NEWSLETTER

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Competition in the letter market will start in 2008

The development of fair conditions for competition is essential

Dear Reader,

On December 31, 2007, Deutsche Post AG's monopoly for the carriage of letters up to 50 grams (exclusive license) will end. A few weeks ago the federal government finalized this date. It thus set a clear signal for more competition, growth, and jobs in the German postal market, and is following in the footsteps of other EU countries like Great Britain, Sweden, and Finland.

In 1997, the Postal Act assumed that fair and effective competition would rule the postal market by the end of the exclusive license. The letter monopoly in Germany, however, led to a cementing of the conditions of the market: Deutsche Post AG dominates with a market share of about 93 percent.

For this reason, in the upcoming months the situation for competitors in the postal market must improve considerably so that sustainable competition can develop as quickly as possible.

Until that is established, the preventive price controlling by the Bundesnetzagentur (Federal Network Agency) must be continued. That is also in the customers' interest, as effective and consumer-friendly prices can only develop with functioning competition.

Sincerely,

Dr. Bernd Jäger
Spokesman for the campaign
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Portrait of PIN AG Berlin:

In 1999, the Berlin mail service provider PIN AG began with only five employees. The company has thus far created about 1,400 new jobs, of which a good 900 are in Berlin. The core business of PIN AG Berlin is comprised of letters up to 1,000 grams; packages are also accepted and delivered by a partner company.

While at first PIN AG only delivered twenty to thirty letters each day, now the company daily processes up to one million. Quality and service play an important role in the process. For instance, each letter can be traced individually (track & trace), there is pick-up service, and billing follows.

At first, mostly trade businesses, law, and doctor offices took advantage of the services offered by the Berlin company. With time came large companies like the AXA insurance company and the DAK Berlin health insurance company. The bid for the delivery of the administrative mail for the Berlin Senate was also given to PIN AG.

Today the PIN AG Berlin is a subsidiary of the PIN Group AG, which is a joint endeavor of the publishing companies Axel Springer, WAZ, Holtzbrinck and the Luxemburg company Rosalia AG. Through the consolidation of the logistics networks within the company, it is now possible to offer an almost countrywide network, utilizing the services of the sister companies in North Rhine-Westphalia or Hamburg, for instance.

INTERVIEW

with Dr. Axel Stirl,
Board Member of PIN AG

Question: A few weeks ago, the Bundeskabinett (Federal Cabinet) finalized the decision to end of the letter monopoly at the end of 2007. Will that solve all of the problems in the postal market?

Stirl: Certainly not. But first we must state that we are greatly pleased by this clear signal from the government for the liberalization of the postal market. Now we have to make sure that the legal groundwork is set for creating competition—for instance for the planned amendment to the Postal Universal Service Ordnance (PUDLV). Even in their statement, the Bundesnetzagentur (Federal Network Agency) assumes that under the conditions currently planned, true competition will not be possible for years to come. Deutsche Post AG (DPAG) will continue to dominate the market for a long time.

Question: In your opinion, what should the government be doing in order to stimulate competition in the postal market as long as the monopoly still exists?

Stirl: It is certainly necessary for a few administrative fetters be loosened. They should be promoting competition by revoking DPAG's advantage of VAT exemption. The self-discounting by DPAG by means of the Deutsche Post In Haus GmbH is hurting the competition, which in the view of many market players really is a dubious practice for undermining the approved pricing regulations.

Question: What tasks lie ahead for the German postal market, for the government, and Bundesnetzagentur after the monopoly has run out?

VAT Exemption for Deutsche Post AG:

European Commission initiates proceedings against Germany for breach of contract

On April 10, 2006, the European Commission initiated proceedings against the Federal Republic of Germany for breach of contract. In the opinion of the European Commission, the VAT exemption for Deutsche Post AG is hindering competition in areas of the postal market that have already been liberalized.

While the small private postal companies are responsible for paying the full VAT (currently still 16 percent), Deutsche Post AG is exempt from paying the turnover tax for all universal services defined in the Postal Universal Service Ordnance (PUDLV). DPAG is thus not only VAT-exempt for its monopoly on letters and catalogs up to 50 grams (exclusive license), but also for those universal services that are also offered by its competitors. This is exactly the point of contention for the European Commission. Competition is distorted because completely identical services of Deutsche Post and its competitors are unequally taxed, thus giving the former state-owned company an advantage. When the VAT in Germany is increased by three percent points to 19 percent on January 1, 2007, the existing distortion of competition will be dramatically exacerbated.

The equal taxation for all postal service providers would not lead to a dramatic 19 percent increase in postage prices for Deutsche Post AG. The predominate part of Germany's letter business is provided by customers who can reclaim the VAT tax. Those customers who cannot reclaim the tax, such as public offices, banks, insurance agencies, local administrations, and churches can already take advantage of the existing competition and solicit bids for their entire postal volume. They can thus achieve considerable savings, as even despite the tax disadvantages, the prices for the private services are generally much lower than for Deutsche Post AG.

Stirl: The paramount job will be to hinder the destruction of the market with dumping prices. The price-cap regulations have to be clearly valid for all prices of the market leader, even beyond the end of the monopoly; for that reason, § 19 clause 2 of the Postal Act has to be cancelled without substitution.

Unfortunately, the liberalizing team from the Bundesnetzagentur started the steps necessary for free competition much too late. For that reason, the Bundesnetzagentur must pay close attention that the overwhelming market leader does not destroy the competition even well after the end of the monopoly.

Question: In what direction do you think the postal market will develop in the next ten years?

Stirl: The letter market is a very exciting market. It is in a period of change and the PIN Group is helping to redesign it. It is in the nature of things that a monopolist will automatically lose some of its market share upon liberalization. Our goal is to take advantage of the opportunities that will arise from the liberalization and to become on of the leading national letter service providers. The level of service for mail delivery will increase greatly, as well. It will be more customer-oriented and there will be more individualized products. Technical advances will be introduced more quickly and thoroughly. Especially ecological advances will play a role, such as hybrid post, where documents will be sent electronically to the destination city, where they will be printed and then delivered on paper. Quality will also be of even greater importance than it has been.

Postal Service Providers are not just picking out the cherries

High density of licensees – in rural areas, too

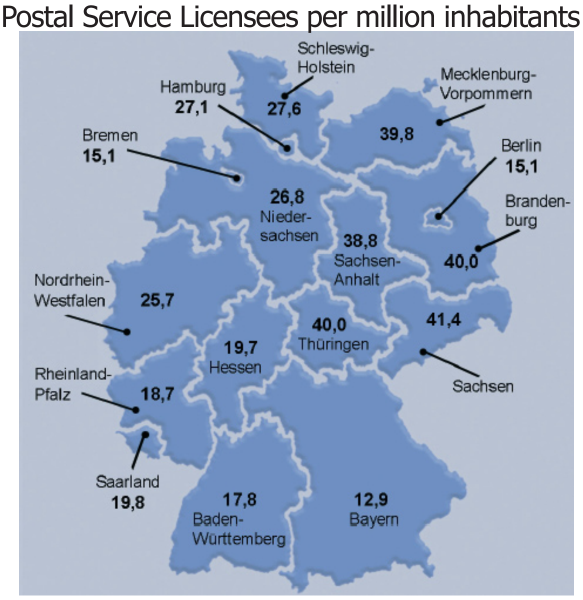
Contrary to the widespread preconception that they are just picking out the cherries, new postal service providers are not only concentrating on the lucrative metropolitan areas. The most recent statistics provided by the Bundesnetzagentur for the licenses authorized for the postal market demonstrate this clearly. In national comparison, the license density in the new federal states is the highest (see chart).

Especially in the rural areas, where Deutsche Post AG has withdrawn many of its services in the past few years, these postal service providers are quite active. In regions with poor infrastructures and high unemployment there is an especially high density of postal companies. Thus, despite their legally limited area of activity—three-quarters of all mail (letters up to 50 grams) can still only be mailed with Deutsche Post—these postal companies are providing a positive impact for the development of new workplaces. They have created more than 30,000 new jobs since 1998.

The postal market primarily offers work for poorly qualified employees. The postal market is a classic domestic market, as the core of the services can only be provided locally. There is no risk of these jobs being relocated out of the country.

Density of Licensees in Germany

Postal Service Licensees per million inhabitants



Source: own depiction based upon the 2004/2005 Activity Report of the Federal Network Agency

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bundles the interests of Deutsche Post's competitors and postal customers. The associations BdKEP (German Association of Courier, Express and Postal Service Providers), BIEK (German Association of International Express and Currier Services), DVPT (German Consumer Association for Postal and Telecommunication) and DDV (German Direct Marketing Association are organized under this umbrella together with representatives from regional postal companies and postal customers.

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is campaigning for more competition and diversity in the postal market. The development of an effective market requires more political support and attention than has been the case over the past few years.