

# Newsletter

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Free & Fair Post

## EDITORIAL



Philippe Bodson

### FFPI open letter to the new European Commission

*The FFPI has over the past years been working with the European Commission, the European Parliament and with national authorities to promote liberalisation of the postal sector in Europe and a level-playing field for all operators. We share the new Commission's views that liberalisation of the postal sector, and vigilant application of anti-trust and state aid rules in this sector, are crucial for the EU to achieve its goals for growth, employment and competitiveness.*

*The FFPI is encouraged by the resolve of the new Commission to make the Lisbon agenda a key point in its work plan, and considers the assessment made in the Kok Report regarding the absence of sufficient progress as correct. We believe that the Commission has a key role to play in bringing about the desired reform of the EU's postal sector.*

*Through this open letter, the FFPI would like to draw your attention to some crucial elements that we consider vital to prioritise in the years ahead in order to both make up for lost time and to persevere in reaching the Union's ambitious, but realistic, objectives within the given timeframe. Broadly speaking, we believe that the Commission needs to take a new look at the current situation in order to deliver a fresh start. Fortunately, the on-going review of the EU's postal sector and the Kok report provide good starting points for the debate. The current approach with phasing in of*

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## VIEWPOINT

### Postal services: an international overview

by Jim Courter, Chairman US Consumer Postal Council

The year 2004 ended disappointingly for postal reform in the United States. Despite an enormous effort by Congress, the White House, and many interested parties, House and Senate bills designed to overhaul the USPS never passed.

Elsewhere the outlook is decidedly brighter for the coming months. Across the industrialized world, postal services that were once public sector behemoths are downsizing, privatizing, and opening up to competition. And citizens are seeing the results in lower prices and better service. Countries as disparate as New Zealand, South Africa, the Philippines and Jordan have recently taken steps to liberalize, eager to reap the economic benefits of a healthy and competitive postal sector.

Right now, the most significant developments are taking place in Japan and Europe. In Japan, market-liberalizing Prime Minister Koizumi has made postal privatization a key part of his platform. He proposed to split up Japan Post into four units when it privatizes in 2007. Splitting the privatized entity into separate units would be beneficial to the Japanese economy by promoting greater efficiency. Financial Institutions and express delivery service providers feared that a privatized but still-unified Japan Post, with its 24,000 branches and ability to cross-subsidize one business unit with another, would enter the market with a major unfair advantage.

Meanwhile in Europe postal privatization is moving ahead at a rapid clip. In Great Britain, Royal Mail's monopoly will end and the market will be open to competitors by April 2006. A major development emerged in Germany, with the press reporting that the government would not extend Deutsche Post's monopoly beyond 2007.

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## GERMAN CARTEL OFFICE ADDRESSES DISCRIMINATION

### FFPI urges execution of Bundeskartellamt's decision

The FFPI welcomed the decision taken on 14 February by the German Cartel Office ordering Deutsche Post to allow competition in the area of mail preparation services, as foreseen by EU rules. The FFPI has in the past raised its concerns about restrictions in the German postal market and considers that the action taken by the Cartel Office is a significant step towards establishing a level-playing field for postal services in Germany. This decision addresses a distorting situation whereby Deutsche Post abused its monopoly by refusing to grant competitors rebates for collecting and sorting business mail, harming both smaller providers and ultimately postal users. "Today's decision launches a positive message for alternative operators and users of postal services and

it is in line with and supportive of the European Commission's efforts in ensuring that EU competition rules are respected and that an open and dynamic European postal market is achieved" commented FFPI President, Philippe Bodson. The Bundeskartellamt's decision, together with the infringement procedure launched by the Commission last year against a provision of the German Postal Law, will create the conditions for a better functioning postal market. The FFPI trusts that German legislators, as well as decision-makers in all EU Member States, will acknowledge the urgent need for more and fair business opportunities, higher quality of service and more affordable rates for users, and that they will finally take the direction of liberalisation ■

### *Achieving the level-playing field in post*

by David Stubbs, Senior Consultant at Europe Economics

It is a momentous time for the EU postal sector.

With positive moves in the largest EU Member States, it appears the achievement of a fully open postal market is at hand, reconciling the vigorous market dynamic with regulatory change. If, (or when?), it happens, this will confirm the European Union's position at the vanguard of international postal reform and provide an example of what can be achieved, as nations work together to liberalise their markets. As preparations for the debate about the final shape of this liberalisation begin, we should be clear about what is at stake. The accomplishment of full market opening promises a number of benefits for the EU. It can finally release latent market dynamism and giving EU operators comparative regulatory advantage.

- It should provide positive incentives for EU posts towards greater efficiency and customer service leading to a better universal service for EU citizens.
- The introduction of competition should reduce the wide variance in national postal prices ending the border effect for postal customers.
- The end of special rights should reduce the scope for market distortions.

But we should remember that market opening by itself

may not be enough to guarantee a level playing field for postal operators. There remain problems of protectionism in the application of EU regulatory framework, which need to be addressed in the discussions.

Recent Commission studies have shown that licensing procedures remain over burdensome in many Member States and that National Regulators are sometimes constrained by lack of resources or lack of powers. Required accounting separation and full distribution of costs is not applied in all Member States. Further, in some Member States the national post has been compensated not only by special rights but also by a combination of state aids and even universal service compensation funds. Other barriers may include VAT exemptions, and public procurement rules and customs procedures which continue to differentiate between operators.

We need therefore to accompany the move towards market opening with a move for greater regulatory symmetry across the Member States if we are to create a level playing field for operators. The prize of the Internal Market is at hand. But if the benefits of effective competition are to be enjoyed by the sector then it is time to finally modernise the regulation in tune with market dynamics ■

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This is a positive sign, as privatization efforts had somewhat stalled in Germany. This prospective end to the monopoly is potentially very good news for German consumers, who will soon be allowed to choose among competing companies in the letter-delivery market. It will be crucial for mail users, though, that this liberalization not be permitted to result in subsidizing competitive products that distort the market.

In general, it looks like it's just the tip of the iceberg in Europe, where the European Commission is prodding all of its 25 members toward greater postal liberalization. In a European Commission report analyzing the 2002 Postal Directive, it noted an improvement in delivery times, and praised progress made in the Netherlands, Germany, and the United Kingdom, as well as new member State Estonia.

Other EU members are still dragging their feet. But Charlie McCreevy, the EU's Commissioner for the Internal Market, has said that despite protests from some member States, he intends to stick to the 2009 target for full postal liberalization.

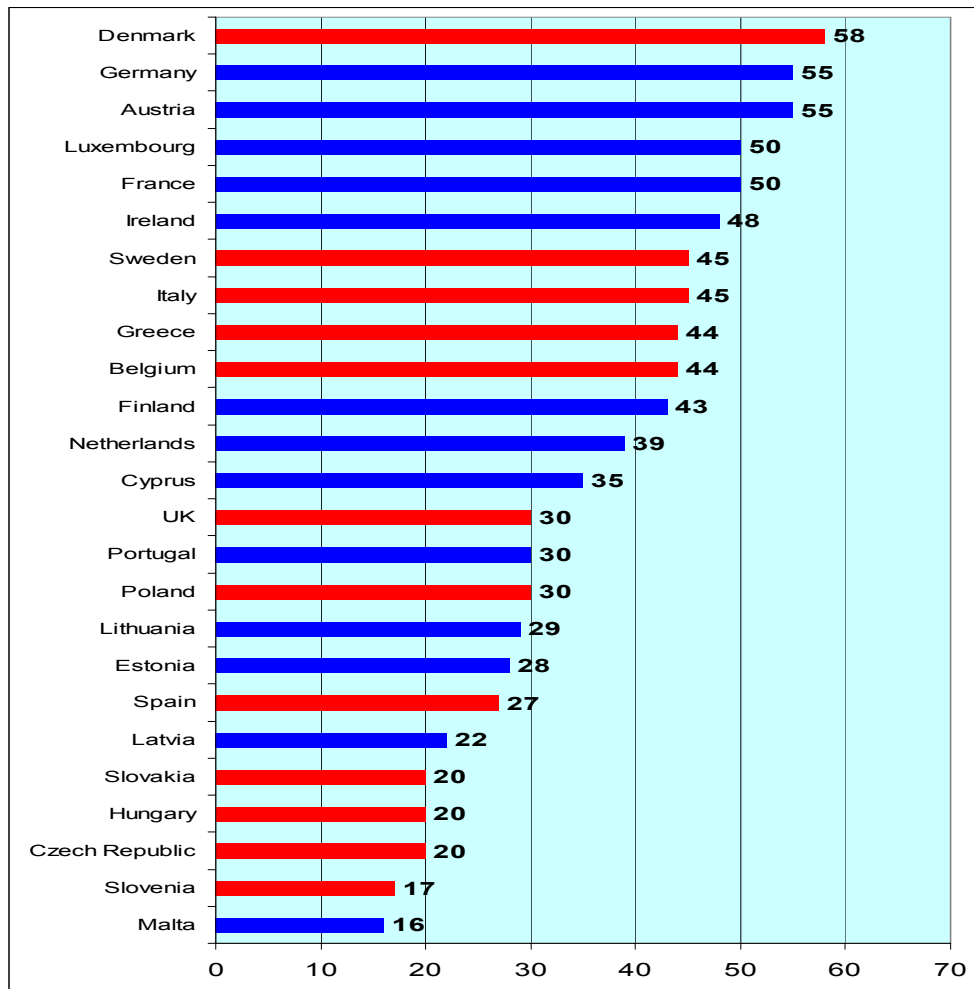
For some, postal reform in Europe isn't moving fast enough. The European Commission report expressed disappointment that France had not yet fully separated La Poste from its regulator. But clearly, change is in the air. In November, La Poste chairman Jean-Paul Bailly, apparently feeling the heat from the EU and anticipating future competition with other European postal services, sketched out a radical postal reform plan for his senior staff. It's not clear yet whether his proposals will truly take hold, or whether they are even enough to bring about meaningful change. But his Paris speech indicated that La Poste is suddenly taking real reform seriously. That's more than can be said about the U.S. Postal Service.

The US leads the world in many industries. This is one area, though, where taking a page from the Japanese or European playbook for liberalization and privatization, while also taking adequate steps to guard against the perils of cross-subsidy, would be a boon for American consumers ■

For the full text of the article please visit [www.postalconsumer.org](http://www.postalconsumer.org)

## CONTINUED STAMP PRICE INCREASES IN 2004

### The FFPI survey confirms disturbing trend



EU member States that increased stamp prices in 2004 are marked in red

The FFPI released in December 2004 its fourth survey on stamp prices in the EU. The study, which covers EU-25, reveals that:

- Almost 50% of EU member States have increased stamp prices in the course of 2004
- Price differences are still wide

The annual comparative analysis of the FFPI points out that prices of stamps for basic domestic letters have augmented, sometimes substantially, in 12 out of 25 member States. In addition, the survey reports that the gap in prices between the old and new EU member States has not been reduced compared to last year. It is in fact important to notice that costs have risen in 7 countries from EU-15, therefore, further enlarging the difference with the average price in the new member States. Looking at the number of requests for price reviews that have been filed by postal operators and that will be decided upon in 2005, it is not difficult to foresee that next year's results will be as worrying as the current ones. The FFPI has expressed its concern about this trend that has now been confirmed over a three-year period and has called on competent authorities to look into this phenomenon with more attention.

It is of great concern and disappointment to the users of postal services that the 2004 survey confirms the problem denounced in the past three years. There are obviously some understandable explanations why stamp prices differ between the EU-25 but the FFPI can not see why a Danish or a German consumer have to pay more than twice than a Spanish one for the same basic service. Consumers are sometimes being over-charged and that it appears that some postal operators may be abusing their universal service obligation by charging excessive prices. In the short term, the FFPI would like to see further emphasis to be put on this area by national and EU authorities. Postal Regulators should become more active in controlling tariffs by enforcing the 'geared to cost' concept provided for in the Directive ■

Please refer to our website for the full results of the FFPI stamp price survey 2004  
<http://www.freefairpost.com/pdf/Stamp%20price%20survey%202004-Final.pdf>

market opening by declining weight and price limits on the reserved area has not produced significant competition. Given the proven ability of Universal Service Providers (USP) to protect their market share and the continuing advance of the Internet, it is highly questionable whether a further transition period for market opening is necessary or wise. The FFPI would recommend that a next proposal for a Directive supports the concept of **full opening by the end of 2009 at the latest** to encourage development of competition and legal certainty for all players.

The **Report "Main Developments in the European Postal Sector"**, commissioned by DG Internal Market, outlines that "Postal services are at the crossroads of three markets, all of which are important for economic development: communications, advertising and transports. These markets are all open to competition and undergoing rapid development. To retain their vitality and economic role in the future, postal services have to develop in harmony with these closely related markets". In our view, the regulations limiting competition and the absence of a level playing-field in the postal sector is stifling economic development both in the postal sector and in the neighboring sectors, preventing the EU economy to develop in a more optimal fashion. Furthermore, some Member States are failing to ensure the obligation under the current Postal Directive that the reserved area is kept at the minimum necessary to ensure the provision of the universal service. The FFPI would equally recommend that additional clarification is given on the scope of the USO and the degree to and conditions under which monopolies can be maintained during the transition phase.

The **obligations of the National Regulatory Authorities (NRAs)** to secure that the Postal Directive is respected and a level playing-field is achieved should be both expanded and clarified. The current situation is far from satisfactory in most Member States. For instance, pursuing USPs that do not provide properly separated accounts is not working with many Regulators. In addition, NRAs' investigation of the justification of special tariffs, terminal dues and cross-subsidies are especially rare, which is particularly disturbing in view of the proven track record of several Postal Operators to breach EU and national anti-trust rules.

With regards to the **application of competition rules**, the FFPI concurs with the conclusions of the Kok report, which recognises that "Even in supposedly liberalised sectors such as network utilities, incumbent operators continue to dominate national markets, often limiting the advantages for consumers. In order to foster further liberalisation and open more sectors to EU-wide competition, the European Commission should carry out sector-wide enquiries to identify barriers to competition, including the effect of State aid. This should ensure that effective competition exists not only on paper but also in practice, especially where local rules have the effect of preventing competitors from entering into the national market". Undoubtedly, these conclusions are entirely applicable to the postal sector where legal barriers to market entry, coupled with the overall uncertainty as regards the future direction of liberalisation, provide formidable obstacles to real competition. The German postal sector provides a good example where authorities have begun to address the problem of the incumbent's breaches of market rules.

The FFPI would appeal to the Commission to maintain an **active role in investigating distortive behaviors** and deciding on existing complaints regarding, among others, state aid and excessive pricing by monopolies. The Commission's track record in this field is encouraging. We do, however, believe that continued efforts are needed to ensure that important decisions are enforced and applied. Above are all areas that need appropriate oversight at EU level if the European postal market is to function properly, and we are confident that the Commission will consider them in the development of a new regulatory framework for the postal sector as well as in its market policing activity■

**Philippe Bodson**

- **26 April 2005:** European Commission Stakeholders' Workshop for Postal Studies
- **11-13 May 2005:** 13th World Mail & Express Europe, Brussels



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