

How free and fair is the postal market?

by *Philippe Bodson*.

When the European Commission embarked on its journey to liberalize the postal market in Europe in the early 90s, with the ultimate objective to improve the quality of the mail services provided to users, it certainly did not expect to be stuck with slow liberalization, pending competition and internal market cases and excessive stamp rates more than 10 years later.

Where are we today? Postal operators, former national post offices, seem to have embarked on an effort to do too many things at the same time. While on the one hand they are obliged to provide the universal postal service, they have also looked at expansion in different areas and have engaged in acquisitions and mergers. But, is this all to the benefit of the user?

Not according to the Free and Fair Post Initiative (FFPI). These activities have led to active market distortion, additional cost for postal users and excessive prices for basic postal services.

Acute market distortions

In September 2001, the FFPI initiated an on-going study of pending

cases in the EU regarding breaches of competition and market rules. The study revealed that some 20 infringement and competition cases were pending with the European Commission. These cases concern alleged abuses of dominant position by postal operators, illegal state aid or infringement proceedings against member states for non-compliance with the postal directive. Time will determine in which cases the initial complaints were justified or not. However, if one takes a look at the Commission's recent track record for decisions regarding the postal sector, postal operators have in most cases been found guilty for all or some of the alleged breaches. All these cases have a negative impact on taxpayers, consumers and users of postal services who are the ultimate victims of the distortions of competition.

In Belgium the Commission took a decision that pushed the local government to move ahead quicker with the implementation of the European directive on postal liberalization and to install a truly independent postal regulator. In 2001, the Belgian post office was fined for linking sales of monopoly services with other commercial services, hence abusing its dominant position.

The cost to users, consumers and taxpayers

When postal incumbents abuse their dominant positions, illegally exploit the resources of their monopolies, or use state aid to eliminate competitors providing services in areas that are open to competition, this works against the interests of postal users and taxpayers for several reasons. These include a limited choice for basic postal services covered by the legal monopolies (the reserved area), a limited choice in markets open to competition due to the market power of the postal operators in those markets, and limitation of competition.

Independent regulators offer certain guarantees to users and consumers as to the enforcement of the market rules in the postal sector. Without independent regulators, the incumbents can more freely abuse their monopoly positions on the market.

Over the past five years, European national postal operators have invested massively in competitive sectors. This is especially true for the four biggest operators in Europe (TPG, Deutsche Post World Net, Consignia/Royal Mail and the French La

Table I – Differences in stamp prices in the EU

Country	Population density per square km ²)	Stamp price in euro	Comments
Austria	96	0.51	
Belgium	334	0.42	
Denmark	123	0.50	€0.54 for priority mail
Finland	15	0.61	Same price for letters of up to 50 gr. The rather high price is partly due to the very low population density
France	106	0.46	
Germany	230	0.56	
Greece	80	0.38	
Ireland	52	0.38	For letters max 25 gr.
Italy	191	0.41	
Luxembourg	161	0.45	
Portugal	107	0.26	
Spain	78	0.24	
Sweden	20	0.43	This is the price without 25% VAT. €0.54 is the price of a stamp in Sweden including 25% VAT
The Netherlands	376	0.39	
United Kingdom	240	0.31	Price for second class letter

* Source: Infonation, UN publication 1997.

Poste) that have acquired, according to information gathered by the FFPI, more than 120 companies in markets neighboring on the postal market. Such areas as parcel delivery, transport and logistics.

These investments have a direct impact on users and consumers of postal services because they are in practice paying the bill without necessarily getting anything in return.

Unjustified stamp price differentials

On December 20, 2001, the FFPI released its first study on stamp price differentials between member states in the EU. The study showed striking differences: a stamp for a 20-gram letter costs 2.33 times more in Germany than in Spain. See Table I.

The FFPI is convinced that, as long as national postal monopolies are allowed to have free reign over their home markets, market mechanisms will be prevented from creating downward pressure on prices for basic postal services. In view of the fact that postal services in the EU handle approximately 135 billion items per year, generating a turnover of approximately

EUR 80 billion or 1.4 percent of GDP, the overall impact of stamp price differentials in the EU is considerable.

No justification

It is impossible for consumers and other users to assess if what they are paying for postal services is justifiable, in particular since many postal operators, in breach of EC law, lack transparent systematic accounting.

Differences are not justified by factors such as population density. One would expect stamp rates in highly populated countries to be lower than in countries with low population density due to the distances that need to be covered. It is therefore surprising to see that the stamp price in a country such as Germany (third highest population density) is only six percent below the Swedish stamp rate (54 cents including VAT) with Sweden having the second lowest density in the EU.

Consumers lose out

As a result of the lack of competition in the postal market, European consumers and users of postal services will

continue to be excluded from the benefits of the internal market. They will have to pay excessive stamp prices in comparison with the quality of the service offered.

The FFPI suggests the 1997 Postal Directive should be implemented correctly, that the monopoly should continue to be reduced to 100 grams by 2003, 50 grams by 2006 and full opening by 2009 at the latest, and that there should be effective and proactive regulators in all member states, and that regulators and providers of postal service should focus on the basic postal service. The FFPI also urges the European institutions to ensure full and correct implementation of their decisions in this area.

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