



THE LIBERALISED SWEDISH POSTAL MARKET
the situation 14 years after the abolition of the monopoly

Summary

Universal Service Obligation (USO) and Supervision

The EC Postal Directive has been implemented and the former Postal Administration, Posten AB, is obliged by law as well as licence terms and conditions to provide nation-wide postal service. In addition, the Basic Counter Service Act also obliges Posten AB to provide a nation-wide basic counter service. Postal items weighing up to 20 kg are distributed every non-holiday Monday to Friday with some minor exceptions. Experience shows that the introduction of competition has if anything enhanced the ability of Posten AB to run a profitable nation-wide distribution of letters without subsidies from the State.

After the transformation process of the service network Posten AB meets its customers at 381 Business Centres, 1 600 Postal Outlets and around 2 000 Stamp Agents. In addition 740 000 addressees are served by rural postmen.

The National Post and Telecom Agency is an independent regulatory authority engaged in supervision and licensing. No case of non-compliance with the universal service obligations has been reported to the Government since the postal market was totally liberalised.

Quality of service and Tariffs

The previously high service quality of Posten AB has, as a result of the liberalisation and the growing competition, even improved in terms of quality and efficiency. International benchmarking ranks Posten AB among the leading postal operators in the world when it comes to efficiency and quality. 95% of all first class letters are delivered over night. The most important reason for this outstanding performance is that Posten AB for a long time has been used to competition in large segments of the postal market, for instance logistics.

Since 1994 there is a price-cap on the domestic letter rate for single piece items. The liberalisation of the postal market in Sweden is not the reason for the increase in prices. Decisions to raise prices were taken when VAT on postal services was introduced and when prices for Posten AB's letter mail products were re-balanced in relation to costs. These decisions led to increased prices in some segments of the

market. However, other more important segments of the market as e.g. bulk mail have benefited from lower prices after competition was introduced. The standard letter rate is on an average European level if the purchasing power of the households is taken into consideration.

Employment and Financial performance

Other companies alike, postal operators have to follow the cycles of business trends and change their staff structure in order to adjust to the new economy and its prerequisites. The introduction of new techniques including highly automated sorting centres and the reorganisation of the post office network, which led to a reduction of the number of employees within Posten AB, had already started before the liberalisation of the postal market and the abolition of the monopoly. However, this has not had any negative impact on the ability of Posten AB to fulfil the universal service obligation. CityMail employed almost 1400 people in Sweden in 2006, all with the same terms of employment as mailmen working for Posten AB . The remaining private postal operators are largely one-man businesses.

According to the Annual Report for 2006 of Posten AB, the income had increased with 2 546 million SEK (271 million Euro) compared with the year before of witch 1 930 million SEK (205 million Euro) is attributed to the acquisition of the mail printing company Strålfors.

Full competition in the letter market has not affected the universal service provider's ability to provide a profitable nation-wide postal service at reasonable prices.

Competition

After 14 years of a liberalised postal market, Posten AB still holds 91% of the total market for letters. This implies that the need to protect consumers and new competitors will probably remain in the foreseeable future. However, there is growing competition in several segments of the market. The Swedish incumbent has been very active in defending its former monopoly and that is reflected in the many legal disputes. The Swedish Competition Act, which is the implementation of the EC rules on competition, does not appear to be well suited for a transition from monopoly to a market solution.

The Swedish experiences indicate that, in order for a liberalisation to have a stronger impact, a sector specific legislation should be considered. In particular, rules on the incumbent's freedom to set its tariffs. In the absence of such sector specific legislation, the rules regarding transparent cost accounting for the universal service provider in Art. 14 of the EC Postal Directive are of the outmost importance.

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1. INTRODUCTION

The scope of the liberalisation

Sweden was the first country in the world to have a completely liberalised postal market. The monopoly on conveyance of letters was abolished in 1993. The old reserved area only covered “private mail” which means that there is a long tradition of competition in Sweden when it comes to e.g. direct mail, express and courier services and delivery of parcels. Those services have never been protected by a statutory monopoly. Since 1993 Sweden has no reserved areas whatsoever.

After the monopoly was abolished, the admittance to the market is free. The single most important tool in regulating the postal sector is the Postal Services Act. The Act sets out the general rules for companies carrying out postal operations. The independent regulator, the National Post and Telecom Agency (PTS) is responsible for the enforcement and administration of the Postal Services Act. The right to pursue postal operations is subject to licensing and PTS is the licensing authority. For the purposes of the Postal Services Act, postal operations activity refers to regular conveyance of letters in return for a fee. By letters is understood closed and addressed mail items weighing less than 2 kg. Picture postcards and similar addressed mail are in the same category as letters.

The rather narrow definition of postal operations means that the law is applicable only to postal companies delivering addressed letters on a regular basis according to a fixed distribution schedule e.g. Posten AB with its daily delivery and CityMail delivering mail every third day on a rolling schedule. The services of express and courier companies are not regarded as postal operators and are thus not subject to licensing.

2. MARKET STRUCTURE

The national regulatory body, PTS, grants licences for postal companies. At present there are 33 authorised postal operators in Sweden and the more important ones are:

Posten AB is the former Postal Administration, the designated universal service provider and since 1994 a wholly state-owned limited liability company. Posten AB consists of a group of companies that provides all kinds of postal services as well as a variety of other services.

The total number of addressed postal items nationally distributed by Posten AB has been fairly invariable. In 1993 it was 3 283 million items and in 2000 it was 3 263 million items. Since then the volumes has decreased slightly with on average 1, 7% a year up till 2006 when the total number of addressed letters was 2 925,5 million compared with 2949,7 million the year before.

The postal company that has most successfully lived up to its image as an alternative to Posten AB is **CityMail**. Since 1991 the company has specialised in delivering industrial mail or pre-sorted bulk mail to recipients in Sweden's largest cities with rural surroundings such as Stockholm, Gothenburg and Malmö. CityMail's distribution also covers the island of Gotland. In all, CityMail after its last expansion in 2006 covers more than 40% of the total number of households and companies in Sweden. CityMail's volumes of nationally distributed addressed postal items increased from 149,3 million addressed items in 2000 to 275 million addressed items in 2006. The company had in 2000 a net turnover of 222.8 million SEK (24.5 million Euro) and in 2006, 675 million SEK (72 million Euro). In June 1998, CityMail was listed on the stock exchange and a joint venture company was formed, CityMail Sweden AB, which the British national postal operator Royal Mail controlled at 67 %. Royal Mail later on sold its entire share in CityMail back to the founders of the company. In 2002, the Norwegian Post bought 57% of the CityMail and according to an option agreement acquired the rest of the company in 2006. CityMail's market share in the whole country is approximately 13% of the bulk mail and 8,6% of the total letter volume. Since a couple of years back City Mail runs with a profit.

The vast majority of the **other operators** are small companies that only provide local collection and distribution of mail. In most cases, they use their own stamps and letter boxes and each operator handles volumes between 150-2500 letters a day. Some of the operators are direct mail companies; newspaper-delivery companies also distributing addressed postal items. There are no figures available on how large their shares are of their respective local markets. Posten AB estimates that in Sweden about 15% of all mail is local mail. All those small companies together distributed 11 million postal items in 2006 (only four of them more than one million items each).

As regards single letters, the liberalisation has led to an increase in competition mainly on local markets, usually within a municipality. In some cases, however, a number of small postal operators have started to co-operate and have thus been able to “challenge” Posten AB over a somewhat larger geographical area.

3. UNIVERSAL SERVICE OBLIGATION (USO)

3.1 Postal services

3.1.1 Letters

In the Postal Services Act is defined what the legislative requirements of universal service should embrace and how they should be fulfilled in order to attain the objectives of the postal policy. The responsibility for a nation-wide postal service in Sweden, the universal service obligation (USO) in principle rests with the State. To fulfil its responsibility, the Government from the beginning concluded an agreement with Posten AB by which the USO was imposed on the company. As from 1 July 1998, the licence terms and conditions of Posten AB, issued by PTS, superseded the former agreement since the universal service obligation was also imposed on Posten AB by this document.

According to these licence terms and conditions, Posten AB shall provide one clearance and one distribution of postal items up to 20 kg on every non-holiday business day from Monday to Friday at all access and distribution points. In practice

this means that each household and company irrespective of location– with some minor exceptions – is entitled to postal service once a day five days a week. It is also stipulated that single letters shall be conveyed at uniform and reasonable tariffs.

A number of households in remote and sparsely populated areas and in the archipelagos, are exempt from the USO of daily postal service and receive their mail between two to four days a week e.g. in the form of a special postbag service. According to a recent study, the exemption affected only 1118 households in 2005. The fulfilment of the universal service obligation in this respect has improved as a similar study 15 years ago showed that the number of households then was 1 594.

Furthermore, the universal service provider shall take into account the needs of the disabled for postal service e.g. the dispatch of postal items for the visually handicapped as well as extended rural postal service for the elderly and the disabled. Posten AB is compensated by the State for this extended service by the rural postmen to the aged and disabled (4,7 million SEK in 2006 = 0,5 million Euro) and for the dispatch of audio cassettes and similar items to the visually handicapped (37,8 million SEK = 4 million Euro).

3.1.2 Parcels

The more precise form and level of parcel delivery service that is provided under the universal service obligation differ from country to country. These differences originate from both geographical and historical reasons. As a result of an early land reform the houses in the Swedish countryside are often geographically scattered and mostly situated adjacent to appurtenant farming grounds. In central Europe these households would more likely be gathered in a village. Still those 740 000 addressees in Sweden are serviced by rural postmen. By tradition, Posten AB has not made any delivery of parcels to the doorstep of the addressees in urban areas for the last 50 years. Instead the addressee receives a dispatch indication where he can collect his parcel.

3.2 Compensation fund

As in every country with growing competition in the postal sector, there has been a debate also in Sweden concerning the costs of the assumed extra burdens imposed by the universal service obligation. A number of investigations have tried to estimate those costs and the Swedish Government has, since the monopoly was abolished, on two occasions considered the creation of a compensation mechanism for the universal service.

When it comes to the overall cost for keeping a nation-wide collection and distribution system, it was already noted in a Governmental investigation in 1991 that the possession of such a system together with the ability to provide the customers with a one-stop-shop for all kind of postal services was a considerable asset. It was stated that Posten AB, or by then the Postal Administration, being the only operator capable of offering this kind of complete services, had a great competitive advantage in this respect. This is to a large extent the reason why Sweden doesn't find it necessary to create a compensation mechanism for the universal service besides the particular subsidies for some social services.

Accordingly, the benefits for the universal service provider should always be taken into account when there is an attempt to estimate the extra costs of universal delivery.

3.3 Counter services and the number of post offices

Posten AB also has a universal service obligation to provide a daily and basic counter service. This is done through a office network called *Svenske kassaservice AB* (in co-operation with several banks), and by rural postmen. For the provision of counter services that are not commercially justified, Posten AB receives a subsidy over the State budget of 400 Million SEK (42,6 million Euro) a year. According to Posten AB, this subsidy is lower than the actual extra costs and can consequently not be used to cross-subsidise any other activities within Posten AB. With the exception of the service provided by rural postmen the provision of counter services is since 2002 completely separated from the provision of postal services.

Since the number of counter service transactions has been decreasing dramatically over the last 15 – 20 years due to the fact that the customers prefer cheaper and more convenient solutions, Posten AB (and the banks) has adapted its service net to the new demands. This means fewer traditional counter service offices and more outlets in shops and other solutions for providing counter services, to the effect that Posten AB, according to the supervising reports from PTS, has maintained an acceptable level of service throughout the country. These developments have in no way been affected by the liberalisation of the letter market.

In 1990 Posten AB had 1 934 traditional post offices and 120 post offices located in shops. In 2001, the great switch to the new service network was initiated. Most of the traditional post offices has gradually been replaced by letter and parcel outlets located in shops or service stations. The service level in these postal outlets is in many cases better than that in small traditional post offices, which often had restricted opening hours. Counter and postal services being provided by partners or entrepreneurs is in no way unique for Sweden but exist in many other countries as well.

The structure of Posten AB's new service network consists of different levels of service. Currently the first service level consists of Stamp Agents, of which there are more than 2 000. Those establishments serving as stamp agents are usually betting shops, petrol stations, newsagents and tobacconists with generous opening hours, often between 10 am and 8 pm, five to seven days a week. Stamp agents do not constitute access and distribution points but only sell those parts of the product range that can be put directly into a public letterbox. As there is no exclusive right to sell stamps those are also provided by a large number of other shops as well.

The second service level, Postal Outlets, consists of service establishments where consumers would normally go, for example to buy groceries. The Postal Outlets' products and services are mainly tailored to residential customers and small entrepreneurs. These outlets also serve as access and distribution points for registered mail and parcels, i.e. addressees are to turn to these service points when they have received a notification from Posten AB. All addressees are linked to a particular Postal Outlet in the vicinity through the postcode system. It is also possible to bring parcels and registered mail for dispatching, in addition to buying stamps and other mail products. The number of service points in this category amount to approximately 1 600 outlets. PTS assesses this number as sufficient to maintain a nationwide structure of access and distribution points. Postal services are available to customers during the same opening hours as the shop.

In total, approximately 600 000 people or 6.6% of the population live more than 10 kilometres from their nearest Postal Outlet. The number of people living more than 20

kilometres from the nearest service point that offers letter and parcel services amounts to 107 000, or 1.2% of the population. It should be borne in mind that these mail recipients also have access to a rural delivery service, which is best described as a mobile post office.

Postal Outlets are not able to handle insured parcels for insurance reasons, among other things; customers must go to a Business Centre instead. The implementation of the new service network entailed less accessibility in this respect, as the number of business centres is substantially lower than the number of post offices in the old network. However, private customers tend to make very limited use of insured items services. These are mainly used by business customers, who are ordinarily directed to Business Centres anyway.

Business customers are directed to special Business Centres, which continue to be managed directly by Posten AB. These centres mainly focus on business customers, but there is nothing to prevent private individuals from also using them. Business Centres are usually located in industrial estates or the like. They provide a wider range of products and services and also have staff that can provide advice for the specific needs of these groups of customers.

Business Centres are open five days a week between 7am and 7pm. There are currently 381 business centres compared with around 430 in 2004. According to Posten AB, this reduction is due to a previous surplus of Business Centres. In many cases, this involved post offices remaining from the old service network and which primarily had private customers. Now that Posten AB has found better partner solutions, a number of Business Centres became redundant and for this reason were closed down.

In addition, 735 000 households and 5 000 companies are served by 2 500 rural postmen which can be regarded as the most high ranking form of postal and counter services as it is provided more or less on the doorstep of the customer's home.

4. QUALITY OF SERVICE AND TARIFFS

4.1 Quality of Service

The incumbent Posten AB has undergone considerable changes since the letter monopoly was abolished. International benchmarking ranks Posten AB among the leading postal operators in the world in terms of efficiency and quality. Wherever in the country postal items are deposited for overnight delivery, Posten AB shall ensure that at least 85% of these items are delivered the next working day and that 97% of the items are delivered within three working days. This is the minimum requirement stated in the European Community Directive on postal services.

As a matter of fact, Posten AB for commercial reasons and without any legal constraints delivers 95% of all first class letters deposited for overnight delivery the next working day.

The most important reason for this outstanding performance is that Posten AB for a long time has been used to competition in segments of the postal market that in most other countries has been protected by statutory monopolies. As a result of the liberalisation of the letter market as well, the growing competition has furthered improvement in quality and efficiency.

Regarding the market segment of bulk mail, the customers have thanks to competition, been able to benefit not only from lower prices but also from additional services. The customers have experienced more flexible conditions, closer co-operation between the former monopoly and the customer, the development of new products, a decrease in the number of delayed letters and an improved follow-up on provided services. The representative of the Swedish mail order companies has emphasized that following the liberalisation, it had become much easier to come to terms with Posten AB, a situation much envied by foreign mail order companies in countries where the monopoly still dominates the letter mail market.

Although Posten AB's new "post office net" is not a result of the liberalisation of the letter mail market the service that are provided by the Postal Outlets is much appreciated by the consumers. Yearly enquiries commissioned by PTS shows that in the January 2007 survey, only 8% of respondents were discontent or very discontent with the time to reach a postal outlet. More generous opening hours have also resulted in more satisfaction, with only 6% of the respondents discontent with the service in this respect. Queuing times showed the greatest improvement in the opinion of consumers, with 75% stating satisfaction compared with 69% in 2006. One explanation for this may be that staff has become more efficient through better routines, which would also explain that 81% of the respondents were satisfied with service of the staff at the Postal Outlets (4% discontent).

4.2 Tariffs

Another much debated question in connection with the consequences of the Swedish liberalisation is its effect on the postage rate.

Posten AB is with one exception free to set its tariffs as long as they are in compliance with the competition rules and geared to the actual costs. As Posten AB has retained actual monopoly on the market for single letters, or at least a very dominant position partly due to its former statutory monopoly, there is since 1994 a price-cap on the domestic letter rate for normal letters. The charge for delivery of letters weighing up to 500 grams may be increased only by a maximum of the average change in the Swedish general consumer price index (consumer price index minus taxes) over a three-year period.

The increase of prices that took place between 1993 and 1995 was due to the Swedish introduction of VAT on postal services at an initially reduced rate of 12%. At the time of Sweden's entry into the EC, the full rate of 25% was applied. In 1996 there was an increase in tariffs of 6% and the following year Posten AB used a loophole in the price-cap construction of that time to raise the price for a single letter by roughly 30%. The reason for this was, according to Posten AB, to adjust prices to costs. The loophole does no longer exist. The last time the normal letter rate was changed was in 2003.

Despite the introduction of VAT and a standard postage rate based on costs, Sweden has not the highest postage rate in Europe. If the purchasing power of the households is also taken into consideration, the Swedish postage rate is on an average European level. Since the "average" household in Sweden is not expected to spend more than 25-30 Euro a year on stamps, the price increases are thought to have a negligible impact on the household budget.

Posten AB shall provide the universal postal service at prices based on costs. This provision together with the requirement that the tariffs for single letters shall be uniform has a great impact on the preconditions for establishing competition in the postal market. It prevents or at least makes it more difficult for Posten AB to cut prices only in areas where there is a local competitor. All the other postal operators are free to set their own prices without any restrictions.

One of two main segments of the postal market is *single letters* consisting of non-sorted letters of different size and shape that mostly are produced by the sender. This category represents less than 30% of all addressed letters. The second segment is *large sendings or bulk mail* consisting of pre-sorted, industrially produced and transported all of the same size and shape. Mail of this category is often sent from companies or organisations to households or to a certain category of addressees, e.g. car owners, policyholders and credit card holders.

Through its nation-wide coverage, Posten AB has for a long time been active within the segment of large sendings. In the 1990s, the conveyance was rationalised and as a result the quality of delivery improved. Customers who sort their own mail by computer and hand it in locally are offered lower prices.

CityMail is still the only important competitor to Posten AB on the segment of large sendings to the three largest cities of Sweden with rural surroundings and to the island of Gotland.

After liberalisation the developments has been favourable for customers purchasing bulk mail services. The price level has gone down at the same time as service and quality had improved. Pressure on prices is most noticeable for second-class mail in general and in particular for mail to the areas where Posten AB has met competition from CityMail. The customers who had been most active in negotiating prices and shown the greatest flexibility with regard to services are also those who experienced the greatest effects on prices and services after liberalisation.

5. EMPLOYMENT

In 2006, the average number of employees in the entire Posten AB was 33 395 (41.522 in 2000). Since 1993, the work force has decreased by 16 818 employees, i.e. a reduction by 33.5%.

The reduction of employees is mainly due to the introduction of new techniques in all lines of business and rationalising measures in the letter network – including the introduction of highly automated sorting centres – and in the post office net. This development started long before the letter monopoly was abolished. The mechanisation has taken place within the operators' own organisations as well as within their large customers', with pre-sorted computer mail, eliminating one step of the handling procedure.

Efficiency improvements and changes in staff structure are both means of adjusting to the new economy and its prerequisites. Such changes are not merely an element in a liberalisation process. Other companies alike, Posten AB follows the cycles of business trends. After the business upturn during the 1980s Posten AB was effected by the slowdown in activities in the beginning of the 1990s and was then forced to change the company structure. Between 1990 and 1995 the number of employees was to a large extent reduced by means of terms of employment, a recruitment freeze and early

pension schemes that were adopted. In addition, there was no longer a need for temporary employees as the new sorting machines were installed in 1996.

The further staff reduction during 2000s is due to the sale of The Postal Giro Bank and the reconstruction of the post office net. Outsourcing is also a mean to strengthen efficiency.

The majority of the licensed private operators are made up of one-man businesses with modest activities but the single most important private operator, CityMail, had almost 1400 employees in 2006. Since it was established in 1991 CityMail has had a collective agreement with the same trade union as Posten AB regulating wage levels, working hours, overtime payment, sick pay and pensions. Wage levels at CityMail and Posten AB are more or less the same. No imported labour is used in CityMail's organization.

6. FINANCIAL PERFORMANCE

6.1 The financial situation of Posten AB

In 2006, Posten AB's profit after financial items totalled 1 578 (1 302) million SEK (or 168 [139 million] Euro). According to the annual report Posten AB continues to have a strong financial position. A new operational structure will increase Posten AB's competitiveness by offering improved and more specialized service to the customers. Within the framework of an action program Posten AB will implement the necessary cost rationalizations for its mail process so that the company can continue to meet demands for an excellent nationwide postal service.

6.2 The new Operational Structure

From 1 January 2007 Posten AB works through a new operational structure with four separate companies under one holding company. The traditional postal operations for private households and companies are provided by one company, Posten Messages. Logistics and parcels operations are united in a specialized Business-to-Business company, Posten Logistics. The recently acquired company Strålfors - an IT-focused Business-to-Business company with graphic tradition operative in complete solutions within the area of information transfer, including being the largest print shop in Sweden - will continue to use its current brand. The Counter Service is not affected by the new structure. (The Government has announced radical changes in the future provision of basic counter services but has not yet presented a bill to the Parliament.)

7. LEGAL DISPUTES OVER THE COMPETITION ACT

The Competition Authority is the government agency for application of the competition legislation and has the over all responsibility for the enforcement of the Competition Act and for promoting competition from a general point of view. The Act has been fully applied by the Swedish Competition Authority on the postal market in accordance with the legislative intentions.

Since the entry into force of the Competition Act on 1 July 1993, the Swedish Competition Authority has dealt with more than a hundred cases concerning Posten AB. These cases have been of various kinds; both complaints from private persons

and companies, as well as applications for negative clearance where Posten AB has wished to clarify whether certain practices were compatible with the Competition Act or not.

Until now decisions in the postal area have mainly provided clarifications concerning exclusive agreements, loyalty rebates and annual bonuses. The exclusive agreements, which Posten AB earlier concluded with customers – and which made it virtually impossible to do business with competitors of Posten AB - have been withdrawn. The same applies to clauses in agreements giving Posten AB a unilateral right to change prices it has offered during a running period of contract. Rebates and annual bonuses may not be constructed in such a way that they are related to the total needs of customers, thereby forcing them to purchase all their services from a single supplier.

Finally, it has been decided that Posten AB is not allowed to apply geographically differentiated prices in order to undercut local competitors. In June 1999 Posten AB and CityMail reconciled all their legal disputes and not until December 2006 CityMail has found reasons to bring a new case before the Competition Authority.

8. THE POSTAL INFRASTRUCTURE

One of the most important conclusions to be drawn from the Swedish experience of introducing competition in the postal market is the necessity for all postal operators to obtain access to the postal infrastructure on equal terms. Primarily this is a question of equal access to post office boxes; a co-ordinated system for changes of addresses and for redirection of mail. An impartial administration of the postcode-system is also very important.

Many competition problems on liberalised markets can be traced to the former monopolist's control over an infrastructure that competitors need access to so that they can run their businesses. If the infrastructure can be regarded as an essential facility, the owner of the infrastructure, also active on secondary markets, has every incentive to exclude competition by refusing access. Failing to do so, the owner of the infrastructure has a strong incentive to minimise the effects of competition by fixing access charges at the highest possible level. The determination of the terms of access can for this reason not be left to the dominant player, the former monopolist. According to the Competition Authority, instead both the technical and the economic conditions for access need to be regulated or at least the responsible authority has to be given warrant to determine these conditions. Competition rules are not necessarily the most proper tool for determining the terms of access. The Swedish experience shows that in general it tends to be the dominant incumbent operator who benefits from lengthy legal proceedings. This is in particular of crucial importance in the initial phase of liberalisation.

By order of the Government, an investigation was carried out by PTS with the objective to make proposals for administration and a prospective future regulatory framework for the postal infrastructure. In the general outlines for the investigation, the Government concluded that the present regime at the time with voluntary agreements between the parties concerned had proved not to be a feasible way of achieving the desired co-utilisation of the infrastructure.

The Swedish Parliament approved to amend the Postal Services Act in line with most of the suggestions presented in the investigation report. In brief this means a statutory

right for private postal operators to obtain postal codes for their own post office box systems. They are thereby able to offer their customers unique post office box addresses. The right for all postal operators to get access to each other's post office boxes on equal terms has also been enhanced. The new legislation came into force on 1 July 1999.

9. MISCELLANEOUS

9.1 Terminal dues

Posten AB has taken part in the REIMS negotiations and has signed the latest draft REIMS agreement. With the UPU-rules as a basis, the incumbent also has signed bilateral agreements with universal service providers as well as private operators in other countries. An agreement on terminal dues has for example been signed between Posten AB and the Dutch TNT Post Group. Terminal dues are in Sweden regarded as a matter for the operator and not as a regulatory issue.

9.2 Stamps

In Sweden there is no specific legislation governing the right to issue stamps for domestic distribution. Regarding international mail, Posten AB is the designated bearer of the rights and the obligations within the framework of the UPU-instruments and is as such responsible for the international exchange of mail. Only stamps issued by Posten AB are thus accepted for outgoing cross-border mail but the use of stamps is only one of several forms of payment for the conveyance of cross-border mail.

9.3 VAT

In respect of taxes, Posten AB is treated like every other company. When the former Postal Administration was transformed into a limited liability company, it also became subject to the VAT rules. The management of Posten AB regarded this measure as a possibility to improve the effectiveness of operations. Thanks to a temporary discount system for private letters, there were very few negative reactions from the private customers. The majority of business customers have been able to deduct VAT and this has made the tax neutral to them. Customers like banks and insurance companies, which are not liable to VAT, have instead been able to compensate the higher charges through negotiations over prices with Posten AB.

10. CONCLUSIONS

The letter mail monopoly in Sweden has been abolished for 14 years. The evident effects so far are positive. Posten AB also has benefited from real competition in the letter market. In a situation where monopoly reigns, it is all too easy to hide different kinds of problems behind monopoly gains. This is especially true when you can use the old but erroneous argument that those gains are needed to finance the universal service. Instead it has been a pedagogical advantage for Posten AB to have visible competitors to blame for the necessary rationalising measures mostly taken for other reasons.

As previously mentioned, there are no reserved areas whatsoever in Sweden today. This is important to remember as 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.

The over all positive effect of the liberalisation is that more and more customers are provided with an alternative when it comes to letter conveyance. Although Posten AB - by holding 91% of the total market for letters - still is very dominant, there is a growing competition in several segments of the market. The fact that Posten AB has succeeded in keeping such an important share of the market confirms a European Commission assessment at the time that - on the basis of experience - the incumbent will be able to keep at least 80% of those parts of the market where competition is allowed. Some of those segments are rather small and limited, e.g. local distribution of mail. Competition in the segment of bulk mail is in practice restricted not only geographically but also by the fact that many customers still find it rather complicated to change their routines for mail management in order to split their purchase of postal services between different operators. Posten AB still has substantial advantages in this respect.

Still, after 14 years of liberalisation, Posten AB has a *de facto* monopoly on many segments of the postal market in Sweden. This implies that the need to protect consumers and new competitors will probably remain in the foreseeable future. The experience of PTS so far has been that the best available instrument to do this is the supervision of a detailed cost accounting in accordance with article 14 in the EC-directive.

As been said many times before there is nothing in the Swedish experience that may indicate that competition in the entire postal market should be regarded as a problem. In the interest of the consumers, there is nothing that distinguishes these services in a way so that they must be safeguarded by protectionist measures. Furthermore, full market opening should be considered a solution to the challenges facing the Postal World in an environment dominated by Information Technology and globalisation.
