



Postal Market Liberation Examples - Experience so far

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Postal services markets in Europe have experienced dramatic changes in the recent past, an evolution which is the result of technological progress and the phased and gradual opening of the respective markets to competition.

According to the new Directive (2008/6/EC), the final deadline for the complete liberation of the postal market is December 31st 2010, with the ability for extension by another two years for new member states, such as Greece and Luxembourg.

Nevertheless, the three major Postal Services markets in Europe, in terms of volume and revenues, the United Kingdom (UK), Germany and the Netherlands, have already proceeded with the liberation of the respective markets. It is worth reviewing these examples and the conclusions produced so far.

United Kingdom:

The Market:

The United Kingdom is the greatest liberated postal market in the European Union (EU) in terms of volume, and has proceeded to the full opening of the market since 1-1-2006.

The Universal Service Provision has been assigned to Royal Mail.

The number of licensed enterprises by Postcomm, the National Regulatory Authority of the country, rises to 18. It is impressive that only 1% of the market operates under the status of full autonomy up to the phase of final delivery to the recipient, as many of the enterprises opt to collect correspondence massively, sort it and enter into cooperation agreements with Royal Mail for final delivery to the recipient. Royal Mail is the only provider possessing such

a distribution network, that may offer final distribution services to the consumer at affordable prices, (given that the distribution phase part represents more than 50% of the cost of postal services).

It is a fact that rapid development in information communication technologies represents the most significant factor of reduction of the postal market, that reaches 2.3% in the case of the United Kingdom, with a parallel reduction in prices.

Impact of Liberation in the Universal Service Provider (USP):

The drop in the letter post market has led Royal Mail to annual financial losses for the first time in 2006-07 and the same picture is expected for 2008. So far, the state owned Royal Mail has not expanded its activities to countries outside the United Kingdom, while at the same time, it has delayed (2007-2012) in the implementation of automation improvement and re-engineering programmes. Despite all this, there are many who claim that there is no substantial competition in the services offered by Royal Mail in the collection to delivery services since the 99% of the postal-items sent within the United Kingdom are delivered in mail boxes by Royal Mail's employees. On the other hand, Royal Mail estimates that it is less effective than its competitors, given the restrictions that it has in the raising of funds from the market, due to

its ownership status. Consequently, it is not flexible when it comes its competitors flexibility related to the investments they realized for the modernization of their technology and infrastructure.

Regulatory Environment:

The main barriers for entering the postal market are:

- The increased cost of establishment and maintenance of a national distribution network.
- The fact that Royal Mail has been exempt from VAT, which distorts competition as competitive providers are obliged to charge their customers with 17.5% for VAT (Royal Mail claims that this advantage against competitors is minor, since 40% of its customers are companies that have exemption from VAT).
- The large economies of scale of Royal Mail, which enables it to allocate great costs in massive distribution volumes.
- The uncertainty regarding the development prospects of the market in a dynamically changing environment, which prevents private providers from estimating the return of their investments.

Furthermore, price control pressure aims to preserve the maintainance viability of the regional postal network. Price control concerns services provided by the USP which are strengthened by an additional state



subsidy in the order of 150 m pounds per year.

Social Environment:

The main daily wage for a postman in the United Kingdom is rather low following the opening of the market to private postal providers. On the contrary, in the case of Royal Mail it is 25% increased due to the existing old contracts. This fact, combined with the focus of competition on the battle for lower prices, has led to long-lasting discussions on the social repercussions of postal providers to the labour market and the introduction of the issue in question to the European Directive.

Germany:

The Market:

Germany also represents one of the major postal markets in Europe, which has proceeded to the complete opening of the market since 1-1-2008, whereas its geographic position at the centre of Europe makes global market players ever more interested in it.

The number of licensed providers in Germany, who possess only 10% of the market share, reaches 900, with many of them entering into

merger agreements in order to compete with PIN Group and TNT (GSPC of the Netherlands) which represent the major competitors.

Since 2002, the postal market in Germany has presented a reduction in prices by 5% with a parallel increase in volumes handled by 1,3%.

Impact of Liberation to the USP:

The provision of Universal Service has been assigned to Deutsche Post, which is privatized by 50% and occupies a dominant position in the postal market, disposing a modernized distribution network and new automated sorting centers. Since the early 1990's, Deutsche Post has started its efforts to optimize its processes, thus becoming one of the global players in the postal market.

Regulatory Environment:

Germany has an extensive licensing regime, possessing 10 different kinds of licenses and offering the ability to providers (even before 2008 which was the year that liberation commenced), to enter the market of letters under 50gr, which constituted Deutsche Post's exclusive sector up to then.

The legislation is now focused towards new plans that will lead to the reduction of post offices and the adaptation of universal service to the consumers needs. Another significant legislative factor affecting the market is the measure regarding the exemption of Deutsche Post from VAT for most postal services, which is a fact offering an advantage against competitors.

Social Environment:

The German government has decided to introduce a minimum wage per hour of €9,8 for postmen, whereas the average in the competitor market is €7,5. This regulation has raised a storm of reaction in the market by private postal providers, who consider that in this way, the German government discriminates in favor of Deutsche Post, rendering the viability of private providers difficult and threatening the liberation of the market.

As a response to this measure (which is considered to undermine the profitable operation of postal competitors while on the other hand strengthening the already dominant position of Deutsche Post), PIN Group and TNT have withdrawn the scheduled investments, whereas at ►



► the same time PIN Group has announced that it will proceed to a job reduction by 1.000 from the 9.000 jobs currently employed in Germany. According to data provided by Germany's regulatory authority, the impact of this measure has already led to a job reduction by 5.050.

The Netherlands:

The Netherlands is also one of the greatest postal markets in Europe, where only the USP (TNT Post) is licensed. All the remaining providers are not required by the regulatory authority to have a license or approval. The initial planning estimated the liberation of the postal market in January of 2008, however it was postponed indefinitely following discussions on work conditions, the introduction of the minimum wage in Germany and the need to clarify access conditions to the market which have not been determined yet.

The Market:

Despite the lack of a licensing system, 14% of the market, mainly in the category of bulk/direct mail, operates under the free competition regimee, with Sandd and Selekt Mail as the main competitors in the

category of low cost mail. As a rule, the Dutch postal market may be characterized as stable with regards to the volumes transferred as well as a low price market, given that many private postal providers operate even since 1994 with restructured networks and new automated sorting centers.

Dutch providers represent one of the most important global players in the postal services market, with a large volume of activation in the markets of Germany, the United Kingdom, Luxembourg and Italy.

Social Environment:

The Dutch Government has not decided the full liberation of the market, troubled over Germany's example as the introduction of a minimum wage and the subsequent reductions of the 7.000 jobs announced by TNT Post will cause significant social repercussions.

Reciprocity Provision - Directive (2008/EC)

We also note that due to the reciprocity provision included in the third European Directive (2008/6/EC), different geographical activation lim-

its are configured for major players of the postal market in Europe.

Therefore, according to the reciprocity provision, member states that have fully opened their markets are allowed to prohibit the operation of providers preserving monopoly in their countries, within its jurisdiction.

As a result, the Netherlands has postponed the complete opening of the market, considering that there is no healthy competitive environment in the liberated markets of the United Kingdom and Germany. In Germany, Deutsche Post has submitted a protest memorandum to the European Commission, intended to prevent the operation of the Dutch TNT Post in Germany for as long as its monopoly is maintained in the Netherlands.

In conclusion, we could say that although the liberation of the postal market has generally favored consumers, due to the low prices and the high quality of services offered, we can observe different models adapted in the process of libation of the markets regarding the licensing regimee, the barriers to entry the market, the various business entry models of current USP's and the pricing policies.



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