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GREEN PAPER
ON THE DEVELOPMENT OF THE SINGLE MARKET
FOR POSTAL SERVICES

(Communication from the Commission)

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The Annexes, pages 255 to 371 are on AEI-EU as a separate document.

EXECUTIVE SUMMARY

1. NATURE OF DOCUMENT/CONSULTATION

A Green Paper is a discussion document. This Green Paper seeks to launch the debate on the Community's postal sector. To do so, it has the following objectives:

- to provide a thorough-going analysis of the current situation;
- to discuss what should be the Community objectives for its postal sector and whether action is needed a Community level to achieve them;
- and (assuming that action is needed) to discuss how these objectives could be achieved and suggest detailed options.

During the preparation of the Green Paper, there was extensive consultation, particularly with the governments of the Member States. The publication of the Paper will now launch a period of even wider consultation during which the Commission will seek the views of all interested parties - including representatives of Member States' governments, of users (from individual consumers to large users), of operators (both public and private) and of trade unions. All parties will be invited to consider whether the analysis of the current situation is correct; whether the Community objectives proposed are the right ones; and whether the means proposed for achieving these objectives will be effective. Detailed discussion of the potential economic and social impact of possible proposals will also be encouraged.

The Community's postal sector is subject to many forces. Technological change in other sectors has promoted indirect competition with postal services. Within the sector, there has been a succession of competition cases. Most importantly, customer needs are evolving, probably more rapidly than in the past. Action therefore seems imperative. If it is not taken, events will significantly alter the landscape, and it will become less and less easy for the Community to play its full part in helping to shape a sector which is so important to its commercial and social life.

Following the consultation period, the Commission will define its views on what proposals should be made in the light of views and information received during the consultations. If appropriate, it will then draw up draft directives. This implies that there is much detailed work still to be undertaken. The Green Paper is not intended to contain this level of detail, but, as is appropriate for a discussion document, presents options at a more general level.

In determining what action should be taken, the central guiding principle must be the maintenance and, if appropriate, the development of a universal postal service which would provide collection and delivery facilities throughout the Community, at prices affordable to all and with a satisfactory quality of service. Then, provided that the universal service is secured, there should be as much freedom of choice as possible.

2. THE COMMUNITY'S POSTAL SECTOR

The Community's postal sector contributed nearly 1.3% of its GDP (in 1989), and presently employs 1.7 million of its citizens. Some key facts are as follows:

Size: Including postal financial services, the postal operators (public and private together) generate some ECU 59 billion annually.

Mail services are provided both in the reserved area (letters) and in the non-reserved (parcels and express services). Trends in all three products are moving upwards (in the range of 3% to 10% growth per year).

The ratio of turnover between services provided by postal administrations and those provided by private operators is approximately 60:40. The postal administrations' share of the Community's GDP is similar to that held in the US by the postal administration there; the share of private operators, however, is substantially smaller in Europe.

Segments: The sector's most important market segments are publishing, mail order and direct mail, the latter two being responsible for 0.7% of the Community GDP. Other major segments include business in general and the financial services sector (including banking) in particular.

Operators: Postal administrations provide services in all three product areas - letters, express and parcels. The private operators are located mainly in parcels and express, but also offer some cross-border letter services (sometimes in apparent contravention of national postal law).

The non-reserved areas, particularly express, are very profitable. Letters, where they are profitable, are priced on a cost-plus basis; however, many printed paper services are heavily loss-making.

3. WHY SHOULD THE COMMUNITY BE INVOLVED?

The analysis of the existing situation identifies several problems that would seem to justify action at Community level. Many of these problems concern the variability of the quality of universal services. Resolution of such quality related problems is paramount.

Broadly, there are five areas of concern for the Community.

3.1 Present lack of harmonisation

The operations providing universal service in each Member State have evolved independently, with the effect that there are now many operational differences between them. This can lead to significant problems for mail passing between Member States; it can also have opportunity costs. Most obviously, the universal service is defined differently in different Member States with the effect that customers cannot confidently post similar items in different Member States. But problems of inter-operability are to be found at every level. At a more detailed level, for example, problems are encountered because of lack of harmonised norms for envelopes.

3.2 Single market implications

Service performance for universal service varies greatly between different postal administrations. There are some Member States where next day delivery performance reaches the generally accepted target of 90%; in others, performance is 15%/16%; in others, performance is between the two (but tending more towards the former). The generally accepted, but not very demanding, service target for cross border mail is delivery within three working days; performance is currently measured at an average of only about 40%, and with large variations between different postal administrations.

Such variations have particular implications for the parts of the Community's commercial and social life that are heavily reliant on postal services. Large senders of mail include the key sectors of publishing, financial services, mail order and advertising. For such sectors variability in performance of universal services can lead to market distortions. For example, it would be much easier to sell insurance services to an individual household in a Member State where the performance is 90% rather than in another Member State where it is 16%. It would be more difficult for a company to market its products by post in another Member State than for a company that was based in that Member State.

For example, it does not appear co-incidental that one of the Member States with very poor service has a mail order sector only one fifth the size of that of other Member States of comparable economic size. This harms the mail order companies' prospects. Significantly, it also reduces the choice of the individual consumer. Those who live in regions disadvantaged by poor postal services - and there are many - are therefore isolated not just from the personal contact that can be achieved through mail, but also from the services that can be provided through the mail.

Such disruptions of the Single Market affect not only senders but also receivers of mail. If a particular region of the Community is thought to have an unreliable universal service, companies (such as mail order) would be less interested in trying to market their products there. The consumers (as potential recipients) would therefore have a reduced choice.

3.3 Cross-border service performance

In terms of number of days taken from collection to delivery, a domestic item takes an average of 1.5 to 2.0 working days, whereas a cross-border item within the Community takes an average of 4.0 days. A small part of the gap is explained by operational practicalities. But the larger part of the gap cannot be explained in this way. This quality gap effectively creates a "frontier effect". Expressed in terms of achievement against target, service performance for postal administrations' cross-border letter services within the Community has been measured at an average of 40%. Behind this average lie significant variations.

This level of service probably falls short of user expectations. Indeed, it should be mentioned that expectations are likely to become more demanding as cross-border communication increases. Relative to user demand, static performance would be perceived as worsening. In fact, there appear to have been some improvements, stimulated particularly by the introduction of competition (partly in breach of exclusive rights which were unenforced). However, there is still a large gap between the targets which postal administrations set themselves (either on the basis of customer requirements or operational practicalities) and the reality.

Since effective cross-border communications are essential for the commercial and social life of the Community, it is a matter of concern to the Community that service performance for cross-border services is so unreliable.

3.4 Divergences

One of the objectives of the Community is to ensure its own cohesion. Clearly, the wide divergences to be found in the postal sector do not help the achievement of this objective. Postal services provide one way in which messages can be communicated and goods delivered. Any regions having unreliable postal services would therefore be disadvantaged in terms of their communications and goods delivery requirements. Both individuals and businesses in such regions could feel cut off.

This situation of being disadvantaged would not be only by reference to their requirements. It would also be relative to the conditions enjoyed in other parts of the Community where the performance of the universal service was more reliable.

3.5 Market distortions

In the comments on the single market implications, it was noted that divergences in the service levels of universal services in different regions can contribute to market distortions in other sectors which are reliant on postal services. However, it should be noted that there are potential market distortions within the postal sector itself. These could be caused in the case of the scope of the exclusive rights being larger than was needed to ensure the universal service. In order to prevent such distortion, Member States therefore need to apply the proportionality principle. An example of its application is the transferring by some Member States of direct mail to the non-reserved area.

4. OBJECTIVES OF GREEN PAPER

The Green Paper therefore has two general objectives.

- to provide a status report of the present situation, identifying problems and challenges that already exist and those that are likely to arise in the future;
- to discuss possible solutions and responses, and to lay out detailed options for the future, the final proposals needing to be defined after the consultation process which will follow publication of the Green Paper.

The paper is therefore divided into four sections:

1. description of the postal sector (Chapters 2-6);
2. summary of problems and challenges (Chapter 7);
3. possible solutions to the problems and challenges (Chapter 8);
4. policies that are proposed (Chapter 9).

It must be emphasised that the Green Paper is a discussion document. Naturally, it represents the views of the Commission as at the present moment, and after some extensive consultation with Member States and certain other interested parties. Publication of the Green Paper will start a period of wider consultation to which all interested parties will be invited to contribute. After this consultation period, the Commission will need to draw up its proposals, taking account of the contributions received.

5. POLICY FUNDAMENTALS

It is agreed by everyone that the absolute policy fundamental is the need to ensure the continuation of the universal service, and thus to ensure that the postal administrations' public service mission is carried out in good economic and financial conditions. The main concrete meaning of this universal service requirement is that there should continue to be a postal service available throughout the Community, both for national services within a Member State and for cross-border services linking two Member States. This universal service must be provided at an affordable price, have good quality of service and be accessible to everyone. Then, provided that the universal service is secured, there should be as much freedom of choice as possible, as far as it respected, in accordance with the principle of subsidiarity, the pursuit of the public service mission.

Naturally, the Green Paper needs to discuss these policy fundamentals, as well as any subsidiary objectives, in the context of Community legislation and policy. As well as considering the implications of the single market, it must also take into account the possible implications of both political and economic union. It should also discuss the application of the relevant articles of the Treaty of Rome.

6. GENERAL OPTIONS

There are certain general options as means to achieving these broad objectives. (Naturally, the implications of taking no action should also be considered.) In broad terms, there are two paths - that of liberalisation and that of harmonisation.

The sector is already significantly liberalised - about 50% of the revenue generated in the sector relates to non-reserved services. The present position results from a longer-term trend to open the market, and the Green Paper options seek further ways to ease restrictions. By contrast, levels of harmonisation (by reference to possible Community objectives) are rather low. As a result, the Community has a postal sector with many divergences - not only regulatory, but also in terms of such important customer aspects as access, service provided and tariffs.

Possibilities for reform can be approached by first considering the extreme options of complete liberalisation and of complete harmonisation. These two options are effectively at opposite ends of a spectrum of different possible scenarios. The option of taking no action at all should also be examined. The last option to be discussed is that which seeks an equilibrium combining the benefits of both progressive opening of the market and selective harmonisation. Within this option many variants exist; some of these are discussed below at Paragraph 6.4.

6.1 Complete liberalisation

The normal market condition is that of the free market. However, complete liberalisation of the postal sector would lead to the loss of the universal service, certainly at prices affordable to all. Initially, there were a few proponents of this solution. Now, nobody seriously believes that the universal service imperative would be met if there was complete liberalisation. Certainly, no private operators seem interested in providing a standard letter service to all parts of any national territory.