The Impact of Postal Liberalisation in Europe

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Who is WIK-Consult?

- WIK (‘Scientific institute for infrastructure and communication services’)  
  - Independent research institute, owned by the German government  
  - ~ 40 consultants/researchers  
  - > 25 years of experience with economic regulation and sector policies  
  - Telecommunications, postal and energy markets

- WIK-Consult is a 100% subsidiary of WIK  
  - Consultancy specialized in regulated industries, founded in 2001  
  - ~ 60% of revenue from customers outside Germany
Contents of Presentation

1. Privatization of public postal operators in Europe

2. Liberalisation of postal services in Europe
   - Overview
   - Case studies: Sweden, Germany, Netherlands, Spain, UK

3. Conclusions on the impact of liberalisation in Europe
1. Privatization
Clear Trend: 20 of 27 EU PPOs are Now Corporations

- Privatization:= Transform public operators and privatize equity
- Liberalisation:= Allow competition in postal markets

Privatization via IPO
- TPG (2006: gov’t stake reduced to zero)
- Deutsche Post (31% gov’t)
- Austria Post (51% gov’t)

Privatization via strategic investment,
- Maltapost (35% initially NZ Post subsidiary, now Lombard Bank Malta)
- Belgium Post (49% CVC)
1. Privatization
All EU Public Operators Corporatized, Some Privatized

- Clear trend towards corporatization and privatization (but no harmonized EU policy)
- Privatized operators (government share of equity)
  - TNT Post (0% gov’t)
  - Deutsche Post (<31% gov’t)
  - Austria Post (51% gov’t)
  - Belgian Post (51% gov’t)
  - Malta Post (65% gov’t)
- Incumbents gained commercial flexibility – Governments reduced direct control over postal operations

(Countries weighted by mail volume)
2. Liberalisation in the EU
Background: Global Objectives of EU Postal Reform

- Objective in 1990ies: 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)
2. Liberalisation in the EU
Background: Key Pillars of EU Postal Reform

• Assure basic universal postal service
• Fully open market for postal services
• Independent regulators & Impartial regulation of postal services
• Legal protections for users of postal services
• Apply competition rules to providers of postal services
2. Liberalisation in the EU
The Long Way Towards a Final Date

1997 / First Postal Directive (97/67/EC)
- Monopolies limited to 350 gram / 5 x Stamp
- Further liberalisation to be considered as of 2003

- Weight & price limits reduced as of 2003 und 2006
- 2009 suggested target date for full liberalisation

2008 / Third Postal Directive
- Oct 2006: Commission proposed confirming 2009

Timely implementation?
2. Liberalisation in the EU
Weight Limits Implied Gradual, Very Gradual Liberalisation

<table>
<thead>
<tr>
<th></th>
<th>Weight limit</th>
<th>Price limit</th>
<th>% of volume in weight limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 – 2002</td>
<td>350 gram</td>
<td>5 x stamp</td>
<td>91 %</td>
</tr>
<tr>
<td>2003 – 2005</td>
<td>100 gram</td>
<td>3 x stamp</td>
<td>79 %</td>
</tr>
<tr>
<td>2006 – 2010</td>
<td>50 gram</td>
<td>2.5 x stamp</td>
<td>72 %</td>
</tr>
<tr>
<td>(– 2012)</td>
<td>(Derogations for eleven Member States)</td>
<td></td>
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</tbody>
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Maximum reservable area:

Member State may preserve monopolies
only “to the extent necessary”.

(Article 7, 2002/39/EC)
2. Liberalisation in the EU
More Than Half of all EU Mail is from Liberalised Countries

- Most EU countries maintained maximum permissible monopolies
- No monopoly in seven countries
  - Sweden (1993)
  - Finland (1997)
  - Great Britain (2006)
  - Germany (2008)
  - Netherlands (2009)
  - Estonia (2009)
  - Spain (local mail liberalised)
- Some countries restrict monopoly to correspondence – direct mail liberalised, e.g. Italy, Spain, Slovenia…
- Full liberalisation in 2011/13

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
## 2. Liberalisation in the EU
### Sweden: The European Frontrunner

<table>
<thead>
<tr>
<th>Approach to market opening</th>
<th>Full liberalisation in 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual competition</td>
<td>• Only one important competitor: Bring CityMail</td>
</tr>
<tr>
<td></td>
<td>• Bring CityMail delivers business mail in urban areas</td>
</tr>
<tr>
<td></td>
<td>• In 15 years, CityMail’s market share rose very slowly to ~10.7% (of mail volume) in 2008</td>
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<td></td>
<td>• Sweden Post reacted with aggressive pricing (and prices were challenged by competition authorities)</td>
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<tr>
<td></td>
<td>• Business mail tariffs declined, stamp price increased</td>
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<tr>
<td></td>
<td>• CityMail went bankrupt twice</td>
</tr>
</tbody>
</table>

- Competition does not come easily in the postal sector
# 2. Liberalisation in the EU

## Germany: Competition from Local Operators

<table>
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<tr>
<th>Approach to market opening</th>
<th>Actual competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Weight and price limits since 1998. Value added services liberalised, e.g. guaranteed overnight delivery</td>
<td>• ~ 800 licensed operators in 2008, mostly local</td>
</tr>
<tr>
<td>• January 2008: Full liberalisation (But barriers to competition: sector-specific minimum wage and VAT exemption for universal service products)</td>
<td>• 8.4% combined market share in 2008 (by volume). Deutsche Post’s market share slightly increased in 2008</td>
</tr>
<tr>
<td></td>
<td>• 2006-07: Emerging nationwide operations TNT and PIN</td>
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<tr>
<td></td>
<td>• 2008-2009: Household coverage of TNT-Holtzbrinck partnership aiming to 90%; recent hybrid mail initiative</td>
</tr>
<tr>
<td></td>
<td>• Deutsche Post decreased business customer tariffs (2008)</td>
</tr>
</tbody>
</table>

• Competition did not increase with full liberalisation!
## 2. Liberalisation in the EU
**Netherlands: Competition for Direct Mail**

| Approach to market opening | • Direct mail (Drukwerk) opened to competition in 2000  
|                           | • April 2009: Full liberalisation |
| Actual competition        | • Entrants started off delivering unaddressed, expanded to addressed direct mail and publications  
|                           | • Two important entrants with 2% growth in 2008:  
|                           |   - Sandd and SelektMail (Deutsche Post)  
|                           | • Entrants adopt low cost model (two deliveries per week)  
|                           | • TNT’s market share down to ~ 87 % in 2008 despite monopoly |

- Two entrants operate nationwide delivery networks
### 2. Liberalisation in the EU
Spain: Competition on Local Delivery

<table>
<thead>
<tr>
<th>Approach to market opening</th>
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<tbody>
<tr>
<td>• Monopoly has long related to inter-city mail only</td>
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<tr>
<td>- Local mail liberalised</td>
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<tr>
<td>- Weight and price limits for inter-city mail</td>
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<tr>
<td>• Downstream access regulated since 2006</td>
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</table>

<table>
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<tr>
<th>Actual competition</th>
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<tbody>
<tr>
<td>• Incumbent market share ~ 89 %</td>
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<td>• Market share Unipost 10%, other local operators 1%</td>
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<tr>
<td>• Main competitor is Unipost (group of local operators, 38% owned by DPWN), covers approx. 75% of territory; 2008 revenue 107 M€ and growth of 6%</td>
<td></td>
</tr>
</tbody>
</table>

- Unique history of local delivery operations outside monopoly.
2. Liberalisation in the EU
UK: Downstream Access but no Competition in Delivery

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<th>Actual competition</th>
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</thead>
<tbody>
<tr>
<td>• January 2003: Bulk mail liberalised (&gt; 4,000 items)</td>
<td>• Practically no competition in end-to-end delivery → Royal Mail’s market share: 99.9% in 2008</td>
</tr>
<tr>
<td>• 2004: Royal Mail offered “access contracts” under pressure of its regulator</td>
<td>• Successful entry by consolidators (~3% of vol. in 2005/06, ~6% in 2006/07, ~12% in 2007/08, further growth in 2009)</td>
</tr>
<tr>
<td>• January 2006: Full liberalisation</td>
<td>• Royal Mail reacts with new pricing strategies: ‘Direct customer access’ &amp; ‘Zonal pricing’</td>
</tr>
</tbody>
</table>

• Almost no competition in end-to-end delivery
2. Liberalisation in the EU
Conclusions

• Most Member States have not liberalised quicker than required by EU

• Some barriers to competition remain
  
  - Use of licensing to forestall entrants in some countries, e.g. rigid quality requirements, “universal service taxes”
  
  - VAT is not equally applied to postal operators in many countries
  
  - Recent renaissance of protectionism even in some countries / slow implementation of the 3rd Postal Directive
  
  - Disproportionate ‘postal’ minimum wages aim at protecting incumbents

 ➔ It has been a long way to liberalisation – to be completed soon
 ➔ It may take much longer for effective competition to arrive
3. Impact of Liberalisation in Europe

- **on business customers** (~85% of total demand for letters)
  - Quality of service (routing times) improved greatly
  - Businesses start benefiting from choice of supplier
  - Price level reduced overall
- **on private households** (~15%)
  - Quality of service (routing times) improved greatly
  - Nationwide access maintained, improved opening hours in franchise agencies
  - Price level increased
- **on incumbent posts** (DOs)
  - DOs became profitable
  - DOs maintain strong dominant market position (>85%)
  - Improved efficiency due to network re-structuring
  - Enhanced commercial flexibility
- **on new entrants**
  - Allowed successful entry in some niche markets
  - Generally below expectations, some exits
3. Impact of Liberalisation in Europe (cont’d)

- Liberalisation has not led to much de facto competition
- Clear benefits for customers, primarily for businesses customers
- Universal service maintained, and quality of service improved
- With enhanced commercial flexibility, postal operators became more efficient, more profitable, and customer-responsive
- Universal services is a profitable business. No (additional) compensation for universal service in any EU country
- Post is not an island: Key future challenge is competition from other media, not other postal operators
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