

# Liberalization in Europe: First Outcomes

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# Who is WIK-Consult?

- **Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste**
  - Independent research and consulting institute
  - Owned by the German Federal Government
  - 35 consultants
  - 25 years of experience in economic regulation and sector policies
  - Telecommunications, postal and energy markets
  - About 60% of our activities are for international customers
  - Several postal sector studies for the European Commission
- WIK-Consult is a 100% subsidiary of WIK
  - Founded in 2001
  - Focus on contract research und consulting

# Contents of Presentation

## Liberalization

- State of play in EU
- EU timetable
- National policies

## “Commercialization” of public operators

- State of play in EU
- Ownership / privatization
- Corporatization

## First outcomes

- Financial stability?
- Efficiency?
- Quality of Service?
- Competition?

This presentation is about liberalization of **letter post**, not parcels or express

# Global Objectives of Postal Reform: Profitable, Efficient and High Quality Postal Services

“Prior to the Postal Directive [*i.e. before 1997*], postal services in the [*EU*] Member States varied widely across Member States. However, they could be characterised as being primarily delivered through **loss-making** and sometimes **inefficient** public sector monopolies providing standard commodity services of a widely **variable quality** and efficiency”.

*(European Commission, COM (2002) 632 final)*

# Liberalization in the EU (Postal Directive)

## Weight Limits Left Bulk Within Monopoly

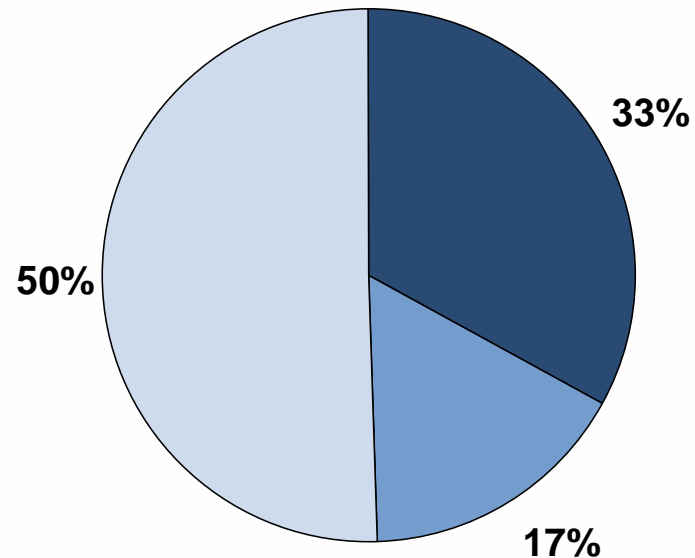
	Weight limit	Price limit	% of volume in weight limit
1998 – 2002	350 gram	5 x stamp	91 %
2003 – 2005	100 gram	3 x stamp	79 %
2006 - 2008	50 gram	2.5 x stamp	72 %
2009? 2011? 2035?	Full liberalization (European Commission has proposed 2009 target date. Discussions in Parliament and Council underway...)		

- EU legislation sets out a *maximum* reservable area
  - Countries may preserve monopolies only “to the extent necessary”
  - Maximum reservable area, using weight and price limits

# Liberalization in the EU

## More than One Third of EU Volume is Outside Monopoly

### Importance of national monopolies in EU (Countries weighted by mail volume)



- Fully liberalized
- Monopoly for Correspondence < 50 gram
- Monopoly for all letter post < 50 gram

- Some EU countries liberalized more vigorously (than required by EU)
- No monopoly in five countries
  - Estonia
  - Finland
  - Sweden
  - UK
  - Spain (on local mail)
- Some restrict monopoly to correspondence – direct mail liberalized, e.g. Netherlands, Italy, Slovenia...
- Full liberalization expected by 2008 in Germany, Netherlands, Slovakia

# Liberalization in Sweden

## The European Frontrunner

Approach to open postal market	<u>Full liberalisation in 1993</u>
Outcome / Actual competition	<p>One important competitor: CityMail</p> <p>CityMail delivers business mail in urban areas</p> <p>Market share slowly rose to ~ 9% in 13 years (% of mail volume)</p> <p>Sweden Post reacted with more flexible pricing</p> <p>CityMail went bankrupt twice</p>

- Competition does not come easily in postal sector

# Liberalization in the UK

## Competition in the Presence of Downstream Access

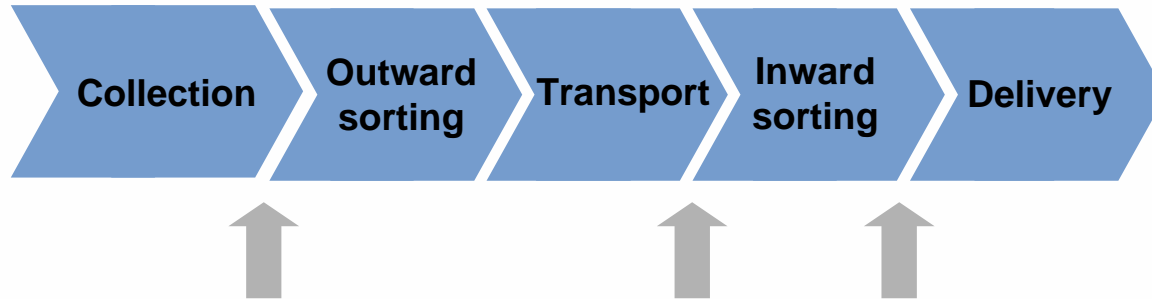
Approach to open postal market	January 2003: Bulk mail liberalised (> 4,000 items) 2004: Royal Mail offered “access contracts” under pressure of its regulator <u>January 2006: Full liberalisation</u>
Outcome / Actual competition	Little competition in end-to end delivery → Royal Mail market share: 99.8% in 2005/06 Successful entry by consolidators (~ 3% of volume in 2005/06, rapid growth expected for FY 2006/07) Royal Mail strikes back against its competitors: ‘Direct customer access’ & ‘Zonal pricing’

- Little Competition in end-to-end delivery.
- Big question: Will there be any in presence of downstream access?



# Liberalization in the UK

## What is Downstream Access?



- Royal mail offers/must offer access to
  - Outbound sorting centers
  - Inbound sorting centers
  - Delivery offices (not available, called for by regulator)
- Massive (regulated) discounts compared to standard tariff
- Access is offered to both competitors and customers
- Downstream access facilitates competition in mail preparation, sorting, transportation

# Liberalization In Germany

## Local Operators Target Nationwide Operations

Approach to open postal market	Apply weight and price limits (2006: 50 g / 2.5 stamp) Liberalize value added services, e.g. guaranteed overnight delivery Assess mandated by regulator but not very relevant in practice due to unfavourable tariffs and conditions
Outcome / Actual competition	~ 750 active licensed operators, mostly local 9.3% market share after nine years (2006) Emerging nationwide operations: massive M&A activity

- Two big players are forming nationwide delivery networks
  - TNT (JV of Dutch TNT and German parcel operator Hermes)
  - PIN Group (mainly owned by German publishers)

# Liberalization in Spain

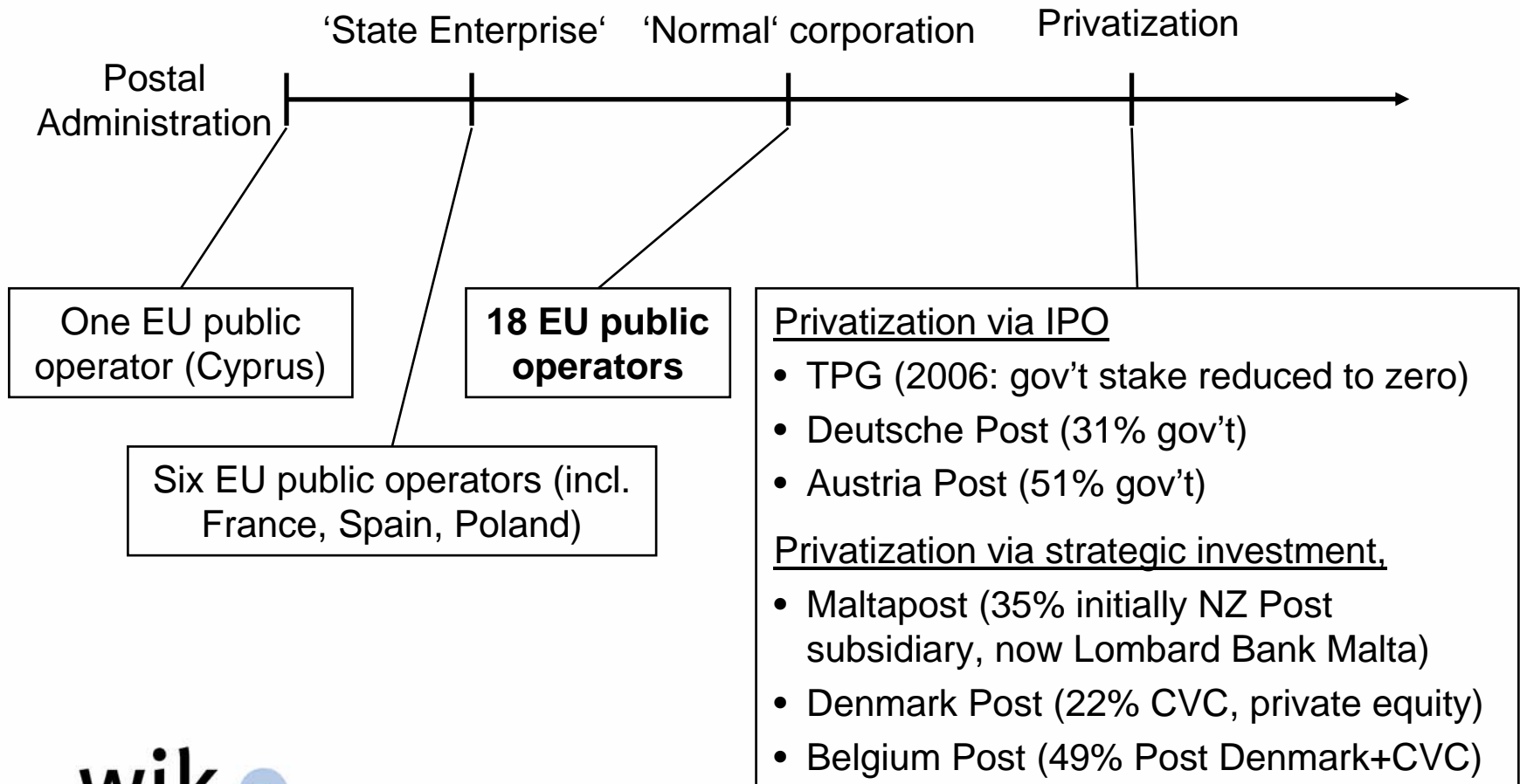
## A History of Federalism and Local Deliveries

Approach to open postal market	Monopoly has long related to inter-city mail only <ul style="list-style-type: none"><li>• Local mail liberalized</li><li>• Weight and price limits for inter-city mail</li></ul>
Outcome / Actual competition	Various local operators in the market Incumbent market share ~ 89 % Emerging nationwide operation (Unipost: group of local operators – partly owned by Deutsche Post)

- Unique history of local delivery operations outside monopoly
- In relative terms, Spain sees most competition of all EU countries

# Commercialization of Public Postal Operators

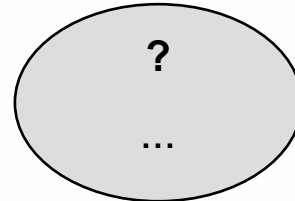
## Clear Trend: 18 of 25 PPOs are Now Corporations



# Commercialization of Public Postal Operators

## Only the Larger PPOs Go Public

- Many rumors about further corporatisation and privatization
- Some large PPOs will likely privatize in near future
- Further sell-out of stock-listed PPOs
- Some may not privatize, e.g. French La Poste and Spanish Correos?
- Smaller countries seem more interested in seeking strategic investors for their PPOs



# EU Liberalization: First Outcomes

## Public Operators Improved Performance ...

### Objectives

- Make PPOs profitable

- Better Quality / Routing Times

- Efficient Postal Service

### Results

- Largely successful:
  - All but one EU PPO posted profits for 2004
  - For some, at the cost of price increases

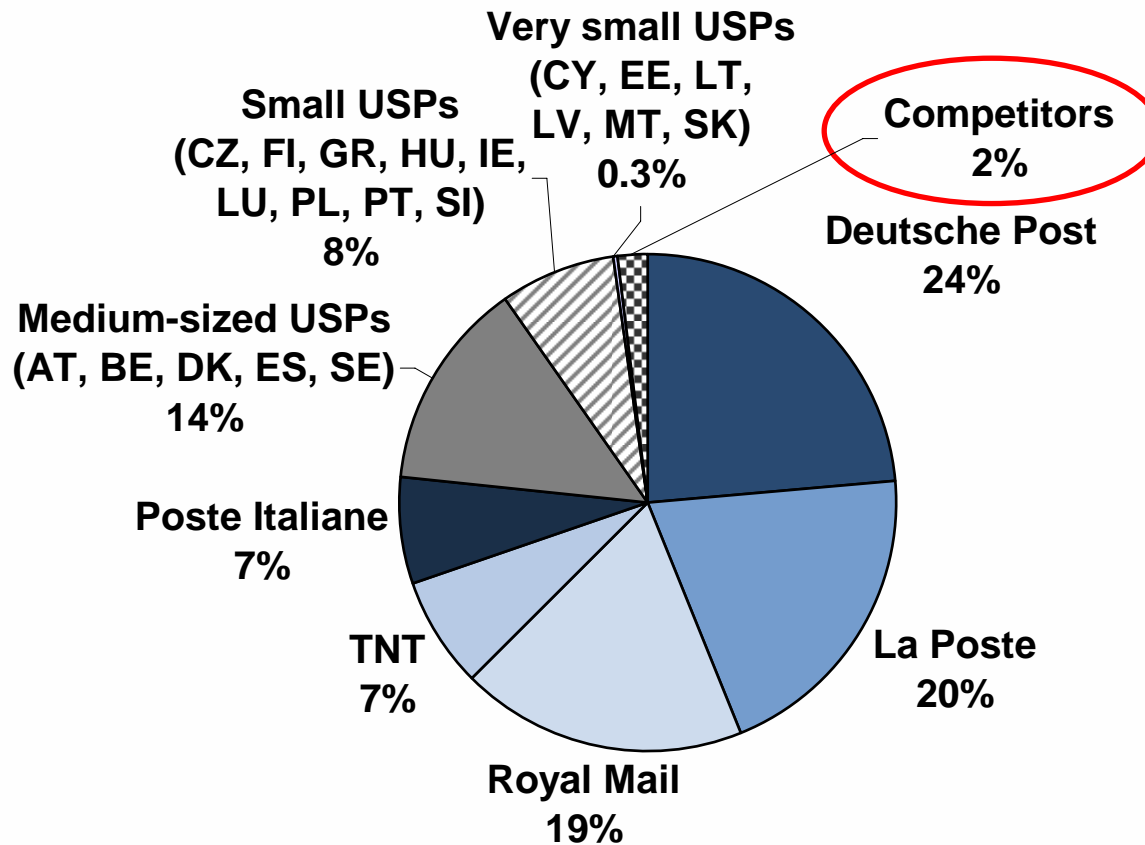
- Overall: impressive upward trend, see UNEX!
- But some differences between PPOs

- Improved efficiency due to network re-structuring led by privatized PPOs
- Some political resistance to downsizing
  - labor force
  - post office networks
- Expansion to related businesses: express, logistics...

# EU Liberalization: First Outcomes

## ... But Entrants to Postal Market Are Struggling

Share of EU letter post by operators



# EU Liberalization: First Outcomes

## Conclusions

- Liberalization forces public operators to undergo significant changes
  - More efficient process, often including downsizing
  - Achieve full reliability and constant work on quality of service
  - Enhance customer orientation
  - Explore new business opportunities
- Compared to other deregulated industries, liberalization has not led to much loss of market share for incumbents
- “Postal liberalization” loses relevance in light of competition from other media (advertising, fax, email). Monopoly on communication is lost anyway!
- Overall, liberalization has been a benefit to the customer but has not been fatal for public operators. The challenge of competition can be seen as a positive stimulus for public operators





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