

An Open Letter on Postal Liberalization

Will European Union ministers stick to the commitments made in Lisbon?

By PHILIP BOBSON

Nine months ago European Union leaders met in Lisbon and agreed to speed up liberalization of the EU's monopolistic postal companies. As ministers of member states meet tomorrow in Brussels to discuss the European Commission's proposal for a step-by-step opening of postal services across Europe to competition, they are under pressure from a handful of national interest groups—as well as the European Parliament—to retreat from their Lisbon commitments. How this meeting turns out will speak volumes about the EU's determination to actually modernize the European economy, rather than merely promise to do so.

As the ministers weigh the arguments, they would do well to first recall that the Commission's original proposal was already a compromise between pro- and anti-liberalization groups. One key provision that had to be dropped was a final date for full liberalization. Then too, under the Commission's proposal 80% of the letter market would remain closed to competition—far better than today's 97% but hardly fully liberalized. A competing proposal, adopted last week by the European Parliament, would do even less, keeping 97% of the letter market immune to market forces and providing no timetable for further reform.

The most sensible path for the EU ministers to take is to stick to their Lisbon commitments. That's the best way to make sure the postal industry has a chance to prosper. Today, the need for change is being pushed by technological developments, shifting

consumer demands and the accelerated pace of integration of the European economy. Postal services increasingly have to compete in a wider communications market that includes the Internet, mobile-phone networks and the integration of different means of communication. If they do not adapt to these changes—and adapt soon—the eventual consequences will surely be far worse for everyone.

The arguments put forward by the anti-liberalization groups are often poorly masked attempts to comply with the wishes of the incumbent postal operators. Above all, they argue that only national letter-carrying monopolies can guarantee universal postal service—meaning the delivery of letters to remote rural areas and other unprofitable but necessary parts of the business.

Yet this argument falls apart upon even cursory examination. A liberalized postal market can still retain regulatory requirements for universal service. In Sweden, where postal services were fully deregulated in 1993, the independent postal regulator recently concluded that "the Swedish legislation is founded on the notion that the universal service can be provided on a strictly commercial basis, which has proved to be correct." A second possibility suggested by the Commission is to set up a compensation fund to guarantee the financing of the universal service obligation.

Another argument routinely trotted out against liberalization is that the incumbent postal operators must be given sufficient time and room to adapt to the new, competitive, environment. Yet recall that the debate about modernizing the postal sector

began in 1989. More than 10 years on, only 3% of the market is open to competition, and several national postal operators maintain that liberalization should continue at snail speed, or in a "gradual and controlled" way, as the anti-liberalization groups call it.

The idea that member states can engineer "gradual and controlled" change fails to take into account rapid and unprecedented developments in the postal market. As the President of France's La Poste, Claude Bourmaud, recently explained, the coming decade will herald the deepest transformation ever for postal operators. Given this is his view, it is ironic that his postal service, and the French government, continues ferociously to defend the letter monopolies.

Absent a clear framework for EU-wide liberalization, market changes will provoke an accelerated transition beyond anyone's control. Last week, Internal Market Commissioner Frits Bolkestein noted that if the EU does not modernize its rules and provide clearer definitions of what it expects, the course of events could be determined through litigation, not legislation.

In fact, the number of complaints against incumbent postal operators for breaches of EU competition rules has been on the rise. Legal disputes have arisen in Germany over the country's stamp prices—the highest in Europe and clearly in excess of what Deutsche Post needs to meet its universal-service guarantee. Incumbency also gives Deutsche Post and other state operators an immense and, by EU competition rules, possibly illegal advantage against their competitors, since guaranteed revenue from their letter monopoly means they can undersell their competitors in the liberalized sectors of the market such as the

market for express mail and non-letter services. The conventional wisdom among analysts holds that in the flotation of Deutsche Post World Net the German incumbent's valuation hinges on its continued ability to exert monopolistic control.

Deutsche Post's ability to use its letter monopoly to block competition in Germany also suggests a certain hypocrisy in the position of anti-liberalization activists. To wit, Deutsche Post seeks to maintain its monopoly not out of any especial concern for farmers who may not otherwise get their mail as easily, but simply to extend its power in a market over which it already enjoys dominance.

It is these facts that EU ministers will have to discuss tomorrow, taking into account both the Commission's original proposal as well as the Parliament's opinion. In that debate it is crucial that those member states that wish to accelerate liberalization remind their colleagues about their collective commitments and adopt a final date for full liberalization. Given the inevitable political constraints, 2007 seems the most realistic date.

But whatever date is set, EU ministers will have to ensure that the Commission's proposal is not turned into a license for postal monopolies to entrench themselves and effectively bring the efforts to create an internal market for postal services in Europe to a standstill. As long as the EU does not move boldly toward liberalization, incumbent postal operators and their potential competitors will continue to face an uncertain future, and probably a dim one, too. Europeans deserve better than this.

Mr. Bobson is president of the Free and Fair Post Initiative.