultation process on this subject. See for more information www.psc.gov.uk/policy-and-consultations/consultations/pricing-in-proportion.html.

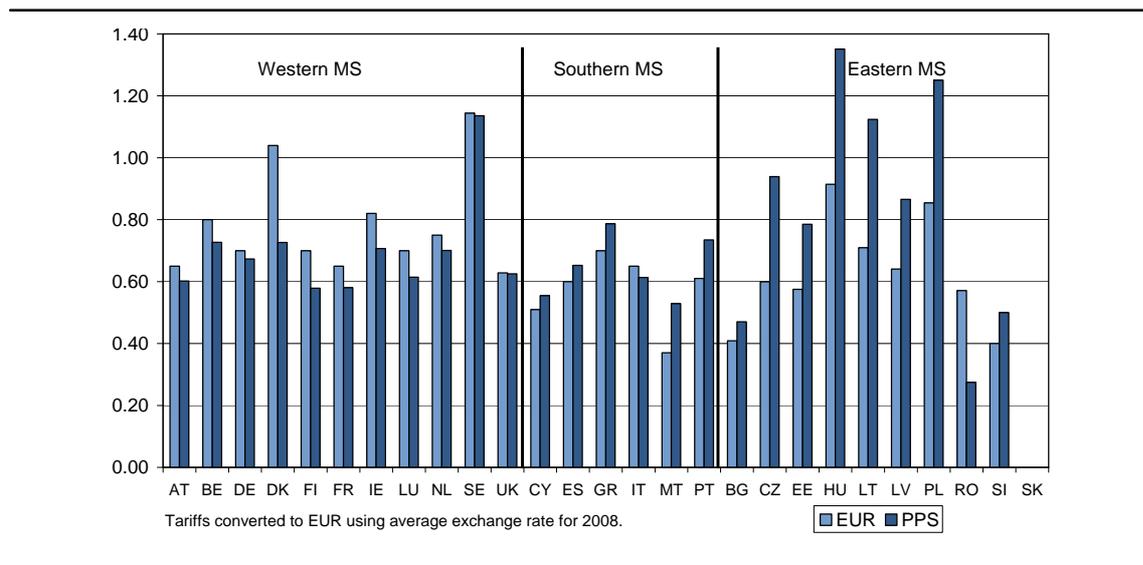
- In Germany, the current weight/shape system has been already introduced during the nineties.

The variety in format and weight thresholds complicates comparisons of national tariffs. For example, Deutsche Post charges the same price for a large letter weighing 55g or 450g (EUR 1.45) while for example An Post would charge for a similar format (large envelope) EUR 0.95 respectively EUR 1.35.¹⁸⁴

Additionally, the method of price regulation may also have an impact. In a price cap regime, for example, not a single product but a basket of products are subject to a price cap. Within the basket the postal operator has—depending on the specific price regulation regime—some freedom to re-balance the price structure (in compliance with competition rules).¹⁸⁵

TARIFFS FOR CROSS-BORDER LETTER SERVICES

Figure 4-39 USP tariffs for cross-border 20g letter of fastest standard category (2008) in EUR and PPS (SK)



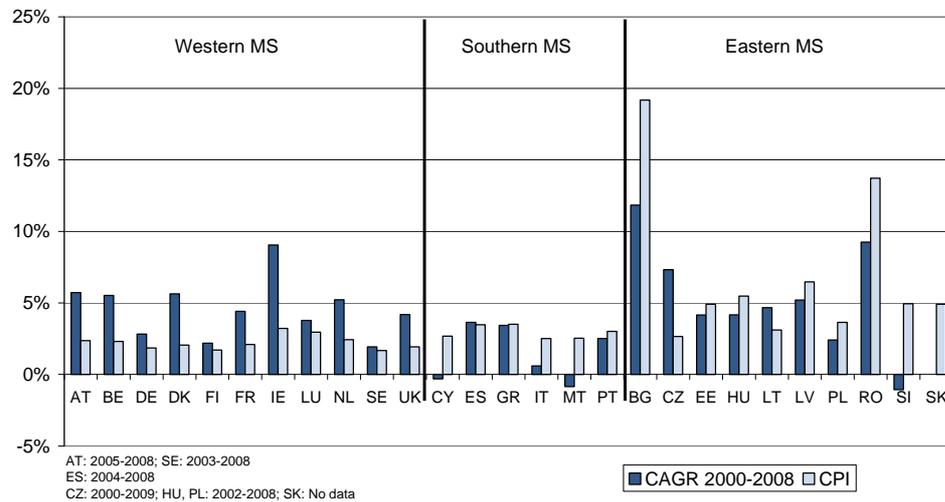
Source: ITA Consulting / WIK-Consult

With regard to public tariffs for international mailings, a first observation is that the lowest tariffs for 20g cross-border letters appear to vary between Member States slightly less than domestic tariffs. However, there are significant price differences between the Member States. In 2008 the prices range from 0.37 EUR in Malta to 1.14 EUR (incl. VAT) in Sweden. The variability of the 20g tariff is lower in the Western and the Southern Member States (excl. Cyprus and Malta) than in the group of the Eastern Member States. Within the EU-15 Member

¹⁸⁴ Customers sending cross-border mail, especially when they use direct entry, have to deal with these varieties. It creates additional transaction costs for the use of cross-border mail services.
¹⁸⁵ For more details on price regulation regimes implemented in the Member States see WIK-Consult (2009), The Role of Regulators in a More Competitive Postal Market.

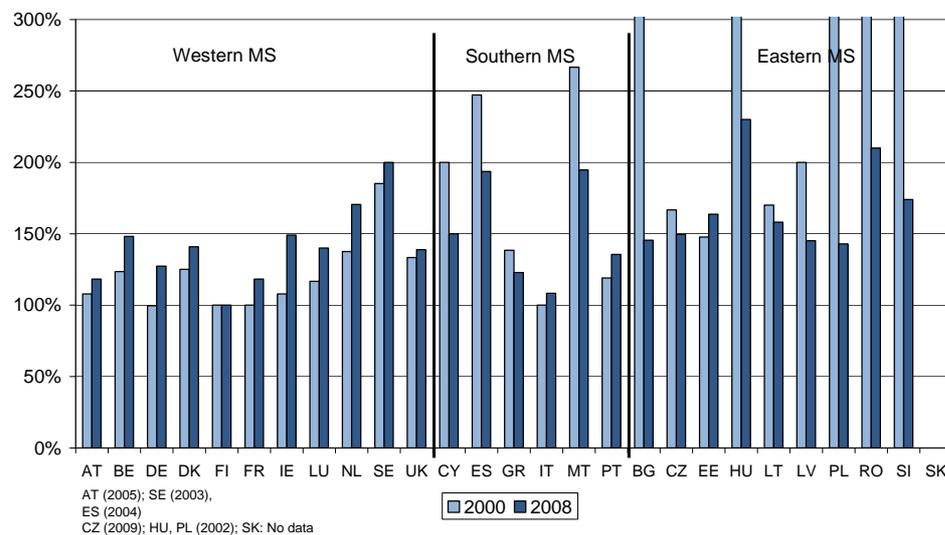
the price range goes from 0.60 EUR in Spain to 1.14 EUR in Sweden; while in the group of the new Member States the range goes from 0.37 EUR in Malta to 0.91 EUR in Hungary.

Figure 4-40 Average growth rates for cross-border 20g letters (2000-2008) in national currency compared to average inflation rate (based on CPI)



Source: ITA Consulting / WIK-Consult

Figure 4-41 Cross-border tariff in percent of the domestic tariff of 20g priority letters (2000 and 2008)



Source: ITA Consulting / WIK-Consult

However, the cross-border tariffs in the Western Member States have grown at higher rates than the CPI in contrast to the Eastern Member States (see Figure 4-40). It is striking that the cross-border rates have increased at considerably higher rates than the domestic 20g tariffs while in the Eastern Member States the domestic rates have increased more significantly than

the cross-border tariffs. However, in line with this result is that the relation between domestic and cross-border tariffs has substantially changed between 2000 and 2008 (see Figure 4-41). While in 2000 the cross-border and the domestic tariffs were fairly the same in at least eight Member States, in 2008 the cross-border tariff was always higher than the domestic tariff (except for Finland).

Terminal dues are not subject to price regulation in most Member States.¹⁸⁶ However, the REIMS agreement requires that the terminal dues of cross-border items shall be a fixed share of the domestic tariff. But this does not fully explain the different developments in cross-border tariffs. As outlined in this section domestic tariffs considerably vary between Member States; this variation should result in cross-border tariffs for EU letters varying between destination countries (i.e. a letter from Germany to Italy should be more expensive than a letter from Germany to Slovenia). However, EU letters are usually priced uniformly, i.e. only one tariff within the European Union. The REIMS requirement combined with the requirements of the Postal Directive for cost orientation¹⁸⁷ might explain the relative decline of cross-border tariffs in the new Member States (see for example Malta, Bulgaria, Hungary and Poland). It appears that Western postal operators have used their freedom within the limits of the national price control regimes to increase EU tariffs for individuals. In a price cap regime for example the regulator decides on the price cap for a bundle of services (basket). Within this bundle the postal operator can rebalance the tariffs without infringing the cap (in compliance with competition rules in order to avoid predatory pricing). Cross-border services for individuals usually have a low weight in the basket (especially in relatively large countries like Germany or France) so that price increases do not substantially affect the average price level within the basket.

4.2.4.3 Service offerings for business customers

The group of the business customers is very heterogeneous. Very small businesses are usually treated as individuals; however, they send most probably more letters than an individual or a household. With increasing size in terms of sent letters business customers may benefit from more sophisticated pricing schemes and service offerings. This starts with discounts related to different payment channels (stamped, franked, or printed postage impression (PPI)). Medium-sized and large mailers benefit from more sophisticated pricing schemes.

¹⁸⁶ See WIK-Consult (2009), The Role of Regulators in a more Competitive Postal Market.

¹⁸⁷ See Article 13 of the Postal Directive.

Table 4-7 Criteria relevant for postal products of business customers

Product criteria	Description	Examples
Content of the letter	Correspondence or advertisements	Deutsche Post: "Infopost" (direct mail) Austrian Post: "Info.Mail" Poste Italiane: "Postatarget" La Poste: "Tem'Post MD" (Marketing Direct)
Transit time	Products with different delivery targets, e.g. D+1 (next day delivery) or D+3 (delivery on the third working day after collection)	La Poste (FR): "La lettre en nombre" D+1/2 "L'Ecopli en nombre" D+3/4, "Postimpact" (D+7) (direct mail product) TNT (NL): 24h and 48h service
Format	Standard format or non-standard format: letters with standard format can automatically be sorted	La Poste (FR): "L'offre Tem'post G" mécanisables/non mécanisable Poste Italiane: "Postatarget" Normalizzato/Formato libero TNT (NL): Business reply mail, discount for machinable mail
Presorting	Letters have to be pre-sorted by postcode (different pre-sorting levels possible)	Widely used by postal operators in combination with e.g. direct mail or other bulk mail products
Volume discount	Minimum volume thresholds often linked to business products; larger volumes may increase the discount	Widely used by postal operators usually in combination with pre-sorting requirements
Minimum revenue/volume per period (revenue discount)	The rate depends on the e.g. annual expenditure for a certain product group resp. on mail volume handed over during a specific period	TNT (NL): Revenue discount for bulk mail product groups (e.g. Bulk Direct Mail) if a certain annual minimum thresholds (e.g. 100,000€) has been achieved Deutsche Post (DE): Cooperation contract "Infopost" (related to minimum volume within three months)
Delivery zone	The rate depends on the area where the letter is delivered (zonal tariff)	Poste Italiane: "Posta Massiva" with three delivery areas: "Aree Metropolitane", "Capoluogo Provincia", "Aree Extra Urbane" Royal Mail: Access products with 5 delivery zones (A-E) Posten (SE): Letter shipments (first and second class mail) with two delivery zones: national and metropolitan
Access point	Mail has to be transported to sorting centres (outward or inward); downstream access products	Royal Mail Wholesale: All access products have to be injected into an Inward Mail Centre during a defined access slot for delivery the following working day. Deutsche Post (DE): "Teilleistungen Brief" letters have to be transported to the outward or inward sorting centre.
Peak/Off-peak tariffs	The customer has to pay a surcharge for letters delivered during high traffic periods	Posten (SE): Addressed direct mail (ADM), surcharge if delivered during the peak time. In 2009 the peak period is from the 18th to the 23rd of each month (except July).
Pay back guarantee	Letters have to be delivered e.g. the next working if not the postal operator pays back the money (or parts of it)	La Poste (FR): "L'offre Tem'post G" TNT (NL): Guarantee Mail
Additional services	Pick up and forwarding services for businesses	TNT (NL): Collection and delivery services for business customers

Source: ITA Consulting / WIK-Consult based on publicly available price information

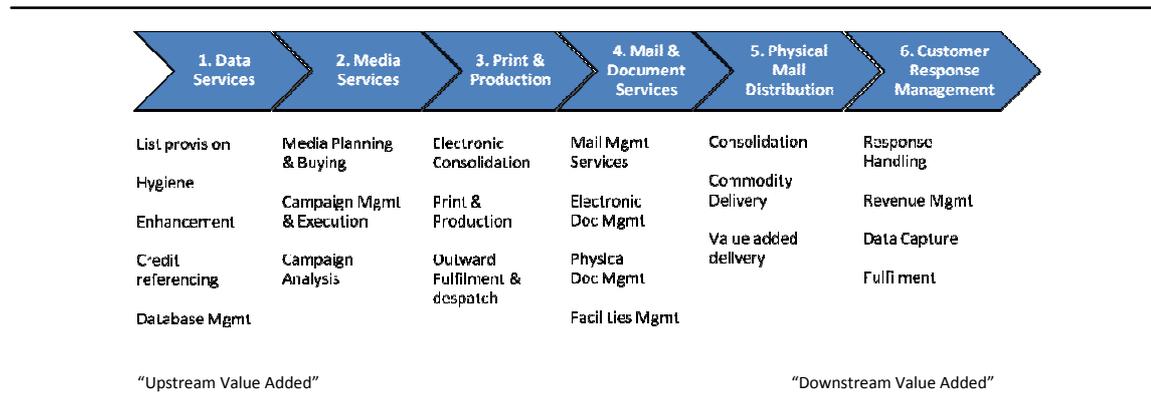
Postal tariffs for business customers depend on numerous criteria, alone or in combination which are summarised in Table 4-7. This table shall illustrate the variety of pricing models applied by postal operators. Since the Postal Green Paper pricing schemes and service variants offered by national postal operators have considerably been extended. It should be noted that the accessibility of information on business tariffs varies within the group of relatively large postal operators: From very general statements that rebates depending on volume and pre-sorting exist (e.g. Austrian Post), more detailed descriptions of different rebate schemes (e.g. Deutsche Post) to very detailed, publicly available price lists for business customers (e.g. Swedish Posten, Post Danmark, TNT, Royal Mail, French La Poste, Poste Italiane).

Overall, the pricing schemes of national postal operators often appear very complex. Customers have to fulfil many technical requirements before handing over their mail to the postal operator. Therefore, it is not surprising that in many Member States service providers like mailing houses, consolidators, print and letter shops have launched mail production and mail handling services for medium-sized and large mailers. Additionally, large and increasingly medium-sized mailers (i.e. mailers handling industrial mail) focus on costs related to the extended industrial postal value chain. In this value chain postal tariffs for physical delivery of the items are only one among other cost elements, i.a. paper and production costs, costs for handling the return mail (due to mistakes in the address database or due to bad delivery quality), and transaction and administrative costs related to the interconnection of the different elements of the industrial value chain (especially the handing over of letters items to the postal operator for final delivery). Therefore, one key question for large and medium-sized mailers is whether they should outsource the mail production. The “in-house” mail production results in substantial investments decisions with regard to e.g. printing machines, sufficient accommodations. In Germany, for example, very large mailers, especially from the financial industry, prefer “in-house production” for correspondence while direct mail is usually outsourced to letter shops.¹⁸⁸

It is obvious that for a vivid upstream industry national postal operators play a key role: First, the implementation of attractive and transparent rebate schemes is a necessary condition that such activities can evolve and develop (setting the right incentives). For this reason it is also necessary, that national postal operators have established on the one hand a sophisticated cost accounting system and on the other a customer-oriented key account management. Second, the “interconnection” between large mailers, upstream service providers (different from the national postal operators) and the national postal operators has to run smoothly.

¹⁸⁸ See WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers' demand for postal services].

Figure 4-42 The industrial postal value chain



Source: Walsh, T. (2007), The European mail manifesto, Second Edition, Figure 1.1.

The technological progress in electronic communication and in printing technologies has highly affected and promoted the upstream industry. Medium-sized and large mailers have the possibility to transfer the data files necessary to produce the letters electronically to a mailing house (hybrid mail). Letters are printed out and prepared for final delivery. The mailing house hands the mail over to the national postal operator and /or competing postal operator (where existing, e.g. in Germany). The mailer decides which postal operator delivers the mail. Additionally, mailing houses may offer their customers the possibility either to produce a physical letter which has to be handed over to a postal operator for final delivery or to send an electronic letter to the recipient.¹⁸⁹ One example for such a service is iPost offered by Finnish Itella:

“In the iPost service, companies deliver material – such as invoices, customer newsletters or payslips – in electronic form to Itella. Itella Information then prints out the material, puts it into envelopes and delivers it using the method preferred by the recipient, that is, either on paper via regular mail or in electronic format. The service shall speed up the information flow from the sender to the recipient. Routine tasks, such as enveloping and mailing, are carried out by Itella, and the company is responsible for providing the content. During 2008, iPost was extended to cover Sweden, Denmark, Norway and Germany. At the moment, iPost is also being introduced in eastern Central Europe, as Itella Information has launched operations in Slovakia.”¹⁹⁰

Generally, developments in upstream markets have not been in the focus of regular market observation of national regulatory authority. The French regulator ARCEP has commissioned a study on the mail preparation market in France in 2007.¹⁹¹ The French example shall illustrate the importance of the upstream business. We assume that the French example is typical for the role of the upstream industry at least in the Western Member States.

¹⁸⁹ Based on interviews with large German mailers (see WIK-Consult (2009), Nachfrage nach Postdienstleistungen von Geschäftskunden [Business customers’ demand for postal services]).

¹⁹⁰ Itella (2009), Already 105 million Itella iPost letters sent – With the service, companies can easily adopt electronic invoicing, press notice of January 13th, 2009.

¹⁹¹ ARCEP (2008), “Etude Relative à l’Activité de Routage en France”.

- In France 60 percent of industrial letters are processed by mailing houses; one third is correspondence, two third direct mail (2007).¹⁹² In its 2007 market survey ARCEP has briefly described the typology of the mailing houses active in the French mail preparation market: There are independent mailing houses, subsidiaries of postal operators, subsidiaries of large mailers and integrated communications service providers. The size of the companies in this segment varies between small and medium-sized and large service providers. Some of the independent mailing houses were taken over by foreign postal operators (e.g. KOBA by Deutsche Post).

However, also in other Member States this business has developed (depending on the size of the domestic market and the incentive structure set by the pricing schedules of the postal operator). In two Member States (Bulgaria and Slovakia) hybrid mail has even been used to circumvent the reserved areas because in these Member States the delivery of hybrid mail has not been reserved. As outlined in section 4.2.2.2 of this report the national postal operators increasingly enter this business by acquiring successful service providers or building up own service providers.¹⁹³ Some postal operators, notably Austrian Post and Finnish Itella have even entered the upstream segments of foreign domestic markets.

In Member States with perceptible competition in the letters market large and increasingly medium-sized business customers have benefited from competition. First, in Member States like Germany, Sweden or the Netherlands business customers have the choice between postal operators for sending letters. However, this is usually limited to the segments with emerged competition, i.e. in the Netherlands the direct mail and publications segment, in Sweden industrial mail and in Germany value added services distinct from universal service. After full market opening in the Netherlands and Germany, the competing postal operators have now the possibility to extend their services to other customer groups. Second, the incumbent postal operators react with changing offers (in services and prices) to their customers to meet competition. In the UK, medium-sized and large business customers have directly benefited from mandatory downstream access and upcoming service providers offering consolidation services.

- In Germany, about half of the companies with more than 49 employees have already made experiences with competing postal operators. The survey respondents mostly belong to the group of small and medium-sized business mailers: one third of the surveyed companies send more than 1,000 letters (mainly correspondence) per month; two thirds do not use any rebate scheme offered by Deutsche Post. This group of customers directly benefited from cheaper services of competing postal operators. The three most important reasons to use competing postal operators are therefore (i) saving costs (ii) collecting experiences with competing postal operators, and (iii) better customer services. The most important criteria

¹⁹² ARCEP (2008), Statistical Observatory on Postal Activities in France—2007, p. 40-43.

¹⁹³ Competition problems due to discriminatory access to the network of the national postal operator are discussed in section 4.2.2 of this report.

for selecting a postal operator that letters items are reliably and undamaged delivered to the recipient.¹⁹⁴

- Netherlands: In 2007 TNT has introduced a low-budget product (“Budgetmail”) delivered by its subsidiary VSP to meet competition from Sandd and Selekt Mail in the direct mail segment. The tariffs of the competing postal operators Sandd and Selekt Mail for the delivery of direct mail and publications (“printed matter”) were considerably lower than the tariffs of TNT.¹⁹⁵
- The Swedish postal regulator (PTS) stated in their retrospective on 14 years competition in the Swedish postal market: “After liberalisation the developments has been favourable for customers purchasing bulk mail services. The price level has gone down at the same time as service and quality had improved. Pressure on prices is most noticeable for second-class mail in general and in particular for mail to the areas where Posten AB has met competition from Bring Citymail. The customers who had been most active in negotiating prices and shown the greatest flexibility with regard to services are also those who experienced the greatest effects on prices and services after liberalisation.”¹⁹⁶

However, especially in Germany the target markets for competing postal operators are still limited to business customers who are able to deduct value added taxes (VAT). Interviews with large business mailers from the financial and insurance industry underline this view: They would think about using competing postal operators in the case that letter services provided by Deutsche Post would lose their VAT exemption.¹⁹⁷ Competing postal operators are not able to offer letter services at prices lower than the VAT exempted rates of Deutsche Post to business customers from the financial and insurance industry.

¹⁹⁴ See WIK-Consult (2009), “Nachfrage von Postdienstleistungen von Geschäftskunden” [Business customers’ demand for postal services]; and Antonia Niederprüm (2009), “Business customers in the German Mail Market”, Presentation at the World Mail & Express Europe Conference in Munich, 7-8 May 2009.

¹⁹⁵ See RBB Economics (2007), “Postmarktmonitor – Openbare Versie”, p. 58.

¹⁹⁶ Post & Telestyrelsen (2007), “The Liberalised Swedish Postal Market: The Situation 14 Years after the abolition of the monopoly”, p. 9.

¹⁹⁷ See WIK-Consult (2009), Nachfrage von Postdienstleistungen von Geschäftskunden [Business customers’ demand for postal services].

4.2.5 Developments in quality of service and accessibility

Quality of service comprises many different quality aspects. Major quality aspects of postal services are the reliability of delivery usually measured by the transit or routing time performance. From the recipients' point of view delivery frequency and delivery at the premises of the addressee are important quality aspects. Last but not least, the accessibility of the postal infrastructure plays an important role for customers (i.e. senders) as well as for recipients. These three aspects are addressed in the Postal Directive. The evolving needs of postal users (mailers as well as recipients) shall serve as key benchmark for the country specific design of the elements of the universal postal service, i.e. delivery frequency, transit time performance, and accessibility. The Postal Directive, however, takes care for minimum requirements, i.e. regular five day delivery per week and setting of transit time targets for universal services and their measurement.

4.2.5.1 Delivery

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

National postal legislation usually follows the minimum requirement set in the Postal Directive. Only in Denmark, France, Germany, the Netherlands and the UK six days per week are required (and provided, see Table 4-8). Additionally, Poste Italiane and Maltapost deliver six days per week without legal requirement. Only in two Member States the national postal operator has reduced the delivery frequency from six to five days per week: De Post–La Poste (Belgium) in 1999 and Latvijas Pasts (Latvia) in 2004. In some others the national postal operator provides six day delivery in urban areas without obligation: in Slovenia and Latvia. Pošta Slovenije, for example, has continuously improved the coverage; today all households receive letters at least on five days per week. However, the share of household receiving mail on six days per week has declined from 70 percent (2000) to 66 percent (2007).¹⁹⁸ Exemptions in the delivery frequency are possible under specific conditions¹⁹⁹ and are applied e.g. in Greece. The share of households in rural areas receiving mail at least on five days per week has continuously declined so that the average delivery frequency in rural areas declined from 4.5 in 1998 to 3.5 in 2007.²⁰⁰ Exemptions from the five day delivery also exist for a very low share of population in the Scandinavian countries.²⁰¹

Most universal service providers offer one delivery per working day. In Member States where the universal service providers also provide the early delivery of newspapers, i.e. in the Baltic countries, the postal operator delivers two times per day in urban areas. In the UK Royal Mail also used to deliver two times per day in urban areas: In 2003 Royal Mail abolished the second delivery per day as part of its cost saving programme.

¹⁹⁸ See Posta Slovenije, Annual Reports of 2000 and 2006.

¹⁹⁹ See Article 3 of the Postal Directive (“[...]save in circumstances or geographical conditions deemed exceptional [...]”). Exceptions have to be granted by the national regulatory authority.

²⁰⁰ Based on UPU data (Item no. 7.2 Average number of deliveries per week in rural area).

²⁰¹ See WIK-Consult (2005), Main Developments in the Postal Sector (2004-2006), p.51.

Table 4-8 Delivery days per week – requirements and performance

Country	Deliveries per week required by postal legislation	Deliveries per week in practice (1998)	Deliveries per week in practice (2007)	Deliveries per working day in urban areas (1998-2007)
AT	5	5	5	1
BE	5	6	5	1
BG	5	5	5	1
CY	5	n.a.	5	1
CZ	5	5	5	1
DE	6	6	6	1
DK	6	6	6	1
EE	5 day delivery for letter mail items and 6 day delivery for newspapers	n.a.	6	up to 1999: 1 delivery since 2000: 2 deliveries
ES	5	5	5	1
FI	5	5	5	1
FR	6	6	6	1
GR	5	5	5 in urban areas 3.5 in rural areas	1
HU	5	5	5	1
IE	5	5	5	1
IT	5	6	6	1
LT	5	5	5	2
LU	5	5	5	1
LV	5	6	6 in urban areas 5 in rural areas	up to 2001: 3 deliveries since 2002: 2 deliveries per working day
MT	5	6	6	1
NL	6	6	6	1
PL	5	5	5	1
PT	5	5	5	1
RO	5	5	5	1
SE	5	5	5	1
SI	5	5	6 in urban areas 5 in rural areas	1
SK	5	5	5	1
UK	6	6	6	up to 2002: 2 deliveries since 2003: 1 delivery per working day

Source: ITA Consulting / WIK-Consult

In some Member States there are exceptions from the delivery at the premises of the recipient: notably in Austria (around 1 percent), in two Scandinavian Member States (Denmark and Sweden, less than 0.01 percent of population), in Greece (no data) and Spain (5 percent)²⁰² and in some Eastern Member States (Czech Republic 0.1 percent, Hungary 1.8 percent and Slovakia

²⁰² We understand that in Spain postal legislation has been changed in order to specify exemption from home delivery more clearly (Ecorys (2008), Main Developments in the Postal Sector (2006-2008), Country Sheet: Spain, p. 879-881). However, it is not clear to us whether this will result in a decline in delivery quality compared to the 2005 figures.

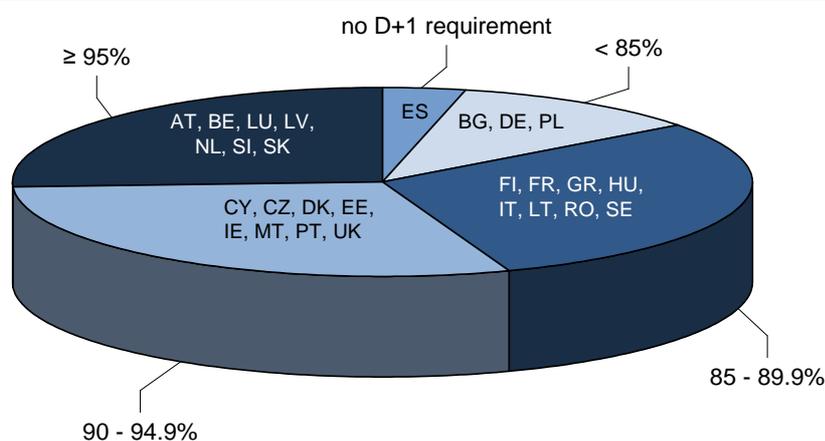
0.2 percent of population).²⁰³ The reason for these exemptions is clear: delivery to isolated houses (combined with a long detour from the main delivery route) results in higher delivery costs (and very high unit delivery costs for the items delivered). For this reason universal service providers have a strong incentive to exempt those households from home delivery and choose alternative locations for delivery (e.g. roadside boxes or even Community boxes located in the next village or town).

4.2.5.2 Transit time performance

TRANSIT TIME PERFORMANCE OF DOMESTIC LETTERS

The importance of service quality is reflected by the close regulatory oversight implemented in all Member States. Today, all Member States have set transit time targets for the letter services. The scope of quality regulation, however, varies: in some Member States: First, the focus of transit time targets lays on single piece items sent by small business mailers and consumers in many Member States. Usually, the fastest and the second fastest standard category, if provided, are subject to regulatory quality of service targets. In some Member States, transit time targets have been set for further products, i.a. registered mail and publications, or have been related to price regulation (e.g. in Portugal and the UK).²⁰⁴ In the following, we focus on the performance of the standard product with the highest quality requirements, the D+1 letter service.

Figure 4-43 D+1 transit time targets set by national postal legislation per Member State (2008)



Source: ITA Consulting / WIK-Consult

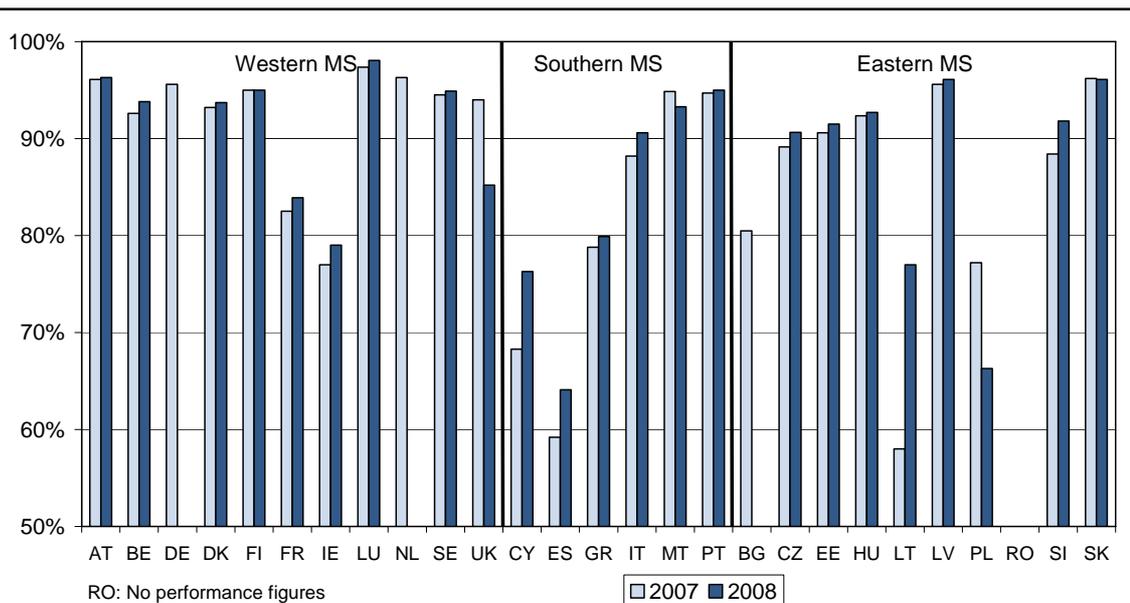
²⁰³ See WIK-Consult (2005), Main Developments in the Postal Sector (2004-2006), p.51.

²⁰⁴ The widest scope of quality of service regulation has been implemented by Postcomm (UK). By licence Royal Mail has to achieve specific transit time targets i.a. for retail first and second class products as well as bulk first, second and third class services (see Postcomm, Licence granted to Royal Mail Group plc, Annex to Condition 4). See for more information on quality of service regulation, for example WIK-Consult (2003), Quality of Service Objectives, Performance, and Measurement in Relation to Community Universal Postal Service, and WIK-Consult (2006), Main Developments in the Postal Sector (2004-2006).

All Member States have set targets equal or above 80 percent (to be delivered the next working day) except for Spain the only Member State that defines a D+3 target. Many Member States have successively increased these targets over time. Only two Member States have relaxed the targets: in Denmark (from 97 to 93 percent) and Finland (in 2005 from 95 to 85 percent).²⁰⁵ More than half of the Member States (15 out of 27) have set targets equal or above 90 percent, i.e. 90 percent of letters of the fastest standard category shall be delivered the next working day.

In parallel to the definition of transit time targets a common measurement standard has been developed and widely established: the CEN Standard EN 13850 on measurement of transit time of end-to-end services for single piece priority and first-class mail. Since 2004 this standard is mandatory for all Member States. The standard requires that the transit time performance is measured by an independent organisation (sometimes commissioned by the regulatory authority, e.g. in Ireland or Greece, but mostly on behalf of the universal service providers). Measurement starts with clearing of the street letter box or of the postal outlet and ends with the final delivery.

Figure 4-44 D+1 Transit time performance of the FSC (2007 and 2008)



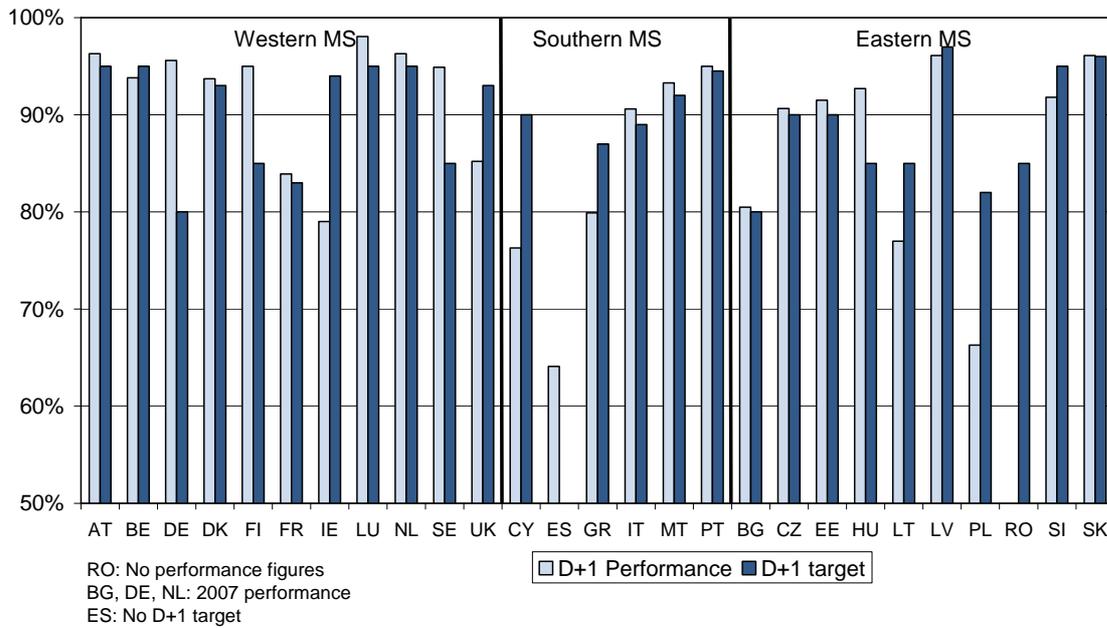
Source: ITA Consulting / WIK-Consult

In 2007 the D+1 performance ranged from 59.2 percent in Spain to 97.4 percent in Luxembourg. Fifteen universal service providers have achieved a performance of more than 90 percent; only in five Member States the postal operators achieved a performance of less than 80 percent: Irish An Post, Cyprus Post, Spanish Correos, Latvijas Pasts (Latvia) and Poczta Polska (Poland). In many Member States this positive development has continued in 2008. Especially

²⁰⁵ In rural areas Finland Post has started jointly delivering newspapers and letters in the early morning in 2005. Due to early delivery it is not feasible to collect, transport, and deliver a high percentage of letters the next working day. For this reason the government decided to reduce the transit time target.

the Latvijas Pasts could considerably enhance its performance: from 58 to 77 percent. However, declining transit time performances have occurred in Poland and the UK. Royal Mail's transit time performance was severely affected by industrial action in 2007/2008; in the last Financial Year (2008/09) Royal Mail has achieved a D+1 performance of 93 percent.

Figure 4-45 Transit time performance and regulatory targets (2008)

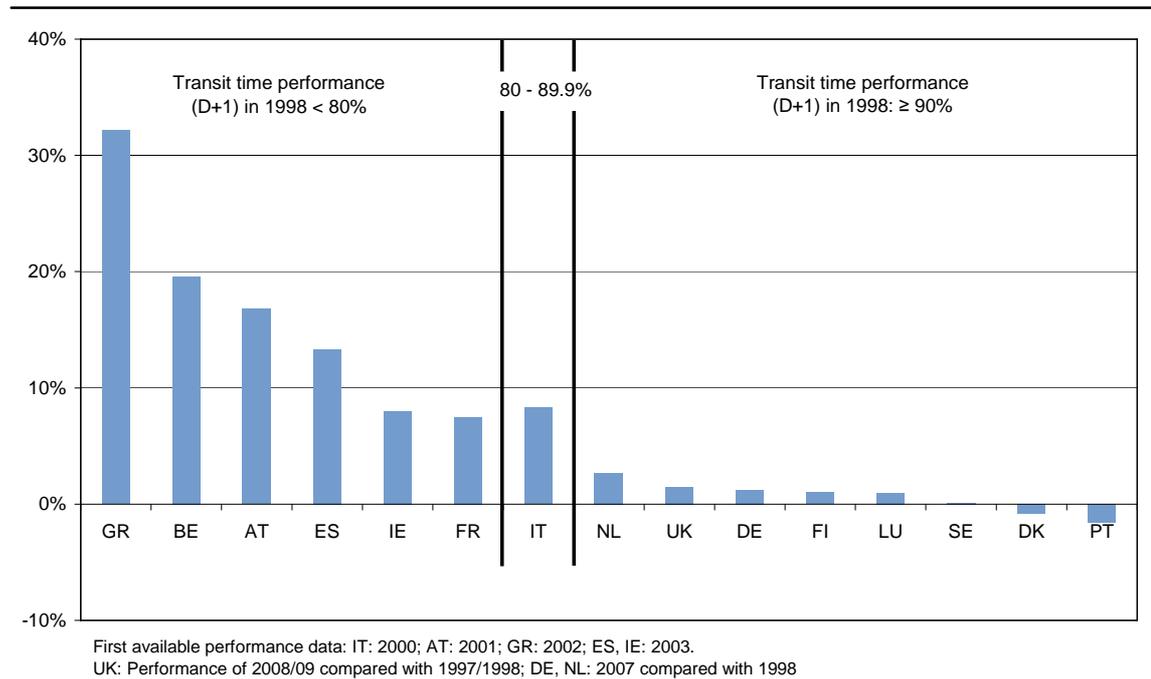


Source: ITA Consulting / WIK-Consult

Many universal service providers have met or roughly met the regulatory targets (Figure 4-45). However, there are still operators with performances far below the regulatory targets: An Post (Ireland), Cyprus Post, ELTA (Greece), Lietuvos Paštas (Lithuania) and Poczta Polska (Poland).

Quality of service regulation started earlier in the “old” Member States (EU-15). This resulted in longer time-series information compared to the “new” Member States (NMS). For this reason changes in the performance are considered for both country groups, separately.

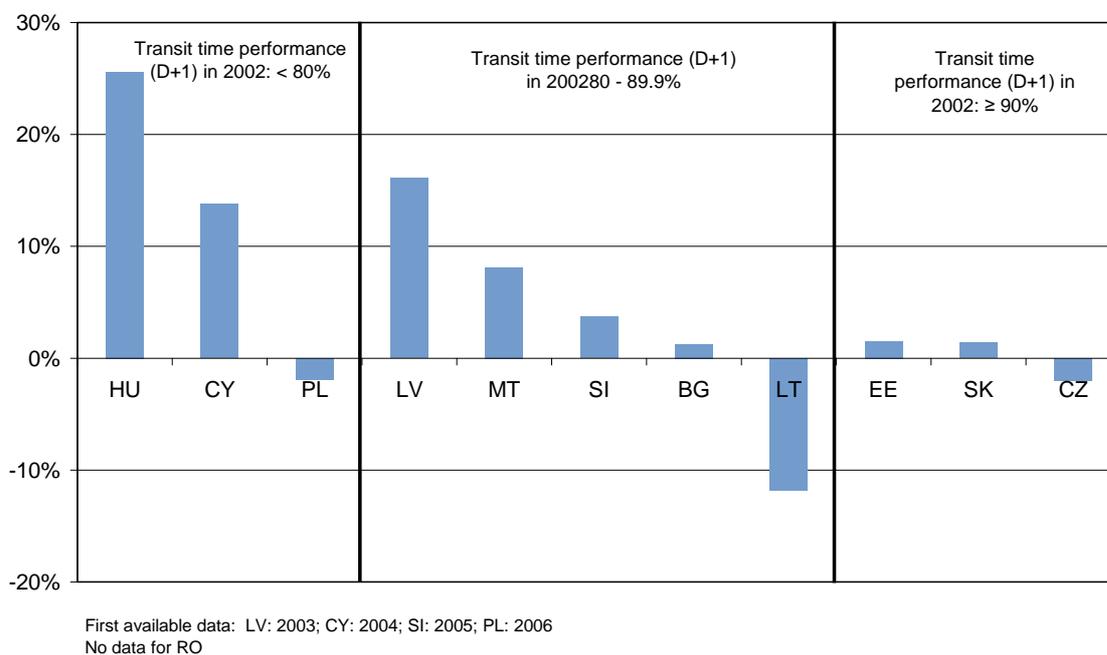
Figure 4-46 Change in D+1 transit time performance between 1998 and 2008 – EU-15



Source: ITA Consulting / WIK-Consult

Within the EU-15 the most significant improvements in transit time performance have occurred in Greece, Belgium and Austria. While Belgian De Post–La Poste and the Austrian Post have successfully met their regulatory targets Greek ELTA is still under-performing. Figure 4-46 illustrates that improvements in transit time performance have been higher in Member States coming from a low performance level. In contrast, improvements of “high-performing” postal operators were limited; the transit time performances achieved by Post Danmark and Portuguese CTT Correios have even slightly worsened but remained above 90 percent. Of course, the potential for improvement is limited if the postal operator has already achieved a performance level above 90 percent in 1998. A relatively high performance in 1998 also indicates that these postal operators already accomplished key elements of the modernisation process during the nineties (see section 4.2.3).

Figure 4-47 Change in D+1 transit time performance between 2002 and 2008 – New Member States



Source: ITA Consulting / WIK-Consult

The postal operators in the new Member States have also made considerable progress in quality of service, especially the Hungarian Magyar Posta that improved its performance from less than 70 percent in 2002 to more than 90 percent in 2008. However, the picture is mixed which might be caused by the change in measurement methods (due to the implementation of the mandatory CEN standard EN 13850).

In the view of customers, reliability of letter services is one of the most important characteristics of the service²⁰⁶ and represents a unique selling point compared to standard electronic mail services (i.e. without digital signature). Reliability and transit time performance are strongly interrelated. Generally, performance improvements indicate that the universal service providers have made progress in modernising postal operations. Especially many Eastern but also some of the Western (e.g. Royal Mail, French La Poste and Irish An Post) and of the Southern Member States are still in the middle of the process of modernising (Portuguese Correios has achieved the edge of transit time performance). Notably, the postal operators of the Eastern Member States have made substantial progress in quality of service except for the Lietuvos Paštas (Lithuania) and the Poczta Polska (Poland).

It appears that geographic, socio-demographic factors and the size of the letter post market (in terms of items per capita) do not play a major role in quality of service; apparently, technological progress and increasing efficiency in postal operations have overcome these challenges in many countries:

²⁰⁶ See section 4.2.6 for more information on customer satisfaction.

- Size of the country and population density: There is no obvious relationship between country size, population density and transit time performance; the universal service providers of large and sparsely populated Member States, like Finland and Sweden, achieve very high performance levels. In other large countries, like France or Italy, transit time performance is steadily improving. In contrast, Spanish Correos and Poczta Polska (Poland) still have considerable potential for improvements.
- Difficult accessibility: Greece and Denmark both have many islands; however, while Post Danmark has successfully tackled this challenge, it appears that Greek ELTA still have potential for improvements.
- Low number of letter post items per capita: especially the letter post markets of the Baltic Member States and of Slovakia are characterised by a very low number of letter post items; even Hungary and the Czech Republic have less than 100 letter post items per capita. However, their universal service providers have succeeded to improve quality of service and to offer more reliable letter services than five years ago.

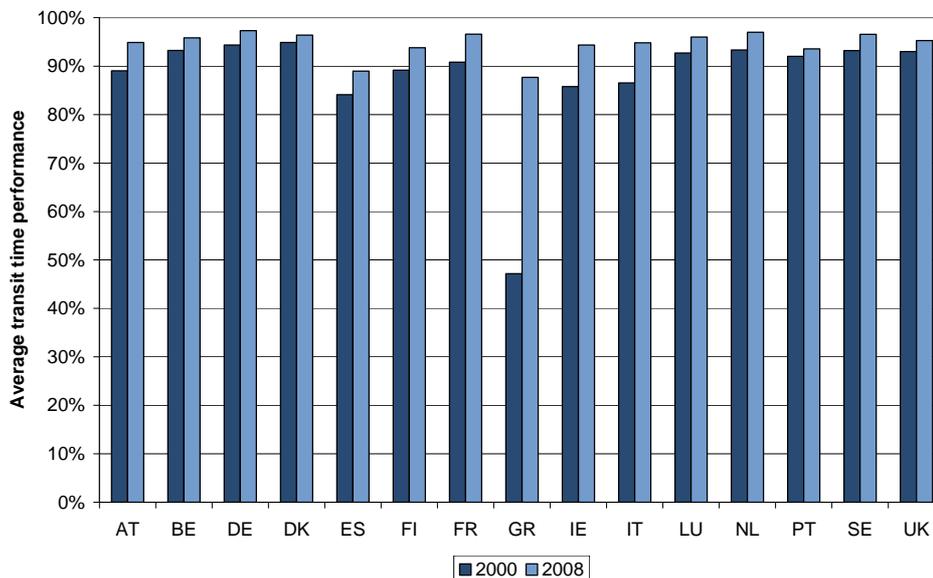
TRANSIT TIME PERFORMANCE OF CROSS-BORDER LETTERS WITHIN THE EUROPEAN UNION

Severe quality problems of cross-border mail have been one of the key criticisms stated by the Postal Green Paper.²⁰⁷ For this reason quality standards for intra-Community cross-border mail has been established in the first Postal Directive: 85 percent of cross-border postal items of the fastest standard category shall be delivered within three working days. Additionally, the Postal Directive requires in Article 13 that “— levels of remuneration shall be related to the quality of service achieved,”. This requirement has been implemented in the REIMS agreement that regulates the cross-border traffic between the members of the agreement, i.e. between national postal operators.²⁰⁸ The quality standard has to be achieved not only for the entirety of intra-Community traffic but also for each of the bilateral flows between two Member States. At the time of the first Postal Directive the Community consisted of fifteen Member States which meant that the quality target had to be met on 210 relations. The EU enlargement has boosted the number of relations to 702.

²⁰⁷ See Postal Green Paper, p. 3: “In terms of number of days taken from collection to delivery, a domestic item takes an average of 1.5 to 2.0 working days, whereas a cross-border item within the Community takes an average of 4.0 days.”

²⁰⁸ See European Commission, Case COMP/38.170 — REIMS II Terminal Dues, OJ C 94/3, 23.4.2003. We assume that the current agreement applies the same principle (linkage between transit time performance and terminal dues).

Figure 4-48 Cross-border transit time performance (D+3), average per destination country (EU-15 i.e. based on 14 relations per country), 2000 and 2008



Source: ITA Consulting / WIK-Consult (based on IPC UNEX reports 2000 and 2008)

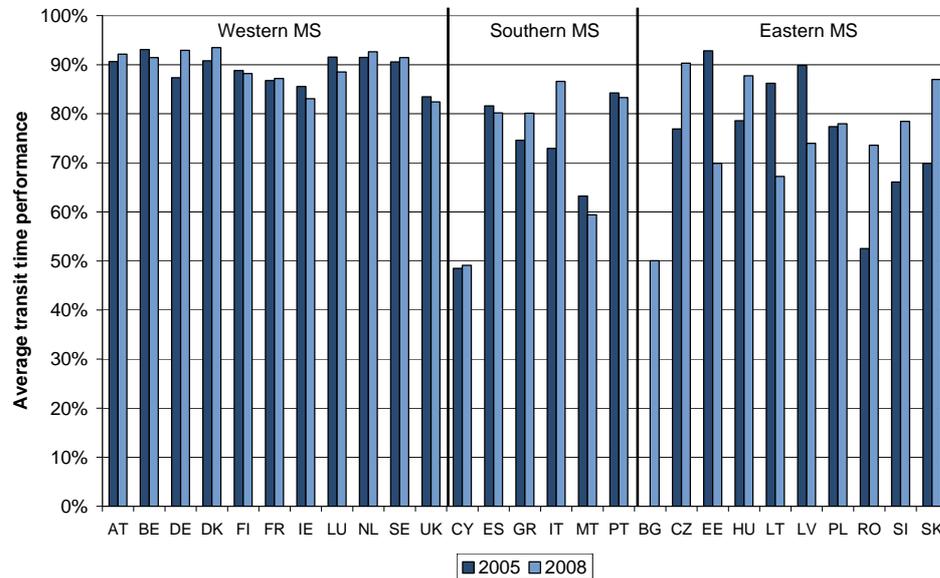
Notes: Average per destination country means that e.g. for Austria (AT) the unweighted average is calculated based on the transit-time performances of the 14 relations (origin-destination) BE-AT, DE-AT, ..., UK-AT. We assume that potential quality problems are usually related to the delivery quality in the destination country.

Since more than one decade cross-border quality of service has been measured on behalf of the International Post Corporation (IPC) which yearly publishes both, the overall performance and the performance between the national postal operators participating in the UNEX system.²⁰⁹ In 1998 the overall performance of the UNEX-18 countries (including EU-15 Member States) was 85.6 percent; in 2008 the same group achieved a performance of 96.3 percent; an increase of more than ten percentage points. The transit time performances between the “old” Member States (EU-15) have steadily improved since start of the measurements. In 2008 approximately 97 percent of country-to-country relations between EU-15 Member States have achieved or (substantially) outperformed the target of 85 percent. Notably, the performance of relations with the destination country Greece (ELTA) has been considerably improved (see Figure 4-48). These results are roughly in line with improvements in domestic transit time performance: In order to achieve 85 percent D+3 it is necessary to have a fairly good D+1 performance in the destination country.²¹⁰

²⁰⁹ See International Post Corporation (different years), External Quality of Service Monitoring: Improving the Quality of International Mail (www.ipc.be). Recently the 2008 results have been published. The UNEX-18 includes EU-15 Member States plus Norway, Iceland and Switzerland. The UNEX-29 includes the EU-25 plus Romania, Norway, Iceland and Switzerland. The UNEX-34 adds Bosnia & Herzegovina, Bulgaria, Croatia, F.Y.R.O.M. (Macedonia) and Turkey.

²¹⁰ For more information see WIK-Consult (2003), Quality of Service Objectives, Performance and Measurement in Relation to Community Universal Postal Service, p. 148-154.

Figure 4-49 Cross-border transit time performance (D+3), average per destination country (EU-27 i.e. based on max. 26 relations per country), 2005 and 2008



Source: ITA Consulting / WIK-Consult (based on IPC UNEX reports 2005 and 2008)

The enlargement of the European Union has decreased the average performance of cross-border transit times. This is not surprising because the national postal operators in the new Member States need time to modernise their operations. Furthermore, transport distances between countries and mail volume per relation vary considerably.²¹¹

Some progress in cross-border transit time performance has been made since 2005: Significant improvements on country-to-country relations with new Member States as destination country have been achieved in the Czech Republic, Hungary, Romania, Slovakia and Slovenia. However, the average transit time performance of relations with the destination countries Cyprus and Bulgaria are still below 50 percent indicating severe quality problems in these countries. Additionally, declining average transit time performances can be observed in the Baltic countries Estonia, Lithuania and Latvia. The low performance observed on country-to-country relations with the destination Bulgaria, Estonia and Latvia do not match with the published domestic D+1 transit time performance.

In 2008, the transit time target of 85 percent was achieved for 408 relations (out of 689 relations with available results, i.e. 59 percent) compared to 268 relations in 2005 (57 percent of 465 relations with available results). Altogether, the cross-border transit time target was met in 2008: for the UNEX group of 29 countries (including 26 Member States) the overall D+3

²¹¹ IPC points out that the statistical accuracy of 37 percent of the country to country results published by IPC (2008) reach a statistical accuracy above 5 percent, mainly due to small volume mail flows (see IPC, UNEX Results 2008, p. 5).

performance was 95.4 percent (compared to 93.1 percent in 2005); for the UNEX group of 34 countries (including all Member States) the performance was 94.6 percent.²¹²

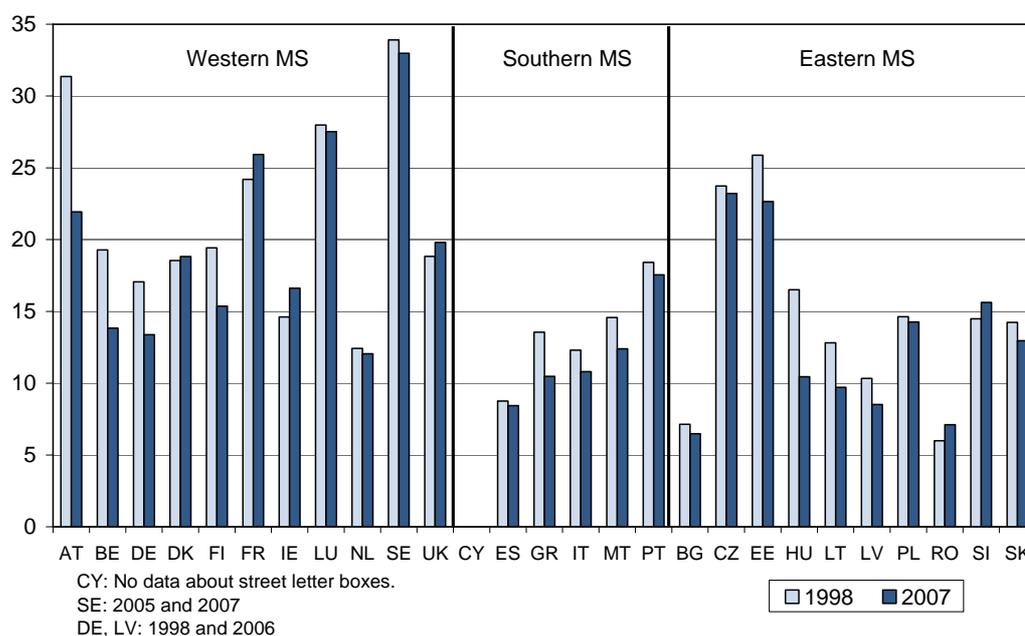
4.2.5.3 Accessibility of postal services

The third key element of the universal postal service is the accessibility of the postal infrastructure for individuals and business customers. A fairly densely network of postal outlets and street letter boxes shall safeguard access to postal services. Postal outlets comprise post offices, i.e. outlets operated by employees of the postal operators and postal agencies (i.e. outlets operated by third parties).

STREET LETTER BOXES

Street letter boxes are very important for individuals and small business customers. They can send their mail at any time independent on opening hours of the next postal outlet. Additionally, street letter boxes are easier to access because of lower distances to the next street letter box: the number of street letter boxes per 10,000 inhabitants is substantially higher than the number of postal outlets per 10,000 inhabitants.

Figure 4-50 Number of street letter boxes per 10,000 inhabitants (1998 and 2007)



Source: ITA Consulting / WIK-Consult based on UPU data

Historically, street letter boxes are utilised in every Member State. In the majority of the Member States the density of street letter boxes (number of street letter boxes per 10,000) has declined between 1998 and 2007 (see Figure 4-50), notably in Austria, Belgium, Finland,

²¹² See IPC, UNEX Results 2008, p. 1 and UNEX Results 2005, p. 1.

Germany, Greece and Hungary. The density of street letter boxes is highest in the Western Member States and relatively lower in the Eastern and Southern Member States. Spain, Bulgaria and Romania have the lowest density with less than 10 street letter boxes per 10,000 inhabitants. France, Luxembourg and Sweden have the highest density with more than 25 street letter boxes per 10,000 inhabitants.

The share of letters collected by street letter boxes is relatively low.²¹³ The daily collection of letters posted in street letter boxes is characterised by a high share of fixed costs in terms of mail volume (the street letter boxes have to be daily cleared irrespective whether letters have been posted or not). The key cost drivers in collection are the number of street letter boxes to be daily cleared and the number of daily clearings. To reduce costs universal service providers have therefore an incentive to reduce the number of street letter boxes.

So far, most competing postal operators in the letters market focus on business customers. They pick up the letters at the premises of the customer, i.e. they do not need any street letter boxes to collect mail. Only in Germany and Sweden, there are some local competitors that have also positioned street letter boxes to offer their letter services to individuals. We are not aware of street letter boxes that have been positioned by competing postal operators in other Member States.

POSTAL OUTLETS

Table 4-9 Development of postal outlets operated by universal service providers – EU-25 (1998 – 2007)

Country group	Postal outlets		CAGR 1998-2007	Share of post offices	
	1998	2007		1998	2007
Universal service providers of the Western Member States	63,515	54,465	-1.7%	46%	39%
Universal service providers of the Southern Member States	23,860	22,977	-0.4%	85%	83%
Universal service providers of the Eastern Member States (excl. BG, RO)	19,192	19,023	-0.1%	96%	82%
All postal operators (EU-25)	106,567	96,465	-1.1%	64%	58%

Source: ITA Consulting / WIK-Consult

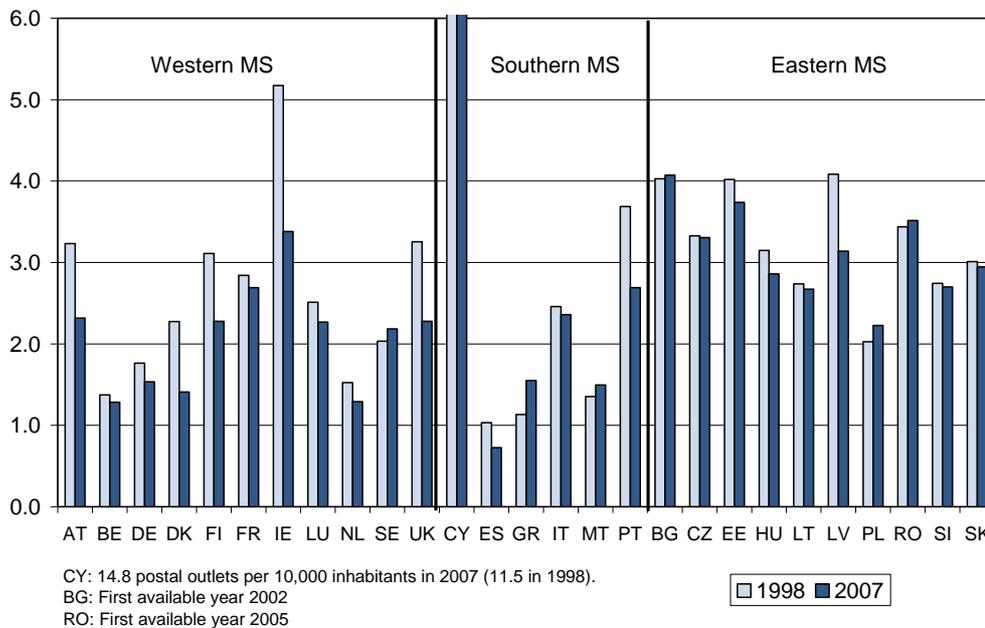
Notes: BG and RO excluded (no data before 2002 respectively 2005)

In the EU-25, the overall number of postal outlets has decreased by 1.1 percent between 1998 and 2007 (see Table 4-9). In the Western Member States the universal service providers have substantially reduced the number of postal outlets. Additionally, they had a higher share of franchised postal outlets or sub-postmasters (in Ireland and the UK) than in the rest of the EU. The share of post offices has continued declining between 1998 and 2007 to less than 40 percent. In contrast, the number of postal outlets remained fairly stable in the Southern and Eastern Member States. Post offices remained the favoured form of postal outlets in these countries with shares above 80 percent. For Bulgaria and Romania data on total outlets have

²¹³ In Sweden the share of letterbox mail is below 10 percent (see PTS (2008), Service and competition 2008, p. 18).

been available since 2002, respectively 2005. Similar to universal service providers of other Eastern Member States the number of postal outlets has been fairly stable and postal outlets are dominated by post offices (with shares above 90 percent).

Figure 4-51 Number of postal outlets per 10,000 inhabitants (1998 and 2007)



Source: ITA Consulting / WIK-Consult

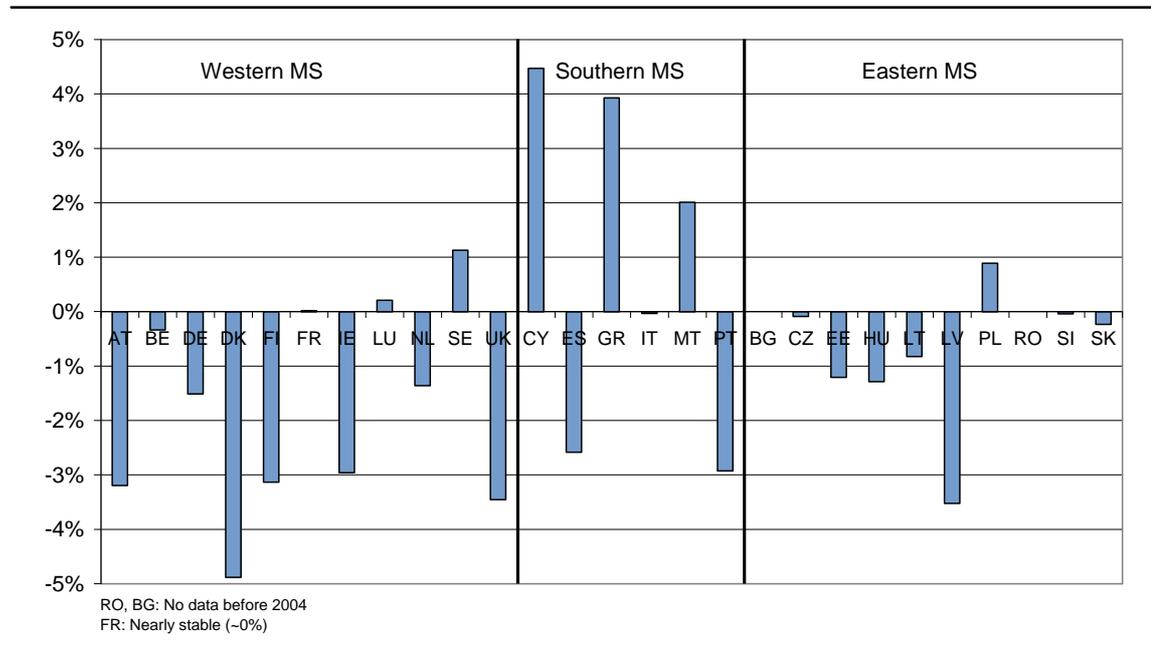
In the majority of the EU-27 Member States the number of postal outlets per 10,000 inhabitants has stagnated or only slightly decreased between 1998 and 2007 (see Figure 4-51). Significant reductions have occurred in the Western Member States Austria, Denmark, Finland, Ireland and the UK; in one Southern Member State (Portugal) and in one Eastern Member State (Latvia). However, in other Member States accessibility has improved: i.a. in Bulgaria, Poland and Romania; Greece and Malta; and in Sweden. Spanish Correos has the retail network with the lowest density of postal outlets: Correos extensively uses mobile post offices, i.e. the postmen offer postal services at the premises of the customers.

Overall, the density of postal outlets in the Eastern Member States appears relatively high compared to the rest of the EU. However, the density of postal outlets has a limited explanatory power without considering the size and population density of a country: Generally, with increasing population density the number of postal outlets per 10,000 inhabitants should be lower:

- In 1998 the five Member States (EU-27) with lowest population density (Finland, Sweden and the Baltic countries) had on average 3.2 postal outlets per 10,000 inhabitants. The average density of postal outlets of the five Member States with the highest population density (Malta, the Netherlands, Belgium, the UK and Germany) was 1.9 per 10,000 inhabitants. In 2007 the figures declined for the countries with the lowest population density to 2.8 and for the densely populated countries to 1.6.

- There are countries that do not fit in this picture, e.g. Spain (with 1, respectively 0.7 postal outlets per 10,000 inhabitants in 1998 and 2007) and the UK (member of the densely populated countries; with 3.3 respectively 2.3 postal outlets per 10,000 inhabitants).

Figure 4-52 Average growth rate of total postal outlets between 1998 and 2007 – EU-27



Source: ITA Consulting / WIK-Consult

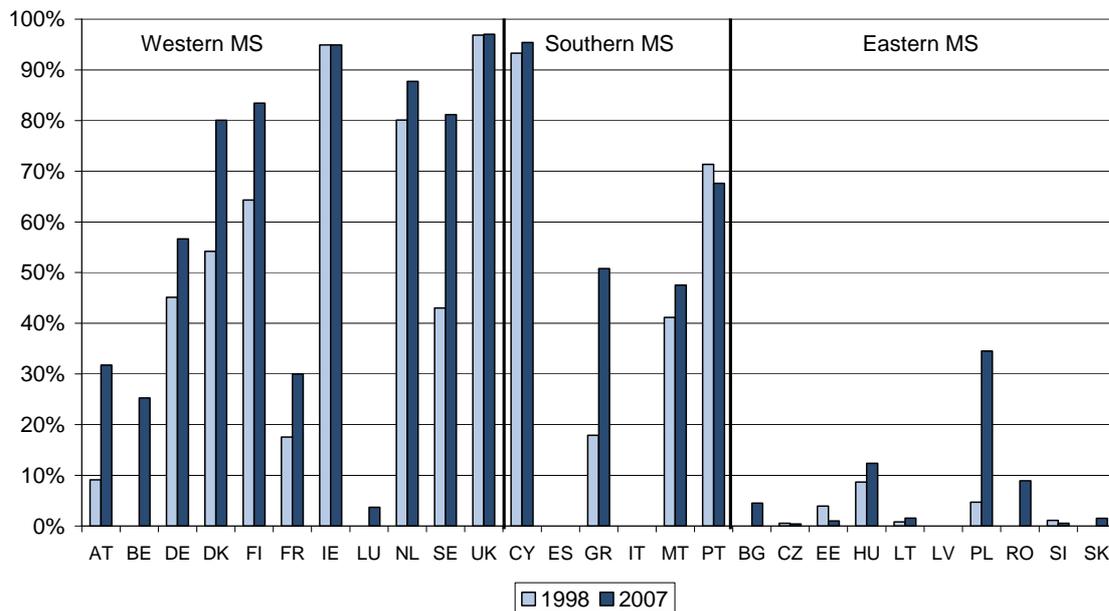
The density of postal outlets is strictly regulated in many Member States and, additionally, changes in the postal retail network are often subject of political intervention which may partly explain variations. For this reason the universal service providers regularly assess how to adapt their retail networks as cost efficiently as possible: Over the last decade many universal service providers have reduced the number of postal outlets, especially in the Western Member States but also in Spain, Portugal and Latvia (see Figure 4-52).

However, with emerging and intensifying competition in the B2C parcels markets and the establishing of parcel shops by competing postal operators (e.g. Hermes in Germany)²¹⁴ the trend to reduce the number of outlets seems to be slowed down: Deutsche Post, for example, has established additional service points even though with limited service offerings for individuals (e.g. without possibility to pick up registered letters or parcels).²¹⁵

Furthermore, in Sweden, Greece and in Poland the universal service providers have even increased their number of postal outlets by establishing additional postal agencies as shown in Figure 4-53.

²¹⁴ See section 4.3.6 for more information on the establishment of parcel shops.

²¹⁵ See Deutsche Post (2008), Deutsche Post setzt Service Offensive fort [Deutsche Post continues improving customer service], press notice of 13 June 2008.

Figure 4-53 Share of postal agencies – EU-27 (1998 and 2007)

Source: ITA Consulting / WIK-Consult

Notes: BG, RO— no data for 1998

The Swedish, the Greek and the Polish national postal operators are the ones that have substantially increased the share of postal agencies. Generally, in the Western Member States the share of postal agencies on total postal outlets has been considerably increased by universal service providers between 1998 and 2007, notably in Austria, Belgium and the Scandinavian Member States. Ireland, the UK and Cyprus have exceptionally high shares of postal agencies for historical reasons. In Cyprus for example, about 95 percent of the postal outlets are so-called agents owning small businesses. Besides providing basic postal services these agents are also responsible for delivery and collection mail in the respective village which may explain the high number of “postal agencies” and thus of postal outlets in Cyprus.

The increasing use of postal agencies illustrates that many universal service providers substitute relatively expensive post offices by less costly postal agencies to save costs in the retail network. However, some postal operators have no or a relatively low number of postal agencies (notably in France, Italy, Spain and most Eastern Member States). In Spain, Correos has substantially reduced the number of post offices and replaced by mobile post offices instead of establishing postal agencies.

Additionally, it appears that there may be a relationship between the share of post offices and the importance of (postal) financial services in the business of the postal operator: The former postal administrations have all offered postal financial services. Postal financial services and other counter activities accounted for 33 percent of total revenues in 1990.²¹⁶ The situation

²¹⁶ See Commission of the European Communities (2002), Green Paper on the Development of the Single Market in Postal Services, COM(91) 476 final, p. 31.

today has considerably changed. Financial services contribute a significant share to total revenues of ten postal operators (revenue share >10 percent):

- Poste Italiane does not use any postal agencies. Two third of total revenues have been earned by financial and insurance services in 2008. Since 2001 this share has increased by more than 30 percentage points.
- In the francophone countries (Belgium, Luxembourg, France and—as non EU country—Switzerland) financial services provided in postal outlets play a certain role: La Poste (France) has even established a postal bank (La Banque Postale) in 2006. The share of postal agencies established by French La Poste is around 30 percent, one of the lowest shares within the Western Member States.
- Postal financial services still play an important, but a slowly declining role in most of the Eastern European postal operators (of Czech Republic and Slovakia, the Baltic Member States, Hungary, Poland and Slovenia). ²¹⁷ In all Eastern Member States except for Poland the share of postal agencies is below 10 percent.

In contrast, many Western postal operators have considerably reduced the provision of financial services, notably the Scandinavian postal operators (including Posten Norge), TNT and Deutsche Post who has sold its subsidiary Postbank AG to the largest German bank, Deutsche Bank. However, causality remains unclear because changes in size and design of universal service providers' retail networks are subject to detailed regulatory requirements²¹⁸ and political discussion. In any case, financial service offerings help to better use post offices to full capacity and provide a contribution to cover their costs.

²¹⁷ See UPU postal statistics and annual reports.

²¹⁸ See for example WIK-Consult (2006), Main Developments in the European Postal Sector (2004-2006).

4.2.6 Developments in customer satisfaction

In general, in monopolised industries the customer awareness and customer care is not in the focus of the monopolists. In this situation customers have not the choice between different service providers. This is also a central risk highlighted by the Postal Green Paper: the former postal administrations have often failed to take care on (changing) customer needs. This may also explain the success of the private parcel and express companies during the 80ies and the 90ies.

The customer base of postal operators is characterised by an extremely asymmetric structure with regard to revenue contribution: While a low number of large business customers generate a high share of postal revenues the huge number of small customers' revenue contribution is limited (see section 4.2.4.1). From this viewpoint it is not surprising that commercialising postal operators primarily focus on large customers but may often forget the small business mailers and the consumers. Additionally, the principle "the sender pays the service" often limits the focus on the sender of mail and blanks the recipients' side. Accordingly, universal service regulation has a special focus on requirements that safeguard that the needs of consumers and small business customers are appropriately met by the universal service providers.

There are different ways to deal with customer satisfaction. One way is to consider the developments in complaints filed by postal customers. Complaints are an additional way to express dissatisfaction with a service. However, this requires first customers (senders and recipients) have an easily accessible way to file a complaint and second customers can expect that the postal operator takes the complaints seriously. Third, the regular publication of complaints statistics is necessary to use them as an indicator for customer satisfaction.

Another way to deal with developments in customer satisfaction is to analyse publicly available consumer and business customer surveys of the Member States. This analysis is based on several sources of information:

- Customer surveys carried out on behalf of regulatory authorities
- Information on customer satisfaction published by universal service providers in their annual reports
- EU consumer surveys on services of general interest (Eurobarometer)²¹⁹

Additionally, we supplement this information with business customer interviews: The study team conducted on average five standardised short interviews with business customers in every Member State.²²⁰ It is obvious that the interview results are not representative for the respective countries. However, they provide some interesting insights especially in countries where we have not found publicly available business customer surveys.

²¹⁹ For six Member States (Austria, Belgium, Germany, Poland, Sweden and UK) consumer surveys have been carried out in the course of the EC funded project "Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE)" (see www.pique.at for the summary report and related publications).

²²⁰ For the following Member States TNS Infratest conducted the interviews: Cyprus, Czech Republic, Greece, Italy, Poland, Portugal, Slovenia and Slovakia.

In the following we start considering existing complaints statistics. Subsequently, we discuss the developments on customer satisfaction based on survey information and business customer interviews.

COMPLAINTS STATISTICS

Article 19 of the Postal Directive requires Member States to ensure that “transparent, simple and inexpensive procedures are drawn up for dealing with user’s complaints, particularly in cases of theft, damage or non-compliance with service quality requirements.”²²¹ All Member States have implemented the requirement in their postal legislation. In all EU countries customers have to submit their complaint to the USP first before they can address another authority in case they are not satisfied with the reaction to their complaint. The Directive also requires Member States to ensure the publication of complaints statistics (number of complaints and the manner in which they have been dealt with) by the universal service.²²²

Table 4-10 Complaints statistics in the European Union (EU-27)

<i>Member State</i>	<i>Number of complaints publicly available?</i>	<i>Published by:</i>	<i>Years of publication</i>	<i>Information content</i>
AT	Yes	USP (report to the NRA)	2008	Satisfactory
BE	Yes	USP (annual report)	2008	Improvable
BG	Yes	NRA (market survey)	2005-2007	Fairly satisfactory
CY	No publication found			
CZ	Yes	USP (annual report)	2005 - 2007	Fairly satisfactory
DE	Yes	NRA (annual report, number of complaints filed at NRA)	1999 - 2008	Improvable
DK	Yes	USP (homepage)	2001 - 2008	Satisfactory
EE	No publication found			
ES	Yes	USP (annual report)	2003 - 2007	Satisfactory
FI	No publication found			
FR	Yes	USP (report on universal service)	2005 - 2008	Satisfactory
GR	Yes	NRA (annual report, number of complaints filed at NRA)	2006 - 2008	Improvable
HU	No publication found			
IE	Yes	USP (annual report)	2003 - 2008	Satisfactory
IT	Yes	USP (Quarta della Qualità)	2006 - 2008	Fairly satisfactory

²²¹ In the third Postal Directive this paragraph is changed to “Member States shall ensure that transparent, simple and inexpensive procedures are made available by all postal service providers for dealing with postal users’ complaints, particularly in cases involving loss, theft, damage or noncompliance with service quality standards”.

²²² The EU standard EN 14012 on measurement of complaints and redress procedures for postal services provides a guideline how to design the complaints statistics. So far, the application of this standard is not mandatory for Member States.

Member State	Number of complaints publicly available?	Published by:	Years of publication	Information content
LT	Yes	USP (annual report)	2004 – 2007	Fairly satisfactory
LU	Yes	USP (annual report)	2003 - 2007	Satisfactory
LV	Yes	NRA (annual report, number of complaints filed at NRA)	2002-2007	Improvable
MT	Yes	USP (website)	2005 - 2009	Fairly satisfactory
NL	Yes	USP (report to the NRA)	2004 - 2006	Fairly satisfactory
PL	Yes	NRA (annual report)	2007 - 2008	Satisfactory
PT	Yes	USP (annual report)	2005 - 2007	Fairly satisfactory
RO	Yes	USP (website)	2006 - 2007	Satisfactory
SE	Yes	NRA (market survey)	2000 - 2008	Fairly satisfactory
SI	Yes	USP (annual report)	2007	Fairly satisfactory
SK	Yes	USP (annual report)	2006 – 2007	Improvable
UK	Yes	USP (annual report)	2005 - 2008	Improvable

Source: ITA Consulting / WIK-Consult

Notes: NRA—National Regulatory Authority

USP—Universal Service Provider

Information content:

Satisfactory—segmented complaints statistic including a figure that sets the number of complaints in relation to the number of mail/parcel items

Fairly satisfactory—segmented complaints statistic

Improvable—only general information on complaints or one figure without any segmentation or reference to volume figures

We found complaints statistics in 23 Member States. In about three quarter of these countries the universal service provider has published the figures. However, the information content of the statistics considerably varies from one general figure to well-segmented complaints statistics including a reference to the total letter post volume (see Table 4-10).

If we look at the pure figures it is difficult to conclude whether customer satisfaction (in terms of complaints) has improved or not. Generally, it appears that the awareness of customers (usually small business customers and consumers) on existing complaints facilities has improved which may be reflected in increasing numbers of complaints. We found reasonable time-series information on complaints in ten Member States:²²³

- An increasing number of complaints can be observed in Bulgaria, Czech Republic, Italy, Luxembourg, Malta, Portugal and Spain;
- A fairly stable number of complaints can be observed in France;

²²³ For other Member States the information is not sufficient to make a statement on developments.

- An increasing and recently a declining trend can be observed in Denmark, Ireland and Sweden.
- In the UK the number of complaints has decreased.

With reference to developments in the number of complaints it appears that customer satisfaction has improved in the UK; has recently improved in Denmark, Ireland and Sweden; has been fairly stable in France; and has reduced in Bulgaria, the Czech Republic, Italy, Luxembourg, Malta, Portugal and Spain. It should be noted that we have not found any publicly available complaints statistics in Cyprus, Estonia, Finland and Hungary. However, compared to earlier EU postal sector studies the data availability has considerably improved.²²⁴

SURVEYS ON CUSTOMER SATISFACTION AND DEMAND BEHAVIOUR

Table 4-11 Customer Satisfaction Indices published by universal service providers (annual reports)

USP of	Publication years	Specific characteristics
BE	2003 - 2008	Separately for basic products and service elements (until 2006)
DK	1999 - 2008	Separately for consumers and business customers
ES	2005 - 2007	Consumer surveys (CIS-studies)
FI	1996 - 2004, 2007 & 2008	1996 – 2007: Separately for consumers and business customers 2008: only for consumer (separately for service elements)
NL	2002 - 2008	Separately for business segments Mail and Express
PT	2000-2002, 2006-2007	Results from ANACOM consumer surveys
SE	1998 - 2008	Since 2001: quarterly information
SK	2003 - 2007	Separately for various product and service characteristics
UK	2006 - 2008	

Source: ITA Consulting / WIK-Consult

Only one third of the universal service providers regularly publish information on customer satisfaction in their annual reports: The national postal operators in the Western Member States Belgium, Denmark, Finland, Netherlands, Sweden and UK; in the Southern Member States Spain and Portugal; and in the Eastern Member State Slovakia. CTT Correios (Portugal) and Correos (Spain) use material published by the regulatory authority (Anacom) in the Portuguese case and by CIS²²⁵ in the Spanish case. In the other countries the results are based on surveys commissioned by the postal operators. Today, Swedish Posten and Slovenská Posta (Slovakia) publish the most informative results: In Sweden the satisfaction index is published every quarter. Slovenská Posta publishes satisfaction indices for various product and service characteristics, separately.

²²⁴ See WIK-Consult (2003, 2005), Main Developments in the European Postal Sector.

²²⁵ CIS (Centro de Investigaciones Sociológicas) yearly publishes results on customer satisfaction with the services of general economic interest. With regard to the postal part only one general question on satisfaction with service provision has been asked. The customer satisfaction level is fairly stable between 2000 and 2008 (varying between 64% and 70%).

Table 4-12 Customer surveys

Member States	Eurobarometer (Years) Consumer surveys (SGEI)	Surveys commissioned or prepared by national regulatory authorities
AT	'00, '02, '04, '06	
BE	'00, '02, '04, '06	Two surveys prepared by the NRA – Consumer survey (2006) – Small business customers survey (2007)
BG	No data available	One business customer survey commissioned by the NRA (2005) Summary results have been published in the Annual Report of the NRA
CY	'03, '04, '06	
CZ	'03, '04, '06	
DE	'00, '02, '04, '06	One business customer survey (WIK-Consult, 2009)
DK	'00, '02, '04, '06	
EE	'03, '04, '06	
ES	'00, '02, '04, '06	
FI	'00, '02, '04, '06	Seven studies prepared by the Ministry of Transport and Communications (every two years since 1996, published in Finnish with English summary) Consumer and business customers
FR	'00, '02, '04, '06	One consumer and small business customers survey (TNS Sofra, 2006)
GR	'00, '02, '04, '06	
HU	'03, '04, '06	
IE	'00, '02, '04, '06	Various consumer and business customer surveys commissioned by the NRA: – TNS mrbi (2003 & 2004): consumer and business customer surveys – Amárach Consulting (2005 & 2006): consumer survey – Millward Brown IMS (yearly: 2005-2008): Business customer surveys – Millward Brown IMS (2007 & 2008): Consumer surveys – Ecorys: Business customer survey (2008)
IT	'00, '02, '04, '06	
LT	'03, '04, '06	Two consumer surveys (2005 & 2006): Summary results published in the Annual Report of the NRA
LU	'00, '02, '04, '06	
LV	'03, '04, '06	
MT	'03, '04, '06	Three surveys (National Statistics Office of Malta, 2006): – Consumer survey – Survey on small business customers – Survey on large business customers
NL	'00, '02, '04, '06	Consumer survey (TNS NIPO, 2005)
PL	'03, '04, '06	Two surveys: – Consumer survey (Rynek I Opinia ,2006) – Business customer survey (Rynek I Opinia ,2006)
PT	'00, '02, '04, '06	Six consumer surveys prepared by the NRA: 1998, 1999, 2001, 2002, 2006 (Jan.) & 2006 (Nov.) Business customer survey (KPMG, 2008)
RO	No data available	
SE	'00, '02, '04, '06	Four consumer surveys: – Two surveys (TEMO, 2005 & 2006) – One survey (Synovate Sweden AB, 2007) – One survey written by PTS (2008)
SI	'03, '04, '06	Two surveys prepared by the NRA: – Consumer survey (2007) – Business customer survey (2007)
SK	'03, '04, '06	
UK	'00, '02, '04, '06	Seven customer surveys: – Five business customer surveys (2004-2008) prepared by various institutions: 2004: Roland Berger, 2005: LECG Ltd, 2006: NERA Economics Consulting, 2007&2008: Quadrant Consultants and BMG Research – Two consumer and small business customer surveys (2007 & 2008) prepared by FDS International (2007) and Jingsaw Research (2008)

Source: ITA Consulting / WIK-Consult

Notes: SGEI—Services of General Economic Interest

Table 4-12 summarises first the publication years of Eurobarometer studies relevant for the Member States and second the customer surveys commissioned or prepared by the national regulatory authorities.

At EU level consumer surveys have been published as part of the Eurobarometer publications. These studies dealt with the services of general economic interest including postal services and and general questions i.e. on satisfaction, accessibility, use of postal services in all EU Member States. As the last Eurobarometer was published in 2007 (with 2006 survey results) the new Member States Bulgaria and Romania has not been included in these surveys. Reasonable time series information until 2006 is available for the indicators accessibility and use of postal services.

Compared to earlier postal sector studies the number of customer surveys commissioned or prepared by national regulatory authorities have considerably increased: In fourteen Member States we found either customer surveys published by regulatory authorities or evidence on customer surveys in their annual reports. This indicates an increasing focus of regulatory authorities on views and needs of postal customers. The regulatory authorities of five Member States have regularly commissioned or prepared customer surveys (yearly: ComReg (Ireland), Anacom (Portugal), PTS (Sweden), Postcomm (UK); every two years: Ministry of Transport and Communications (Finland)). In the other Member States such surveys has been conducted occasionally but in all cases starting after 2004. Consumer surveys (occasionally or regularly) and business customer surveys have been published in ten Member States (Belgium, Finland, France, Ireland, Lithuania, Malta, Poland, Portugal, Slovenia and UK). In four Member States (Belgium, France, Malta and UK) customer surveys explicitly focus on small business customers.

CONSUMER SURVEYS

Table 4-13 Consumer surveys

MS	Consumer surveys published by national regulatory authorities (NRA) or universal service providers (USP)		Eurobarometer EU-15: 2002-2006; NMS: 2003-2006	
	Customer satisfaction level	Satisfaction with service characteristics	Satisfaction level accessibility	Use of postal services (2006)
AT			Increasing	Increasing (93%)
BE	NRA: Increasing USP: Increasing 74 % (2003) to 82 % (2008)		Increasing	Increasing (97%)
BG				
CY			Increasing	Unclear (87%)
CZ			Increasing	Increasing (94%)
DE			Increasing	Increasing (97%)
DK	USP: Increasing until 2004, then declining 67% (1999) to 73% (2004) to 62% (2008)		Declining	Increasing (98%)
EE			Fairly stable	Increasing (92%)
ES	USP: Fairly stable		Fairly stable	Increasing (81%)
FI	NRA: Decline in satisfaction level between 2004 and 2006 (from 78 to 73%); 2008 fairly stable USP: No clear trend before 2005; 2007-08: >80% (fairly stable)		Increasing	Increasing (97%)

MS	Consumer surveys published by national regulatory authorities (NRA) or universal service providers (USP)		Eurobarometer EU-15: 2002-2006; NMS: 2003-2006	
	Customer satisfaction level	Satisfaction with service characteristics	Satisfaction level accessibility	Use of postal services (2006)
FR		NRA: Delivery problems (delay, damage) addressed by more than 10% of respondents (2006)	Increasing	Increasing (98%)
GR			Fairly stable	Increasing (91%)
HU			Fairly stable	Fairly stable (94%)
IE	NRA: Fairly stable (near 90%)	NRA: Less satisfied with information provided	Fairly stable	Fairly stable (96%)
IT			Declining	Fairly stable (82%)
LT	NRA: Increasing (72% in 2005 to 90% in 2006)		Increasing	Increasing (89%)
LU			Declining	Increasing (98%)
LV			Fairly stable	Increasing (96%)
MT		NRA: High satisfaction level with registered items Less satisfied with transit time	Declining	Declining (97%)
NL	USP: Increasing (86% (2002) to 92% (2008))		Increasing	Increasing (97%)
PL	NRA: Satisfaction level 83% (2006)	NRA: Unsatisfied with service in postal outlets (long waiting time)	Declining	Fairly stable (94%)
PT	NRA: Increasing (from 47% in 2005 to 69% in 2007)		Increasing	Increasing (93%)
RO				
SE	USP: Slightly improving within a range from 60% to 64%	NRA: Postal outlets: (2002/2008) Increasing satisfaction levels with - distance to the next outlet (67%/80%) - opening hours (67%/86%) - waiting time (53%/73%) Delivery conditions: (since 2006) high satisfaction level (>90%)	Declining (very high level of dissatisfaction in 2006)	Increasing (98%)
SI		NRA: Very satisfied with service provision in postal outlets (2007)	Declining	Fairly stable (95%)
SK	USP: Slightly increasing 61% (2003) to 65% (2007)		Fairly stable	Increasing (98%)
UK	NRA: Satisfaction level is high (87% gives a score of at least 7 out of 10) USP: Increasing 94% (2006) to 100% (2008)	NRA: High satisfaction level with - delivery frequency - reliability of delivery - time of day mail delivered	Increasing	Fairly stable (98%)

Source: TA Consulting / WIK-Consult

Notes: The customer segments focussed on by the USPs' customer satisfaction indices are not clear in Belgium and the Netherlands. We suppose that these surveys primarily target on consumers.

So far, we have not found any information on consumer surveys in the very young Member States Bulgaria and Romania. Limited information, i.e. only survey results published in the Eurobarometer series, in ten Member States: Austria, Cyprus, Czech Republic, Estonia, Germany, Greece, Hungary, Italy, Latvia and Luxembourg. In fifteen Member States we found at least some additional information on customer satisfaction published by universal service providers but usually published by national regulatory authorities.

Due to differences in the methodology the published customer satisfaction indices are not comparable between the universal service providers (except for the Eurobarometer studies).

However, statements on the development of customer satisfaction are possible. Generally, it can be stated that in most of the Member States stable or increasing levels of customer satisfaction have occurred during the last years. Especially the satisfaction level on services of the Belgium universal service provider has considerably improved.

Between 2002/03 and 2006 a decline in consumer satisfaction, especially with regard to the accessibility, can be observed in many of the EU-15 Member States. In the Danish case three factors came together which might have negatively influenced the customer satisfaction level: First, Post Danmark has considerably and continuously reduced the total number of postal outlets, second public tariffs of the 20g letters have significantly increased, and third the transit time performance has slightly worsened, however, starting from a rather high level. In the Italian case reduction in postal outlets can not be the reason because in Italy the number of postal outlets has been fairly stable. However, other reasons like opening hours (Poste Italiane has not established any postal agencies) might play a role in this case. Maltapost increased the number of postal outlets in 2007, perhaps as consequence of declining satisfaction figures. The Swedish case also shows that significant changes in the density and structure of postal outlets may damage the company's reputation and negatively affect customer satisfaction. However, this example also shows that—after some years of experience and increasing acceptance of postal agencies—considerable improvements can be achieved. Generally, it appears that substantial changes in the retail network—closures of postal outlets and replacement of post offices by postal agencies—result in declining consumer satisfaction.

Increasing customer satisfaction levels might also affect the use of postal services in daily life. The Eurobarometer surveys indicate that, overall, the use of postal services has been increased in most Member States with levels above 90 percent. However, in Spain and Italy the share of consumers using postal services in their daily life is considerably low (around 80 percent).

BUSINESS CUSTOMER SURVEYS

Table 4-14 Business customer surveys

MS	Customer satisfaction	Importance of service characteristics
AT		
BE	NRA: 76% gives a score of at least 7 out of 10	D+1 necessary for 41% >60% wish to get mail before 10 a.m. Satisfied with delivery frequency (5 days)
BG	NRA (2005): 72% prefer using Bulgarian Posts (major reason: affordable prices)	
CY		
CZ		
DE	NRA: 91 % are very or extremely satisfied with Deutsche Post; High satisfaction levels for competitors of Deutsche Post	NRA: Most important aspects are Reliability, D+1 delivery and a good customer service
DK	USP: Increasing until 2004, then declining 63% (1999) to 69% (2004) to 60% (2008)	
EE		
ES		
FI	USP: Fairly stable with levels above 80% NRA: Declining since 2004 (from 84% to 66% in 2008)	The survey of 2006 indicated that 47% of enterprises would welcome competition in postal services, feeling that from the users' point of view it would have a favourable impact on the price level, the number of post offices, the choice of products and the general quality of the service provided. (Postal Statistics 2007, p. 13). Important service characteristics for SMEs: guaranteed next-day delivery, latest collection time and accessibility of the next outlet
FR		
GR		
HU		
IE	Decline between 2003 and 2006 then increasing levels (48% in 2006 to >60% in 2008)	Major reason for dissatisfaction are problems in delivery
IT		
LT		
LU		
LV		
MT	Satisfaction level of 80% with quality of service provided by Maltapost	
NL		
PL	Moderate satisfaction level with letter services of Poczta Polska	
PT	CTT, generally, achieve high satisfaction levels (above 7 out of 10) Satisfaction level with competitors the same level, sometimes higher.	NRA: Most important aspects are nationwide deliver, reliability, D+1 delivery and a good customer service
RO		
SE		
SI	Average score 4.13 (scale from 1 to 5), 83% of business customers are satisfied or very satisfied	
SK		
UK	High level of satisfaction with Royal Mail letter services (large business customers and SMEs)	Most important service aspect of SMEs: reliability/consistency of delivery time each day Most important service aspect of large mailers: more tailored services and better feedback and reporting on deliveries

Source: ITA Consulting / WIK-Consult

Notes: Statements resulting from business customer satisfaction indices published by universal service providers are marked by USP; all other statements are extracted from business customer surveys published by national regulatory authorities. Usually, the statements refer to the last published survey. In the interviews the study team asked business customers on their perception how service characteristics has changed in the last years. We concretely asked for transit time performance, reliability of delivery, product & service range, pricing schemes and customer service.

Generally, with regard to postal services the needs of medium-sized and large business customers are different from the needs of consumers and small business customers. For this reason the business customer surveys are usually more comprehensive than consumer surveys. Dependent on the general context in the Member State (e.g. the level of competition) the subjects addressed range from questions on satisfaction with service elements, choice and satisfaction with competing postal operators, on demand pattern (including outsourcing activities and e-substitution) and switching behaviour (in case of existing competition). In this section we focus on business customer satisfaction and perceived developments in service characteristics. The results of the business customer interviews shall complete the picture. However, it should be kept in mind that the results of the business customer interviews are not representative for the business customers of the respective Member State.

In more than half of the Member States the study team has not found any business customer surveys. Furthermore, time-series information is limited. In eleven Member States information on business customer satisfaction has been published. In most of these countries the business customers are fairly satisfied with the services provided by the universal service provider. However, in Denmark and Finland business customer satisfaction has declined. In Finland nearly half of the business customers would even welcome more competition in the postal sector (see Table 4-14).

Table 4-15 Business customer interviews

MS	#	Customer satisfaction*	Importance of service characteristics (% , very important)	Developments in service characteristics	
				Improvements perceived	Deterioration perceived
AT	5	40/60	Reliability (100%) Nationwide delivery (100%) Price (100%)	Transit time performance Reliability Product & services range	Customer service
BE	5	40/60	Reliability (60%) Nationwide delivery (60%) Delivery on the next working day and customer service (40%)	Product and service range Pricing schemes Transit time performance	
BG	5	0/100	Reliability (100%) Customer service (50%) Nationwide delivery (50%)	No changes perceived because all respondents use express and courier services for business mail	
CY	5	40/60	Customer service (80%) Reliability (60%) Delivery on the next working day (60%)	Reliability Product & services range Transit time performance	
CZ	5	20/80	Reliability (80%) Nationwide delivery (40%) Delivery on the next working day (40%)	Reliability	
DE	10	90/10	Reliability (100%) Delivery on the next working day (100%) Customer service	Improvements perceived in Customer service Pricing schemes	
DK	5	20/80	Reliability (100%) Nationwide delivery (60%) Delivery on the next working day and price (60%)	Mixed picture with regard to Transit time performance, Reliability Product range	Customer service
EE	5	60/40	Reliability (80%) Nationwide delivery (80%) Price (60%)	Customer service Transit time performance Reliability	Pricing schemes
ES	1				
FI	5	0/100	Nationwide delivery (50%) Reliability (50%) Delivery on the next working day (50%)	Transit time performance Customer service Product & services range	
FR	3				

MS	#	Customer satisfaction*	Importance of service characteristics (% , very important)	Developments in service characteristics	
				Improvements perceived	Deterioration perceived
GR	5	20/80	Customer service (100%) Reliability (80%) Product & services range (80%)	Customer service Product & services range Transit time performance and reliability Pricing schemes	
HU	5	40/60	Reliability (80%) Product and service range (60%) Price and delivery on the next working day (60%)	Product & services range Transit time performance Reliability and customer service	Pricing schemes
IE	3	0/100	Reliability (100%) Delivery on the next working day (100%) Product & services range (100%)	Pricing schemes Product & service range	
IT	5	20/80	Reliability (100%) Price (40%) Product & services range and delivery on the next working day (20%)	Transit time performance Product & services range	Pricing schemes
LT	6	33/67	Reliability (100%) Price (67%) Delivery on the next working day (33%)	Transit time performance Reliability Product & services range Customer service	
LU	3	100/0	Reliability (100%) Nationwide delivery (100%) Customer service (100%)	Customer service Product & services range Pricing schemes	
LV	5	40/60	Reliability (40%) Nationwide delivery (40%) Price (20%)	Reliability Product & service range	Pricing schemes
MT	2				
NL	5	20/80	Product & service range (60%) Price (60%) Customer service (60%)	Pricing schemes Customer service Product & service range	
PL	5	20/80	Reliability (100%) Product & service range (100%) Nationwide delivery, Delivery on the next working day, Customer service (60%)	Product & service range Customer service Transit time performance	
PT	5	20/80	Reliability (100%) Delivery on the next working day (80%) Nationwide delivery (60%)	Transit time performance Product & service range Reliability Customer service	
RO	5	0/100	Reliability (80%) Nationwide delivery (80%) Delivery on the next working day (80%)	Mixed	Transit time performance
SE	6	67/33	Reliability (100%) Nationwide delivery (83%) Product & services range (83%)	Reliability Customer service	
SI	5	40/60	Reliability (100%) Nationwide delivery (80%) Delivery on the next working day (60%)	Product & services range Transit time performance Customer service Reliability	
SK	5	20/80	Reliability (100%) Customer service (80%) Delivery on the next working day (40%)	Transit time performance Reliability Product & service range Customer service	
UK	3	33/67	Reliability (67%) Customer service (33%) Nationwide delivery and delivery on the next working day (33%)	Customer service Product & services range	

Source: ITA Consulting / WIK-Consult

Notes: *Customer satisfaction: % very satisfied/% not very satisfied

In the interviews the study team asked business customers on importance of service characteristics and their perception how service characteristics have developed in the last years. With regard to importance of services we asked for reliability of delivery, price, product & service range, delivery on the next working day, nationwide delivery and customer service. With regard to developments in service characteristics we concretely asked for transit time performance, reliability of delivery, product & service range, pricing schemes and customer service.

Table 4-15 provides an overview on the results of the business customer interviews the study team conducted during April and May 2009. The satisfaction levels of the respondents are varying between the Member States. The results of the Finnish and Danish business customer surveys are largely confirmed by the interview results: The respondents expressed some dissatisfaction with their universal service providers. Overall, based on the non-representative interview results the level of satisfaction is highest in the Western European countries: 42 percent of the respondents are very satisfied with postal service provision in their country. In the Southern Member States 27 percent of the respondents and in the Eastern Member States only 18 percent of the respondents are very satisfied. Key reasons for less satisfaction are delivery problems (wrong delivery, lost letters, delivery of damaged items) in the Southern and Eastern Member States while in the Western Member States the high price level is the most frequently stated reason.

In nearly all Member States reliability is the by far most important service characteristic in the view of the business customers. In the Eastern and Western Member States the second important service characteristic is nationwide delivery followed by delivery on the next working day. In the Southern Member States reliability is followed by the characteristic “delivery on the next working day” and customer service.

Overall, the quality of service provision has improved in many Member States. Deteriorations in service characteristics have been perceived in Austria and Denmark (customer service) and less surprisingly with pricing schemes in some Eastern European Member States (Estonia, Latvia and Hungary). In Italy the second-class service for the general public was abolished two years ago. This might be the reason for the perceived deterioration with regard to pricing schemes in Italy. Especially in the Eastern Member States the respondents perceived considerable improvements in key characteristics of service provision. So far, it appears that progress made by universal service providers of the youngest Member States Romania and Bulgaria has not yet perceived by the interviewed business customers: Most strikingly, all interviewed business customers in Bulgaria do not use the Bulgarian Posts but express and courier services for the delivery of their business mail.

4.3 Parcel and Express Markets

4.3.1 Key developments in the parcel and express market 1998 - 2008

The parcel and express market has been rapidly developing over the past decade, showing significant growth levels, especially in the early 1990s. Certainly, the strong growth in the parcel and express industry has also been fuelled by the liberalisation process in the European Union (see section 2.1). However, the influence of several other driving factors, which had a significant impact on market development, must not be neglected and requires deeper examination. Such drivers comprise changes in customer buying behaviour (due to globalisation), increasing level of competition, environmental issues and regulation as well as technology. The following chapters will elaborate on these drivers, showing their significance in the development of the parcel and express market.

Chapter 3.3 has already depicted the current status of the parcel and express market. In order to highlight the key developments from 1998 to 2008, and to create a basis for drawing comparisons, the same EU-27 geographic region is assumed for 1998, although twelve of the EU-27 Member States were not yet members of the EU at that time.

The EU-27 parcel and express market in 1998 amounted to EUR 23.4 billion, equal to 0.27 percent of the total EU-27 GDP, compared to a current estimated value of EUR 42.4 billion (0.34 percent of EU-27 GDP) in 2008.²²⁶ With a compound annual growth rate (CAGR) of 6.1 percent, the parcel and express market grew constantly faster than GDP, which had a CAGR of 3.5 percent over the same time period.

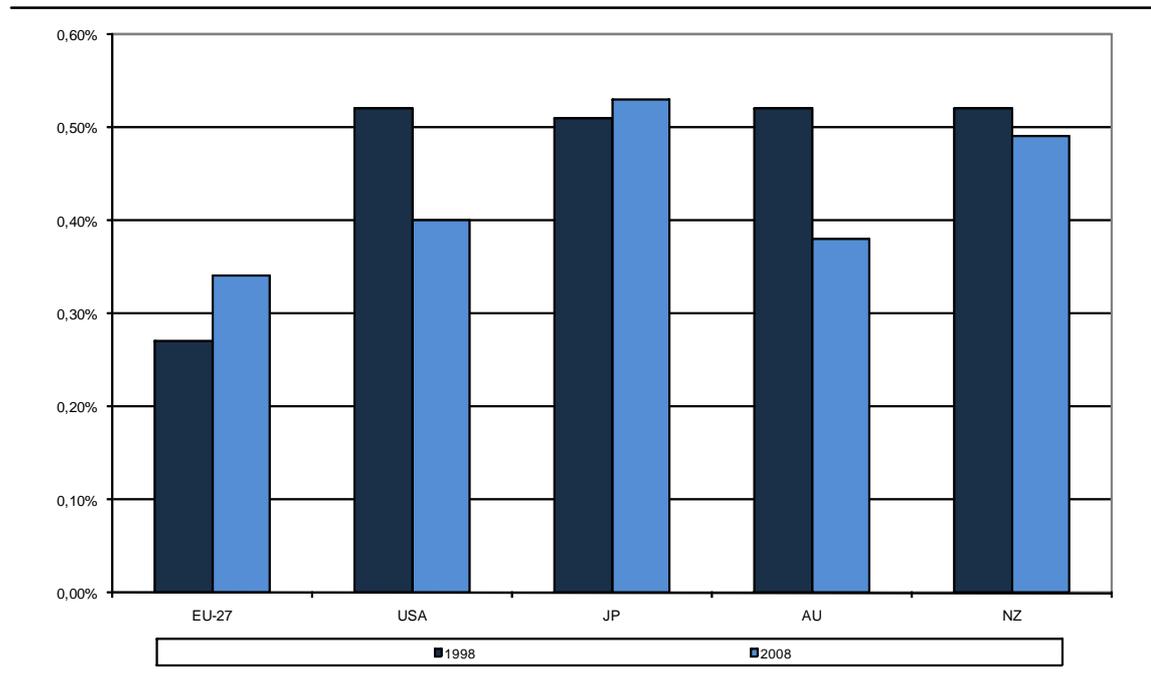
In comparison, the parcel and express market in the USA grew from USD 44.8 billion (0.52 percent of US GDP) in 1998 to USD 56.9 billion (0.40 percent of GDP) in 2008.²²⁷ In Japan, the market developed from JPY 2,490 billion (0.51 percent of national GDP) in 1998 to JPY 2,748 billion (0.53 percent of GDP) in 2008.²²⁸

²²⁶ ITA Consulting estimation.

²²⁷ ITA Consulting estimation.

²²⁸ ITA Consulting estimation.

Figure 4-54 Global comparison: Estimated parcel & express market share of GDP

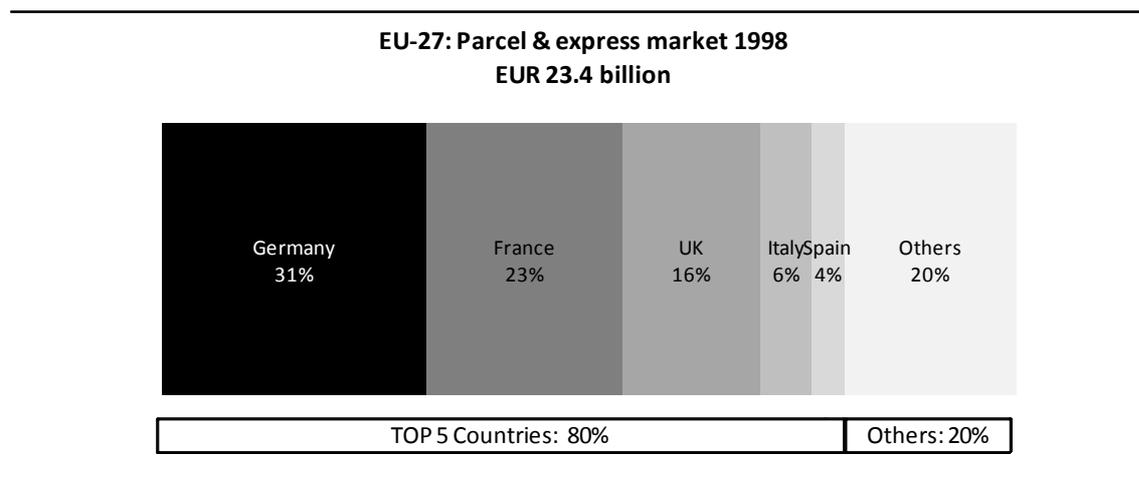


Source: ITA Consulting / WIK-Consult

When dividing the analysed 10-year period from 1998 to 2008 into two parts and examining the first five years (1998-2003), the European parcel and express market showed a growth rate of 6.4 percent, which is slightly higher than the growth rate of the past five years (2003-2008) which was 5.9 percent. However, it has to be noted that the countries that accessed the European Union in 2004 or 2007, experienced above average growth rate of 17.3 percent in the second half of the last decade.

Germany was the most important parcel and express market in 1998, followed by France, UK, Italy and Spain.²²⁹ While the German and the French markets grew below the 6.1 percent average over the 10-year period, the markets in UK, Spain and Italy grew above average and thus increased their position in the EU-27 ranking. In 1998, the top five countries accounted for 80 percent of the total EU-27 market. Their share was slightly lower in 2008 at 77 percent, reflecting the higher growth rates in less mature markets (especially Eastern Europe).

²²⁹ Warburg Dillon Read (1999), The European Postal Review 99.

Figure 4-55 EU-27: Parcel & express market Top 5 countries 1998

Source: ITA Consulting / WIK-Consult

As national markets have developed in very diverse stages and at a different pace, it is hardly possible to draw meaningful conclusions from a mere comparison at a country level. Thus, it is reasonable to combine the countries according to the already presented peer group approach, which differentiates Western, Southern and Eastern Member States (see Chapter 1.2.3).

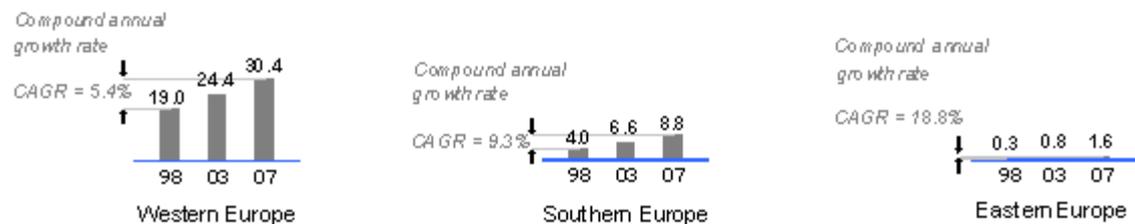
Development of the parcel and express industry began in the Western European markets, which today can be characterised as mature markets with moderate growth rates and quite high concentration. In general, the postal operators still hold an important market position, especially in the area of parcel deliveries to private customers. The region showed a substantial compound annual growth rate (CAGR) from 1998 to 2008 of 5.1 percent accounting for an increase from EUR 19.0 billion in 1998 to EUR 31.3 billion in 2008. Finland (8.7 percent), Sweden (8.1 percent) and Austria (7.2 percent) were the fastest growing markets in this region.

Southern Member States outpaced Western Member States with an annual growth rate of 8.8 percent for the same period, the market value growing from EUR 4.0 billion in 1998 to EUR 9.3 billion in 2008. Greece (13.0 percent) and Spain (12.1 percent) grew faster than the average. Cyprus showed an annual growth rate below average (3.6 percent). However, a positive effect on the demand for parcel and express services can be observed, triggered by the country's EU accession in 2004, since when the average annual growth increased to approx. 10 percent. Generally it can be stated that in Southern Member States, parcel and express markets are still more fragmented than in the Western region.

Eastern Member States (excluding the two national markets of Estonia and Slovakia due to insufficient data) experienced, thanks to the flourishing industry in the region and the accession to the European Union, a strong annual growth rate of 17.3 percent, resulting in an increase of the total market value from EUR 0.37 billion in 1998 to EUR 1.8 billion in 2008. The situation in the Eastern European countries is divergent. In some Eastern European countries like Bulgaria and Romania the consolidation process is still ongoing (e.g. in Romania recent acquisitions by

DHL, UPS, DPD and market entry by GLS)²³⁰, while in other markets consolidation started earlier. In general, interdependency between both market growth and consolidation with the accession date to the European Union can be noticed. The markets of the 2004 accession countries are further developed in terms of growth and consolidation than the markets of the two countries that joined the European Union in 2007. A general observation is that all national parcel and express markets have benefited from their accession to the EU.

Figure 4-56 Parcel & express market size by country groups in billion EUR

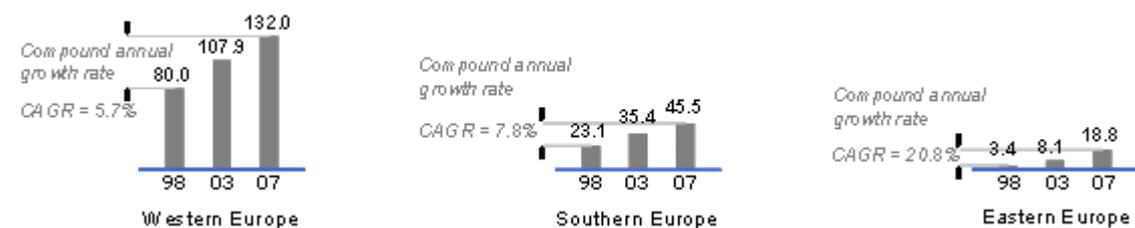


Source: ITA Consulting / WIK-Consult

Although Western Europe is characterised by the lowest annual growth rates it remains by far the biggest European market area in turnover terms. Southern Europe has a fairly strong growth rate over the 10-year period. Eastern Europe is by far the smallest regional market but shows the fastest growth rates. Market size in terms of turnover read as follows:

- Western Europe: EUR 30.4 billion in 2007
- Southern Europe: EUR 8.8 billion in 2007
- Eastern Europe: EUR 1.3 billion in 2007

Figure 4-57 Parcel & express turnover per capita in EUR



Source: ITA Consulting / WIK-Consult

The above trends are underpinned by analysis based on parcel and express turnover per capita over the 10-year period (Figure 4-57). Western Europe shows a nearly unchanged annual growth rate of 5.7 percent on a per capita base compared to its 5.4 percent growth rate in

²³⁰ CEP-Research.com, DHL buys Romanian firm Cargus (18.04.2008), DPD extends its network to Romania (22.08.2008), GLS establishes start-up in Romania (02.08.2007).

turnover terms. Southern Europe, with 7.8 percent annual growth on a per capita base, is slightly lower compared to the 9.3 percent turnover growth rate depicted in Figure 4-56. Eastern Europe, however, shows even faster growth on a per capita basis (nearly 21 percent), reflecting the region's declining population figures.²³¹

Comparing the regions (2007 figures), Western Europe was 19 times larger than Eastern Europe in turnover terms (EUR 30.4 billion compared to EUR 1.6 billion, see Figure 4-56), but the difference shrinks to a multiple of seven on a per capita basis. (EUR 132 compared to EUR 18.8, see Figure 4-57). Comparing Southern Europe to Eastern Europe, the former is 5.5 times larger on a turnover basis (see Figure 4-56) but just 2.4 times larger when comparing the per capita turnover (see Figure 4-57).

4.3.2 Trends in customer behaviour

Customer behaviour has developed significantly during the 1998-2008 period due to various factors. Besides the continuous process of liberalisation within the postal market, these factors included the implementation of free trade of goods (within the EU-27 and internationally) as well as the trend to globalisation of production. At the same time, the emergence of new sales markets also affected customer requirements in terms of products and services from the parcel and express providers.

The customers' requirement for faster, more reliable postal services, the availability of bigger choices of products and services as well as competitive prices generated additional volumes, especially for international destinations. The intensifying trend towards just-in-time manufacturing techniques as well as procurement has also influenced the development in the parcel and express market. These developments resulted in the fact that parcel and express services started to be an integral part of the customers' supply chain. As a consequence, customers increasingly contracted parcel and express companies to provide a range of services (e.g. domestic and international deliveries).

At the same time, due to the highly competitive nature of the parcel and express markets, customers are frequently very price-sensitive. Given that there is normally a choice between several comparable service providers both for domestic and international parcel and express deliveries, larger customers are often able to negotiate discounted prices based on their volumes. Private customers do not have this negotiating power. The high price sensitivity of customers frequently results in price-based competition between competitors in the market.

4.3.3 Trends in competition

Until the liberalisation of the postal markets, the national postal operators controlled much of the parcel market. Players in the parcel and express industry were facing a difficult situation in breaking through the monopolistic regime and national legislations. The continuing liberalisation of the postal market and the end of the monopoly on parcel services enabled parcel and express operators to gradually improve their position on the market.

²³¹ Based on Eurostat figures

Two sorts of operators developed in the market until the end of the 1990s. On the one hand, the international express operators (DHL, FedEx, TNT and UPS)—also referred to as ‘integrators’ due to their integrated business model—started to establish their European express networks. On the other hand, domestic parcel operators started to flourish mainly on a domestic level, as they were able to capture large volumes from established freight transportation companies.

In 1997 the market for parcel and express services was led by larger global and/or European-wide players. Other (smaller) parcel and express operators were acting only on a domestic level. The international/European express market was shared among the integrators, who by then had established their air and ground distribution networks in Europe. In the parcel market, national private operators reacted to the market changes and customer demands by establishing European network alliances in order to serve the increasing demand for intra-European cross border transportation. These operators were namely:

- GLS (with their European partner network)
- DPD (with their franchise network)
- EuroExpress (alliance by 10 operators formed in 1996)
- Net Express (alliance of 9 operators)

The structure of the European parcel and express market has changed significantly during the period under review. However, between 1997 and 2002 a wave of acquisitions took place, led by major European postal operators, while there have been a number of significant, albeit generally smaller, transactions more recently.

In December 1996, the Dutch KPN took over TNT Express, becoming the first European postal operator to enter the express market.²³² The company (later re-named to TPG and subsequently to TNT) then bought a number of relatively small national companies in various European countries (e.g. France, Italy) in the following years to strengthen its position in domestic market segments.

In the late 1990s, Deutsche Post embarked on a well-documented series of acquisitions at a cost of several billion Euros. In 1998, it bought an initial holding in DHL International and completed the full acquisition in 2002.²³³ Deutsche Post then acquired a large number of domestic parcel and express companies across Europe during this period in order to create a Europe-wide network of companies offering national and international parcel and express services. It also purchased the third-largest US express company (Airborne Express) to compete with UPS and FedEx in the USA. Furthermore, under its strategy of offering a complete range of logistics services, Deutsche Post bought a number of leading freight forwarding and logistics companies, mostly Europe-based.

French La Poste and Royal Mail followed the same expansion path by acquiring the DPD network and GLS, respectively, in 1999. This gave the two postal operators a European parcels

²³² TNT Group, Website <http://group.tnt.com/aboutus/history/index.aspx>.

²³³ Deutsche Post DHL, Website <http://www.dp-dhl.de/dp-dhl?xmlFile=2001321>.

business and enabled them to diversify from their core business in their respective national letter post markets. Over the following years, both DPD and GLS expanded their activities with a number of international acquisitions, initially in Western Europe and more recently in Eastern Europe.

The two US-based express companies UPS and FedEx also focused their international expansion strongly on Europe over the last decade. UPS made several significant acquisitions, including in the UK and Poland,²³⁴ and grew organically in markets such as Germany where it has its European air hub (Cologne). FedEx invested heavily in a European air hub at Paris Charles de Gaulle airport and has made several recent acquisitions, including in the UK.²³⁵

During the years after 1997, the cooperation-based European parcel networks (EuroExpress and Net Express) were significantly weakened with the acquisition of some of their stronger partners by Deutsche Post, UPS, etc. In 2006, Austrian Post started its European expansion, by acquiring the Germany-based operator trans-o-flex, followed by additional acquisition deals in Eastern Europe.²³⁶

An analysis of acquisition deal numbers shows that acquisition activity reached a peak in 2000, followed by a phase of integration, before a second wave of acquisitions started in 2004/05.

Today the major parcel and express operators have largely completed their process of building networks and are focussing on the integration of acquired companies.

The majority of the postal operators still focus on their national markets. However, as described above some, mainly from western Member States, have been expanding their activities into other countries.

Table 4-16 International expansion of national postal operators

<i>Activities</i>	<i>Regional scale</i>	<i>European scale</i>	<i>Worldwide scale</i>
<i>Parcel & express activities</i>	<i>Austrian Post (Trans-o-flex) Post Danmark (Scandinavian region) Posten AB(Scandinavian region) Posten Norge (Scandinavian region) Itella (Scandinavian and Baltic region) CTT Correios (Tourline Express, Spain)</i>	<i>La Poste (DPD)/(Geopost) Royal Mail (GLS)</i>	<i>Deutsche Post (DHL) TNT</i>

Source: ITA Consulting / WIK-Consult

The result of the acquisitions described above is that the European parcel and express market is now highly consolidated in overall terms (although this is less so when considering domestic markets). The leading players are mainly Western European Postal operators (Deutsche Post DHL, TNT, La Poste, Royal Mail and Austrian Post) and a handful of private operators (UPS, FedEx and Germany-based Hermes).

²³⁴ CEP-Research.com, UPS sees acquisition potential (21.04.2006).

²³⁵ CEP-Research.com, FedEx targets UK domestic market with ANC acquisition (19.12.2006).

²³⁶ CEP-Research.com, Austrian Post drives trans-o-flex international expansion (28.22.2008).

Another significant trend in competition is that boundaries between the market segments have become increasingly blurred as express operators, parcels companies and postal operators internationalised and broadened their business and started to compete against each other in order to offer clients a full service portfolio.

On a domestic level, smaller and some medium-sized parcel and express operators are active, and new entrants are continuously providing niche market services (e.g. industry-specific transportation, same day deliveries, etc.). The tendency to market consolidation is different from country to country. In some domestic markets that are still quite fragmented (e.g. Spain, UK and Italy) further consolidation is likely, while in other countries where the former postal operator still holds a strong market position (e.g. Germany and France) and in some smaller parcel and express markets this tends not to be the case.²³⁷

THE ROLE OF PARCEL/EXPRESS SERVICES AS PART OF THE POSTAL BUSINESS

Although nearly all national postal operators have lost importance in their national parcel and express markets as a consequence of the market entry and market consolidation driven by the large international parcel and express operators, many national postal operators remain a considerable force in the domestic delivery of parcels. In many countries they are required to offer parcel services up to 10kg on a domestic and cross-border basis under the Universal Service Obligation (USO). Their market positioning varies enormously depending on the general conditions of the respective country, its postal legislation, political influence and financial capability.

While most major western European postal operators remain in a strong or significant position in their overall home market, some postal operators from eastern and southern Member States hold only a relatively weak position.

Table 4-17 Importance of postal operators in their home parcel & express market

<i>Low importance (<10% market share)</i>	<i>Significant role (<20%)</i>	<i>Strong position (>20%)</i>
<i>Bulgarian Posts, Lietuvos Paštas, Poczta Polska, Pošta Română, Correos, Royal Mail</i>	<i>De Post–La Poste, Magyar Posta, Poste Italiane, Latvijas Pasts</i>	<i>Austrian Post, Česká Pošta, Post Danmark, Eesti Post, Itella, La Poste, Deutsche Post-DHL, An Post, TNT, CTT Coreios, Slovenská Pošta, Pošta Slovenije, Posten AB</i>

No Information available on Cyprus, Greece, Luxemburg, Malta

Source: ITA Consulting / WIK-Consult

B2C DELIVERIES

All of the above mentioned market developments mainly comprise the B2B customer segment. Within the B2C market, competition remains largely nationally based due to the essentially domestic nature of the home delivery business. As a result, the European B2C markets tend to

²³⁷ A.T. Kearney, Press release: “European Parcels market: price pressure eclipses growth through internet trade” (25.06.2008).

be characterised by a different competitive landscape than the more competitive and internationalised B2B sector.

The B2C parcels market sets high entry barriers for new operators, requiring high initial investments into a nationwide pick-up and distribution network. Therefore, the national postal operators still benefit from a certain monopoly status and thus tend to be the clear B2C market leader in most of the EU-27 countries. There are generally a few relatively small private home delivery service providers, often linked to mail-order companies, competing for business.

The only private operator that has so far started to compete at a European level is the German company Hermes (a subsidiary of the Otto Group mail-order company). Expanding from its German based home market, Hermes is now directly or indirectly active in the UK, France, Italy and Austria²³⁸. DHL and TNT both have relatively small or recently-launched B2C services in several countries, e.g. DHL in the UK, TNT in France and Italy. DHL has stated that it is planning to set up European-level B2C services.

VAT EXEMPTIONS

In several European countries parcel services offered by the national postal operator are exempted from value added tax (VAT), as they are seen as part of the Universal Service Obligation and therefore subject to the same VAT status as letter post. It remains unclear and is handled differently between Member States whether only counter parcels or all parcel services fall under this exemption. In contrast, competitors have to pay VAT on their services. Only in five Member States (in Finland, Sweden and in Slovenia postal services are not exempted, and in Spain and in Latvia only reserved services are exempted)²³⁹ are parcels transported by competitors treated the same way as parcels transported by the incumbent USP. The result is a competitive advantage for the incumbent USP compared to those competitors who also set up a nationwide network that, in their view, meets the criteria of the universal service obligation.

In August 2007, the Commission formally instructed Germany, the UK and Sweden to bring their VAT legislation for postal services into line with EU VAT legislation to ensure compliance with the VAT Directive. Regarding the UK and Germany, the Commission is analysing whether VAT exception amounts to a competitive obstacle. In Sweden the infringement procedure is linked to the fact that it has failed to apply an exemption which remains in Community legislation.²⁴⁰

In March 2008, the European Commission criticised Germany for maintaining VAT exemption for small packages. In September 2008, the German government decided that Deutsche Post would lose VAT exemption for packages weighing between 10kg and 20kg from January 2010 but packages under 10kg should remain VAT-exempt. The German VAT rate is 19 percent.²⁴¹

²³⁸ CEP-Research.com, "Austrian Post wins back volumes as Hermes scales back" (14.04.2009).

²³⁹ WIK-Consult (2006), Main developments in the postal sector (2004-2006), p. 59.

²⁴⁰ The Free and Fair Post Initiative (2008), Newsletter No. 20, p. 4.

²⁴¹ See Deutscher Bundestag (2008), "Gesetzentwurf der Bundesregierung—Entwurf eines Dritten Gesetzes zur Änderung des Umsatzsteuergesetzes", Drucksache 16/11340 of 10 December 2008. The Parliament has not yet decided on the change in VAT legislation.

Most recently, in April 2009, the EU Court of Justice (ECJ) in Luxembourg ruled that Royal Mail's universal postal service in the UK should be exempted from VAT as Royal Mail supplies postal services under a legal regime which is substantially different from that of an operator such as TNT Post (who filed the court complaint, saying it provides comparable services). At the same time, the court also stated that only universal services supplied by the postal operator in its capacity as the provider of the universal postal service, are exempt from VAT. Postal services for which the terms have been individually negotiated are excluded from the VAT exemption.²⁴² Britain's standard VAT rate is 17.5 percent.

4.3.4 Trends in service offerings

In the late 1990s there still was a clear differentiation between parcel and express operations in Europe. The major integrators TNT, DHL, UPS and FedEx as the main express players based their quality services around international networks offering worldwide distribution, product features such as guaranteed delivery times and high standards of customer service, and highly reliable operational performance. These premium services were very customer-focused, flexible and able to cope with shipments ranging from documents and small packages through to heavier goods and, more recently, bulky freight shipments.

In contrast, parcel delivery companies tended to focus on the lower end of the market, offering efficient mass transportation of deferred parcels up to 30kg through standardised systems and networks. While relatively inexpensive, these carriers were generally unable to compete effectively with express operators in terms of transit times, guaranteed deliveries, customer service or network range. In short, the distinction was often a question of quality versus quantity.

During the past few years the market saw a clear trend towards convergence between express and parcels competitors in product terms. Parcel carriers have seen the opportunity to attack the lower end of the express segment by investing in their networks to improve transit times and enable guaranteed deliveries while retaining a pricing advantage. At the same time, express operators have recognized the threat and have sought to broaden their product portfolio with new economical type of services offering slower delivery times at a lower price.

As a result, competition between the express operators and the parcel carriers has become more direct. In mature markets in Western Europe with their well-developed transport infrastructure, parcel carriers can now guarantee next-day deliveries at little risk. A decade ago, 48 hours was generally given as the standard transit time. In contrast, the relatively poor road connections in much of Eastern Europe slow down express deliveries, and effectively enable parcel carriers to offer transportation services of a similar standard.

On a domestic level, niche players continued to focus on enhancing their services and products (e.g. temperature controlled overnight products, in-night deliveries for spare-parts and repair facilities, etc.) enabling them to differentiate themselves and to keep their business abreast of the large operators.

²⁴² See Official Journal of the European Union (2009), Case C-357/07

In the growing B2C business, as well as in the C2C segment parcel operators are seeking opportunities for reliable and cost effective last mile delivery. Several postal operators therefore have started to set up automatic parcel boxes where parcels can be collected and dispatched. Deutsche Post was one of the pioneers using these automatic solutions in order to save costs by consolidating volumes and shortening the delivery chain. By the end of 2008 Deutsche Post had set up network of 1,500 “Packstations” and plans to expand the network by additional 1,000 locations in 2009.²⁴³ The Post Danmark has set up 70 “Dögnposten” in larger cities. The Austrian Post is currently testing the system in Vienna (24 “post24” machines) as well as Posten Norge (42 “MyQuickBox” facilities) in Norway and Sweden (through its subsidiary PNL).²⁴⁴

On the other hand, some companies e.g. in Germany and Austria are setting up a network of parcel shops where parcels can be collected and dispatched. Parcel shops are created as “shop in shop” solutions. Preferred partners for parcels shops are chains or independent small companies like newsagents with long opening hours. In addition there are companies like Kiala and Mail Boxes Etc., which are offering their services as pick up and drop off locations as well. While Kiala is an independent company, Mail Boxes Etc. is closely connected with UPS.

Both automatic parcel boxes and the different networks of parcel shops have created a high degree of flexibility for both the customer and the service provider.

Regarding pricing policies for parcel and express services, a distinction has to be made between business customers and private customers. While prices for private customers follow publicly communicated price lists, business customers usually negotiate their discounted conditions separately. Price calculation for express services for the past decade followed the so-called volumetric weight-based pricing system, which takes into account both the weight and the size of a consignment. In contrast, prices for standard parcels were historically calculated based on the weight of a parcel. Recently, parcel operators also started to switch their price calculation from weight to a volume-based calculation, which, in times of rising transportation costs, much more reflects the real production costs of the parcel operator.

To make the pricing of counter parcels more transparent for customers and easier to handle for the parcel shop operator, parcel shops and post offices increasingly switched from the historically weight based calculation to a so called “T-Shirt” pricing where the postage for parcels is calculated according to specified categories (e.g. S, M, L, XL) dependent on the size of a parcel.

4.3.5 Innovation in technology

Technology gained dramatically in importance within the parcel and express industry during the period under review. In the 1990s IT was generally considered as an extra. Systems were often fairly rudimentary, and many of the business activities now handled by technology were still manual processes. That picture has changed beyond recognition today. UPS, for example, regularly spent about USD 1 billion a year on IT in recent years, and executives repeatedly

²⁴³ www.dhl.de on 22.05.2009.

²⁴⁴ KEBA (2008), KePol Logistics Solution.

highlighted the importance of information/data as part of their overall services. Indeed, there were joking references to UPS having become “a technology company with trucks”.²⁴⁵

Technology in the parcel and express market can essentially be divided into “front-office” systems that are used in customer-related activities and “back-office” systems that are primarily used for operations. However, there is often substantial crossover since operational systems may also have customer-related functionalities.

With the introduction of EDI (Electronic Data Interchange) solutions in the late 1990s, parcel and express operators as well as postal operators started to be able to optimise their operational processes in various ways. Barcodes and scanners were introduced, sorting facilities were automated, pick-up and delivery routes could be optimised, and so on. The EDI systems enabled the companies to improve their operational efficiency, reduce operating costs and thus increase productivity and ultimately profitability.

Handheld devices for couriers and delivery workers have undergone constant improvements, including signature capture and real-time data transfer to central systems. Other operational technology innovations include the widespread introduction of GPS for vehicle operations and so-called “dynamic route planning” applications enabling delivery routes to be changed in real time in response to adverse traffic conditions. In addition, there have been continuous improvements to automatic sorting systems and related technology over the last decade.

From a customer perspective, the most important technological innovation in the market over the last decade has probably been that of “tracking and tracing”. Ten years ago, customers had little transparency over where their shipment was once it was collected by the parcel or express company and before it was delivered. The integrators were the first to develop in-house systems that recorded the status or location of a shipment as it passed through the various process steps from collection and sorting through to transportation and final delivery. This status data is achieved by scanning the barcode data of the item at relevant process stages and feeding this into a central system. The integrators supplied software applications to their customers enabling them to access the integrator’s shipment information system and to track, or check, their shipment status prior to delivery by entering shipment numbers. Shipments, especially non-delivered items, can also be traced, or searched for, using these systems. Parcel companies have also introduced similar systems over the past decade. In recent years, most providers have created web-based tracking and tracing functionalities.

Another revolutionary step in technology was the emergence of the internet for commercial activities. The parcel and express operators were quick to recognize the advantages of web-based systems and the potential of the internet for customer communications and information exchange. A constant flow of new products and services were offered, such as internet-based applications or functions (e.g. online shipping, web-based tracking & tracing, drop-off locators, re-routing, etc.).

²⁴⁵ Executive Speech (2007), Mike Eskew (UPS).

More recently, another innovative technology that is gradually being used more widely is RFID (Radio Frequency Identification). This technology uses a tiny radio transmitter integrated into a shipment label for location purposes, and thus potentially represents a dramatic improvement for tracking and tracing as it allows a “live tracking” due to the fact that no manual (optical) scan in the sorting center is needed. Another application is an RFID sensor tag, combining a temperature sensor and an RFID chip, to monitor and transmit data of temperature-sensitive shipments. The RFID technology is expected to lead to quality improvements and cost savings on the production side. However, widespread introduction of RFID has been held up due to issues of reliability and, above all, of price for the tags.

4.3.6 The impact of e-commerce on parcel and express services

When electronic communication means developed in the second half of 1990s, they were first seen as a potential threat, fearing that documents and express products would be subject to gradual substitution. However, the parcel and express industry has turned the threat into an opportunity and benefitted from the rising B2C volumes generated by the growth in distance sales.

Since its early beginnings in the nineties, the e-commerce market has grown to a considerable size of almost EUR 1.8 trillion.²⁴⁶ The steepest increase, referred to as the dot-com bubble, took place in the years 1997-2000. After that, e-commerce continued growing at a high pace with steep growth rates. The initial euphoria of the first phase has, however, cooled down, the reason for which may be attributed to the fact that e-commerce sales started from very low levels, so the initial remarkable growth rates may be due to catch-up effects.²⁴⁷

The European e-commerce market has meanwhile grown to a size of approx. EUR 106 billion and has thus nearly caught up in terms of market value with North America, where the market is estimated at approx. EUR 130 billion.²⁴⁸ An interesting observation is that 70 percent of e-commerce turnover in Europe remains concentrated in 3 key markets, the United Kingdom, Germany and France.²⁴⁹

In 2008, 51 percent of retailers in the EU-27 used the electronic sales channel which makes e-commerce the second most commonly used retail channel in the EU-27 after direct sales, used by 79 percent of retailers.²⁵⁰ Mail order (30 percent), sales through representatives visiting consumers in their homes (21 percent), and telesales (17 percent) are less important.²⁵¹

In the period between 2000 and 2007 the use of the internet literally exploded in Europe, reaching a total growth of 206 percent.²⁵² The quick market expansion in e-commerce was

²⁴⁶ IMRworld, Global e-Commerce index, 05/2008.

²⁴⁷ European Commission (2009), Report on cross-border e-commerce in the EU, Commission Staff Working Document, SEC(2009) 283 final of 5 March 2009, p. 6.

²⁴⁸ eMarketer (2007), quoted in ACSEL, Europe, an opportunity for e-Commerce (2008), p.6.

²⁴⁹ Source: ACSEL, Europe, an opportunity for e-Commerce (2008), p.5.

²⁵⁰ European Commission (2009), Report on cross-border e-commerce in the EU, Commission Staff Working Document, SEC(2009) 283 final of 5 March 2009, p. 6.

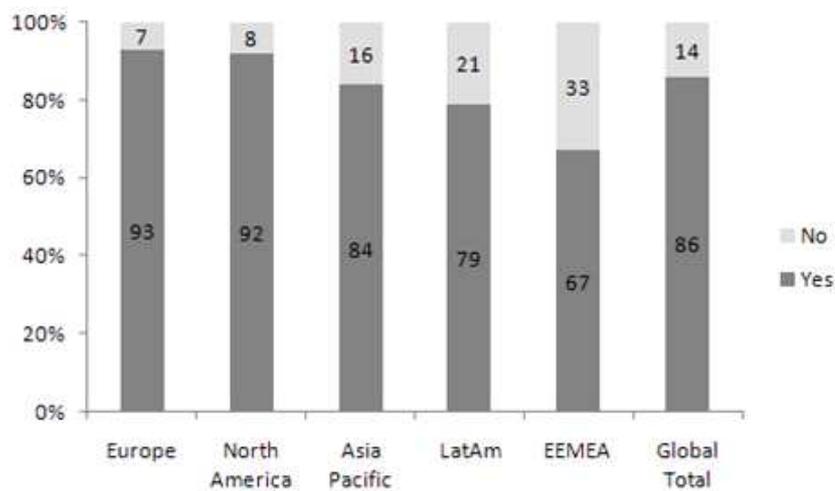
²⁵¹ Flash Eurobarometer 224, Cross-border sales and consumer protection (2008).

²⁵² ACSEL, Europe, an opportunity for e-Commerce (2008), p.28.

stimulated by the continuing spread of high speed internet use and was additionally accelerated by dropping prices and increasing choice. Moreover, the growth of e-commerce was strengthened by the increasing numbers of web shops, improvements of online payments systems and more flexible delivery options.²⁵³ In 2007, broadband penetration reached a weighted average of 20.3 percent for the EU-27 plus Norway and Iceland. However, the European market remains very fragmented. With Romania showing the lowest penetration rate at 4.4 percent and Netherlands with the highest penetration rate at 36.8 percent, the spread is quite large.²⁵⁴

In an international survey on internet shopping, 86 percent of the world’s internet users indicated they have already made a purchase on the internet, with Europe (93 percent) being ahead of the USA (92 percent).²⁵⁵ On a country level, South Korea is the country which counts most online shoppers. 99 percent of all internet users there indicated they have already shopped online, while Germany, Japan and UK are on an equal level with 97 percent of the online community indicating they shopped online.

Figure 4-58 Use of purchasing opportunities through the internet



Source: Nielsen, Trends in online shopping (02/2008), p. 1

According to a study by the Association de l’économie numérique (ACSEL), based on the number of online purchasers, the EU can be divided into three markets in terms of e-commerce:²⁵⁶

- A **mature market in Northern Europe**, including the United Kingdom, Germany and the Nordic countries, where on average between 60 percent and 80 percent of internet users are online purchasers.

²⁵³ EMOTA, Annual Report 2008, p. 4.

²⁵⁴ IDATE, Broadband Coverage in Europe (12/2008), S.11.

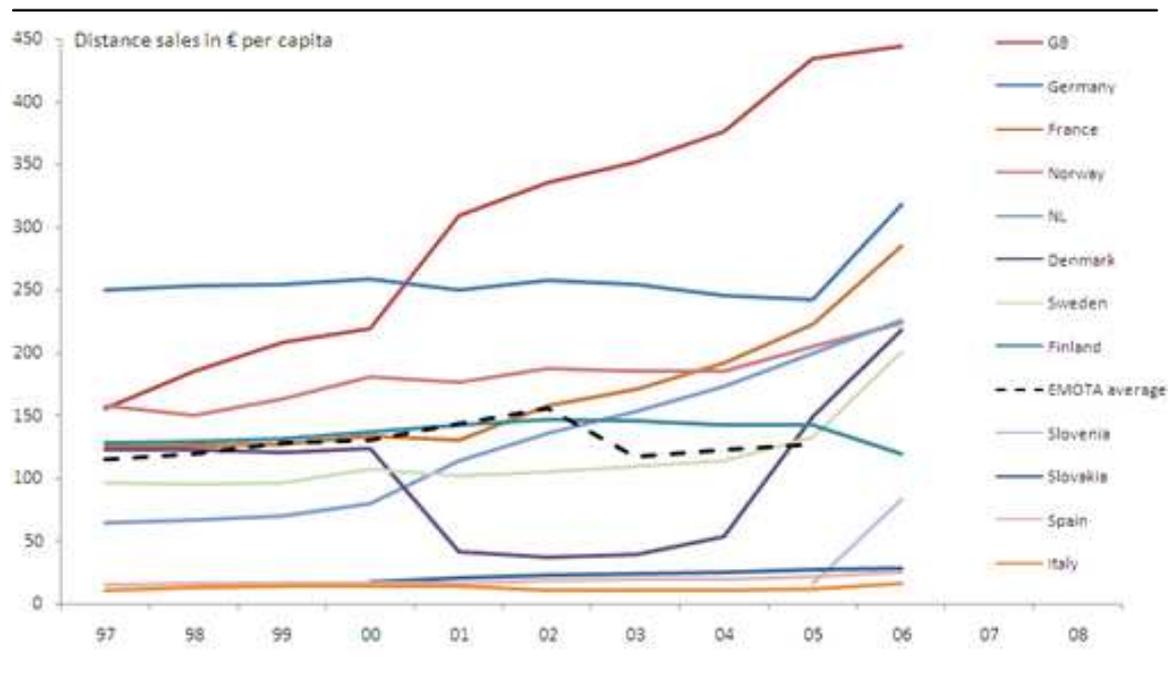
²⁵⁵ Nielsen, Trends in Online Shopping (02/2008), S.1.

²⁵⁶ ACSEL, Europe, an opportunity for e-Commerce (2008), p.36.

- A **growth market in France, Italy and Spain**, where the number of online purchasers is lower compared to the numbers of internet users, but where the number of new online purchasers is growing fast signalling a strong potential for growth in the short and medium term.
- An **emerging market in Eastern Europe**, with different levels of maturity according to the countries but for which statistical data is lacking.

Reviewing the development of per capita distance sales of selected countries in Europe in the years from 1997 to 2006, Italy and Spain are still at a very low level in terms of per capita spending, even lower than Slovenia and Slovakia. Not surprising is the dominance of Great Britain²⁵⁷ and Germany. France has caught up considerably in recent years and is predicted by many to provide much of the medium-term growth in internet shopping, as the recent upsurge in broadband connections has not (yet) been mirrored by higher levels of online shopping (and these two factors are usually directly correlated).²⁵⁸

Figure 4-59 Distance sale per capita 1997 – 2006 in EUR



Source: ITA Consulting / WIK-Consult, EMOTA Figures

The spread of electronic methods to communicate and to shop led to growing concern in the postal and mailing industry, triggering the question whether or not the introduction of new technologies necessarily leads to a decline in postal volumes.

A common assumption is that the mere presence of new technology-based alternatives must inevitably cause substitution, the new methods replacing the traditional ones. However, it can

²⁵⁷ Exchange rates to be considered.

²⁵⁸ nVision, e-Commerce across Europe, p.8.

be stated that the introduction of new technologies generates not only substitution, but also additional demand.²⁵⁹

E-COMMERCE AS A SOURCE FOR NEW VOLUME AND VALUE-GENERATING OPPORTUNITIES

The growth of e-commerce generates additional packets and parcels for physical distribution. In particular, the B2C market grew above average in the past two years and is expected to continue this growth due to e-commerce related transactions. The providers of parcel and express services are reacting to this trend and are especially present in the large e-commerce markets of UK, Germany and France, but also in other countries increasingly focusing on the B2C market segments. This trend affects the mature markets more than the developing markets in Eastern Europe.

For example, in Germany Deutsche Post's domestic parcels business is reacting to this trend and introducing new products and services to strengthen its presence in the fast growing e-commerce market. Since DHL introduced a new online product search machine under the name "Meinpaket.de" for registered Packstation customers in February 2009, where popular products are offered at discount prices from e-tailers who use DHL for delivery services, more than 30 percent of Packstation customers have increased their online spending as a result of the new service.²⁶⁰

Although the B2C business is primarily dominated by the national postal companies, because of their competitive advantage through their nationwide coverage, also other companies are expanding their business attracted by the future growth opportunities in the B2C segment originated from the rise of e-commerce.

Hermes, the only privately owned European B2C operator, is currently present in the markets of Germany, the UK, France, Austria and Italy. The company already announced further expansion plans in Spain, Belgium and Portugal.²⁶¹

Although levels of cross-border e-commerce grew by over 200 percent between 2003 and 2006,²⁶² cross-border e-commerce still represents only a small proportion of the overall e-commerce activity for retailers and consumers and accounts for only 18 percent of all cross border purchases by EU consumers.²⁶³ Therefore the positive impact of e-commerce on parcel volumes has mostly affected the domestic parcel market, while cross-border volumes have remained comparably small. The European Union as the world's largest trading block embracing 27 countries provides significant opportunities and challenges to retailers looking to expand via e-commerce, but the increase of cross-border sales has been hindered by several factors. The main barrier to a seamless development of cross-border e-commerce is the heterogeneity of the logistics offer. The absence of homogeneous offers in terms of delivery times, costs and quality limits the online merchant's capacity of action.²⁶⁴ Moreover, both retailers and consumers are concerned about the security of payment methods, fraud, data

²⁵⁹ UPU, Substitution Patterns, 2005.

²⁶⁰ CEP Research, Interview DHL Parcel Germany expects 2009 growth thanks to e-commerce (18.05.2009).

²⁶¹ CEP-Research.com, Hermes works on European B2C network (18.06.2007).

²⁶² Borderless - opportunities and benefits of ecommerce, p.5.

²⁶³ Borderless - opportunities and benefits of ecommerce, p.6.

²⁶⁴ ACSEL: Europe, an opportunity for e-Commerce, p.14.

security, fulfilment, returns, customer support, consumer rights and conflict resolution. The European Union is engaged in a series of significant initiatives to encourage and facilitate more cross-border e-commerce to transform it into a powerful economic driver, increase global competitiveness and attract external suppliers into Europe. Postal liberalisation is a major measure to benefit e-retailers. Recent progress regarding the liberalisation of postal services together with moves to promote secure, affordable and interoperable payments systems should strengthen the infrastructure of the Single Market for e-retailers.²⁶⁵

While B2B volumes have grown relatively moderately in recent years (although generally continuing to outgrow domestic GDP growth rates), B2C/C2C is the area where to expect clear growth. Until recently, the B2C segment has seen strong growth rates thanks to the e-commerce boom and resulting increase in parcels for home delivery. One significant trend is that some B2B volumes have been transformed into B2C shipments as producers bypass wholesalers and retailers and sell directly to consumers via the internet.

²⁶⁵ EMOTA, Annual Report 08, p. 4.

5 The Impact of EU Postal Reform on the European Postal Market

5.1 Letter Post Markets

The overall objective of the EU Postal Reform is to ensure and promote the efficient and reliable provision of universal postal service at affordable prices and at good quality throughout the European Union. However, the universal postal service is not a static concept but should develop in line with changing needs of postal users: individuals as well as business customers in their role as senders and recipients of postal items. To achieve the objectives of EU Postal Reform the Postal Directives provide a regulatory framework that serves as the mandatory guideline for the Member States. The implementation of the Postal Directives, especially with regard to the universal postal service requirements, has been in the responsibility of the Member States in order to take account of country-specific characteristics and differences in the development of the needs of postal users (principle of subsidiarity). However, the Postal Directive has established minimum criteria for universal service requirements, maximum criteria for the reserved area as well as a timetable for full market opening and concrete measures especially with regard to pricing and quality of service.

Since the publication of the Postal Green Paper substantial changes in postal service provision and in the postal market have occurred. In the following we discuss the evolution of letter service provision in the light of the overall objective of EU Postal Reform and, where applicable, the impact of gradual or even full market opening on pricing, service offerings to individuals and business customers, accessibility, quality of service, efficiency in postal operations and competition.

SERVICE OFFERINGS TO CONSUMERS, PRICING AND AFFORDABILITY

While the number of basic postal products offered to individuals and small business customers has remained fairly unchanged their characteristics have substantially changed over the last decade: next day delivery services for letters have become a standard service in all but one Member State and the reliability of service provision has substantially improved. Despite these improvements letter services have remained affordable for the general public.

- In most Southern and Eastern Member States a standard next day delivery service (D+1) has been established over the last decade. Today, only the Spanish postal operator Correos does not offer a regular D+1 service; the Poșta Română (Romania) has introduced a differently priced D+1 service in 2009.
- In some Member States second class letter services for stamped letters or single-piece items have been phased out (Belgium, Finland and Italy). In Slovenia the second class service was completely abolished (however, Slovenian postal tariffs that include VAT are still one of the lowest in the EU). From the customers' point of view this has resulted in less choice in terms of quality levels and a price increase for those customers that would prefer using the cheaper economy service (especially in the Italian case).

- In other Member States like Poland, Hungary, Lithuania, Latvia and Romania the postal operators have introduced an additional D+1 letter service which resulted in more choice for consumers and small business customers in terms of quality levels.

Basic tariffs for domestic letter services are still affordable while quality of service has improved:

- In more than half of the Member States the tariff for a 20g letter of the fastest standard category has not increased in real terms since 1998.
- In many Eastern Member States there have been substantial price increases of letters of the fastest standard category. However, in many cases the fastest standard category has been upgraded from a D+2/3 service to a D+1 service; i.e. price increases have been accompanied by improvements in delivery speed. As mentioned above, in these Member States universal service providers often offer a cheaper economy service which safeguards the affordability of letter services even for low income households.

The tariffs for single-piece letters are closely regulated by all Member States. We assume that especially in the “old” Member States (EU-15) this has resulted in fairly stable tariffs for consumers and small business customers. In the new Member States the price developments have also been the result of more cost orientation in pricing: firstly, their tariffs had often been too low for historical reasons; secondly, the universal service providers of the new Member States (except for the Slovenian post) deliver considerably less letter post items per capita than most of the operators of the Western Member States (significantly below 100 items per capita); and thirdly, they have been challenged by considerable increases in input costs, especially for labour.

Compared to domestic tariffs cross-border tariffs have developed differently. In most Western Member States cross-border tariffs for 20g letters within the European Union have increased at higher rates than domestic tariffs. In the Southern and Eastern Member States the cross-border tariffs have often declined in real terms. Generally, universal service providers offer cross-border letter services within the EU at geographically uniform rates, i.e. they do not apply zonal tariffs for letters sent within the EU depending for example on the distance to the destination country.

However, tariff increases should be related to the importance of postal services in the household budgets. The average expenditure of consumers for postal services is very low compared for example to telecommunications services: they account for approximately 0.1 percent of total household expenditure compared to 3.2 percent for telecommunications services.²⁶⁶

²⁶⁶ See Eurostat Newsrelease (2008), “Households dedicated more than half of their expenditure to housing and food” STAT/08/88 of 19 June 2008 and detailed expenditure data of the Household Budget Survey 2005 in the EU-27.

We conclude that EU Postal Reform and its implementation in the Member States has safeguarded and improved basic postal service provision to consumers and the general public at affordable prices.

SERVICE OFFERINGS TO BUSINESS CUSTOMERS

At the beginning of the 1990s the former postal administrations offered a limited range of standard postal products with little differentiation between customer groups. Some rebate systems usually related to volume existed²⁶⁷ but more sophisticated customer-oriented services were generally not offered. This situation has fundamentally improved in the last two decades. Postal operators have substantially extended their service offerings for business customers; today, incumbent and competing postal operators offer a broad range of product and pricing models.

- Business customers benefit from price discounts depending on criteria like presorting, volume or delivery destination (in case of zonal tariffs).
- The service range has been extended from the “one size fits all” postal services to different service levels (different transit times including day certain delivery) and the offer of upstream services, notably mail production and preparation, by postal operators or other service providers like mailing houses.

The development of upstream services substantially depends on discounts given by postal operators. Customers only have an incentive to pre-sort their mail if the postal operator grants a discount that at least compensates the mailer for the additional costs resulting from his mail preparation activities. In order to keep in close contact with the mailers many incumbent postal operators increasingly offer the whole range of services upstream and downstream to the traditional postal value chain (“one stop solution”). Generally, the national postal operators of the “high-volume” Western Member States have made more progress in this area²⁶⁸ than many of the national postal operators of the Southern and Eastern Member States.

In contrast to incumbent postal operators, competing postal operators have picked up specific needs of business customers and have established themselves in sub-segments of the market taking into account the limits set by reserved areas:

- Sweden: Bring Citymail has specialised in non time-critical industrial letters (transactional and direct mail) and offers day-certain delivery to its customers. Bring Citymail can compete with Swedish Posten despite Posten’s substantial economies of scale and scope in postal production. Bring Citymail does not use any sorting machines (sorting is part of the printing process) and its full time deliverers serve three delivery circuits per week (two deliveries per week and circuit).

²⁶⁷ See European Commission (1992), Green Paper on the Development of the single market for postal services, COM(91) 476 final, p. 93.

²⁶⁸ Except for An Post (Ireland) and Royal Mail (UK): Both companies do not separately offer upstream or downstream services.

- Germany: many competing postal operators offer local delivery services; their target group are medium-sized and small business mailers who send a large share of mail within the local area (e.g. local communities or utilities). These customers mainly send daily mail (or office mail) without any preparation; they usually would have to pay the basic letter tariff for stamped or franked letters to Deutsche Post without any further discounts.
- Germany: additionally, competing postal operators offer value added services. For example, TNT Post in Germany offers services that are highly adapted to the needs of large customers (especially with regard to transparency of postal operations and service levels).
- The Netherlands: Sandd has specialised in the delivery of non-time critical industrial letters (direct mail until the full market opening of the Dutch letters market in April 2009) and publications; they deliver nationwide two times per week.

Small and medium-sized business customers have additionally benefited from emerging consolidation services in some Member States: by this way they can at least partially benefit from volume, pre-sorting, and transport discounts granted by incumbent postal operators (for example in France, Germany and the UK).

Furthermore, business customers have benefited from price reductions as experiences in the UK, Sweden, and Germany have shown. We estimate that the benefits for business customers in terms of prices and service offerings are related to the degree of competition that has actually emerged in the respective country. Additionally, regulatory action (notably with regard to mandatory downstream access and the implementation of transparent and non-discriminatory access to special tariffs granted by the incumbent postal operator) has effectively promoted these developments and especially the extension of these benefits to medium-sized and small business customers.

We conclude that the incentives set by the Postal Directives with regard to the accomplishment of the internal market throughout the European Union, especially the establishment of a timetable for full market opening, has supported the extension of service offerings to business customers. Even in Member States with limited market opening so far, the incumbent postal operators have recognized that the business customers play a crucial role in their business and have improved and extended their services for business customers. Furthermore, in Member States that have decided to substantially or even fully open their letters markets business customers have the choice between different postal service providers.

QUALITY OF SERVICE

One of the main objectives of EU Postal Reform is to improve reliability and quality of universal postal services. This objective coincides with basic needs of postal customers: customer surveys have revealed that the reliability of postal service provision is the most important service characteristic in the view of individuals and business customers.

The transit time performance of letters is the key quality indicator for measuring the speed and the reliability of letter service provision. EU Postal Reform has effectively promoted the introduction of domestic quality of service targets, their measurement and the publication of

performance results. All Member States have determined transit time targets at least for letters of the fastest standard category. Furthermore, the Directive has promoted the development of harmonised measurement standards; a mandatory standard for the measurement of the transit time performance of single piece items of the fastest standard category was introduced in 2004. Today, in all EU-15 Member States and most of the new Member States the transit time performance is regularly measured by independent institutions sometimes commissioned by the regulatory authority, e.g. in Ireland and Greece, but mostly on behalf of the universal service providers. The standard requires that measurement starts with the collection of the items from postal outlets or street letter boxes and ends with the final delivery to the recipient. Therefore the focus lays on letter services mostly used by individuals and small business customers. However, all letters whether bulk or single piece have to pass through the same infrastructure; high performance figures of single piece letters are therefore a good indicator for the performance of bulk letters. Additionally, large mailers often measure the transit time by themselves to monitor the service level provided by the public or the competing postal operator.

Over the last decade the D+1 transit time performance has considerably improved in many Member States. Universal service providers of more than half of the Member States deliver on average 90 percent of their standard letters on the next working day:

- TNT (the Netherlands), Royal Mail (UK), Deutsche Post (Germany), Itella Corporation, PTT (Luxembourg), Posten (Sweden), Post Danmark (Denmark) and CTT Correios (Portugal) already achieved service levels above 90 percent before 2000.
- De Post–La Poste (Belgium), Austrian Post and Poste Italiane and seven universal service providers of the new Member States (Magyar Posta (Hungary), Maltapost, the Czech, the Estonian, the Latvian, the Slovakian and the Slovenian national postal operators) achieved levels above 90 percent between 2000 and 2008.
- Nine universal service providers have not yet achieved levels above 90 percent. Nevertheless most of them made considerable progress in the last few years, notably, La Poste (France), Elta (Greece), An Post (Ireland) and Correos (Spain). In the new Member States these are the Cyprian, Bulgarian, Lithuanian, Romanian and Polish national postal operators.

In order to achieve a high performance in transit time and a high degree of reliability it is necessary that all elements of the postal value chain run smoothly together. For this reason the transit time performance is also an important indicator for postal operators to identify problems in their operations. Progress in sorting technology and operation research techniques for optimising the transport and delivery organisation combined with the establishment of integrated IT solutions have pushed the modernisation of postal operations. Operations have been streamlined and a close monitoring of quality of service (i.e. smoothness within and between the relevant processes) has been established. These developments have improved efficiency in postal operations. This means that transit time performance is a good indicator for progress made in the modernisation and restructuring of postal operations. We therefore conclude that most of the universal service providers of the first and of the second group have fairly completed the basic modernisation process. The members of the third group are either at

the beginning or in the middle of the process. Of course, there are always ongoing changes in postal operations (“fine-tuning”) because of technological progress (e.g. in sorting technology with regard to delivery sequency sorting) and changes in demand.

Additionally, the first Postal Directive has defined transit time targets for cross-border letter services: 85 percent of cross-border letters of the fastest standard category have to be delivered on the third working day after posting. Over the last decade the cross-border transit time performance has also substantially improved while the number of country-to-country relations within the EU has substantially increased: from 210 in 1998 (EU-15) to 702 (EU-27) in 2008.

- EU-15: The overall performance within the UNEX-18 group (that includes the universal service providers of the EU-15 plus Norway, Switzerland and Iceland) has increased from 85.6 percent (1998) to 96.3 percent (2008). In 2008 about 97 percent of country-to-country relations between EU-15 Member States achieved or outperformed the target of 85 percent. These results are in line with improvements in domestic transit time performance. In order to achieve 85 percent D+3 service within the EU it is necessary to have a fairly good D+1 performance in the destination country. Even universal service providers with a relatively low domestic transit time performance (Irish An Post, Greek ELTA and Spanish Correos) achieved average levels above 85 percent (D+3).²⁶⁹
- New Member States: The picture is mixed for universal service providers in the new Member States. Low performance figures have been achieved for letters sent to Cyprus and Malta which may be caused by their specific geographic location (islands at the southern edge of the EU). Cross-border letters sent to Hungary, the Czech Republic and Slovakia have achieved average performances above 85 percent. Within the enlarged EU the transit time target of 85 percent was achieved by approximately 60 percent of monitored country-to-country relations.

In the enlarged EU it is even more challenging to achieve the transit time target for every country-to-country relation. Transport distances have considerably increased and moreover cross-border letters volumes vary substantially between the relations. Between neighbouring countries the postal volume is usually substantially higher than between two countries located at the opposite edges of the EU (e.g. between Portugal and Bulgaria).

We conclude that the regulatory framework set up by EU Postal Reform has successfully promoted the improvements in quality of service. Most universal service providers have clearly understood that the provision of reliable and high quality postal services is of major importance to meet the challenges of emerging competition with other postal operators as well as with other communication and advertising media. In some Member States national postal regulation has additionally put pressure on the universal service provider to improve the transit time performance (e.g. in Ireland and Greece).

²⁶⁹ Average per destination country means that e.g. for Austria (AT) the unweighted average is calculated based on the transit-time performances of the 14 relations (origin-destination) BE-AT, DE-AT, ..., UK-AT. We assume that potential quality problems are usually related to the delivery quality in the destination country.

ACCESS TO POSTAL SERVICES: STREET LETTER BOXES AND POSTAL OUTLETS

Nationwide access to postal services is a fundamental characteristic of a universal service. Article 3 of the Postal Directive requires that “Member States shall take steps to ensure that the density of the points of contact and of the access points takes account of the needs of users.” According to the principle of subsidiarity the Member States have decided on the concrete implementation of this requirement; by this way they have taken into account the special circumstances of their countries.

Individuals and small business customers can send their mail at any time by putting their letters into street letter boxes. While street letter boxes can be used for stamped mail at any time, postal outlets are additionally used to ask for special services (e.g. to send registered, insured or cross-border items) and to pick up items that has not been delivered at the premises of the recipient (e.g. parcels, registered items). The major customer group using postal outlets and street letter boxes are individuals and small business customers. In contrast, medium-sized and large business customers either use specific access points for posting bulk mail (e.g. at the sorting centre) or the postal service provider (or another service provider, e.g. a consolidator) picks up the mail at the premises of the sender.

Traditionally, universal service providers of every Member State have street letter boxes nationwide. However, the density of street letter boxes varies between Member States (in terms of street letter boxes per 10,000 inhabitants). The share of letters collected by street letter boxes is relatively low while the regular clearing of street letter boxes is relatively costly (high share of fixed costs). To reduce costs universal service providers have therefore an incentive to reduce the number of street letter boxes which has actually happened in many Member States, notably in Austria, Belgium, Finland, Germany, Greece and Hungary.

So far, most competing postal operators in the letters market focus on business customers. They usually pick up the letters at the premises of the customer, i.e. they do not need any street letter boxes to collect mail. Only in Germany and Sweden, there are some local competitors that have positioned street letter boxes to provide access to their letter services for small mailers.

In 1998 universal service providers operated more than 106,000 outlets (EU-25). The number had declined to 96,000 by 2007. Significant reductions have occurred in the Western Member States Austria, Denmark, Finland, Ireland and the UK; in one Southern (Portugal) and one Eastern Member State (Latvia). However, in other Member States accessibility in terms of density of postal outlets has improved: i.a. in Bulgaria, Poland and Romania (Eastern Member States); Greece and Malta (Southern Member States). The density of postal outlets varies between Member States; the variation is generally related to the population density: the higher the population density the lower the number of postal outlets per 10,000 inhabitants. Spanish Correos has the retail network with the lowest density of postal outlets in the EU (0.7 postal outlets per 10,000 inhabitants in 2007); the company extensively uses mobile post offices, i.e. the postmen offer postal services at the premises of the customers.

The factors that affect the number, density, and organisation of postal outlets are manifold and often inter-related:

- Universal service requirements: Member States have implemented considerably different requirements with regard to the number, the density, and the organisation of postal outlets (use of postal agencies) which again result in differently designed networks of postal outlets (may be differing from a commercial solution).
- Country-specific geographic and socio-demographic characteristics: the more densely populated the lower the number of postal outlets per 10,000 inhabitants
- Services offered in postal outlets: some postal operators offer a wide range of financial services in their outlets (e.g. French La Poste and Poste Italiane); financial service provision results in additional requirements for information technology and security in an outlet. Postal services, in contrast, can be easily offered by franchised postal outlets.
- Demand for services offered in postal outlets: post offices with low demand are either closed or transformed into agencies.
- Technological developments: the establishment of competing retail channels by national postal operators, e.g. via internet or mobile phone, may reduce the demand for services offered in postal outlets.
- Competition: the decision to operate or close a postal outlet depends on the expected loss of customers and revenues in relation to expected cost savings. If competing postal operators establish own outlets (as happened in the letters and parcel business in Germany and Poland) customers can easily switch to another operator. This mechanism limits the incentive of the incumbent to close a post office without any replacement.
- Cost considerations of postal operators: franchised postal outlets are usually less costly than post offices operated in leased or owned offices by own employees. Therefore the proportion of postal agencies out of the total number of postal outlets has significantly increased, especially in the Western Member States.
- Public opinion: changes in the network of postal outlets by universal service providers (especially the closure of post offices or their replacement by postal agencies) often provoke extensive public discussions (e.g. in Austria and Germany). Additionally, results of the Eurobarometer consumer surveys have shown that consumer satisfaction is strongly related to changes in the retail network of the universal service provider. Closures of post offices (even if replaced by franchised outlets) generally result in a decline in consumer satisfaction.

Nevertheless, the appearance of postal outlets has substantially changed during the last two decades. Former post offices (especially from the time before universal service providers were transformed into independent legal entities) and current postal outlets have little in common. Many universal service providers have substantially modernised their retail operations and the postal outlets to make access more attractive for customers (e.g. by using open counters and offering all services at one counter). The service offerings in post offices have been extended to better use the capacity of the retail network (e.g. by selling of stationery or offering additional financial services). Furthermore, universal service providers increasingly use franchised postal

outlets (postal agencies) instead of or additional to post offices. These are usually retail shops with longer opening hours than traditional post offices.

- Western Member States: the Scandinavian universal service providers, TNT (the Netherlands) and Deutsche Post (Germany) run more than 80 percent of their outlets as postal agencies. Royal Mail (UK) and An Post (Ireland) have traditionally a high share of “subpostmasters” (above 90 percent).
- Southern Member States: Elta (Greece), CTT Correios (Portugal) and Maltapost have more than half of postal outlets run as postal agencies.
- Eastern Member States: only Magyar Posta (Hungary) and Poczta Polska (Poland) increasingly use postal agencies.

However, some postal operators have no or a relatively low number of postal agencies (notably in France, Italy, Spain and most Eastern Member States). In Spain, Correos has substantially reduced the number of post offices and replaced them by mobile post offices instead of establishing postal agencies. Financial services play a substantial role in the businesses of Poste Italiane and La Poste, as well as in the businesses of many universal service providers of the Eastern Member States (postal financial services).

Finally, emerging competition has even resulted in additional access points for customers in some Member States:

- In Germany, competing postal operators established retail postal outlets and positioned street letter boxes to attract private customers and small business customers.
- In Poland, the competing postal operator InPost has established around 800 franchised outlets in Polish cities.
- In some Member States parcel service operators have established parcel shops to improve their market position in the distance selling business but also to provide parcel services for individuals like Hermes in Germany. Hermes has established around 14,000 franchised parcel shops nationwide.

These are encouraging developments which show that retail networks are not necessarily a “burden” as considered by some incumbent postal operators but an important tool to keep in close contact to the postal customers. However, these developments also show that competing postal operators primarily use franchised outlets in order to limit the costs of the retail network.

We conclude that after more than one decade of EU Postal Reform access to postal services has been safeguarded. However, access conditions vary between Member States in terms of density and organisation of postal outlets. This variation is mainly the result of national decisions on access conditions defined in their postal legislation, of market and demand developments faced by postal companies and their efforts into improving efficiency in retail operations.

CONSUMERS' COMPLAINTS

Customer protection plays an important role in the EU Postal Reform which is especially reflected in the requirement that transparent, simple and inexpensive procedures shall be drawn up for dealing with customers' complaints (resp. be made available by all postal operators as required in the third Postal Directive). This is a very important tool, especially for customers who do not have the possibility to switch the service provider in case of dissatisfaction with the service. Today, in all Member States customers of universal service providers have the possibility to file a complaint. Even more important is the publication of complaints statistics which is also required by the Postal Directive: we found some information on the number and type of complaints in 23 Member States. The figures are usually published by the national postal operators either in their annual reports or as part of a separate report to the regulatory authority (e.g. Austria and the Netherlands). In six Member States the national regulatory authority publishes the complaints statistics; in two of these cases the statistics refer to the number of complaints the regulatory authority has dealt with (in Germany and Latvia). Generally, it appears that the awareness of customers (usually small business customers and consumers) about existing complaint facilities has improved which may be reflected in increasing numbers of complaints. However, the number of complaints strongly varies between Member States and time series information does often not exist. For these reasons comparisons of developments between Member States are not possible.

We conclude that EU Postal Reform has effectively promoted the improvement of postal users' rights to insist on the effective implementation of transparent and inexpensive procedures for customers' complaints by universal service providers and competing postal operators.

EFFICIENCY IN POSTAL SERVICE PROVISION

Over the last decade we observe a substantial change in the positioning of national postal operators in the national and the European postal markets. The former postal administrations have increasingly evolved into profitable, commercially thinking, more and more customer-oriented postal companies. The Member States in their role as owners have supported this process by corporatizing and, in some cases, by privatising the former postal administrations. Both developments—gradual market opening as well as the transformation of national postal operators combined with increasing commercial flexibility—have pushed forward the process of commercialisation of the postal, and especially of the letters business of these operators. This is reflected by significant efforts of the national postal operators into modernising their national postal operations, extending their businesses into related segments or into other countries, improving efficiency and profitability and changing business strategies:

- All universal service providers have modernised, restructured and streamlined (or are still modernising) their postal operations. Postal operators of most Western Member States are more advanced in this process because they usually started earlier (partly before 1997) while many postal operators of the Southern and Eastern Member States are in the middle or at the beginning of this process (e.g. in Romania).
- National postal operators of the Western Member States, notably the biggest three (Deutsche Post, La Poste, Royal Mail) plus Dutch TNT, have entered the international parcel

and express business. Others, like Austrian Post and the Scandinavian national postal operators have regionally extended their parcel/logistics and information logistics businesses.

- Most small and medium-sized national postal operators focus on their domestic postal business and are putting significant effort into improving national postal and retail services.
- Two national postal operators have an additional focus on financial services (French La Poste and Poste Italiane).
- Many national postal operators have entered business activities upstream and downstream of the traditional postal value chain in their home market. They increasingly offer mail production and preparation (i.e. hybrid mail services) to medium-sized and large business customers by competing with other service providers, independent or owned by foreign national postal operators.
- National postal operators increasingly use their nationwide delivery networks to distribute unaddressed advertising together with addressed mail.

Another visible result of this commercialisation process is the improved financial situation of most national postal operators (especially those who started relatively early with the process of commercialisation, i.e. many national postal operators of the EU-15).

- Most national postal operators of the Western Member States achieved profit margins above 5 percent in 2007. In this group An Post (Ireland) and Royal Mail (UK) are underperforming with rates below 3 percent.
- Half of the national postal operators of the Southern Member States have achieved more than 5 percent: Poste Italiane, Maltapost and CTT Correios. The financial situation of Cyprus Post is not transparent because the operator is still a government department while ELTA (Greece) and Correos (Spain) face reductions in profitability.
- Only two national postal operators of the Eastern Member States have achieved profit margins above 5 percent: Bulgarian Posts and Pošta Slovenije (Slovenia). Eesti Post (Estonia) and especially Latvijas Pasts (Latvia) made substantial losses in 2007.

As already outlined above, many national postal operators have modernised (or are in the middle of modernising) their postal logistics, resulting in more reliable postal services. They have established more flexible cost structures by outsourcing activities and through more flexible working contracts. However, these activities have resulted in a substantial decline in employment of national postal operators. Additionally, most Member States have transformed their former postal administrations into independent legal entities, resulting in a significant decline of civil servants employed by the postal companies over the last decade.

We conclude that EU Postal Reform has set important incentives to Member States and stakeholders of the postal markets by establishing a timetable for full opening of national letters markets. This has effectively promoted the efficient provision of universal postal services.

COMPETITION IN LETTERS MARKETS

The accomplishment of an internal market for postal services is also an important objective of EU Postal Reform. In order to achieve this objective the Postal Directives have established a timetable for full market opening of the domestic and the cross-border letters markets. For a transitional period Member States are allowed to reserve parts of the letter services to the extent necessary to safeguard the universal postal service. The Postal Directive defines the maximum price and weight thresholds for the reservable area; these thresholds were reduced in 2003 and 2006. The Member States have implemented different market opening policies in their countries taking into account the thresholds set by the respective Directives.

The opening of the national letters markets has gained momentum. Six Member States accounting for more than half of the letter post market (in terms of volume) have fully liberalised their postal markets. A further six Member States have at least opened significant segments of the letter post market. In more than half of the Member States outgoing cross-border mail has been liberalised.

Only in Member States that have substantially or fully opened their letters markets has competition emerged. Driven by cheap access products competition in the UK is limited to upstream activities, i.e. collection, transport, and sorting of letters items. In other Member States some end-to-end competition has been established: in the direct mail and publications market of the Netherlands, letter services distinct from universal service in Germany (competing with standard universal services offered by Deutsche Post), intra-city letter services in Spain and in the industrial mail segment of Sweden.

Some national postal operators have used the opportunity resulting from market opening to extend their businesses to other countries and act as competing postal operators in foreign domestic markets. They have acquired or established competing postal operators and have provided them with know-how and the financial backing. The leaders of this process are essentially national postal operators of the Western Member States that started relatively early with the expansion process of their business activities, i.e.

- TNT (Netherlands) has entered the Austrian, Belgian, German, Italian, Czech and the Slovakian letters and unaddressed advertising markets (“European Mail Network”).
- Deutsche Post (Germany) has acquired Selekt Mail (Netherlands) and has a stake in Unipost (Spain).
- Posten Norge’s subsidiary Bring Citymail is active in the Swedish and since 2006 in the Danish letters markets.
- Austrian Post is active in the distribution of unaddressed advertising in the national markets of its Eastern neighbours (i.a. Hungary, Czech Republic, Slovakia and Croatia).

Additionally, some have entered the upstream segments of foreign national markets:

- Austrian Post has entered the German and the Czech upstream markets by the acquisition of meiller direct (direct mail).

- Deutsche Post has acquired Williams Lea (UK and US) and Koba (France), both important players in the respective upstream markets.
- TNT Post is active in the German consolidation market (Postcon, the second important consolidator after Williams Lea), in the Czech (Dimar), Italian and in the UK upstream markets.
- Swedish Posten is active in the upstream segments of the Scandinavian countries (Stralfors).
- Itella Corporation (Finland) has established printing facilities for hybrid mail in Scandinavia, the Baltic countries and Germany.

The strategy chosen by most Member States to gradually open the letters market by reducing the weight and price thresholds of reserved letter services has not triggered noticeable competition in national letters markets with one notable exception. The Polish national postal operator has been challenged by emerging competition (InPost). Its low quality of service and its relatively high postal tariffs appear to promote competition in the Polish letters market despite of the reserved area.

So far, end-to-end competition has predominantly emerged in specific market segments:

- Competing postal operators mainly focus on medium-sized and large business customers. For this group of customers competing postal operators do not need an extensive collection network but they pick up the mail at the premises of the customer.
- Competing postal operators have started their delivery services at local level. The establishment of a nationwide delivery infrastructure depends on the geographic of the Member States and which market segments have been liberalised, as the following examples show
 - Spain: Unipost has basically focused on delivery services within cities; in Spain intra-city delivery has traditionally be open to competition. The company is extending its national coverage by intensifying the cooperation between the local delivery partners.
 - Germany: competing postal operators have established local delivery infrastructures in urban and rural areas (especially in the eastern part of Germany). The German TNT Post aims at establishing a nationwide delivery network by co-operation or joint-ventures with and by acquisition of local service providers.
 - Sweden: Bring Citymail focuses on the more densely populated southern part of Sweden.
 - Netherlands: At the beginning of their business Sandd and Selekt Mail started with a limited coverage: Sandd, for example, started covering 45 percent of the country. Within four years the company has established a nationwide delivery network in this relatively small and densely populated country.

- Competing postal operators that focus on non time-critical letters (e.g. direct mail) deliver less than five days per week in order to keep the costs low (Bring Citymail in Sweden and Sandd/Selekt Mail in the Netherlands).
- Competing postal operators with a focus on local mail deliver at least five days per week, e.g. in Germany and Spain (Unipost).
- Additionally, competing postal operators have emerged in niche markets e.g. DX in the UK or primeMail in Germany (delivery of catalogues in cooperation with Hermes).

However, full market opening or liberalising of significant market segments does not necessarily result in significant end-to-end competition:

- The UK experience has shown that low priced access products of the incumbent postal operator may effectively suppress emerging competition in end-to-end delivery services.
- Other legal barriers to entry, e.g. universal service requirements in licences for competing postal operators may have the same effect than an extensive reserved area (e.g. in Finland and Japan).
- The incumbent postal operator offer very low priced letter services so that a successful market entry at a large scale is not feasible (e.g. direct mail in Germany).

In Member States with significant segments open to competition the different application of VAT rules on postal services provided by the incumbent postal operator and by competing postal operators creates severe market distortions. While in the Netherlands, Spain and Sweden “competitive” postal services (i.e. services that are not part of the reserved area) are generally not exempt from VAT, German competing postal operators are still challenged by the unequal application of VAT rules. It restricts their business opportunities because customers from industries that are not allowed to deduce VAT (especially from the financial and the public sector) are difficult to attract by price competition: competitors would have to undercut Deutsche Post’s tariffs minus the standard VAT rate (19 percent).

So far, the number of competing postal operators with market shares above one or two percent has remained low in every Member State. Over the last decade the incumbent postal operators have kept market shares in terms of volume and revenue of more than 85 percent in Member States with emerging end-to-end competition. Incumbent postal operators that still benefit from the reserved area (maximum thresholds) achieve market shares above 98 percent. Given these market conditions, no competing postal operator able to provide nationwide letter post services to the general public has been established, so far, anywhere in the European Union.

We conclude that EU Postal Reform has advanced the accomplishment of an internal market for letter post services. However, many Member States are reluctant to effectively open their letters markets and to establish a level playing field also with respect to issues not related to postal legislation (e.g. VAT). Competition has therefore emerged (if any) differently in national letters markets. In any case, the role of the national postal operators as universal service providers has not been seriously challenged by emerging competition.

THE ROLE OF LETTER POST SERVICES IN THE EU

Developments in postal service provision, customer orientation and competition developments directly and indirectly influenced by EU Postal Reform (and its implementation by the Member States) affect the role of letter post services in the wider context of the communications and advertising markets.

The letter post markets have developed differently in the country groups. While the letter post volume has stagnated in the mature “high-volume” Western Member States (more than 200 items per capita), moderate growth has occurred in the Southern Member States and significant growth in the “low-volume” Eastern Member States (with considerably less than 100 items per capita at the beginning of the process).

Generally, economic growth as driver of letter post volume has become less important in all Member States; other factors increasingly influence the demand for letter post services. We observe the following general trends over the last decade:

- Growth in correspondence is generally lower than growth in direct mail (or even negative). Emerging electronic alternatives to physical delivery of letters have affected the letters business, especially private correspondence and increasingly transactional mail. The Western Member States (and here especially the Netherlands and the Scandinavian countries) are seemingly more affected than the Southern and the Eastern Member States: In the former countries the penetration of broadband access and the use of internet services are more common than in the latter countries.
- Direct mail has increased in many Member States, especially in the Eastern Member States. However, the role of direct mail in most of these countries is still relatively small: the direct mail industry is less developed than in the Western Member States—direct mail as advertising medium is not yet well established and the necessary infrastructure (e.g. sophisticated address databases) is not sufficiently available. National postal operators, especially of the Eastern Member States, increasingly distribute unaddressed advertising which may additionally limit the growth potential for direct mail in these markets.
- In the Western Member States the demand for direct mail is affected by the trend to more target-oriented advertising campaigns which results in declining volumes per consignment. Additionally, it appears that the development of more sophisticated unaddressed advertising (in combination with geo-marketing tools) have additionally affected the direct mail segment. Use of opt-in rules (e.g. in Denmark) and tightening of data protection legislation (e.g. in Germany) and, more generally, the acceptance of direct mail by consumers additionally challenge this segment.
- Publications delivered by national postal operators have declined in many Member States, partly because of declining demand of subscribed newspapers and magazines, and partly because of the market entry of alternative delivery organisations established by publishers.

However, we conclude that EU Postal Reform has set the right incentives to strengthen the role of letter post services within the broader communications market. If nothing had happened

(after the publication of the Green Paper) the letter post services would have substantially lost importance in relation to other communication media; the advertising segment (direct mail) would even not have been developed in the same way we see today. Today, many customers receive more value for money and especially business customers have more choice in service levels and between letter service providers. These developments have safeguarded the position of correspondence in the communications market and strengthened the position of direct mail in the advertising market.

5.2 Parcel and Express Markets

Early liberalisation of the parcel and express market accompanied by clear market definitions (vis-à-vis the reserved area) were achieved in virtually all markets by the late 1990s, with only relatively minor exceptions. Although legal barriers may remain in some market segments (e.g. VAT on small parcels) or in some countries for varying reasons, an EU-27 internal market for parcels and express has clearly been achieved and is functioning on a normal competitive basis.

Since 1997, the parcel and express market has benefited fundamentally from major macro-economic trends (international trade, globalisation and e-commerce), and its growth has historically mostly outpaced macro-economic (GDP) growth. The market was able to take advantage of changing customer demands and innovative technologies by adapting products and services, resulting in improved customer orientation and further business growth.

European postal operators adopted diverse strategies in the parcel and express market. Large players (Deutsche Post, TNT, French La Poste, Royal Mail, Austrian Post) entered the sector, expanded their presence substantially through acquisitions and gradually built up pan-European businesses. Other postal operators largely restricted their parcel and express activities to their domestic markets.

COMPETITION FROM PRIVATE OPERATORS

Private operators were able to compete fully in the liberalised parcel and express sector. Two large non-European players (UPS and FedEx) developed strong businesses in European Union. However, major European private operators (DPD and GLS) were acquired by postal operators and only recently has another private company (Hermes) started to develop a European-level operation. Smaller companies tend to focus on domestic markets or specialist business areas. The market thus shows clear signs of consolidation at a European level, although the picture is more diverse at a domestic market level.

IMPLEMENTATION OF A CLEAR LINE BETWEEN UNIVERSAL POSTAL SERVICES AND EXPRESS SERVICES

The progressive dismantling of the postal monopolies over the years, in conjunction with the full market opening, provided the national postal operators along with private parcel and express services operators with clear opportunities for new business growth.

The implementation of clear definitions of the reserved and non-reserved areas for letter services as well as the regulation on accessibility to the postal mail chain made it somewhat

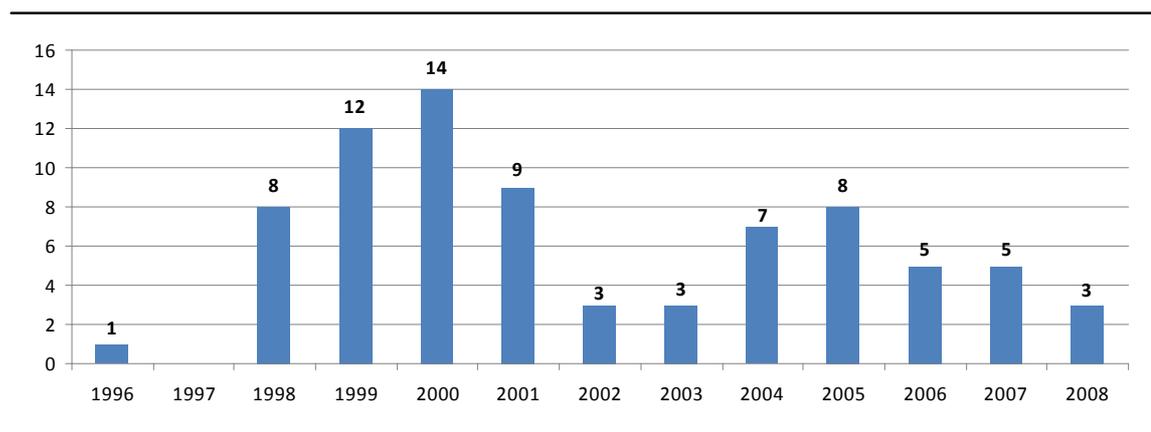
easier for the active parcel and express operators as well as new entrants to develop their businesses and/or to develop new services.

NATIONAL POSTAL OPERATORS EXPANDING THEIR BUSINESS

Several players took the opportunity to expand their business, mainly in form of mergers, acquisitions and/or developing alliances with “strategic partners”. National postal operators, mainly the ones that were backed up by their respective governments and being financially capable of doing so (due to the large size of their home markets as a base), used the momentum to quickly expand into international markets.

A first wave of M&A activities took place as of 1998, coinciding with the first Postal Directive that was published in 1997. The main operators within the postal market (Deutsche Post, FedEx, La Poste, Austrian Post, Royal Mail, TNT and UPS) alone have made 78 acquisitions until now, or took a minority stake in other parcel and express services which had their home market within the EU-27 Member States. Another smaller wave took place right after the second Postal Directive was put in place in 2002.

Figure 5-1 Major parcel & express acquisitions from 1996 to 2008 in the EU-27



Source: ITA Consulting / WIK-Consult

As a result, EU Postal Reform has been an influencing factor supporting the creation of a very highly competitive market for parcel and express services within the European Union. Today, postal operators, integrators and European parcel networks offer a full portfolio of air, ground and international shipping options for parcel and express services.

The larger postal operators have mostly developed a global (or European) ‘one-stop-shop’ strategy in order to improve earnings growth, diversify risk and to address the ongoing globalisation within the industry. Medium-sized and smaller EU-27 postal operators have focused on their domestic markets. Other so-called ‘niche-players’ have been successfully establishing themselves within the parcel and express market, acting mainly on a domestic, sometimes on a cross-border, level.

ACCESSIBILITY TO THE POSTAL NETWORK

Allowing other legal entities to obtain access to the delivery chain of a postal operator meant that new types of services could be offered to customers by the parcel and express operators. For example, re-mailing and bulk mail services started to take form.

Additionally, parcel and express services were now able to provide European-wide services, even for remote areas or destination countries that they do not serve directly, either via their own network or through partners.

6 Future Trends

6.1 Future Trends in the Letter Post Markets

In chapter 4 of this report we discussed in detail the developments in the letter post markets over the last decade and in chapter 5 the impact of EU Postal Reform on these developments. In this chapter we present our expectations concerning the future developments in the letter post market with regard to demand for letter post services and competition, especially after full market opening in 2011.

LETTER POST VOLUME AND DEMAND

The current economic recession strongly affects the postal business. Domestic and cross-border letter post volume started declining in the second half of 2008 and has continued to decline in 2009. For the financial year 2008 the largest incumbent postal operators announced a decline in letter post volume starting in the second half of 2008. This decline has continued in the first quarter of 2009 and will result in significantly lower volumes in the EU letter post market in this year (2009).

Table 6-1 Recent developments in letter post volume

<i>Postal operator</i>	<i>2008</i>	<i>2009</i>
<i>Austrian Post</i>		<i>Q1: -4.6 % (revenues of the mail segment)</i>
<i>Deutsche Post (Germany)</i>	<i>+1.1% mainly correspondence</i>	<i>Q1: Correspondence: -1% • Private correspondence -3.8% • Business correspondence -0.5% Direct mail: -7.5% Unaddressed advertising: -6.3 %</i>
<i>Itella (Finland)</i>		<i>Q1: First class -10% Second class stable Direct mail (including unaddressed advertising) -14%, Newspapers -2%, Magazines -1%</i>
<i>La Poste (France)</i>	<i>-3%</i>	<i>Expectation: -5%</i>
<i>Posten (Sweden)</i>	<i>-3.8%</i>	<i>First class -13% Second class stable Unaddressed advertising -16%</i>
<i>Royal Mail (UK)</i>	<i>-7%</i>	
<i>TNT (Netherlands)</i>	<i>-2.4%</i>	<i>Q1: -4.7% letters (single piece items more than bulk mail) For 2009 TNT expects a decline of 6%</i>

Source: ITA Consulting / WIK-Consult based on Quarterly Reports (1st quarter) of Austrian Post, Deutsche Post, Itella, Posten and TNT; Annual Report 2008/09 of Royal Mail; and statements of French La Poste CEO Bailly made at the IEA conference in Amsterdam, 2009.

The economic downturn has impacted on all Member States simultaneously and heavily. The strength of the economic downturn differs between the Member States. The decline in GDP in the first quarter of 2009 compared with the first quarter of 2008 ranges from +1.9 percent (i.e. low growth) in Poland to -18.6 percent in Latvia; the large economies (France, Germany, UK) faced declines between -3.2 percent (France) and -6.9 percent (Germany). The economic decline is mainly driven by a decline in investments and exports, and less by private and public

consumption, so far.²⁷⁰ Due to the extraordinary magnitude of the economic decline domestic and cross-border postal volumes are also affected. They are directly impacted by cuts in marketing budgets; an effective cost saving measure used by many companies. This behaviour is reflected in a dramatic decline in addressed and unaddressed advertising. It appears that correspondence sent to individuals (B2C) is less affected than direct mail and correspondence between businesses, so far. This may change should the economic downturn also start to affect the demand behaviour of individuals due to increasing unemployment and company bankruptcies in the course of 2009 and 2010.²⁷¹ Postal revenues are additionally impacted because mailers have increasingly switched volumes from first class to cheaper second class services (where offered), as the examples in Sweden and Finland show. However, in many Member States (e.g. Finland and Estonia) postal operators have increased their postal tariffs in 2008 and 2009. This may limit the loss in revenues. For this reason we assume that letter post revenues will decline less than letter post volume.

The structural change in demand due to emerging electronic alternatives is the second important challenge for the development in letter post volume in the medium and long term. The current economic crisis may even encourage this process because the cost awareness of business customers increases with regard to their postal expenses. Communication behaviour will continue changing in the next few years. The share of households and businesses with convenient broadband access will further increase, especially in Member States with currently low penetration rates (mainly many Southern and Eastern Member States). The young generation that is well-experienced in the use of new technologies will become older which will additionally promote the use of electronic alternatives for mail services. Against this background, the share of mail sent electronically will increase. Moreover, the role of multi-channel delivery of postal items will increase. Recipients will have (and will demand) the choice of receiving their mail physically from the postman or electronically to an electronic mail box. These developments will substantially challenge the traditional letter post services (especially transactional mail). Ongoing efforts to make secure electronic communication more convenient—pushed by the eGovernment activities of the EU and the Member States—will promote the use of secure electronic mail boxes. However, the pace of the development is substantially driven by the willingness of the recipients, individuals as well as businesses, to accept electronic delivery. Key drivers for the penetration of alternative electronic solutions are the “technological openness” of a society (e.g. the Estonian society appears to be more open than the German one), the perceived reliability (data security), the convenience, and potential value added features (e.g. electronic invoicing combined with online banking).

From the customers’ point of view technological progress and emerging environmental challenges offer new opportunities with regard to service offerings to and cost saving potential for postal customers which additionally affect the demand for letter post services:

270 See Eurostat (2009), “First estimates for the first quarter 2009: Euro area GDP down by 2.5% and EU27 GDP down by 2.4%; -4.8% and -4.5% respectively compared with the first quarter of 2008”, Newsrelease Euroindicators 82/2009 of 3 June 2009.

271 One recent example is the bankruptcy by German retailer Arcandor which may seriously affect the revenues of Deutsche Post in the logistics, parcel, and letters business (see General Anzeiger Bonn, “Post bangt um Aufträge von Arcandor”, 11 June 2009).

- Developments in the digitalisation of information by digital stamps combined with improvements in the automatic reading technology may offer the possibility to the customer to track and trace standard letters in the future.
- Technological progress in IT solutions, data management, customer relationship management techniques, and printing technologies (more colour printing at affordable costs) will further promote the development of cost-efficient mailings (in the view of the sender) and, possibly, the merging of transactional mail with advertising elements (“transpromo”).
- Sophisticated address databases will promote more target-oriented direct mail campaigns resulting in lower volumes per mailing actions but, possibly, in increasing number of consignments. However, the development of this business strongly depends on data protection regulation, the readiness of individuals to receive addressed advertising mail, and increasingly on environmental considerations.
- Sophisticated IT solutions will support medium-sized and larger mailers to make maximum use of offered rebate schemes of postal operators.
- Emerging hybrid mail solutions for small and medium-sized mailers offer this customer group the possibility to outsource mail production and preparation activities and to save costs.
- Business customers increasingly ask for environmentally sound solutions. Some postal operators have already addressed this issue and have introduced carbon neutral letter services e.g. the “GoGreen” letter for business customers of Deutsche Post (carbon neutral delivery of letters)²⁷² or “Responsible Mail” a direct mail product offered at a reduced tariff by Royal Mail Wholesale.²⁷³

In sum, we expect that the economic decline and the structural change in demand for letter services will especially affect the mature letters markets of the Western Member States, resulting in declining volumes in these markets. We consider the mail markets of the Western Member States as mature because growth rates were low or even negative in the past. However, we see growth potential in most Eastern and Southern Member States. Letter post volume per capita is still low in many of these countries and penetration rates of the broadband technology are usually lower than in the Western Member States. Only the mail markets of the Baltic countries may not grow in the future. The Baltic countries are most strongly affected by the economic recession and they are very progressive with regard to new technologies in electronic communications (they have the highest penetration rates in broadband access in the group of the Eastern Member States). Overall, we expect that volume growth in the Southern and Eastern Member States can not compensate for volume losses in

²⁷² Carbon neutrality means that Deutsche Post invests in projects for climate protection that reduce the production of carbon (e.g. construction of a hydroelectric power plant that replaces plants that are harmful to the environment).

²⁷³ The customer has to fulfil specific requirements with regard to the production of the mailing (i.a. maintaining an environmental management system that complies with the standard EN ISO 14001).

the Western Member States. Against this background we expect that the overall EU letter post volumes will decline in the next few years.

COMPETITION IN LETTERS MARKETS

In the past, end-to-end competition has only slowly emerged in Member States that have either opened substantial segments of the letters market or fully opened the market (notably in the Germany, Netherlands, Spain and Sweden). In the coming years we expect that in these countries competition will continue developing. We expect that the market shares (especially in terms of revenue) of competing postal operators will not substantially grow in these countries because the incumbent postal operators increasingly make use of competitive tools to meet emerging competition: they offer more sophisticated postal services and pricing schemes to business customers. In Germany, the market will continue consolidating: the co-operation between key competitors (essentially TNT and German publishers) will be intensified so that they can establish a nationwide delivery network. In most Member States that have not opened significant segments of the market we do not expect that competition will substantially emerge before full market opening (i.e. achieving market shares above 5 percent in terms of volume or revenue). Only in Poland do we see some potential if Poczta Polska does not substantially improve its postal service.

Generally, the development of competition after full market opening depends on many factors, which vary between countries:

- **Attractiveness of the national mail markets:** market entry is more likely in large mail markets (in terms of letter post volume and economy) and in markets with substantial growth potential. However, emerging electronic alternatives to postal communication and advertising may limit the growth potential in growing markets and will especially reduce the mail volume in the mature markets of the Western Member States, as discussed above.
- **Competitiveness of the incumbent postal operator:** as outlined in the core sections of this report, the competitiveness of the incumbent postal operators has substantially improved, especially in the EU-15 Member States but also increasingly in the new Member States. Generally, incumbent postal operators have become more customer-oriented, have developed more sophisticated pricing schemes, offer a wider range of postal services especially to business customers and have considerably improved quality of service. The better the incumbent postal operator adapts its postal operations and improves its customer awareness the more difficult market entry of competing postal operators will be.
- **Regulatory environment:** in Member States with more competitive letters markets (notably Sweden, Germany, and the Netherlands) incumbent postal operators are allowed to re-balance their tariffs at least in the area of special tariffs for business customers (of course in compliance with the competition law and—if existing—further sector-specific regulatory requirements). This results in more commercial freedom for the incumbent postal operators. However, competitors benefit much less from economies of scale and scope than the incumbent postal operators (especially in the first years). Reduced tariffs or the introduction of new low-priced letter services may therefore reduce the business opportunities of market entrants and discourage market entry.

- VAT rules: unequal application of VAT rules on universal service providers and competing postal operators distorts price competition in the national mail markets. To attract business customers e.g. from the financial or the public sector (that can not deduce VAT) competing postal operators effectively have to undercut the incumbent's tariffs minus the VAT rate. This limits the potential customer base and therefore the business opportunities of competing postal operators and impedes market entry.
- Financial restrictions faced by competing postal operators: the establishment of a delivery organisation that reliably provide letter services nationwide or in substantial parts of the domestic letters market needs several years as the experiences in Germany, Sweden and the Netherlands have shown. Furthermore, considerable investments are needed to establish a well-organised transport and delivery network. In the first years of the business mail volume is often not sufficient to operate the delivery network at full capacity and to benefit from any economies of scale and scope (in contrast to the incumbent) which usually results in considerable financial losses in the starting phase. This requires that the owner is willing to safeguard the financial stability. In the past this has been provided by foreign postal operators (notably Posten Norge and TNT), by publishers, or—in one case—by a private equity company (Trimoteur, Sandd). These financial restrictions will continue limiting market entry at a large scale in national letters markets. We assume that the current economic situation and the future prospects especially in the mature letters markets of the Western Member States will additionally discourage potential financial investors to support new market entrants in national letters markets. This may additionally impede emerging competition.
- Switching behaviour of postal customers: postal customers do not switch mail volumes to competing postal operators overnight. This is also a long-lasting process depending i.a. on transaction costs (due to separation of mail streams between different operators), the market position and reputation of the incumbent postal operator (in terms of pricing and quality of service) and the reputation of competing postal operators in terms of quality of service and reliability. Especially in Member States with well-positioned incumbent postal operator (in terms of service offerings and reputation) customers will be even more reluctant to use competing postal operators. However, in Member States where the standing of the incumbent is not very strong competing postal operators are more likely to be used.

For these reasons we expect that when Member States fully open their markets, intensive competition will not emerge overnight. The factors listed above and the experiences made in Member States that have already substantially or fully open their letters markets show that successful market entry in letter delivery services needs time and substantial investments in postal operations and reputation. Against this background we expect that for incumbent postal operators the challenge of full market opening and emerging competition with other postal operators is limited compared to the challenges of the current economic decline and emerging electronic alternatives (faced by the whole mail market).

In contrast to competition in end-to-end competition, competition in upstream and consolidation services can emerge substantially faster as the experiences in France, Germany and the UK have shown. Market players in this area (consolidators, mailing houses) are less

affected by the factors listed above. In our view upstream competition may be an opportunity to promote the development of national postal markets: small and medium-sized business customers would benefit from service improvements and price reductions. Upstream service providers and consolidators can additionally improve the attractiveness of postal services: in their role as intermediaries between the mailer and the delivery company they provide value added services to postal customers. However, successful development of upstream services requires in turn that incumbent postal operators are able and willing to provide reliable postal services of high quality and on transparent and non-discriminatory terms.

POSTAL OPERATIONS

Generally, all postal service providers whether incumbent or competing ones are challenged by the future trends in letter post volume. The current economic crisis and emerging electronic alternatives for physical delivery of letters items especially challenges the core business (and often the cash cow) of incumbent postal operators: the delivery of correspondence. In the course of the economic decline large postal operators of the Western Member States have already announced a sharp decline in profitability of their letter post business in their quarterly financial reports for 2009. However, compared to their parcel and express business (e.g. of TNT and Deutsche Post) the letter post business is still profitable and their revenues are less affected than the revenues in the parcel and express business.

In the short-term the drastic economic decline, and in the medium- and long-term the expected impact of electronic substitution, will both reduce letter post volume in the market. Emerging competition in the letters markets may additionally reduce letter post volume delivered by incumbent postal operators. This decline will necessarily affect the business strategies of the incumbent postal operators as recent announcements from TNT and Deutsche Post show:

- Deutsche Post has already looked for possibilities to reduce the costs in postal operations, e.g. Deutsche Post has stopped using night flights for letter transport and reduced the number of delivery routes on Mondays (less volume to be delivered than on other days)
- Deutsche Post and TNT will promote the replacement of post offices by postal agencies.
- Deutsche Post and TNT both are in negotiations with the unions to reach direct or indirect wage reductions (e.g. by the extension of the weekly working time without additional compensation)

We expect that competing postal operators will also be affected by the economic crisis and the long-term trends in demand. Competing postal operators are less diversified than the incumbent postal operators (they usually offer a smaller range of services and focus on mail services); this may result in even higher risks for these companies (especially those with a focus on direct mail). The financial risks faced by competing postal operators depend on the ownership structure: those that are owned by foreign national postal operators or another financially healthy company most probably face fewer risks than operators that depend on bank loans. However, it is imaginable that the economic crisis and the resulting cost awareness of business mailers may promote competition. Business mailers may switch volume to competing postal operators that offer cheaper letter services than the incumbent.

For these reasons, incumbent postal operators in particular will increasingly look for opportunities to increase cost efficiency and enhance their revenues. Technological progress in postal operations has affected and will continue affecting all elements of letters operations. However, the level of implementation of these technologies still differs between the national postal operators. Most postal operators of the Western Member States (apart from French La Poste and Royal Mail) have essentially finished the key elements of the modernisation process and are in the process of fine adjustment. In contrast, many of the national postal operators in the new Member States have started modernising their business and establishing reliable and customer oriented postal services later. In the future, postal operations of incumbent postal operators will continue being affected by the expected decline in letter post volume and emerging environmental issues:

- They will continue refining their sorting and delivery activities. Sorting technologies will be further refined especially for large letters and in delivery sequency sorting. Delivery routes will further be optimised resulting either in a declining number of delivery routes or an increasing share of part-time deliverers.
- Postal operators will continue seeking more cost flexibility by outsourcing collection, transport, and delivery activities.
- They will additionally look for ways to better adapt their postal logistics to fluctuating and declining mail volumes (e.g. by daily varying delivery routes and reducing sorting activities).
- They will continue adapting their retail network: either by replacement of post offices by postal agencies or by closure of postal outlets.
- Postal operators will increasingly take environmental issues into consideration. In order to reduce carbon emissions they will continue looking for ways to increase the efficient use of energy and the use of environmentally-friendly transportation means (see for example the GoGreen initiative of Deutsche Post)²⁷⁴

Some of these measures may be in conflict with the current national universal service obligations. Therefore we expect that in the coming years incumbent postal operators will increasingly question the universal service requirements. Alternatively (or complementarily) incumbent postal operator may require increasing postal tariffs because existing tariffs may not be cost-covering (in a world of declining volumes and stable fixed costs the average cost per item increases) or external funding (as foreseen by the third Postal Directive). We expect that incumbent postal operators will increasingly require relaxations of the following service elements:

- Delivery frequency: reduction of the delivery frequency per week or the extension of exemptions for daily delivery and for delivery at the premises of the recipient.
- Pricing: establishment of zonal tariffs for business customers (especially in unevenly populated, large countries) and, generally, increasing basic postal tariffs.

²⁷⁴ See www.dp-dhl-gogreen.com.

- Quality of service: we do not expect any negative impact on the reliability of service; in contrast, we expect that reliability will continue improving. However, transit time performance for next day delivery services (i.e. the speed of delivery) may come under pressure.
- Access: replacement of post offices by postal agencies or closure of postal outlets as well as reduction in street letter boxes (or reducing the collection frequency of existing street letter boxes).

Past experiences in the letter post markets have shown that even in fully opened letters markets the incumbent postal operator is the only operator that provides nationwide letter services for the general public (also for historical reasons). Competing postal operators focus on specific customer groups often at a local level. We do not expect that this situation will fundamentally change after full market opening in all Member States. Incumbent postal operators will continue playing a crucial role in the provision of nationwide postal services. However, shrinking mail markets due to changing communication and advertising behaviour will impact universal service provision. Therefore, we expect that disputes between postal operators and the state will further increase with regard to the issues listed above.

6.2 Future Trends in the Parcel and Express Markets

THE DRIVING FORCES FOR THE FUTURE IN THE PARCEL AND EXPRESS MARKET

After the dramatic downturn since the second half of 2008 which overshadowed previous growth rates, parcel and express operators face challenging years ahead.

In order to establish a concessive outlook on the future trends within the parcel and express market, it will be necessary to have a look at the driving forces that will have an effect on the future market landscape. These are the economical situation, the buying behaviour of customers, the development in competition, environmental policies and regulations as well as e-commerce.

THE CURRENT FINANCIAL CRISIS AND FUTURE ECONOMICAL FACTORS

Overall, both the duration and the impact of the economic recession remain extremely difficult to predict. Currently, the parcel and express operators see a recovery starting in 2010 with very low marginal growth to be expected. Based on recent expert interviews, we expect an overall estimated growth rate of between 0.5 percent and 1.0 percent for the European parcel and express market in 2010²⁷⁵. However, the situation is as such unpredictable and the lack of a clear outlook on how long the recession will continue makes any serious projections almost impossible.

In the medium-term (and following a general economic recovery), various divergent market growth rates are likely to emerge within the EU-27. The moderate growth observed in large

²⁷⁵ Based on interviews with leading managers from postal-, parcel- and express operators during the European Postal Forum in Amsterdam as well as during the Transport Logistics trade fair in Munich.

Western European markets in recent years will probably continue, assuming no large-scale changes in the business environment. In Southern Europe, much will depend on how those countries react at a macro-economic level to their current economic and competitive challenges. It can be expected that Eastern European countries will return to fast growth rates once a future economic recovery has spread into the region.

Another key factor is the development of world oil prices. Parcel and express operators' network costs are highly impacted by oil prices due to the resulting upward or downward impact on fuel costs. Oil prices thus have an important effect on the industry. For example, the dramatic rise in oil prices in the first half of 2008 resulted in a significant rise in operating costs, which could only be partly offset by raising fuel surcharges to record levels. The slump in oil prices in late 2008 and early 2009 thus provided parcel and express operators with much-needed temporary relief. However, fuel prices started to rise again in spring and early summer 2009, and are likely to increase further once an economic recovery takes hold, thus impacting negatively on operating costs.

CUSTOMERS' BUYING BEHAVIOUR

Globalisation and the shift of customers' supply-chain strategies always had a major effect on the development of parcel and express services. For example, predictions in recent years that companies would start to shift from off-shoring to near-shoring have not really come true to any significant degree. Such a change of strategy implies years of planning and investment in order to shift a supply chain effectively, which in the current situation is not really an option. A more clearly emerging trend is the shift towards multi-modal transportation requirements (mainly air to sea transportation for intercontinental shipments).

As parcel and express market growth correlates closely with growth in GDP, customers tend to migrate from fast express services to more standardised parcel services for cost saving reasons in the present economic environment. This will lead to the faster establishment of so-called "less than express" services, which parcel and express operators have already been developing into their product and service portfolio during the last couple of years. In turn, this will lead to more direct competition between parcel and express operators.

Another driver in the parcel and express market is the continuous growth for B2C cross-border shipments. In recent years there has been a strong increase in demand in Europe for parcel and express B2C services due to the expansion of companies wanting to offer their products and services Europe-wide. In particular, the mail order market in combination with the growth of e-commerce has been and still is predicted to be a key driving factor.

THE COMPETITOR LANDSCAPE

The current volatile environment may also lead to further consolidation within the industry. Operators are under pressure to reduce costs and protect their businesses, which might result in some operators withdrawing from loss-making activities or geographic markets (e.g. the DHL exit from the US domestic market or Hermes pulling out of the Austrian B2C delivery market). These operators will concentrate more on their core businesses and markets. Smaller and

financially weaker operators will have to find more radical solutions as their profit margins disappear.

There has been speculation of further large takeovers among the leading players. For example, both FedEx and UPS were reportedly interested in acquiring TNT.²⁷⁶ More recently, TNT was apparently seeking to take control of GLS via its planned strategic investment in Royal Mail.²⁷⁷

In the long-term we can expect to see fewer and larger parcel and express operators acting on a European/global level. Additionally, we assume that there will also be fewer domestic parcel and express operators, especially in more heterogeneous parcel services markets (such as Italy, Portugal, UK, Spain and in Eastern European countries).

However, there is still potential for non-European market entrants which have the necessary financial means to enter the European scene in order to broaden their global presence. These could be, for example, ambitious private operators like Middle-East based parcel and express operator Aramex and/or other foreign postal operators such as China Post or USPS.

As mainly Western European postal operators have been actively acquiring parcel and express services across Europe over the last decade and international as well as domestic parcel and express operators have been continuously enhancing and expanding their product portfolio, we currently see a more blurred market landscape of operators acting in Europe. This trend could develop further in the years to come, making the market landscape even more competitive than before.

ENVIRONMENTAL POLICIES

One of the major legislation debates in the past decade has been over the issue of reducing aircraft noise and emissions. In terms of noise reduction, more and more airports are legally bound to ban or restrict night flights. This has a major impact on the integrators, as their entire air network operations are based on cargo flights carried out during the night. Parcel operators which essentially move their shipments via a road network are not affected by this legislation. Examples over the last decade of express operators which relocated their European air hubs largely due to night flight rules include TNT (Cologne to Liege) and DHL (Brussels/Cologne to Leipzig). FedEx will move its Central and Eastern European air hub from Frankfurt to Cologne in 2010.

In the long term we assume that we will see more of these cases happening, forcing express operators to re-think their air network operations strategies. This could force a shift towards more ground-operated European networks and would have a significant impact on the speed of delivery.

In recent years, some European cities adopted new regulations concerning inner-city CO2 emissions and congestion. Examples include London with the "London Congestion Charge"

²⁷⁶ CEP-Research.com, Speculation over EUR 10bn UPS offer for TNT (11.08.2008), FedEx reportedly in talks to buy Dutch rival TNT (14.07.2008)

²⁷⁷ CEP-Research.com, Speculation over TNT bid for GLS (11.05.2009)

which has had a well-documented impact on traffic levels within the extensive area covered by the charge. In Berlin vehicles have had to display a sticker showing their emissions levels since January 2008. From January 2010, only vehicles displaying a green sticker signifying low pollutant levels will be allowed entry to the city centre zone. These measures already had an effect on parcel and express services, as delivery cars and vans need to be able to access recipient addresses within the inner city boundaries. The industry will naturally be impacted by similar future measures in other European cities.

Additionally, the new series of EU directives on “emission standards”²⁷⁸ for vehicles have an indirect effect on the parcel and express industry, as it is for the moment a directive to the automobile industry on certain emission levels that new cars and vans have to be compliant with. Parcel and express carriers will however be forced to continuously upgrade their fleet to those standards in order to comply with the directives and therefore will incur additional costs in doing so.

Parcel and express operators have been reacting to this trend and are gradually exchanging their inner city delivery fleets with more vehicles whose motors are powered by compressed natural gas, liquefied natural gas, propane, hydrogen fuel cell, electric batteries and hybrid electric technology. Moreover, some operators are also testing the use of other modes of transportation vehicles like special delivery bicycles.

In general, Corporate Social Responsibility (CSR) has become a key issue of public and corporate interest over the past few years. For the parcel and express operators, this has become particularly relevant from an environmental and social point of view over the last decade, and CSR has shifted from the margins to the mainstream of their business practices.

Major operators have reacted to this trend and incorporated environmental issues into their corporate strategy through corporate initiatives and plans, e.g. TNT with “Planet Me” and DHL with “Go Green”. Postal operators are now increasingly following suit with a diverse range of individual measures and also cooperative activities at an industry level. Parcel operators are still lagging behind with more concise strategies but are likely to be evolving in the near future.

E-COMMERCE

E-commerce will certainly be a key driving force in the future development of the parcel and express industry.

The rise in internet-generated B2C packets and parcels requires innovative delivery services to guarantee enhanced service quality to senders and recipients. It is therefore necessary to improve technologies and processes while boosting accessibility and convenience and to maintain competitive prices by reducing costs.²⁷⁹ Innovative delivery services are an important platform for the creation of new value-added services and the support of overall delivered

²⁷⁸ See European Commission (2007), Commission proposes an integrated energy and climate change package to cut emissions for the 21st Century, Press release (10.01.2007) and European Commission (2007), Commission plans legislative framework to ensure the EU meets its target for cutting CO2 emissions from cars, Press release (07.02.2007).

²⁷⁹ Walsh, Tim (2007), The European Mail Manifesto, Second edition, p.11.

volumes generally.²⁸⁰ Survey results indicate that delivery is the second most important factor for online purchases after price. Parcels and express operators are thus urged to offer more transparency, which is the initial thought behind the emergence of so-called ‘widget’ tools, offering online franking, shipping, tracking, proactive notification, etc., facilitating online transactions.

In the medium-term, although forecasts of all kinds are difficult at present due to the dramatic worldwide economic slowdown, the recent trends towards rising e-commerce spending are widely expected to be maintained. In addition, the potential operational cost savings offered by online sales compared to shops and stores may encourage more retailers to focus even more on e-commerce as economies recover in the years ahead. Speakers at the 2008 Courier and Parcel Logistics conference (CPL), for example, agreed that B2C deliveries would be the major growth market for the European CEP industry in the coming years. In fact, according to the Logistics Technology Report 2008/2009 from ‘eyefortransport’, 64 percent of supply chain executives expect to see business growth next year, despite being hit by the economic crisis. Despite the crisis DHL indicated they expected slight growth in the German parcels market in 2009 with e-commerce being the driver of growth.

The challenge for e-commerce players, whose business is to date mainly of a domestic nature, will be to continue to take market shares on their domestic market, while preparing for international growth in the coming years. Implantation of local structures by European and international players, buyouts of national players and concentration of players in the market could be some of the developments to be observed in the near future.²⁸¹

With the booming growth of e-commerce, international trade and B2C are expected to remain the fastest growth sectors over the coming years.

THE DOMESTIC MARKET

The domestic parcel and express services will show on one hand a convergence from B2B to B2C in the future, on the other a convergence from express services to parcel services.

In the B2C segment the postal operators, who still benefit from a certain monopolistic position, will find themselves in a battlefield with private operators. This customer segment will provide the higher growth opportunities with good potential margins. Private operators will be in future more focused on this segment in order to win market shares from the national postal operators.

On the other hand, parcel B2B operators will gain volumes and share from the express service market in future. Domestic express services will gradually become more “niche” type of services, e.g. SameDay or special delivery type of services. Overnight delivery within 24 hours as well as early morning deliveries will become standard.

²⁸⁰ Walsh, Tim (2007), *The European Mail Manifesto*, Second edition, p.15.

²⁸¹ ACSEL (2008), *Europe—An opportunity for e-Commerce*, p.11.

THE INTERNATIONAL MARKET

In the international service segment cross-border parcel services will be growing faster than express services. Combined with the economical situation, most operators will move towards less cost-intensive commercial networks, and will introduce more economically-priced “slower but cheaper” types of products and services.

Additionally, the international parcel and express market will continue to show an ongoing trend towards consolidation in form of mergers and/or acquisitions.

This may also spread into the postal sector in future. The current example of this trend is the merger between Post Danmark and Posten AB. The postponed sell-off of a 30 percent stake in Royal Mail to either capital investors (such as CVC) or other postal and/or private operators (such as TNT) may be revived again at a later date. The planned re-structuring of La Poste into a limited company may also lead to opening up the capital to an investor in the longer term. In the medium-term, and particularly due to the full postal market opening in 2011/2013, pressure may increase on medium-sized and smaller postal operators to follow these moves by opening up some of their capital and/or even merge with other postal operators in neighbouring countries.

THE B2C MARKET

Postal operators will find themselves more under pressure to defend their domestic parcel B2C business and will start to widen their product and service portfolio (e.g. Deutsche Post by introducing thousands of drop-off locations (Packstations), introducing evening deliveries, additional electronic types of services, etc.)

On the other hand, private parcel operators will follow this trend, for example by further extending their ParcelShops (e.g. Hermes, GLS). However, market entry barriers into this customer segment are high. In order to provide a nationwide B2C network, an operator needs to be able to set up an operational network that allows them to pick up and also deliver to any private address within a market. Especially for larger geographical markets, which in turn provide the highest revenue potentials, large-scale operations are required and need substantial financial resources.

It is therefore almost unlikely that there will be numerous new entrants into this segment. Those operators that are strategically moving into B2C would however need to be seen as substantial competitors to the national postal provider.

FUTURE PARCEL AND EXPRESS OPERATORS' STRATEGIES

In the short-term the parcel and express operators will mainly focus on reducing their costs and focus on maintaining their market share due to the economic recession. Non-profitable business segments and/or geographical market activities that are not part of a long-term strategy will be closed.

However, we expect that most of the parcel and express operators will maintain their long-term strategies.

The integrators will continue to invest and develop their global networks and their international services. The exception is TNT which will focus more on expanding intra-regional businesses, mainly based on road networks. Additionally, the integrators will focus on further developing and enhancing their slower type of express services. Smaller and medium-sized express operators will continue to focus more on niche markets and try to expand these internationally.

Parcel operators are still going to focus on expanding their intra-European networks and continue to try to capture business from the express market.

7 Conclusions and Recommendations

The European postal sector has undergone substantial changes since the Postal Directive was adopted more than ten years ago. Prior to the 1997 Directive, the Postal Green Paper revealed a considerable heterogeneity in quality of service offered by the former, mostly loss-making public postal operators combined with limited customer orientation and often unreliable letter and parcel services. The Green Paper clearly outlined the risk that the postal sector might not sufficiently use the opportunities of the growing communications and transport markets. The EU Postal Reform has provided a common framework for the postal services market and set the stage for substantial improvements in market performance with respect to service quality, customer focus, and the efficiency of postal operations.

LETTER POST VOLUME AND DEMAND

The EU letter post market is highly important. In 2007 it accounted for nearly 30 percent of the world's letter post volume. The average EU citizen (in the EU-27) receives around 200 letter post items per year. In ten Member States more than 200 items per capita are delivered: Finland has the highest value with nearly 400 letter post items per capita, Slovakia the lowest value with 20 letter post items per capita. More than 85 percent of letters are sent by businesses. An increasing share is delivered to individuals: today around 60 percent. However, growth of letter post volume over the last decade was substantially lower than in the parcel and express business.

Economic growth has ceased being the main driver for growth in letter post volume and structural changes in the communication behaviour of businesses and individuals are becoming more important for postal demand. Today, the effect of electronic alternatives to physical delivery has already become manifest in some Western Member States. Internet and broadband access is widely available and electronic mail has become a commonly used communication tool for individuals and businesses. This has mainly affected private and business correspondence (including transactional mail). The development of direct mail volumes has been much more positive over the last decade, but direct mail volumes are now challenged by a trend towards more targeted advertising campaigns often in combination with other advertising media (e.g. TV spots, internet advertising), competition with increasingly sophisticated unaddressed advertising and—in some Member States—the introduction of stricter data protection legislation.

While the potential for further growth appears limited in the mature letters markets of the Western Member States, there is still growth potential in correspondence and direct mail in many Southern and Eastern Member States. In light of the economic recession, short term prospects are less positive even in these countries. Business customers have substantially reduced their marketing budgets resulting in drastic drops of direct mail volume and unaddressed advertising. With regard to correspondence business customers are looking for more cost-efficient ways to send their mail: they are switching to cheaper economy services and intensifying their efforts into using electronic means of communication. In future, letter services will increasingly be challenged by emerging electronic alternatives to physical delivery (e-substitution) additionally promoted by the eGovernment activities within the EU. We expect that the letters markets of the Western Member States and the Baltic countries will be affected

more strongly because of substantially higher penetration rates of internet and broadband technologies than in the other Member States. However, the acceptance of electronic delivery of postal items by the recipients depends on several factors like convenience, data security issues, and internet affinity of households. Postal operators can meet this challenge by convincing mailers and recipients of the value added of letter services compared to other communication and advertising media.

PRICING, QUALITY OF SERVICE AND ACCESSIBILITY

Service offerings, especially for business customers, have considerably improved with regard to choice between different services as well as between different postal operators in more competitive letters markets. The modernisation of postal operations has afforded the establishment of differentiated service offerings for business customers, e.g. services with a pay back guarantee in case of missing quality targets and services with different delivery speeds (ranging from D+1 to D+7). Pricing schedules have become more sophisticated and offer business customers substantial discounts depending on a variety of service characteristics. Overall, large business customers and—to a lesser extent—medium-sized business customers have benefited from declining tariffs. Prices have dropped especially in Member States with perceptible competition like Sweden, Germany and the Netherlands. Business customers increasingly benefit from consolidation services and cost saving opportunities, notably in the UK and Germany.

At the same time, the needs of individuals and small business customers have been effectively safeguarded by universal postal service regulations and the improved efficiency in postal operations:

- Basic postal tariffs have remained affordable even though in some Member States public tariffs increased at higher rates than inflation.
- Quality of service has improved and reliable next day delivery has become a standard product in most Member States.
- Transit time performance and reliability of basic domestic and cross-border postal services have considerably improved in most Member States.
- Accessibility of postal services has been safeguarded in all Member States and letter post items are delivered at least on five days per week save in a very few geographically exceptional locations.

However, in most Member States incumbent postal operators have moderately reduced the density of postal outlets and street letter boxes in the course of restructuring and modernising their postal operations to improve cost efficiency and financial viability. This development must be weighed against improvements in the appearance and increasing customer orientation of postal outlets. The replacement of post offices by franchised postal outlets has usually resulted in improvements in the accessibility (especially in terms of opening hours). Furthermore, national postal operators increasingly make use of alternative access opportunities like mobile postal services (by postmen in rural areas), 24/7 self service points and “virtual post offices” on

the internet. Moreover, in some Member States competing postal operators have established own retail outlets.

We expect that national postal operators will continue playing a crucial role in the provision of universal postal services even after full market opening in all Member States. Declining letter post volumes due to changes in the communication behaviour of individuals and businesses will put postal operators, both the incumbent and competing companies, under additional cost pressure. For this reason we expect that the universal service requirements and its funding will be questioned by postal operators and will increasingly become subject of controversial political discussions. This may affect pricing issues and issues related to service characteristics like delivery frequency, accessibility (increased use of postal agencies) and speed of delivery.

COMPETITION IN LETTERS MARKETS

The opening of the national letters markets has gained momentum. Six Member States accounting for more than half of the letter post market (in terms of volume) have fully liberalised their postal markets. A further six Member States have at least opened significant segments of the letter post market. In more than half of the Member States outgoing cross-border mail has been liberalised.

In most Member States that have substantially opened their letters markets competitive delivery services have emerged. Indeed, this process has not occurred overnight: it took several years until competing postal operators could stabilise their market position, and not all entrants succeeded. Incumbent postal operators benefit from substantial economies of scale and scope; especially those that have already modernised and streamlined their postal operations. For this reason the number of competing postal operators (in delivery services) with market shares above one or two percent has remained low in all Member States. Over the last decade the incumbent postal operators have kept market shares in terms of volume and revenue of more than 95 percent in most Member States. Only in Member States that have fully or substantially opened their markets (Germany, the Netherlands, Spain and Sweden) competing postal operators, in sum, have achieved market shares of around 10 percent or more (in terms of mail volume).

So far, no competing letter service provider has evolved that provides a nationwide letter service to consumers and business customers on at least five days per week. Usually, competing postal operators focus on sub-segments of the letter post market: e.g. in the direct mail and publications market of the Netherlands, transactional mail and local business correspondence in Germany, intra-city letter services in Spain and in the industrial mail segment in Sweden. Competing postal operators generally focus on business customers. In Spain, Germany and the Netherlands “established” competing postal operators offer (or intend to offer) nationwide delivery services to business customers. Competitors that primarily deliver direct mail and other non time critical letters deliver less than five times per week while competitors with local delivery networks offer five day delivery.

In some Member States upstream competition and consolidation services (i.e. collection, transport and sorting of letters items) facilitate the access of small and medium-sized mailers to discounts offered by the incumbent postal operators. Substantial progress has been made in

the upstream markets of France, Germany and the UK (after tackling competition and regulatory problems). In the UK, however, end-to-end competition has been limited due to relatively cheap access products offered by Royal Mail.

Several factors still limit the development in competition: unequal application of VAT rules on incumbent and competing postal operators in many Member States, unnecessarily rigid licence requirements for competing postal operators (e.g. in Finland, Bulgaria and Hungary) and, generally, anticompetitive behaviour of some incumbent postal operators. Based on the experiences made in more “progressive” Member States (in terms of market opening) we expect that after full market opening in 2011/2013 some competition will slowly evolve in these Member States. However, many factors influence market entry and the development of competition: additional to factors like the market attractiveness, growth potential and the competitiveness of the incumbent postal operator it especially depends on the rules of the game i.e. the way how the third Postal Directive will be transposed by the Member States.

The market opening process has pushed the competitiveness of the incumbent postal operators. Additionally, nearly all Member States have transformed their national postal operators into independent legal entities; most of these companies are still fully state-owned but a handful has been partly or even fully privatised. Both, this transformation process combined with gradual or full market opening has promoted the modernisation and thus improved efficiency of postal operations and reliability in postal service provision. National postal operators have become more competitive and, moreover, profitable companies. It should be noted that some national postal operators are still at the beginning or in the middle of the modernisation process; in particular, postal operators of the Eastern Member States that joined the EU in 2004 and 2007 have started later with this process.

The recent economic recession and the expected decline in letter post volumes due to structural changes in demand put additional pressure on costs of postal operators. These developments will additionally force the companies to restructure and modernise their businesses to increase efficiency. In a world without competition incumbent postal operators would run the risk of focusing more on cost efficiency than on customer needs. As outlined above, this may have ambiguous effects on pricing, quality of service and accessibility. However, evolving competition with other postal operators and with other communication and advertising media acts as a counterbalance to excessive cost saving measures (and cutbacks in service) or price hikes by national postal operators. Competition can set the right incentives that national postal operators do not lose track of customers. However, consumers and small business customers are often not a prime target group of competing postal operators. For this group of customers, therefore, it is still necessary that Member States safeguard access to affordable universal postal services with appropriate means.

PARCEL AND EXPRESS MARKET

Due to the early liberalisation of the parcel and express market accompanied by clear market definitions vis-à-vis the reserved area by the late 1990s, an EU-27 internal market for parcels and express has clearly been achieved and is functioning on a normal competitive basis.

As the parcel and express market was already liberalised to a large extent at the beginning of the EU Postal Reform process, the impact of the reform remains indirect. The incentives set by EU Postal Reform have promoted a rethinking by the Member States (in their role as owners of the national postal operators) and by the national postal operators about their role in the postal markets. The former postal administrations have mostly evolved into commercially thinking and (increasingly) customer-oriented postal companies. As one result, some national postal operators were encouraged to expand their area of activities in the parcel and express segment. Mainly postal operators from Western Member States have expanded their business through acquisitions of parcel and express operators both on a domestic but even more on an international level, enabling these operators to offer a full range of international products.

The implementation of a clear dividing line between universal postal services and express services enabled both national postal operators and private operators to further develop their business in this competitive environment. As a consequence, competition developed and flourished within the parcel and express market segments and (more recently) between these market segments. The market players (national postal operators, integrators and European parcel networks) were incentivised to extend their product portfolios, offering a full portfolio of air, ground and international shipping options for parcel and express services. Thus they could better meet customer requirements and improve quality of service by using and developing technological innovations over time. At the same time, technological enhancements enabled the competitors to reduce production costs and increase efficiency. Forced by competition the majority of these cost reductions were passed on to the customers by reducing prices for parcel and express services, especially for business customers. In addition, the increased quality of (cheaper) parcel services made these products for some customers a significant alternative for the substitution of express services. Due to the need for operational nationwide coverage, the traditional area of postal parcels -private C2C parcels- are in most countries still dominated by the incumbent postal operator. Germany appears to be the only country so far where real competition in the C2C sector has developed.

Looking ahead, we expect that the parcel and express market will continue to grow, although short-term forecasts are impossible at present due to the impact of the worldwide economic slowdown. In the long run, all three regions (Western, Southern and Eastern Europe) are expected to grow, albeit at divergent rates. Growth drivers will include B2C and innovative technologies along with changing customer demand, such as an intensifying trend for just-in-time deliveries, offshoring (especially nearshoring) and an increasing demand for international shipments (especially in the cross border B2C business). Competition will remain intense and further consolidation is likely both at an international and domestic level. External factors, especially environmental issues, will increasingly impact on the industry, forcing operators to adapt their business operations in response.

RECOMMENDATIONS

Reliable and good-quality postal services, financially viable postal operations and customer-orientated postal service providers are necessary pre-requisites to meet the challenges arising from competition with electronic alternatives and to seize the opportunities offered by new technologies (fulfilment and e-commerce). EU Postal Reform has substantially supported the process to achieve these pre-requisites by accompanying measures with regard to universal

postal service, postal users' rights, and by establishing a timetable for full market opening of the letters markets. The Member States are currently implementing the third Postal Directive into national law in times of strong economic decline and ongoing fundamental changes in the communication and purchasing behaviour of consumers and businesses. In order to safeguard the role of postal services in the future we conclude with the following recommendations:

- In future, parts of the universal service provision may come under pressure due to declining letter post volumes. Moreover, competing postal operators usually do not focus on individuals and small business customers. Safeguarding basic postal services will therefore be necessary in the coming years and should continue being subject to close regulatory control.
- In the coming years technological progress and substantially changing communication behaviour may erode the letters business. We expect that correspondence will especially be affected by these changes. Therefore, we recommend that the Member States should carefully observe the developments in demand for letter services and, especially, monitor the needs of postal users (senders as well as recipients). These developments should be used as central benchmarks to assess the appropriateness for universal service obligations in times of changing customer needs.
- In some Member States national postal operators are still in the process of modernising their business to improve quality of service and customer orientation. National postal operators need to complete their modernisation and reorganisation process in order to improve reliability in postal service provision. In our view, time matters: reliable and affordable postal services are the necessary pre-condition to prevail in competition with other postal operators and—even more importantly—with other communication channels.
- Member States should consider competition in the postal market as an opportunity for the future development of their postal markets. Competition in the letters market is an effective tool to safeguard and strengthen the attractiveness of letter post services for postal users and in this way the importance of the mail market in the wider communications and advertising market. Additionally, competition is an important counterbalance to excessive cost saving measures (and cutbacks in service) or price hikes by national postal operators. Competition is not limited to end-to-end competition but also includes competition in the markets upstream and downstream to the traditional postal value chain.
- Competition in upstream and consolidation services emerges substantially faster than in letter delivery services as the experiences in Germany and the UK have shown. Additionally, small and medium-sized business customers would benefit from discounts offered by the incumbent postal operators. Therefore, we recommend that non-discriminatory access to special tariffs offered by incumbent postal operators should be effectively ensured.
- Efforts must continue to achieve a level playing field in letter and parcel markets especially with regard to the application of VAT rules in the postal sector and other legal barriers to competition (e.g. unnecessarily rigid licence conditions for letter services).

- Experiences in Member States that have opened substantial segments of the letters market have shown that competition has not emerged smoothly. Therefore, Member States should effectively safeguard that the incumbent postal operators comply with the competition rules. Abuse of the dominant position enjoyed by the incumbent postal operators can create severe risks for emerging competition in traditional letters and related upstream markets and should be prevented by a consequent application of competition rules.
- This report is mainly based on secondary research. We appreciate that the availability and the quality of market and customer surveys have substantially improved. Consistent statistical information on market developments, provision of the universal postal service, demand behaviour and customer satisfaction (consumers and businesses) are necessary to take informed regulatory decisions, and to ensure that postal legislation and regulations are appropriate to market developments and the needs of the general public. However, currently the comparability of data between Member States and between different data sources for one Member State (national sources, UPU, Eurostat) is often very limited. There is still a considerable lack of standardised and consistently applied definitions. For these reasons we recommend strengthening the efforts into establishing common standards for data on postal services within the European Union.