

Liberalisation and Regulation of the Postal Sector in the European Union

**Presentation at UNI Europa Postal Committee Meeting
in Luxemburg, 28.09.2006**

Input Consulting GmbH
Werfmershalde 1
70190 Stuttgart
+49 711 2624080
www.input-consulting.com

...input
consulting

Overview

1. **Comparative Study on the Liberalisation and Regulation of the Postal Sector in selected EU Member States – Key Findings**
(Carried out by Input Consulting on behalf of ver.di)
2. **Possible Conclusions for Trade Unions**
3. **Recommendations of the EU Prospective Study**

**1. Comparative Study on the Liberalisation and Regulation
of the Postal Sector in selected EU Member States –
Key Findings**
(Input Consulting on behalf of ver.di)

Comparative Study

- Examination of the regulative requirements and regulation practice in 15 EU Member States
 - Austria (AT)
 - Belgium (BE)
 - Denmark (DK)
 - Finland (FI)
 - France (FR)
 - Germany (DE)
 - Hungary (HU)
 - Ireland (IE)
 - Italy (IT)
 - Netherlands (NL)
 - Poland (PL)
 - Portugal (PT)
 - Sweden (SE)
 - Spain (ES)
 - United Kingdom (UK)

Study Objectives

- **Is there a level playing field for the incumbents**
 - ➔ With regard to their national domestic markets?
 - ➔ With regard to access to the European foreign markets?
- **With regard to their national domestic markets**
 - ➔ How strong is the postal enterprises' scope for action restricted by the respective national regulations?
 - Universal service obligation
 - Requirements on pricing
 - ➔ To what extent are the postal enterprises faced by competition on their domestic market?
 - Magnitude of market openness
 - Access conditions for new competitors
- **With regard to access to the European foreign markets**
 - ➔ To what extent do the postal enterprises have access to European foreign markets?
 - Magnitude of market openness
 - Access conditions for new competitors

Main Assumption

The often-demanded “level playing field” in European postal policy continues to be far more a postulate than a reality.

The liberalisation and regulation of the postal sector in the fifteen selected EU Member States reveals a considerable bandwidth of regulatory dealings with the problems of

- universal service (1),
- price regulation (2) and
- market access (3).

1. Universal Service

- In spite of the EU-wide (partial) harmonisation of the universal postal service, the universal service obligation and the related cost burden of the postal enterprises in the Member States diverges significantly.
 - ➔ Magnitude of the universal service offer,
 - ➔ Required delivery frequency,
 - ➔ Quality requirements on the density of access points to the postal network (branch offices and letterboxes),
 - ➔ Run-time requirements for national postal deliveries.

Universal Service: Universal Service Offer

Universal Service Offer	Countries
Above EU requirements	DE, DK, AT, SE, ES, HU, PL
Like EU requirements	BE, FR, IE, PT
Below EU requirements	FI, UK, IT, NL, PL



Universal Service: Delivery Frequency

Delivery	Countries
At 6 Working Days per Week	DE, FI, FR, NL, PT, HU, UK DK*, IT**, ES**
At 5 Working Days per Week	AT, BE, IE, PL, SE

* Only letters

** de-jure 5 working days p.w., de-facto 6 working days p.w.

Universal Service: Density of access points to the postal network

■ High demands

- Requirements for the number and distribution of access points
 - DE, PL, HU
- Extensive intervention rights by the regulatory authorities in case of modifications
 - AT, PT, SE
- Consideration of structural and regional-policy concerns and/or extensive participation rights of regional and local governments
 - FR, AT
- Additional charge for maintaining self-operated post offices
 - BE, DE, NL

■ Medium demands

- Comparatively generous (distance) criteria
 - UK, DK, FI

■ Low demands

- No density criteria, hardly any influence possibilities by the regulatory authority
 - IT, IE, ES

Universal Service: Run-time Requirements

Run-time for national postal items	Countries
High requirements	AT, UK, PT
Medium requirements	BE, DK, FI, SE, ES, FR, IT, PL, HU, NL, IE
Low requirements	DE

2. Price Regulation

- Price regulation in the countries studied revealed a large bandwidth of requirements with regard to
 - ➔ The extent of the regulated product spectrum,
 - ➔ The procedure of price regulation,
 - ➔ The possible pricing scope.
- The different scopes of movement in pricing have major effects on the results and the positioning of the postal enterprises within the competition.

Price Regulation: Extend, Procedure, Pricing Scope

- **Extend of the regulated product spectrum**
 - Price regulation ex ante for total universal service
 - Price regulation ex ante for reserved area, price control ex post for universal service
 - Germany: Price regulation ex ante for all letter post <1.000g of Deutsche Post AG
 - No price regulation in Poland
- **Procedure of price regulation**
 - Price cap
 - Single price setting
- **Possible pricing scope**
 - Price Cap depends on price indices
 - Price cap depends on price Indices minus productivity rate („x-factor)
 - Possible pricing scope is related to the quality of service achieved

Price Regulation: Intensity of Regulation

Price regulation	Countries
High intensity*	DE, IT, UK
Medium intensity	AT, BE, DK, SE, ES, FR, PT HU, NL, IE
Low intensity	FI, PL

*) ex ante price regulation not only for reserved area,
possible pricing scope is low

3. Market Access Regulation

- There are very different requirements for competitors in market access regulation of the Member States. Market access regulation is decisive for the actual generation of competition in the postal sector and the possibility of postal enterprises to become active on foreign markets in the EU.
- The following elements are relevant for market access regulation:
 - ➔ The possibility and existence of competition within the reservable area,
 - ➔ Amount of authorisation requirements for new providers,
 - ➔ Regulation of network access for competitors of the incumbent.

Market Access Regulation: Competition in the reservable area

- Legal adaptation of the reserved area to the provisions of the EU Directives has taken place in all countries studied.
- However, a plain inference from the legal to the factual circumstances is essential:
 - ➔ Countries in which there is no competition in the letter market in spite of legal abolition of the reserved area – for example Finland.
 - ➔ Countries in which there is real competition in the letter market in spite of legal retention of the reserved area, also within the monopoly borders – for example Germany.

Regulation of Market Access: Authorisation Requirements

Market access for new provider	Countries
High requirements	BE, FI, IE, IT, PT, HU
Medium requirements	FR, UK, AT, PL, SE, ES
Low requirements	DE, DK, NL

Market Access Regulation: Regulation of network access

- The problem of access to the infrastructures of the incumbent is of central importance for the business models of a large number of competing providers on the postal market.
- So far, Germany is the only country of the fifteen EU Member States studied in which this access is regulated ex-ante.
 - ➔ “Germany is the only example in the EU of ex ante regulation of the access conditions ...” (Ecorys, December 2005).

“The proof of the pudding”: Market shares in the letter market

- The decisive proof of the actual degree of market openness lies in the real distribution of shares in the letter market.
- Based on the available data and with all due restraint in their interpretation, the studied countries can be assigned to three groups (depending on the market share of the competitors) :

Market shares of competitors	Countries
> 6%	DE, ES, NL, SE
3 – 6 %	AT, DK
< 3%	BE, FI, FR, UK, IE, IT, PL, PT, HU

2. Possible Conclusions for Trade Unions

Possible Conclusions for Trade Unions (1)

- In order for the unions to determine their position for further postal policy developments in Europe, the following criteria will chiefly have to be taken into consideration:
 - Preservation of a largest-possible number of “proper” jobs
 - Safeguarding a modern, high-quality universal service
 - Opening up scope for movement of the incumbents on the market
- Based on these criteria, trade unions should pay special attention to the issues of regulation
 - of market access,
 - of the universal service and
 - of the prices.

Possible Conclusions for Trade Unions (2)

- The problem of eliminating or maintaining a reserved area is important, but not necessarily “decisive for the fight”.

Even without legally secured reserved area, there can be a de-facto monopoly. Even with legally safeguarded reserved area, there can be lasting competition.

- ➔ Trade unions should therefore not focus all of their energies on the conflict “monopoly – pro or contra”.

Possible Conclusions for Trade Unions (3)

- In addition to a differentiated demand for maintaining a – possibly reduced – reserved area, trade union positions should be drawn up for the following areas:
 - ➔ Harmonisation of authorisation thresholds
 - Licences only granted if essential standards are upheld in work conditions and income (“contre la précarité!”)
 - ➔ Harmonisation of the universal services offered
 - Firm establishment of the dimensions and quality of the universal service offers on a high level
 - Safeguarding its permanent funding
 - ➔ Harmonisation of the scope of movement of the incumbents in pricing in the competition
 - Loosening price regulation for postal operators in market segments with functioning competition (bulk mail)

3. Recommendations of the EU Prospective Study

Recommendations of the Prospective Study (1)

- The prospective study of the European Commissions drawn up by PricewaterhouseCoopers (PwC) proposes the following measures for the subject area cited
 - ➔ Authorisation requirements
 - Reduction of “traditional” postal market entry barriers
 - Introduction of a fair licensing regime with low requirements for market access
 - ➔ Maintenance and funding of universal service
 - The problems of funding the universal service without reserved area should be mitigated by reducing its size and hence its costs.
 - The size of the universal service should be maintained, yet limited to private and small-scale customers.
 - The universal service is provided by the competition, its costs should be reduced through various measures.

Recommendations of the Prospective Study (2)

- ➔ Scope for movement of the incumbent for pricing in the competition
 - Upon complete market opening and the omission of the reserved area, the prices should be more oriented to the costs.
 - Falling prices for bulk mail
 - Rising prices for single letters
 - Cost-oriented pricing for reserved area access
 - The postal enterprises must be able to price more flexibly, in particular in areas with high intensity competition.
 - No uniform prices for bulk mail to prevent “cream skimming” by the competitors
 - Maintenance of a uniform charge for individual letters for reasons of practicability

Evaluation of the Recommendations (1)

- **The following should be critically evaluated in the prospective study**
 - ➔ The model proposed by PwC of mitigating the funding problems of the universal service by reducing its size and hence its costs does not take the demands of sufficient supplying the population with postal services into consideration.
 - ➔ To defray the costs of the universal service solely from the proceeds of the incumbent is a false incentive for both the universal service provider and for the competitors and, in the medium term, would reduce the universal service to a minimal supply.
 - ➔ The PwC study does not offer a satisfactory solution for the problems of funding the universal service without reserved area.

- ➞ **The problems that arise in the competition with the provision and funding of the universal service would best be mitigated in the long term by maintaining a (if needed, reduced) reserved area.**

Evaluation of the Recommendations (2)

- **We consider it positive that the EU prospective study**
 - ➔ Has a critical stance to changes in the universal service, in particular with regard to the reduction of delivery frequency and, according to the recommendations of PwC, nationwide uniform prices should continue to be applied for individual letters,
 - ➔ Recognises a problem of distortion of competition in the different working conditions of postal enterprises and new letter service providers, which could be solved e.g. with requirements for uniform working conditions,
 - “Besides providing the right incentives and regulatory governance for USPs to allow them to compete, a key condition here is to put in place similar working conditions for all operators in the postal market, to avoid social competition.” (PwC Prospective Study, page 190)
 - ➔ Recommends a cost-oriented pricing model for network access,
 - ➔ Prevents “cream skimming” by competitors through cost-oriented pricing of the postal enterprises.

Thank you for listening!