



Wissenschaftliches Institut für
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**Liberalized Postal Markets – Need for
Regulation?**

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Introducing competition in the smaller member states with underdeveloped postal markets

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This paper represents the personal views of the author and should not be taken to represent the policy of ComReg, the National Regulatory Authority for the postal sector in Ireland or of CERP, the European Committee for Postal Regulation.

Introduction

Concepts

Monopoly, Liberalisation, Privatisation, Competition,
Universal Service

The Need for Competition

Innovation, Evolution and Reform

Models of Competition

Competing Networks, Downstream Access

The Future Regulatory Framework

Measures needed to ensure success

Immediate, Soon

Concepts

Monopoly

State Security was principal reason

Even in more modern times:

- Wartime censorship
- Interception Of Postal Packets And Telecommunications Messages (Regulation) Act, 1993
- Drugs

Concepts

Monopoly

Economic justification a more recent development

Exclusive privilege of the postal company.

63.-(1) The company shall, subject to the provisions of this section, have the exclusive privilege in respect of the conveyance of postal packets within, to and from the State and the offering and performance of the services of receiving, collecting, despatching and delivering postal packets.

(2) The said privilege is granted to the company-

(a) in view of its primary purpose of providing a national postal service and of the general duty imposed on it by section 13, and

(b) in recognition of the fact that a privilege of this kind is appropriate having regard to the area and population of the State and the present state of development of postal technology, and

(c) because a viable national postal system involves subsidisation of some loss-making services by profit-making services.

Concepts

Liberalisation

- Removal of restrictions on the provision of postal services
- Removal / simplification of regulations controlling providers of postal services
- In small countries with underdeveloped markets:
 - Only adverse impacts can be anticipated
 - Size of Market will not interest global players, except to service key customers
 - Ex post application of Competition Law will not protect users with little bargaining power.

Concepts

Privatisation

- **Must not be confused with liberalisation**
- **Letter delivery market inherently different from other network interests**
- **No great need for capital investment**
- **Low risk, therefore low profit margins**
- **Delivery labour intensive**
- **Therefore state ownership of dominant operator not inappropriate where governments decide that this is what they want.**
- **Experience in Argentina**

Concepts

Competition

- Economic Law of Supply and Demand
- Users have a choice of services
- Users have a choice of supplier
- Prices are kept at efficient levels
- Inefficient suppliers forced to leave the market.

Concepts

Universal Service

- Two Approaches.
 - The American approach defines universal service very much in terms of geographical coverage.
 - The European concept of universal service is not specific to postal services. Rather it is a concept that tries to reconcile a single internal market for the provision of services with the notion that some services are provided, not for commercial gain, but to meet the needs of society.

Universal Service - The American Definition

The Postal Service shall plan, develop, promote, and provide **adequate and efficient postal services at fair and reasonable rates and fees**. The Postal Service shall **receive, transmit, and deliver throughout the United States, its territories and possessions**, and, pursuant to arrangements entered into under sections 406 and 411 of this title, **throughout the world, written and printed matter, parcels, and like materials** and provide such other services incidental thereto as it finds appropriate to its functions and in the public interest. The Postal Service **shall serve as nearly as practicable the entire population of the United States**.

39 USC Article 403 (a)

Universal Service - The European Definition

The basic concept of universal service, **which was originated by the Commission**, is to **ensure the provision of high-quality service to all prices everyone can afford**. **Universal service is defined in terms of principles: equality, universality, continuity and adaptability; and in terms of sound practices: openness in management, price-setting and funding and scrutiny by bodies independent of those operating the services.** Those criteria are not always all met at national level, but where they have been introduced using the concept of European universal service, there have been positive effects for the development of general interest services. **Universal service is the expression in Europe of the requirements and special features of the European model of society in a policy which combines a dynamic market, cohesion and solidarity.**

EU Commission "Postal Notice" (98/C 39/02)

Parcel & Mail Preparation Markets

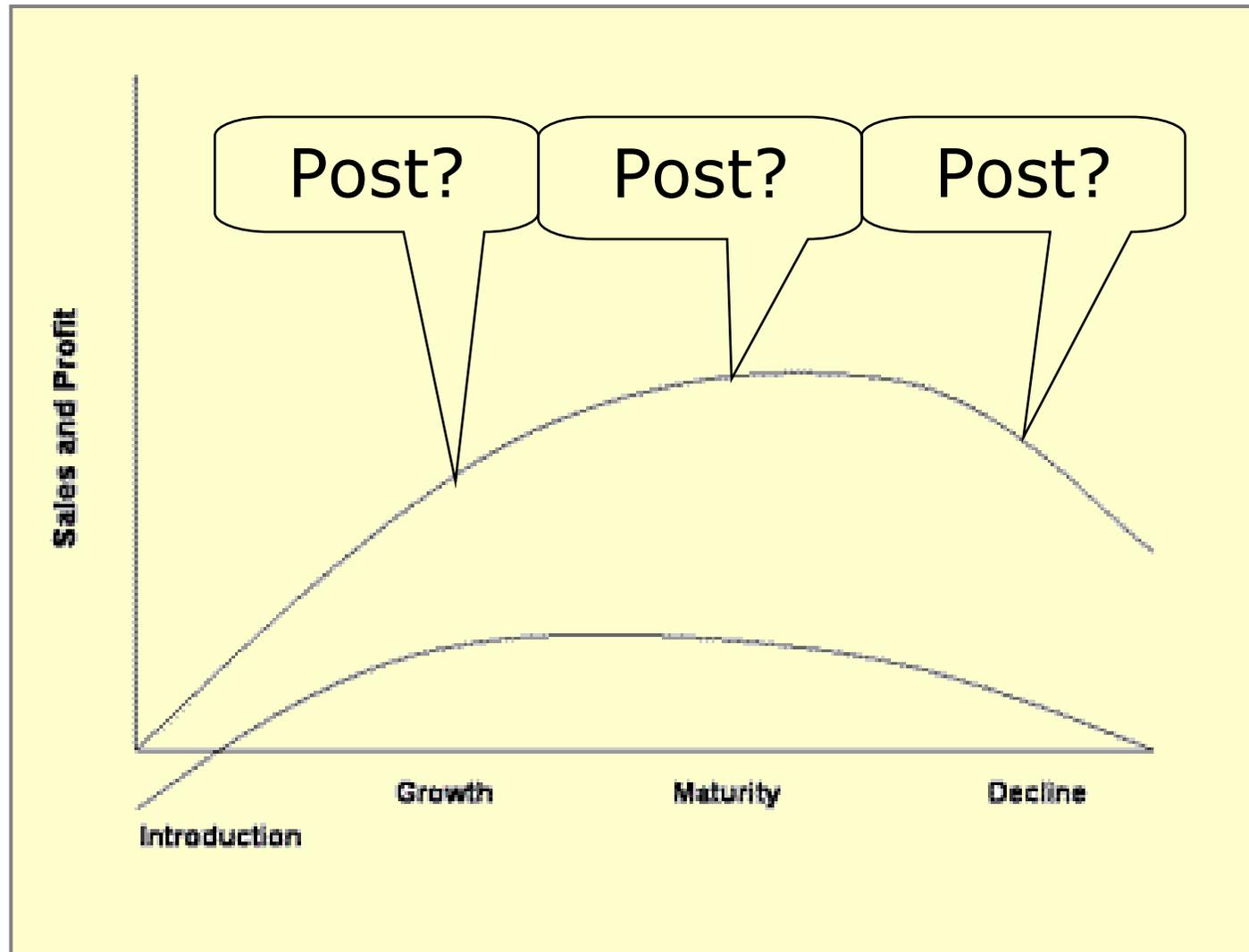
- **Different considerations apply in Parcels and Mail Preparation Markets**
- **Fixed / variable cost element different**
- **Already / always fully open to competition**
- **Significant private investment**
- **Innovation concentrated in these markets**
- **Monopoly removes incentive for innovation**

The Need for Competition

In my judgment, based on many decades of experience in the postal industry, postal services are as relevant today as they were 300 years ago. Too many within the industry appear to be discounting the value and growth potential of physical mail.

John Hearn

The Need for Competition



The Need for Competition

Mail volumes present a complex picture: while some Member States still experience positive growth, others have seen stagnation or slow decline with shifts within the different categories of mail and parcels. **It is now clear that we are seeing the end of guaranteed future volume growth which had been a feature in the sector for the last 30 years.**

It should also be noted that while many public operators have foreseen a decline in volumes in the future, it appears that no in depth research has been published confirming this hypothesis.

EU Commission's 2nd Application Report - Com-2005-102-annex

The Need for Competition

The clearest trend is a decline in first class mail in a number of countries that is generally less than 2% annually. Growing advertising mail volumes in periods when the economy is healthy often offsets the decline in first class items. Further, several countries where total mail declined in the recession years of 2001 and 2002 have later exhibited renewed, albeit modest, growth. In fact, volumes have increased during 2004 (year to date) by an average 0.3% in Europe and 1.7% in the U.S. **As a result, we conclude that, at least for the moment, we have entered a period of slow erosion or low growth in volumes rather than one of accelerated diversion.**

Fouad H. Nader, Mail Trends

The Need for Competition

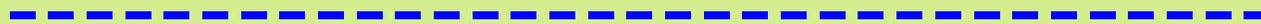
Innovation, Evolution and Reform

- 1656 First Irish Posts – Cork, Connaught and Ulster Roads
- 1680 Dockwra's Penny Post, London.
- Increased frequency of the General Post
- Increase in number of "Roads"
- 1773 – 1840 (Local) Penny Posts
- 1837 – 1840 Rowland Hill Reforms - Postage Stamps, Penny Postage
- Book Post
- Universal Penny Post
- Parcel Post
- Postcards
- Special Delivery

The Need for Competition

Innovation, Evolution and Reform

- Airmail



- Express Mail
- Remail
- Pre-sorting

The Need for Competition

Innovation, Evolution and Reform

It is one of the remarkable facts of Post Office history that all the really important innovations and reforms were the work of outsiders, who usually did not achieve success until the strenuous opposition of Post Office Officials was overcome. The Penny Post proved a great financial success and this was his undoing. The Post Office could view with majestic aloofness Dockwra's work so long as he arranged, planned, developed or spent money; but when it came to the point of his making a profit, the forces of law were at once put into operation against him. the Penny Post was an infringement of his monopoly. Dockwra was removed and the state took over his establishment.

Feldman and Kane, HANDBOOK OF IRISH POSTAL HISTORY

The Need for Competition

Innovation, Evolution and Reform

- Lessons of the last 30 years
 - National Posts no longer able to keep entrepreneurs out of the market
 - Globalisation
 - Pace of change

The Need for Competition

The extraordinary length of the product life cycle for postal services can only be explained by a history of innovation, evolution and reform. This process must continue if postal services are to meet the future needs of businesses, administrators and consumers. This will require efficient, demand-led postal services that can only be provided by a competitive market.

The Need for Competition

The 2009 target for accomplishing the postal internal market must therefore be respected; any delay will remove the pressure on operators to become efficient, and create uncertainty in future planning for both customers and operators.

The Future Regulatory Framework

Must be light handed:

- Regulators, and legislators, must avoid the temptation to micro-manage or second-guess the managers of the companies that they are required to regulate.
- A regulator is a very poor substitute for a customer choosing to buy a service because the price, choice and quality are right.

The Future Regulatory Framework

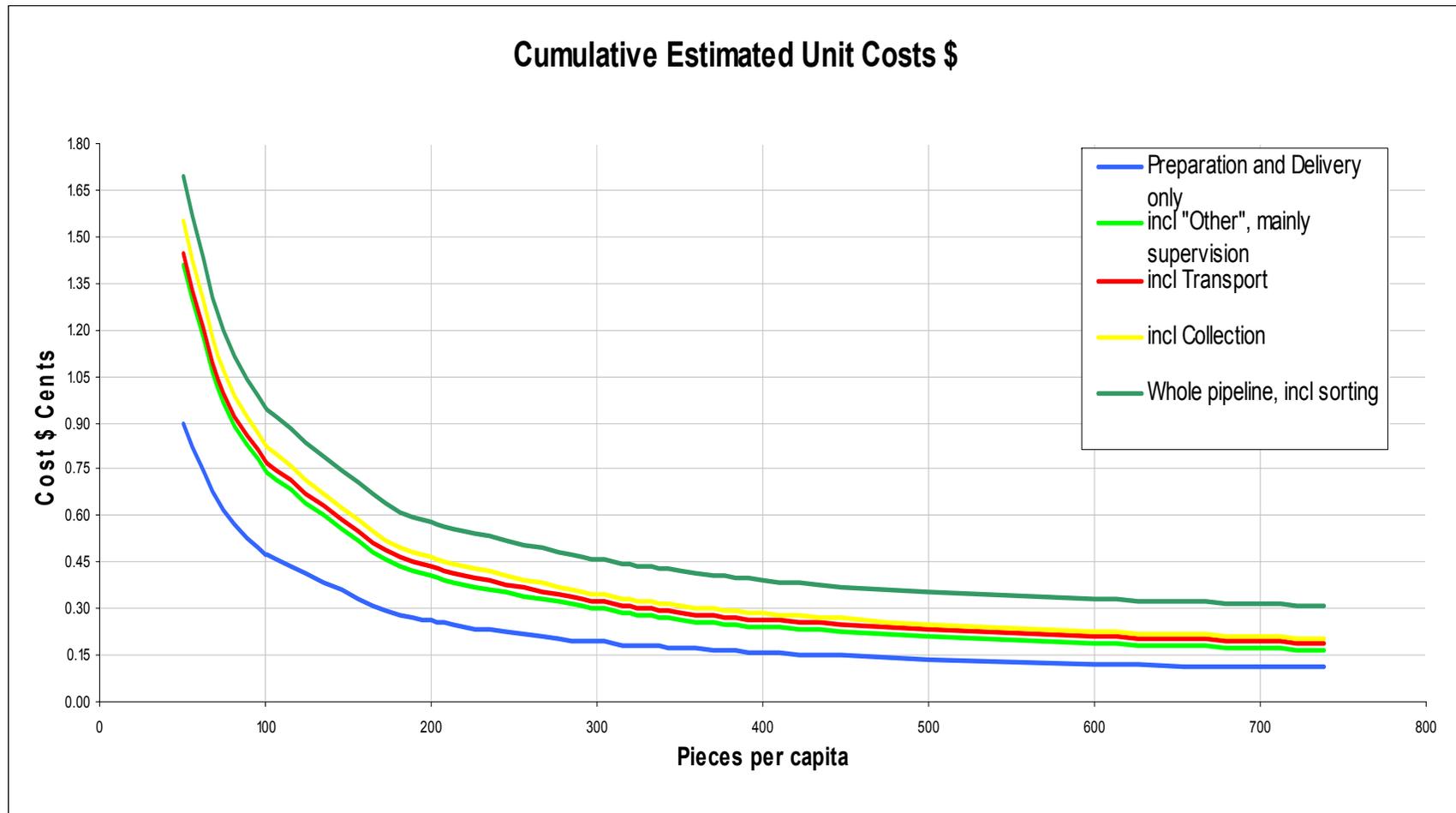
Objectives:

- Encourage Market Development.
- Protect Consumers where necessary.
- Uniformity of application through the EU.
- Recognise that there are differences between member states:
 - Development of market - mail per capita
 - Quality of Service
 - Prices Charged
 - Range of Services
 - Ease of Access

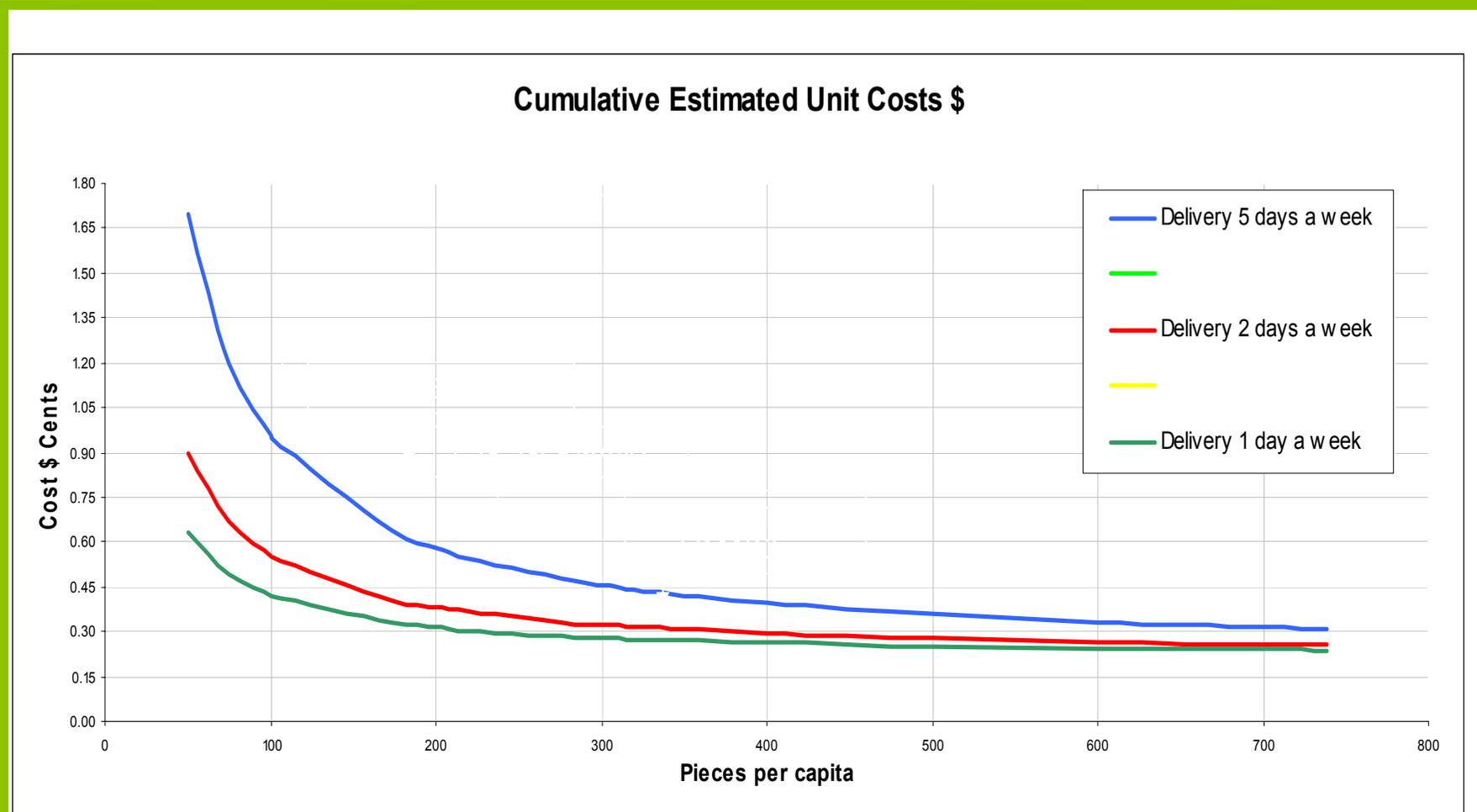
The Future Regulatory Framework

The cost of making postal deliveries is primarily determined by the length of the postperson's route and the number of homes where there is mail to be delivered. The higher the volume of mail, the lower the unit cost.

Cumulative Cost Curve – by pipeline process



The Future Regulatory Framework



Based on Analysis by Bob Cohen, US Postal Rate Commission, adapted.

Estimated Delivery Cost (per no of deliveries)



The Future Regulatory Framework

Needs of smaller member states with under-developed postal markets must be taken into account:

- Factors influencing scope for competition:
 - the proportion of people living in urban areas,
 - the density of population in rural areas,
 - the efficiency of the operator
and most important of all
 - the volume of mail per delivery point.

Models of Competition

Competing Networks

Downstream Access

Models of Competition

Competing Networks

- Evidence that customers only want to deal with a single operator who can provide universal service
- Competing Networks only viable in certain circumstances –
 - A High level of urbanisation
 - A High Population density in Urban areas
 - High Levels of mail per capita
 - A reluctance by the incumbent postal operators to provide "wholesale" (delivery only) services

Even then the competing networks only offer delivery on a few days a week, or in a limited geographical area.

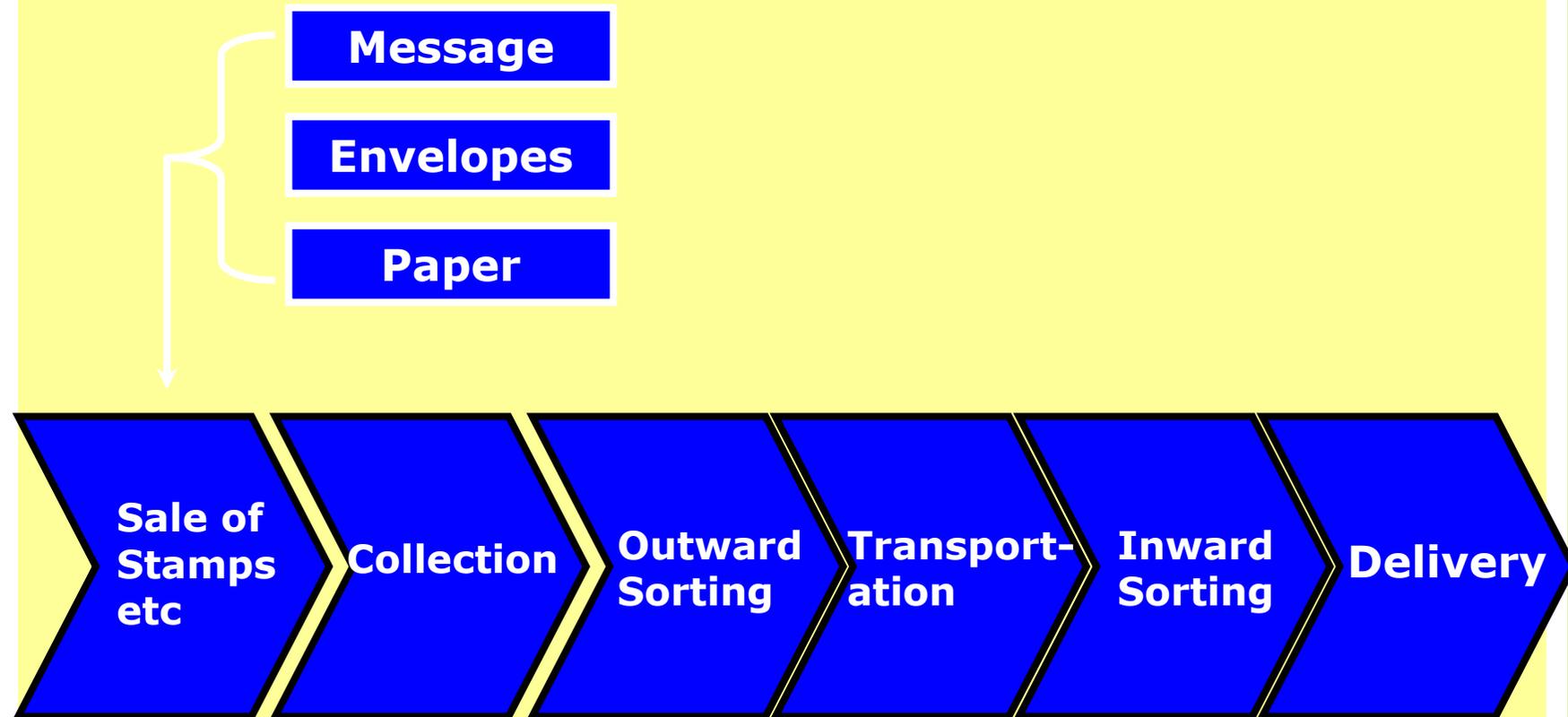
Models of Competition

Downstream Access

- will encourage greater competition in upstream (retail) activities than competing networks.
- This will drive volumes / reduce unit costs in the delivery network of universal service providers, thereby ensuring the availability of universal service without the need for subsidies or other regulatory interventions.
- In France where "downstream access" has been offered for many years the 22 largest consolidators of mail feeding into the La Poste network had a 55% market share. And mail volumes per capita are the fifth highest.
- It must also be recognised that the whole concept of a universal (worldwide) postal service has from the start been built upon national Posts, on foot of international treaties, providing wholesale delivery services to postal operators in other countries.

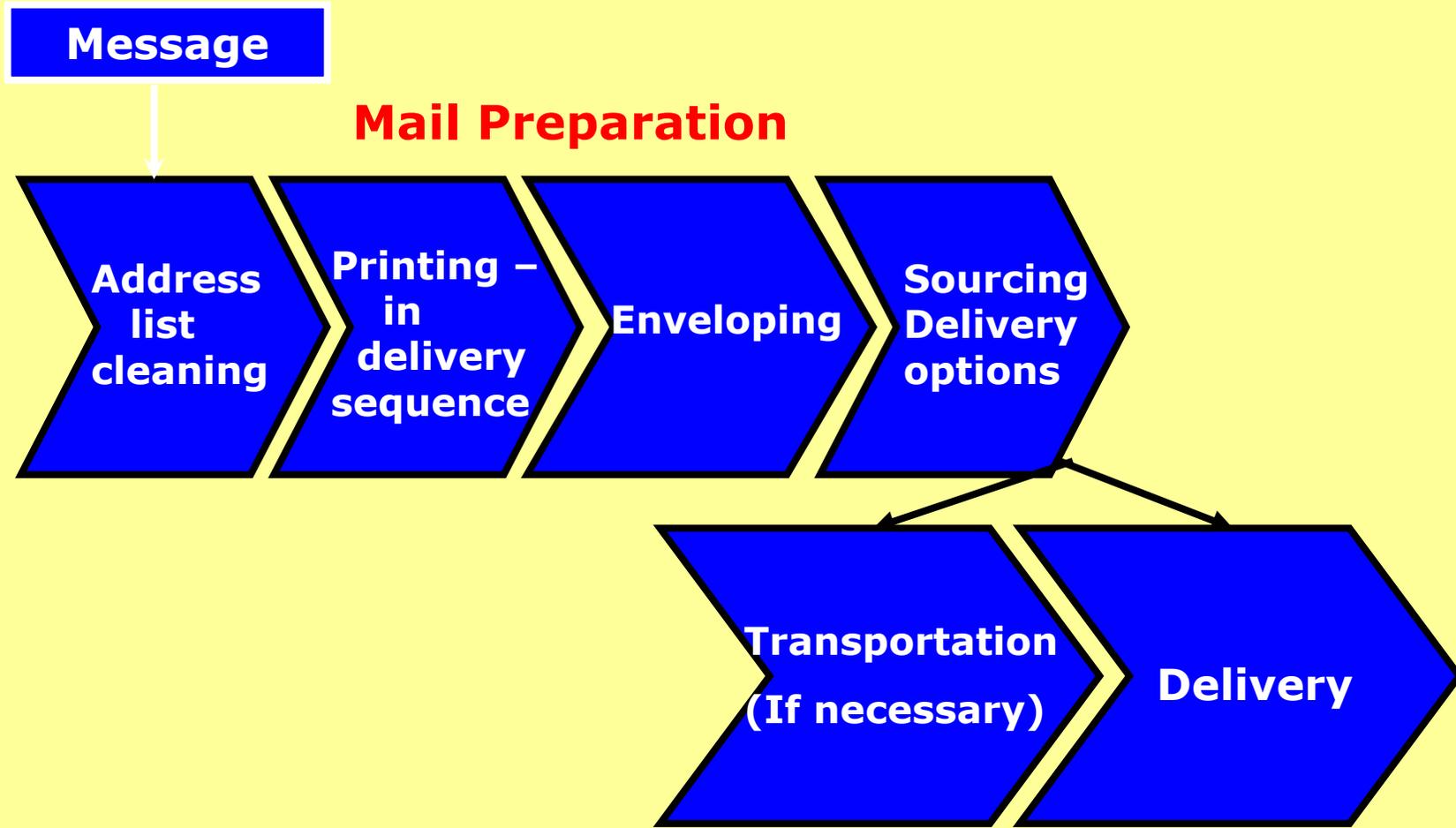
Models of Competition

The Traditional Value Chain



Models of Competition

The New Value Chain for businesses



Models of Competition

It is competition at the retail level that will

- **drive product innovation.**
- **Give customers a choice**
- **and keen prices**

It is the possibility of alternative delivery networks at the wholesale level that will drive efficiency and price competitiveness in delivery networks.

Measures needed to ensure success

- **Current Phased approach not effective**
 - Does not offer operators sufficient volume
 - Customers not prepared to deal with two suppliers
- **Major benefits only Achieved in countries which have followed their own market opening programmes**
 - France, Netherlands, Germany, Sweden, UK
- **Liberalisation by itself will only substitute a de facto monopoly for de jure one**

Measures needed to ensure success

Action Plan - Immediate

- **Firm Commitment to Market Opening Timetable**
- **Guaranteed access to pre-sorting services**
- **Absolute clarity as to what services competitors can provide**
 - **Time Certain / Day Certain / Magazines**
- **Authorisation is authorisation**

Measures needed to ensure success

Action Plan - Soon

- **Restrict "reserved area" to delivery**
- **Mandate "downstream access"**
- **Same "public offer" for national and cross-border "access"**
- **Negotiated "non discriminatory" prices, terms and conditions.**
 - **Regulatory intervention only if necessary**
 - **Prices based on fully distributed costs**
 - **No requirement for "geographically uniform" prices - to prevent "cream skimming".**
- **Requirement for separated accounts**

Measures needed to ensure success

Benefits

- **encourage service innovation**
- **encourage market entry**
- **USPs retain economies of scale**
- **Other operators able to compete effectively in retail markets**
- **Enable operators with own delivery networks (e.g. local areas, specific products such as magazines) to offer wider range of services.**

Conclusion

Regulators and Legislators must initiate a series of measures, starting now, to ensure that the accomplishment of the Internal Market for postal services in 2009 is a milestone in the evolution of postal services, perhaps even greater than the introduction of the postage stamp in the 1840's.