

Report by the European Commission with regard to the Implementation of the Postal Directive for the Period 2006–2008.

Regulatory Issues

On December 22nd, 2008, the Commission of the European Union published a report in which it evaluates the general transfer of the postal directive 97/67/EC, as amended by directive 2002/39/EC, into national legislation of the member states and presents detailed trends of the postal market with reference to employment and the quality of services offered.

The Commission's latest report deals with the implementation of the current postal directive and, where advisable, with prospects and trends regarding the implementation of the "third postal directive", 2008/6/EC, which specifies 31-12-2010 as the deadline for full opening of the market for most member states (these member states represent 95% of the postal market volume) and 31-12-2012 as the deadline for the remaining member states, Greece included.

The postal directive 97/67/EC, as amended by directive 2002/39/EC, has been transferred onto national legislation of the member states, by means of primary and secondary legislation governing postal services.

All member states have fully complied with the limits regarding weight and prices, set out in the postal directive for the determination of the boundaries of the exclusive area. Four member states, namely Finland, Sweden, the United Kingdom, and Germany, have abolished the exclusive area, whereas Germany also imposed a minimum wage in the postal sector. The majority of the member states have opened

up to competition greater part of the postal market than the one specified in the current postal directive.

According to the directive, the member states are under obligation to ensure that Universal Service (US) is provided throughout the entire area under each member state's jurisdiction at reasonable prices for all of each member state's residents. The number of US provision exceptions is limited to 1% of the total number of households. Greece is the only member state where exceptions from daily postal distribution correspond to approximately 7% of the population.

With regard to the licensing of providers so that they may offer US sector Postal Services, the stipulations vary significantly among member states. Two member states do not require any type of licensing whereas sixteen member states, including Greece, require the acquisition of a special license. The legal licensing status will be the object of special interest as we move on to the time of the full liberalization of the market with the adoption of the "third postal directive" by various member states.

In the majority of member states, the established postal services operator is under obligation to provide access to the respective distribution network under terms which are specified by means of negotiations whereas, in case of failure, these terms are set out by the Regulatory Authority. In particular, ten member states have authorized the corresponding Regulatory Authorities to demand access to the public postal distribution network under the appropriate circumstances. In any case, what must be ensured is that conditions of access to the postal infrastructure do not constitute a market entry barrier.

The current postal directive offers substantial flexibility to the member states with regard to the principles of price regulation with the result that the differentiation observed among member states widens even more.

A wide variety of requisites was also observed in the adaptation regarding the abolition of legal barriers for the development of competition in the various member states. The exemption of Postal Services from VAT has been preserved in many member states. Nine member states have excluded all



the Postal Services offered by the Universal Service Provider (USP). Thirteen member states have excluded Universal Service from VAT, whereas three member states have imposed VAT on all Postal Services.

With regard to the trends in the market of Postal Services, the average mail volume increased by 6.5% in the new member states, whereas in the remaining fifteen older member states, the average increase stood at 1.5%. Competition in the addressed letter market has been developing slowly, with competitors holding more than 8% in four member states whereas competitors hold less than 2% in the majority of member states.

For USPs, it has been estimated that an average of 63% of total cost corresponds to labor cost thus becoming a determinant of their competitiveness. The Greek USP is among those whose

progress towards a competitive environment is rather slow and mostly owed to the low volumes transferred, the adverse geographic conditions, and the limited investments. For instance, the number of distributed postal objects per postal employee in Greece is lower than the corresponding number in the Netherlands, a fact mainly attributed to the lower average population density in Greece.

The reduction of the exclusive sector from 100 to 50 grams as of January 1st, 2006 seems to have had a negligible impact on the development of competition. In contrast, it seems to have played a much more significant role in the opening of specific sections of letter post, such as the liberalization of direct mail in the Netherlands; "D licence" in Germany, namely the added-value next-day delivery services; and the liberalization of the hybrid mail in Bulgaria.

As a general observation it should be noted that competition has not yet developed substantially. At the same time, it should also be underlined that the identified as barriers to entry must be dealt with effectively. However, it must be acknowledged that the implementation of the postal directive has led to an improved level of service and the provision of US to all citizens. The exemption of the USP from the imposition of VAT; the exclusivity contracts; exclusivity bonuses; bundling and tying; and collective labor contracts are identified and cited, among others, as the main barriers towards the development of full competition.

It is anticipated that the adoption of the "third postal directive" will lead to the development of full market opening and the abolition of the last legal monopolies. Such steps will result in the provision of higher quality and more customer oriented postal services.