15 years of experience:
towards higher efficiency in Sweden

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*Research on regulation of network industries
*Liberalisation of postal services in Sweden
Outline of presentation:

1. What happened?
2. Why did it happen?
3. What were the effects?
4. What can we learn?
1. What happened?

• 1993: **Sweden Post Office**’s statutory monopoly removed
• 1994: - **Sweden Post Office** turned into a limited liability corporation, 100% owned by the state
  - **PTS**: new regulator of the market
  - New Postal Act, Postal Ordinance and contract with Sweden Post about USO
• 2009: Financial services no longer provided by Sweden Post
2. Why did it happen?

(a) necessary but insufficient conditions

- Increasing demand for mail
- Shift towards bulk mail
- Increasing competition from new technologies and firms (couriers, delivery of unaddressed advertisement)
- Shift in ideology
(b) country-specific but insufficient conditions

- Long period of low economic growth in Sweden and recession 91-93
- More competitive-friendly attitude also among the Social Democrats
- Non-socialist government 1991
- Sweden Post Office was a “Government Enterprise” not a public authority
(c) country-specific and decisive factors

• Vague construction of the statutory monopoly: “hand-written letters”? 
• The management of Sweden Post Office promoted deregulation!!  
  (gave weak protection, saw new business opportunities) 
• The establishment of a competitor: City Mail!!
Why liberalisation in Sweden?

- Too inefficient post office? *No!*
- High prices/monopoly power? *No!*
- Low growth in the economy? *Yes!*
- Give incumbent independence? *Yes!*
- Benefit the consumers? *No!*

"Window of opportunity"
3. What were the effects?

- Price
- Productivity
- Employment
- Quality
- Profitability
- Entry
- Innovation

in order of importance
# Prices 1991 and 2006 (real prices)

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Description</th>
<th>20 gram</th>
<th>50 gram</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Third class</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unsorted bulk mail</td>
<td>+49 %</td>
<td>+49 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted bulk mail</td>
<td>+37 %</td>
<td>+34 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted, large town delivery</td>
<td>+17 %</td>
<td>+17 %</td>
</tr>
<tr>
<td></td>
<td><strong>Second class</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unsorted bulk mail</td>
<td>+16 %</td>
<td>-37 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted bulk mail</td>
<td>-9 %</td>
<td>-48 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted, large town delivery</td>
<td>-22 %</td>
<td>-55 %</td>
</tr>
<tr>
<td></td>
<td><strong>First class</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unsorted bulk mail</td>
<td>+34 %</td>
<td>-22 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted bulk mail</td>
<td>+22 %</td>
<td>-31 %</td>
</tr>
<tr>
<td></td>
<td>Pre-sorted, large town delivery</td>
<td>+9 %</td>
<td>-36 %</td>
</tr>
<tr>
<td></td>
<td><strong>First class, single letter</strong></td>
<td>+43 %</td>
<td>+43 %</td>
</tr>
<tr>
<td></td>
<td><strong>2nd class, single letter</strong></td>
<td>+35 %</td>
<td>+35 %</td>
</tr>
<tr>
<td></td>
<td><strong>First class local delivery</strong> (min 250)</td>
<td>+10 %</td>
<td>+12 %</td>
</tr>
</tbody>
</table>

For Sweden Post.
Price level: increased less than input costs

Only Sweden Post. Not adjusted for inflation
Effects of liberalisation 1

- Real prices increased less than input costs:
  - single piece: +34%  
  - bulk: –8%  
  - overall: +1%

- Large changes in the price structure:
  - =prices adjusted to costs?

- Higher prices for single letters (=households) + VAT 25 %
- Lower prices for bulk mail, discounts for large customers: 20-30%
- Average price level lower than without competitive pressure
Effects of liberalisation 2

• Productivity:
  - initial improvement (20-25 %)
  - indications of continued improvement
  - more deliveries per employee

• Employment: reduction (25 % ?)

• Profitability: Sweden Post still high (but declining?). Other operators low (but improving).
Effects of liberalisation 3

• Entry:
  - City Mail for national bulk mail (9 % of market)
  - several small local operators (0.5 % of market)

• Quality:
  - more customer-oriented
  - overnight mail on time in European top
  - after 2002 the number of access points increased.

• Innovation: No.
  (Due to technology and shifting demand, but liberalisation made innovations earlier)
Sweden Post access points
Universal services

• The universal service obligation is maintained by Sweden Post without any compensation.

• Sweden 2000 kilometres long
  20 inhabitants/km²
  15 air connections per night
Financial services

- Postbank separated 1974, postal giro 2002
- Payments in post offices until 2002:
  
  complete separation
  - postal services at centres/partners
  - limited financial services at Svensk Kassaservice (a subsidiary of Sweden Post) own offices + rural postmen

- Unpopular reform!
- 2009: financial services only at bank offices + some shops. Procurement by PTS in rural areas: rural postmen or local shops.
4. What can we learn?

- Taxes and other benefits same conditions for all operators!
- guarantee the regulator’s independence! (competence, salaries, quarantine…) regulatory capture?
- separation of power within government! regulation vs. ownership clear goals for state ownership
What can we learn … cont’d

• Make a licence a trigger rather than barrier to entry (low fee, quality standards, allow failure)

• possible areas of conflict: prices, access to PO boxes, the post code system, downstream access conditions, forwarding of mail

• create access prices/conditions that stimulate (only) efficient entry
What can we learn ... a general pattern in postal liberalisation?

• possible to provide USO (with high volumes and efficient production)
• PO’s attitude crucial
• Period of new entry from entrepreneurs followed by exit and collusion
• Positive effect on prices and productivity
• evaluation with focus on market performance, not on market structure
• adjustment of service levels: up and down
• very few operators for the same area
• change in price structure rather than level
• 5-10 year long adjustment period:
  - separation of unrelated activities
  - complaints from households
  - legal suits and operational problems

• Results largely depends on country-specific factors and initial situation: no far-reaching general conclusions!

Swedish regulatory reform good but no revolution!