

Regulation of a liberalized postal market in Norway – Norway Post's position

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The liberalization process in Norway

- **May 2004: Governmental report recommends the liberalization of the letter market in Norway**
- **August 2004: Governmental report hearing**
- **March 2005: Parliament decides to liberalize from January 2007**
- **Spring 2006: Parliament expected to pass a new postal law concerning liberalization and a new regulatory framework**
- **Autumn 2006: Detailed regulation is in place through ministerial regulation and Norway Post's license**
- **The new Government (Oct. 2005) may revise the time table for liberalization**

Norway Post is an advocate of competition

- it benefits both the customers and the service provider in the long run

- **Pro competition:** Open Markets and competition encourage the development of best-in-breed solutions for customers and challenge the depth and breadth of competence in organizations
- **Minimum regulation:** The regulation must allow Norway Post to compete effectively in a liberalized market
- **USO:** A Norway Post that is allowed to stand up and compete is the best guarantee for a high quality universal service at a reasonable price; both now and in the future

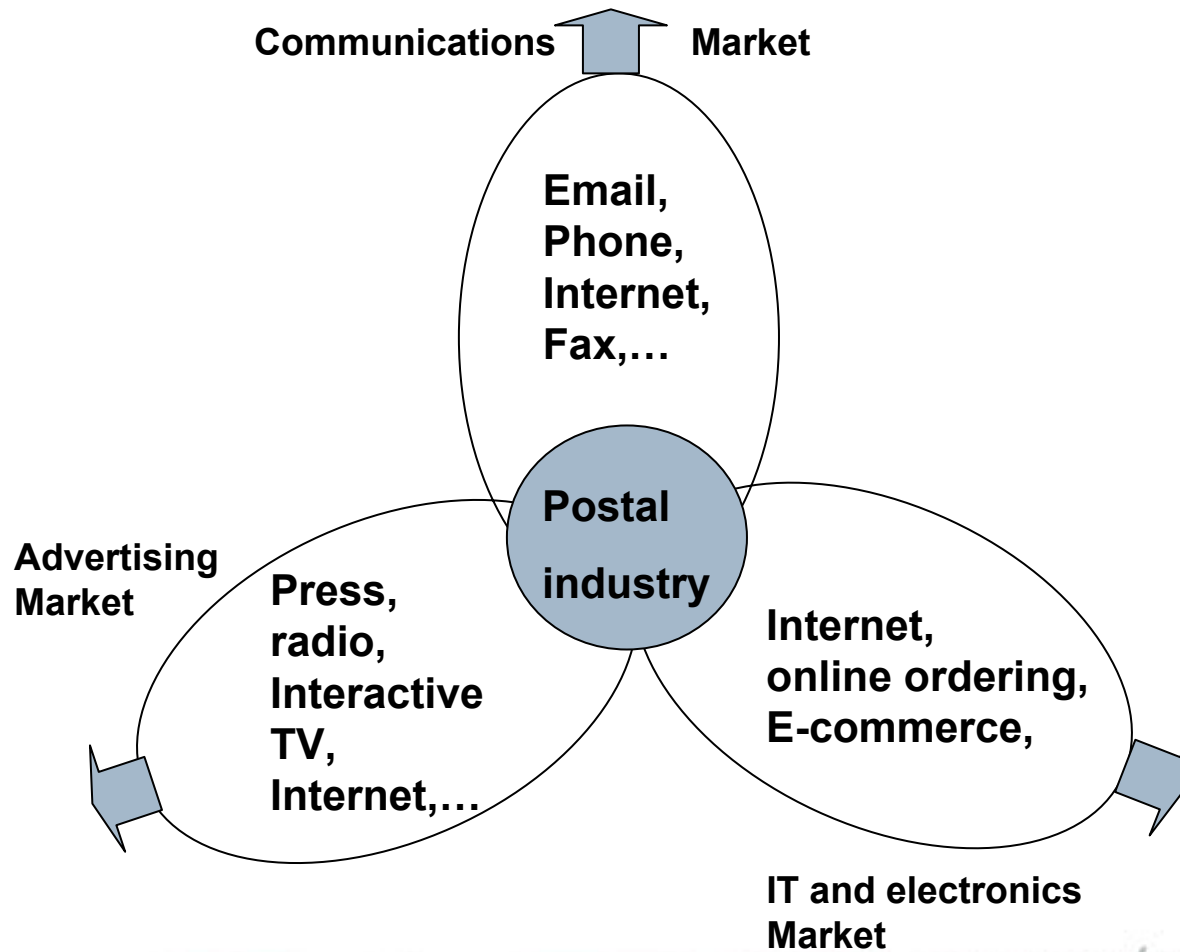
- Norway Post's official position paper 03.08.2004 to the governmental report about liberalization

Why this position vis-à-vis competition

A presentation in three parts:

- Why "yes" to liberalization?
- Why minimum regulation?
- The Universal Service is a political choice, but
 - it also propagates market distortions

Postal monopoly – lost relevance?



- The postal monopoly is at the intersection of several fast moving sectors such as IT, communications and advertising
- National monopolies vs. international customers

Some facts about Norway Post...

- **Mail accounts for approximately 45 % of total group turnover**
- **By 2006 about 15 % of total group income will come from reserved products**
- **Norway Post owns ErgoGroup – one of the largest IT companies in the Nordic countries**
- **Norway Post is Norway's largest logistics company**
- **Norway Post owns Scandinavia's largest domestic courier service with express overnight and same day delivery**

Norway Post is more than just Post

Nettlast AS &
Nettlast Hadeland

Box™

Objectware

ERGO
Group

Et selskap i Posten Norge AS

tw TransWare

PNL

VES

Wajens

HMS
NORGE

Zeb Sign

posten

ERGO
Runit

Mondex

buypass
securing transactions

helsekomponenter

Box delivery

gecko

ATENTO

CityMail

eiendomsverdi
eiendomsinformasjon satt i system

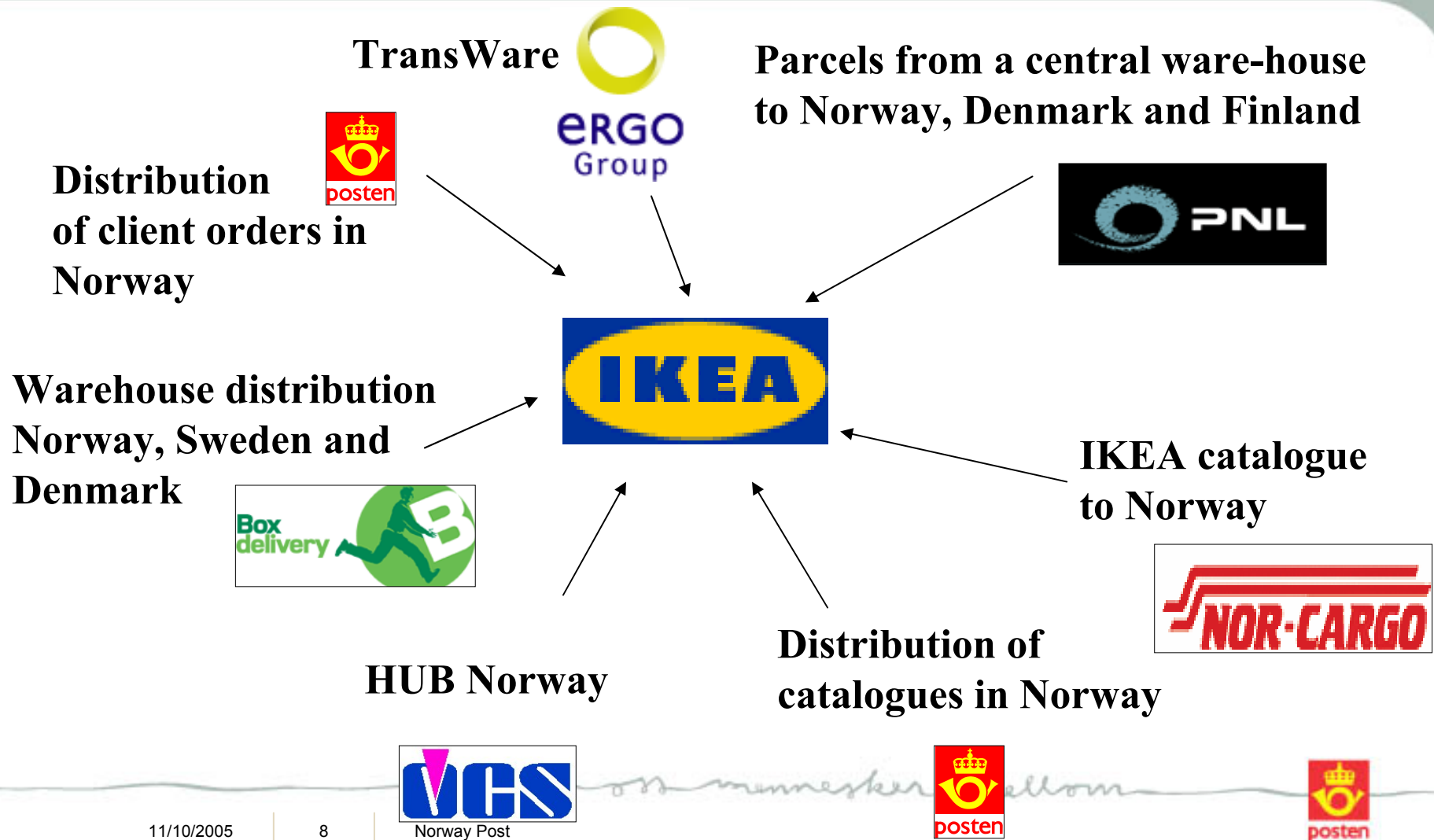
NOR-CARGO

DE GRØNNE BUDE®

mannesker inellom

posten

Integrated client solutions



Volume development, mail

- monopoly products in decline for 5 years

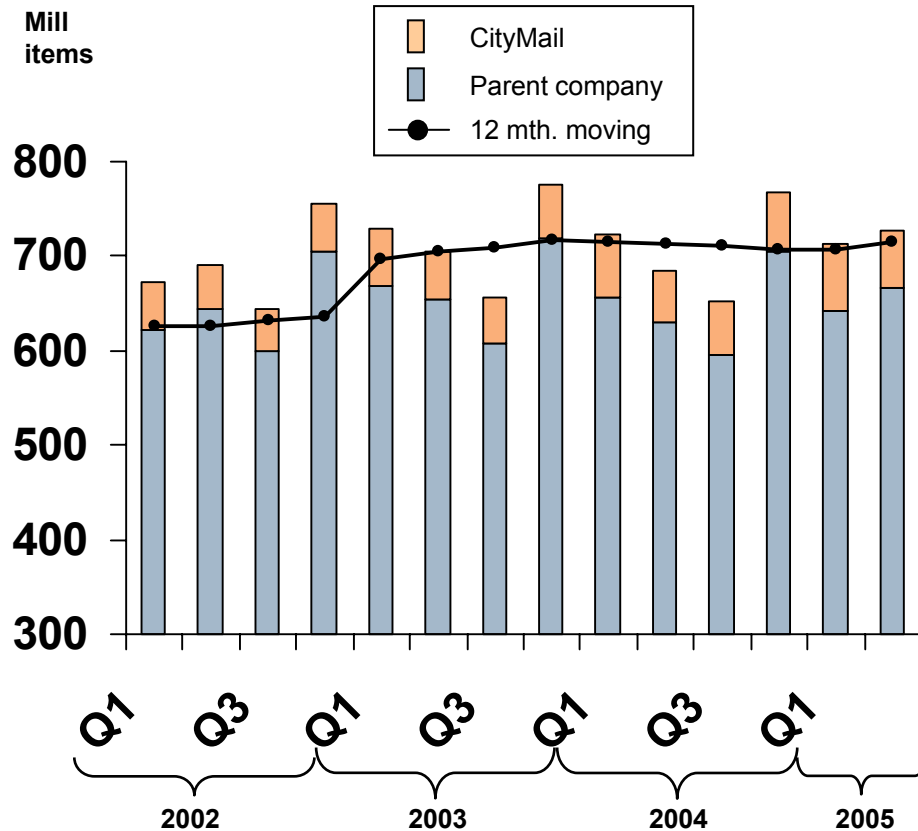
Volume %-age change

% change pa	2001	2002	2003	2004	YTD 2005
Group *			3,7	-1,3	2,2
Parent company	-4,0	4,6	3,2	-2,6	1,5
A and B (parent company)	-9,1	-4,0	-0,7	-6,8	-7,4
Direct mail advertising**	5,7	11,4	6,9	0,4	9,6
CityMail *			11,9	12,2	8,2

* Including pro-forma mail volume for CityMail from 2002

** Addressed and unaddressed direct mail

Volume



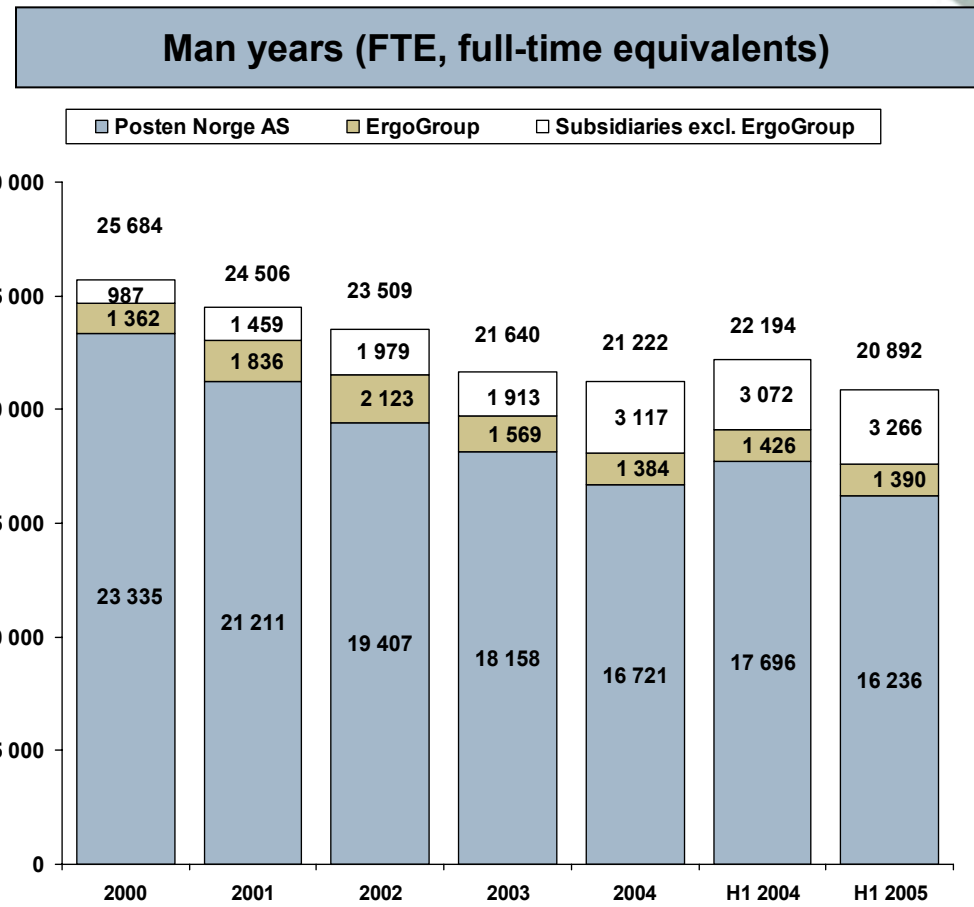
* 12 mth moving average for Group first from Q1 2003

Meeting the challenges

- Restructuring without labor conflicts

- Consensus on the "need for change"
- Clarity regarding goals and consequences
- Consistent implementation/behavior
- Sharing of facts and analyses
- Frequent contact with union representatives

Belief in each other's motives



How does our view of our business fit with liberalization?

Vision: The world's most future-oriented postal enterprise

Business concept: Norway Post develops and delivers integrated, value-adding communications and logistics solutions- through physical and electronic networks - to domestic and international customers

Overall goals: satisfied customers, a strong market position, attractive work places, competitive value creation

Our Beliefs

- Competition is an important driver for efficiency and innovation
- Competition is an important driver for customer satisfaction
- Competition is basically sound for our customers and ourselves
- Our organisation's competence is the main differentiator
- Competition develops best with minimum regulation – Norway Post must be allowed to compete

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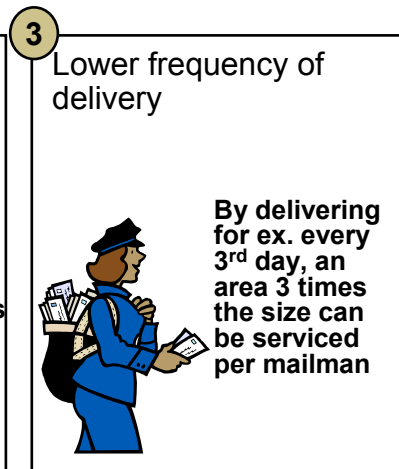
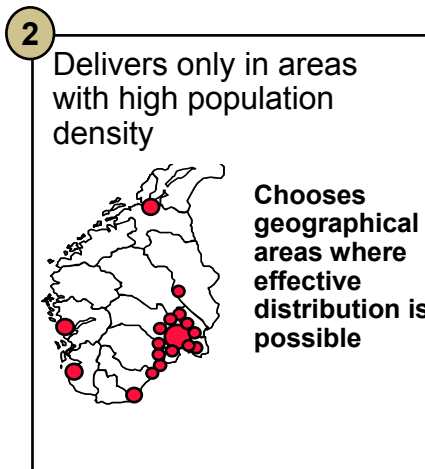
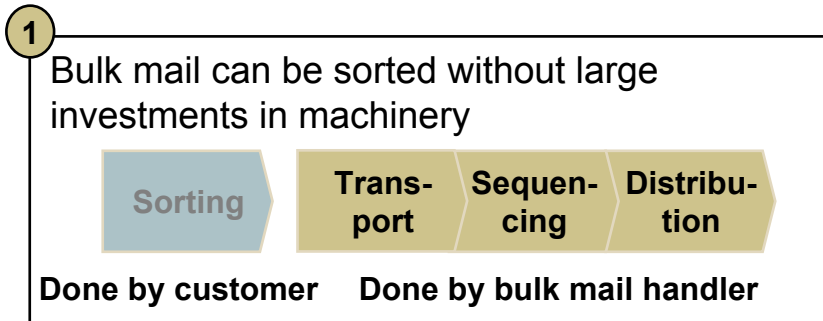
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Market dynamics will bring forth intense rivalry – heavy regulation is unnecessary

- New players will first challenge the bulk mail business due to the low barriers to entry
- Buyer power will intensify competition and price pressures
- Such competition will most likely affect other markets as well (both geographical and product dimensions)
 - **E.g. domestic airline business: 20% price decrease on non competitive routes after liberalization**

**Buyer power in bulk mail + low barriers to entry
=> Swifter move from monopoly to open market than for example in the telecom industry**

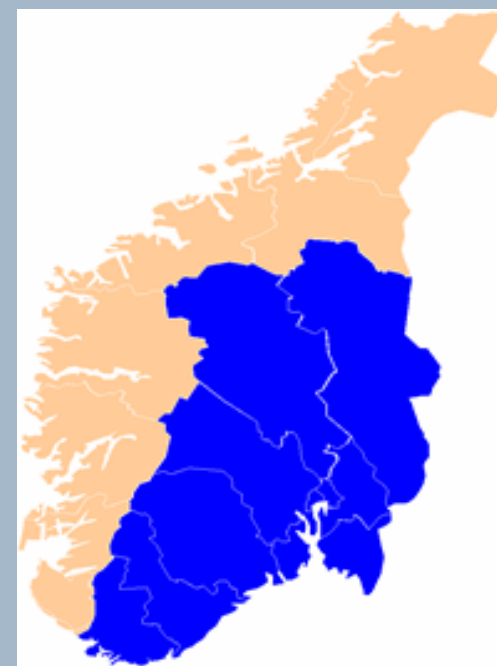
The CityMail model is also interesting for the Norwegian market



- The business model compensates for economies of scale associated to the incumbent
- Rapid and flexible penetration of an attractive market

MediaPost wishes to compete with Norway Post and has the backing of it's financially strong owners

MediaPost	Good coverage of certain day delivery
<p>Owners:</p> <ul style="list-style-type: none"> • Orkla Media AS • Aftenposten AS • A-pressen Lokale Medier AS <p>Business idea:</p> <ul style="list-style-type: none"> • National distributor of press and printed matter • Use the newspaper delivery network • Delivers <ul style="list-style-type: none"> - newspapers - magazines - books 	<p>Communicated ambitions</p> <ul style="list-style-type: none"> • "we are working on full national coverage" <p>Competitive advantage</p> <ul style="list-style-type: none"> • Certain day delivery • Early morning • Electronic delivery technology <p>Geographical coverage today</p> <ul style="list-style-type: none"> • ~55% of Norway (mainly south east) • 85% of households covered within this area <p>Financial strength</p> <ul style="list-style-type: none"> • Three strong owners: <ul style="list-style-type: none"> • Financially • In position to supply considerable volumes



Strong buyer power will contribute to intense rivalry

- **The Bulk mail market is defined by high buyer power**
 - A handful of customers and consolidators represent more than half the bulk mail market in Norway
 - In addition to being large accounts the printing companies or “consolidators” can group volumes and broker deals on behalf of other small and large companies
- **Large accounts will use that buyer power to promote competition and create price pressures**
- **In contrast, the telecom industry is characterized by a fragmented customer base**

“We look forward to the dissolution of the monopoly and will actively promote competition” - DnB NOR

“We expect much better terms and conditions in the open market”
- Orkla

oss mennesker i mellom

A realistically minimal regulation will secure the benefits of a competitive market

Access

- **Access to postal infrastructure (address change, postcodes, P.O boxes): un-bureaucratic regulation that secures incentives for high quality**
- **Ex ante regulation of downstream access would be detrimental for the establishment of end-to-end competition**

Price regulation

- **Uniform price on over-the-counter-mail only**
- **Transparency and non discrimination sufficient price regulation**

USO

- **Post: Over the counter letters and parcels (safety net)**
- **Bank: The obligations should be removed**

Financing the USO

- **Short run: State purchases continued, in order to discipline political demands, commercial freedom**
- **Long run: Tailor the scope of the USO to the needs of the customers**

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The Universal Postal Service is a political choice...

...But the politicians should bear in mind that the Universal Service propagates market distortions through:

- **it's funding mechanisms: monopoly, USO-funds, state funding (economic models will not perfectly mimic the real market)**
- **it's restrictions on prices and service levels**

The Universal Postal Service should be tailored to what citizens and customers need and want, all the while allowing citizens the opportunity to fully reap the benefits that a competitive market has to offer

The Universal Service is best secured when the burden is minimized

- **A scope tailored to the customers needs:**
 - *is delivery 6 days a week necessary?*
 - *Is there a need to protect big mailers?*
- **A sound business will target a high service level and deliver innovative and efficient services**
 - **Minimizes the burden and the need for market distortive funding mechanisms**

A regulation that allows the postal operators freedom to develop a sound business is also the best guarantee for a sustainable Universal Postal Service

Conclusion – a future oriented regulative system

- The monopoly in the mail market should be abolished in order to allow all stakeholders to reap the benefits of a competitive market
- A minimum of regulations provides the best setting for effective competition to blossom in the Norwegian mail market
- This type of regulations also allows Norway Post to develop into a future oriented and competitive organization all the while still offering national coverage