



The House of Lords Committee on the European Union
Sub-Committee B (Energy, Industry and Transport)
Further Liberalisation of the Postal Services

Written Submission by the Free and Fair Post Initiative (FFPI)

1. Summary

The FFPI is a voluntary, independent, not-for-profit initiative. Membership is open to all persons and entities that agree to the terms of reference. The terms of reference set out that the FFPI strives to promote liberalisation of postal services and fair competition in the postal sector.

The postal sector, like other delivery services, is increasingly recognised as a key industry for the internal market in Europe. When the EU leaders met in Lisbon earlier this year they agreed to speed up liberalisation in post, gas, electricity and transport.


The FFPI believes that the EC and the EU Member States within their respective spheres should set the postal industry's growth potential free through full liberalisation. Increased economic freedom in the postal sector will spur innovation, increase choice for consumers and lead to more jobs. Without liberalisation, outdated economic structures will remain and the Industry will not be modernised. The FFPI will seek to ensure that the EU carries out its pledge and creates a liberalised internal market for postal services in 2007 at the latest where customers' interests are put first.

FFPI believes that the USO should be maintained and should be continuously reviewed at Member State level in order to correspond to evolving consumer preference. The FFPI also believes that it is not necessary to maintain letter monopolies in order to perform the USO. The USO should not be used incorrectly as argument against liberalisation in the debate.

The FFPI supports, as a first step towards liberalisation, the Commission proposal to lower the monopoly for the reserved area to 50 grams, which would in fact only open up 23% of the postal market revenues to competition. Should a 150 grams limit be retained, as proposed by some opponents to the Commission proposal, this would only open up less than 10% of the postal market revenues and would not create the necessary dynamics to modernise and improve postal services.

The European Commission has rightly concluded that the developments on the market for postal services in recent years has lead to increased competition concerns and to increased distortions of the internal market. Certain postal operators have moved significantly to make acquisitions and to expand internationally in competitive sectors.

Current EC rules for the Postal Industry are insufficient and unclear and make the infringement of EC competition and internal market rules a possibly lucrative alternative for postal operators. New rules on liberalisation must be accompanied by clearer and more stringent rules on what the Member States and postal operators can and can not do.



The FFPI believes that the increased competition concerns in the postal sector need to be tackled at European level and if the EC fails to do so, we risk a situation where public postal monopolies will have been replaced with private postal monopolies. Liberalisation will have failed if such a scenario becomes reality.

2. About the FFPI

The FFPI was officially launched on 23 October 2000 in Brussels. FFPI is a voluntary, independent, not-for-profit, initiative and does not receive any subsidies from any governmental body and it relies on membership dues and user fees to cover its operating expenses.

The current membership is composed of European and national business associations and individual companies from several EU Member States and industries. The members of FFPI mainly represent users of postal services although some members are active in the postal or neighbouring sectors.

The FFPI strives to promote liberalisation of Postal services and fair competition in the Postal sector. To this end, FFPI identifies and seeks to shed light on potential breaches of EU Internal market rules and anomalies on the market. The sphere of the FFPI's interest also includes services that are ancillary to Postal services, such as communication, transport and logistic. The Initiative recognises that the USO is vital in order to guarantee the supply of postal services for the benefit of consumers.

Membership in FFPI is open to all persons and entities that agree to the terms of reference.


3. Postal services – the ugly duckling of EC liberalisation.

Regulators in Europe have repeatedly been forced to consider whether so called natural monopolies are the best way to serve consumers and society as a whole.

Natural monopolies were created when governments assumed responsibility for infrastructure that was essential for the build up of the modern welfare state, such as electricity, telecommunications, airlines and postal services. EU members regulated these natural monopolies nationally through restrictions to entry for competitors, rules on pricing and profit limitations. The idea was that protected monopolies in these sectors would ensure the provision of the social goal of universal service at an affordable price for all.

A combination of consumer demand, political vision, technological evolution and market forces however has set a process of rapid EU wide deregulation of most of the natural monopolies in motion that has led to benefits to society that exceed most predictions. Initial resistance to EC liberalisation in some countries, caused by doubt surrounding the scrapping of familiar utilities in favour of an environment with multiple suppliers and diversified services, has disappeared. Few question the enormous benefits of EC liberalisation and calls to re-monopolise deregulated industries are unheard of. Past fears of job losses in liberalised industries have been replaced by general recognition of their potential as job creators.

Several former natural monopolies are now growth industries and constitute the corner stones on which the future European economy is being built on. This means that the market ope-



nings created by EC liberalisation can lead to results that go far beyond what could be envisaged at the time when deregulation measures were first put in place. Consequently, the numerous success stories of EC liberalisation in recent years should be enough for regulators and politicians to make sure that opportunities to achieve the same results in other sectors of the economy are not wasted. This is unfortunately, however, not what has happened in the postal sector that has an 80 billion Euro turnover.

FFPI believes that the EC should pave the way for economic growth and improved services by tearing down the mental and regulatory barriers that still surround the postal sector.

4. A slow and unsure liberalisation should be avoided.


The postal sector is undergoing a dramatic modernisation that is driven by three converging factors; changing consumer preference, technological improvements and increased market concentration. It is essential that EC measures to liberalise reflect these rapidly evolving market conditions.

The EC Commission describes the current situation well in its proposal for a new directive on postal services:

"If the EU's postal services are inefficient, goods and services will not flow optimally throughout the Union – damaging economic growth and jobs. The benefits of electronic commerce will also not be fully realised if the EU's postal services – at the heart of business to business and home delivery in Europe – are not top class. There are therefore strong consumer and business interests in ensuring that a wide range of high quality postal services and products are available. Moreover, the postal market does not exist in isolation but interfaces and competes with other forms of communication, making it doubly important that it keeps pace with modernisation and technological advances, attracting investment and innovation". (COM 2000(319) final)

It is however important to recognise that transformation of the postal sector will take place whether the EC regulates the market or not. The contents of the rules in place will however be decisive to determine if the transformation will be successful. Without appropriate EC rules, the potential of the ongoing process in terms of growth, consumer choice, competitive prices and new jobs will be missed. In addition, the increase in market distortions in the EC will not be tackled in an effective way. It is therefore crucial that appropriate EC rules are in place to regulate the conditions for the modernisation of the postal sector.

One main reason so far for liberalising the postal sector at snail's pace has been that there must be sufficient time and room for manoeuvre for postal operators to adapt to the new environment in a "gradual and controlled" way. The FFPI believes, however, that if EC liberalisation of the postal sector continues at minimal speed, both regulators and the postal operators soon will be overtaken by market developments. For instance, more and more people seem to recognise that the EU risks seeing its public monopolies replaced with private ones unless the market is regulated and policed more efficiently. In a scenario where the liberalisation is too slow, the transition of the postal sector will suddenly accelerate due to market changes and, eventually, be brutal. It will therefore not be, as intended, gradual and control-



led, since the rules that regulate the market will be out of tune with reality. This is to a certain degree already the case.

The FFPI believes that the EC must adopt new rules that provides all those concerned with clear messages at least on a minimum of issues. For instance, postal users, potential competitors and the postal operators have a legitimate interest in knowing at what date the market for postal operators will be open for competition.

FFPI believes that it is only if a final date for liberalisation is adopted that a real incentive exists to improve services. In addition it is only if a final date exists that potential investors and potential competitors have sufficient incentive to invest and to innovate. Public monopolies should not be replaced with private monopolies. The FFPI therefore believes that the EC should decide that an internal market for postal services with full competition should be put in place by 2007.

5. USO - the social obligations linked to postal services will benefit from deregulation.

The FFPI's terms of reference clearly state that the USO should be maintained. Postal services constitute an important feature of our societies and the FFPI believes that the EU Member States' governments, according to the principle of subsidiarity, should be allowed to define the scope and the contents of the USO provided to their citizens.

The USO is however often used as an argument against liberalisation. It is argued that the USO require the postal operators to maintain a reserved area, a monopoly, for the vast majority of letter services in order for them to be able to finance the USO. This argument is however not correct. Other possible solutions exist that do not block the benefits of liberalisation as the reserved area currently does.

The EC Directive provides the Member States with the right to set up a compensation fund. Another way to finance the USO is to finance it over the state budget, as a direct subsidy from the state to a postal operator, as it is done in one European country today. By doing so, flexible mechanisms can be created that allow for the scope and contents of the USO to be constantly reviewed and geared to consumer preference.

In accordance with the subsidiarity principle, it is up to each Member State to define the content and the extent of the USO provided that the minimum requirements of the EC Directive are complied with. Consequently, each Member State can evaluate, debate and decide on the cost level of the USO as well as on financing mechanisms' options. One method to arrive at the most efficient solution for the provision of services is to go through a public procurement procedure. This method could be applied to the postal sector.

It is interesting to note that in Sweden where postal services were fully deregulated in 1993, the Swedish independent postal authority, PTS, 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."

To conclude, there is no contradiction between a universal service and deregulation. The Member States have a large freedom to organise and finance the universal service obligation



as they wish, provided that the EC rules on competition are respected.

The FFPI believes that the USO should be reviewed and benchmarked constantly and that it should not be used as pretext to oppose liberalisation and potentially as a tool for cross-subsidisation that distorts competition.

6. Liberalisation will fail unless the increasing competition concerns are tackled effectively and soon.

The EC Commission has been unable to police the market in a satisfactory way. This has contributed to distortions of the market and widespread uncertainty for companies and consumers.

Most of the postal monopolies in the EU continue to benefit from large domestic monopolies. Consequently, most incumbents continue to benefit from the advantages linked to legal monopolies: experience, network, economics of scale, know-how, brand image, customer loyalty which are difficult for any competitor to acquire quickly.

In addition the existing letter monopoly constitutes a valuable asset to them in an increasingly competitive environment. Recent reports in the media with regard to the flotation of the Deutsche Post World Net show that the market valuation of the German Postal Operator seems to be significantly affected by the duration and the scope of the letter monopoly. This, combined with the fact that Germany has the highest stamp prices in Europe and that legal action has been taken against the stamp prices in Germany, seems to indicate that consumers, at least in Germany, are paying more for their stamps than what is required with regard to the USO. The arguments put forward by the postal operators, and by their owners, that a maintained reserved area is a condition for the functioning of the USO need therefore to be assessed in a critical way.

It is often not recognised that postal monopolies have the freedom to expand into new business areas in competitive sectors as all other European businesses under the EC rules. All but one postal monopoly is now breaking even and, for some of them, the financial strength they have built up is being used to expand rapidly and massively into neighbouring markets, often through acquisitions of companies in the logistics, transport, express and parcel sectors. They also use their financial muscles to enter new markets, providing their portfolio of consumers with services in the e-commerce, banking, insurance sectors, etc...The postal monopolies' expansion is taking place both domestically and abroad.

The Commission's failure to police the postal market thus has repercussions across borders and far beyond the market for postal services.

7. FFPI program points on Free and Fair Post.

1. The EC should set a date for full liberalisation of the postal sector in Europe, which should be 2007 at the latest. The EC should accelerate the gradual opening of the market for postal services prior to full liberalisation. That will provide the necessary dynamics for innovation and competition.



2. The FFPI believes that the USO should be reviewed and benchmarked constantly. It should not be used as pretext to oppose liberalisation and potentially as a tool for cross-subsidisation that distorts competition.
3. The EU members should be encouraged to apply the EC Directive on postal services that is in force correctly, which is currently not the case. The EC Commission should be encouraged to take action more swiftly against member states that fail to apply the rules.
4. It is forbidden for postal monopolies that provide universal services to cross-subsidise the competitive activities with resources from the reserved, monopolistic, area. Complaints about illegal cross-subsidies are however frequent and it is therefore essential that the Commission finalises its pending investigations without further unnecessary delay to set up clear guidelines on what is and what is not allowed.
5. Full implementation of the provisions on separation of accounts between reserved and non-reserved area market segments has to be a priority action for the EC. Without transparent accounting, there can be no level playing field.