

Executive Summary of the economic Study

„Network Access and Competition in Postal Services“

by Prof. Dr. Jörn Kruse, Helmut-Schmidt- University of Hamburg

The focus in liberalization processes is usually on unfolding the positive effects of functioning competition with respect to efficiency and market dynamism in previously (mostly national) monopolistic markets and/ or markets “protected” by access barriers raised by the state. This would be especially urgent in the German letter sector.

As in some other network industries, in the postal area the core problem is how to open the value creating steps likely to profit from competition to third party competitors, although they are vertically integrated in the existing monopoly corporation. A really promising – and as a matter of fact indispensable – instrument for this is the implementation of non discriminating network accessibility. This is the object of the present study.

For this we will first analyse whether there is any specific need for regulation in the letter sector. Secondly we will examine whether one may expect any positive effects on the efficiency of the national economy and for market players and/or whether there have already been any such effects in other countries. As a result of the analysis both the questions can clearly be answered in the affirmative.

The economic, regulatory policy analysis shows that, as a consequence (1) of the subadditive cost structure in most of the delivery areas and (2) of the existing vertical integration between delivery and upstream levels (according to the existing Sending-Party-Pays Principle), the delivery is a monopolistic bottleneck, keeping upstream levels capable of competition from actually becoming competitive markets (even in spite of excessive prices).

In view of these very high market entry barriers (over and above the statutory market entry barriers that are still in place in the form of German Post’s Exclusive License) large economic efficiency potentials are not utilized, which is to the disadvantage of both the customer and

the consumer. This fact establishes a need for regulation to create and permanently guarantee non-discriminating third party network access.

In the study it is demonstrated that such network access regulation is likely to initiate competition for many postal services, to bring down both the costs and the prices for the customer, to increase the volume of shipments (even for the established Postal enterprise) and to enhance the efficiency of the national economic. In addition, innovative service products are developed and the business volume of the senders also increases.

Experience in the USA show that these effects actually occur. In the US postal sector this concept, appropriately called “worksharing” has been put into practice for almost three years. This means that the services on the individual levels are provided by those companies which can do this in the best way – by competing with one another (except for delivery). In this context, many providers offer additional services for dispatching enterprises, thereby helping those companies lower their costs and enhance their competitive capacity.

The savings on costs for the established postal enterprise USPS were considerable (for instance, 14 billion USD in 1999). They were also higher than the scope and extent of the discounts granted to “Worksharing-Partners”, so that financially USPS achieved a net profit. Since it is estimated that the pertinent costs for the customer and/or the consolidator amounted to only approx. 20 per cent of the discounts, the savings in national economic resources have been similarly drastic. This again has had a direct impact on senders mainly in the form of cost reduction caused by competitive intensity. Thus the real price for letters (First Class Mail) has gone down since the introduction of worksharing by approx. 35 per cent, for advertising mail and periodicals by 28 per cent respectively.

Consequently, the number of letters has gone up by 40 per cent since 1976. The volume of the advertising mail items has gone up even more, by 240 per cent since 1978. 43 per cent of the total First Class Mail and more than 90 per cent of advertising mail and periodicals are now handled in the US through cooperation between private consolidators on the upstream levels and USPS on the downstream level (delivery). The number of the letters per citizen in the US is more than twice that in Germany.

Through “worksharing”, the total mail volume dispatched through USPS has gone up by 37 per cent between 1976 and 2003. In the same period, USPS turnover has increased by 26 per cent. This means that although, at the beginning, USPS had taken a very antagonistic stand vis a vis this model, it also profits in different ways from worksharing.

Basically, the results can be transferred to Germany. Here as well it one can expect that on the whole private newcomers can and will produce services on the upstream levels that are more cost-effective and/or qualitatively higher. Otherwise, it would not make any sense for them to enter the market. There is thus no political risk for Germany that inefficient market players will enter the market.

In Germany, it is equally to be expected that the effect of sinking prices caused by liberalized network access will be a significant increase in mail volume (and sender's business volume). This means that German Post AG would experience an increase in the demand for delivery services. Given the advantages of greater density of delivery routes, there would be a further decrease in cost per item.

As a consequence of all individual effects, one could expect an increase of both the technical and the allocative and qualitative efficiency of the postal sector in Germany as well. There can be no doubt about the economic benefit of a discrimination free network access in the German postal sector.