

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
- 1996, 1997, 1999, ?: Revisions of the Act
- 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

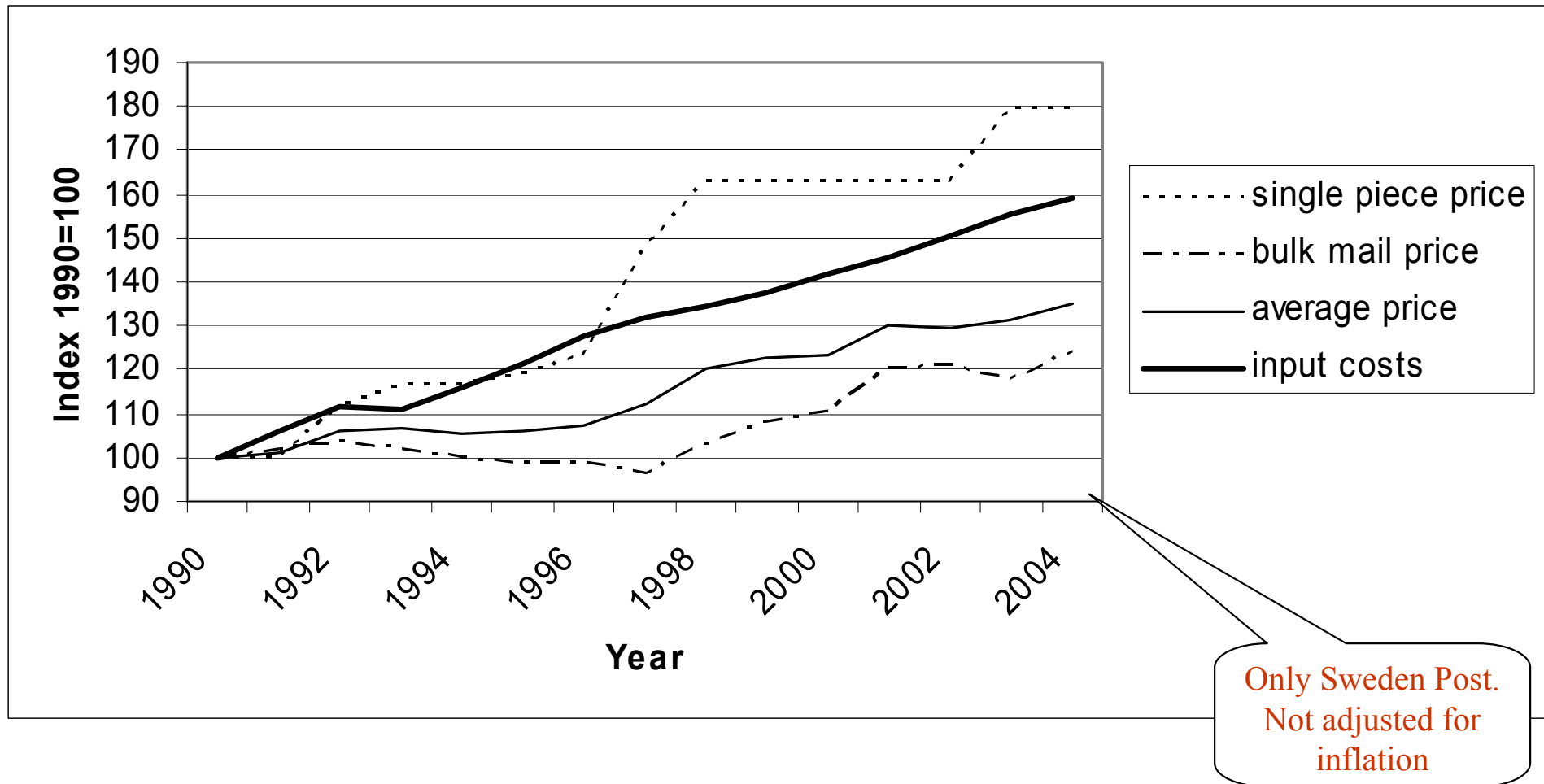
in order of importance

For Sweden Post.

Prices 1991 and 2006 (real prices)

	approx. share, all mail	20 gram		50 gram	
		list price	<i>negotiated price</i>	list price	<i>negotiated price</i>
Third class unsorted	24	+49 %	+42%	+49 %	+42%
bulk mail pre-sorted		+37 %	+10%	+34 %	+10%
pre-sorted, large town delivery		+17 %	-6%	+17 %	-6%
Second class unsorted	21	+16 %	+5%	-37 %	-40%
bulk mail pre-sorted		- 9 %	-27%	-48 %	-58%
pre-sorted, large town delivery		- 22 %	-37%	-55 %	-64%
First class unsorted	15	+34 %	+28%	-22 %	-26%
bulk mail pre-sorted		+22 %	-2%	-31 %	-45%
pre-sorted, large town delivery		+9 %	-13%	-36 %	-49%
First class, single letter	18	+43 % (79 %)		+43 % (79%)	
2nd class, single letter	5	+35 % (68%)		+35 % (68%)	
First class local delivery (min 250)	small	+10 %		+12 %	

Price level: increased less than input costs



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

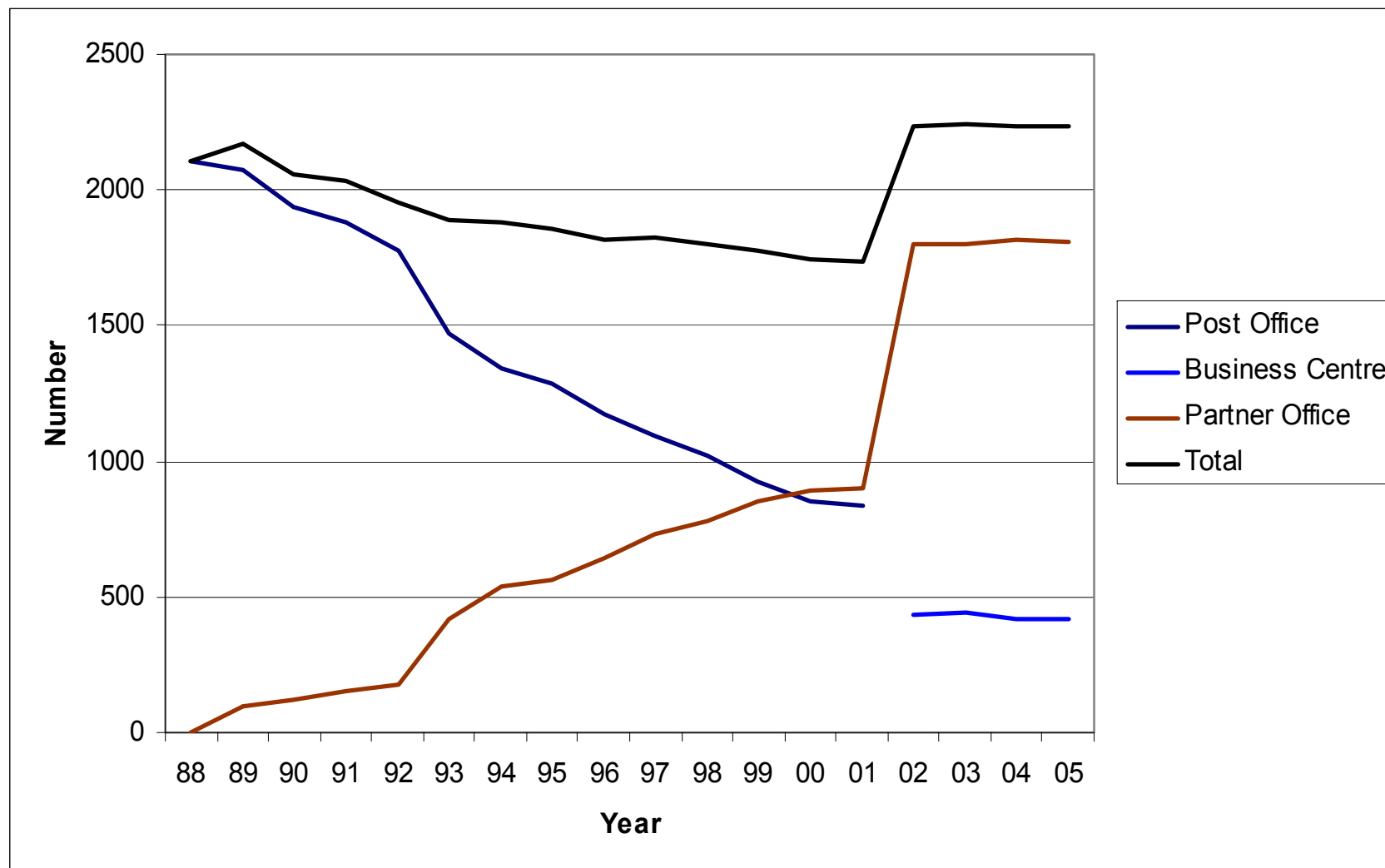
Effects of liberalisation 2

- 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)

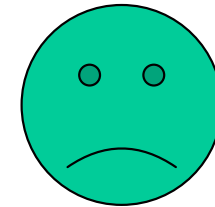
Sweden Post access points



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!