

## **Main developments in the postal sector 2006-2008**

ComReg Postal Briefing “Ensuring customer needs will be met”

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## Goal of the study (ToR)

*“The study will aim at identifying the main developments of the postal sector in relation to the application of the Postal Directive.*

*It will aim at identifying, quantifying and assessing the main developments (...) in relation to regulatory, economic, social, consumers, and employment aspects, as well as quality of service and possible impact of technology developments.”*

# Main trends and developments

## Economic and social aspects

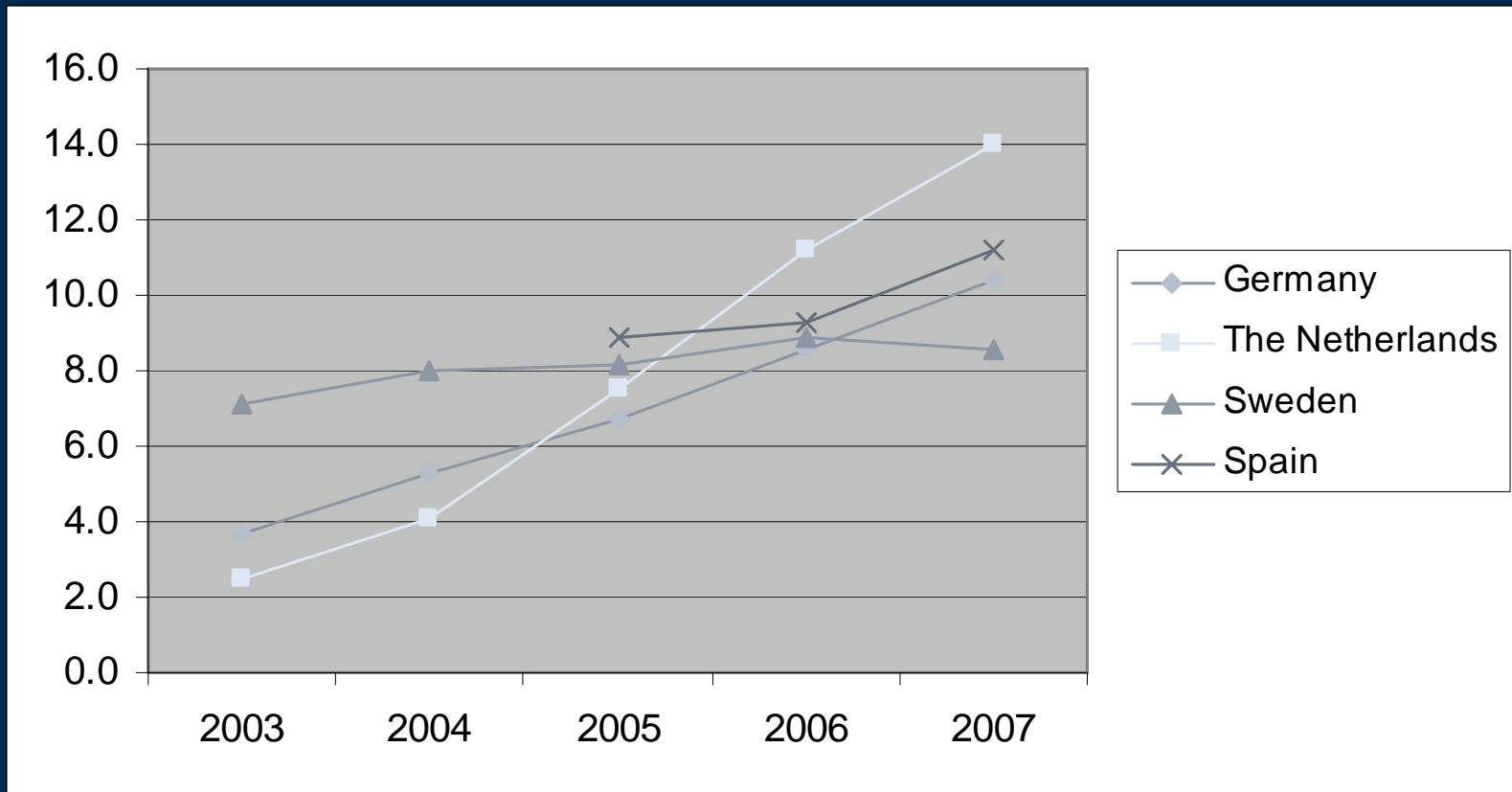
# Main trends and developments: business models of CPOs

- **A full service concept**
  - Not yet observed
- **Low cost model**
  - Main E2E CPOs in e.g. BG, CZ, DE, ES, NL, SE
- **Activities in part of the value chain**
  - Downstream: not yet, Adrexo trialled
  - Upstream: many in UK & FR, part of CPO landscape in many countries
- **Development of niche markets**
  - In some countries, e.g. DX (UK & IE), Premiere Post (MT)

# Main trends and developments: liberalisation and competition

- **Competition in addressed mail markets**
  - 9-14% in DE, ES, NL, SE (market shares CPOs)
  - Hybrid mail competition in BG (high market share)
  - 3-5% in CZ, EE, RO
  - Access competition in UK (20-22% of volumes 2007/08)
  - Upstream market in France: 42% of total mail delivered
  - Developing competition in international mail markets
  - Very limited in countries with large reserved areas

# Main trends and developments: market share of CPOs in frontrunners



# Main trends and developments – mail volume developments

## Influences on mail volumes

- Economic development (+)
- E-substitution (-)
- E-selling (+)
- Direct mail (+/= depends on growth potential)

*Web-questionnaire: small growth next year  
(one third of respondents indicate e-substitution)*



# Main trends and developments – employment

- Main impact is yet to be felt, total direct employment has decreased
- Increased specialisation as a result of corporate restructuring and competition: potential downward pressure on job requirements and wages (NL, DE)
- Other trend: demand for well qualified staff (value added services, aim to improve QoS) and more focus on training driven by liberalisation (customer focus) and technology
- Corporate restructuring and application of technology: less employment in NPOs
- Transfer from NPOs to CPOs: neutral to small increase in sector employment

# Main trends and developments

## Regulatory framework

# Regulatory asymmetry and internal market

Main issues related to differences between MS regarding:

- VAT exemptions
- Licence conditions (*impact of new Directive?*)
- Access to postal infrastructure and interoperability
- Mail requirements (address formats, barcodes, distinctions between letters and parcels)
- Labour legislation / collective labour agreements
- Definition of the USO in combination with its cost and financing

# Main trends and developments - licensing

- Relationship between licence conditions and market developments
  - In most cases limited impact: main legal barrier still is the reserved area
  - If there is an impact, this is often negative/an entry barrier – in particular USO type conditions
  - Ensuring common operational procedures is positive (*through licensing?*)
  - Some conditions may influence type of entry (e.g. financial requirements in UK)

# Main trends and developments – mandatory access

- *“Obligation to provide access against appropriate terms and conditions and the NRA has the power to set these terms and conditions in case of a dispute...”*
- Applicable in a minority of countries, but number is growing (BG, ES, MT)

# Main trends and developments – price regulation and USO

- Current systems usually provide little or no incentive to the NPOs to reduce costs
- Most often: cost-based, ex-ante price regulation
- Only three countries use an RPI minus regime for (part of) the prices that are regulated (DE, PT, UK)
- **USO definition varies considerably across States**
- Economic view with regard to costs and benefits of the provision of the USO still in its infancy

# Main trends and developments – challenges for future regulation

## The purpose of FMO

- Stimulating new/innovative approaches
  - *Recognition that competition is/will be based on new/other business models and product differentiation*
- Providing incentives to improve efficiency
  - *Goal to reach an efficient, sustainable delivery of services*

# Main trends and developments – main challenges for NRAs

- Acknowledge the previous slide
  - In new licensing regime
  - Regarding price regulation (stimulate efficiency improvements and incorporate competition effects)
- Ability to assess whether prices are geared to cost
- Arrange interoperability in a multi-operator market
- Action against strategic entry barriers



# Recommendations

# Recommendations (1)

- **Active position of the EC**
  - No reversal of market opening, application of directive
- **Improved transparency**
  - Minimum level of detail in published accounts with regard to services within the USO (*EC*)
  - Attention to accuracy of volume recording (*EC, NRAs*)
  - Cost reflection of terminal dues?! (*EC*)
- **USO (*policy makers, NRAs*)**
  - Clear definition (& limited to essential)
  - Transparent net cost calculation and funding mechanism
  - Net cost calculation based on efficient service provision
  - Use preferably procurement for elements of the USO

# Recommendations (2)

- **Strengthen the powers and resources of NRAs**
  - <-> Pricing and capacity to analyse NPO accounts
  - <-> Competition effects and efficiency impact of regulation
  - <-> Pay attention to arranging effective interconnection
- **Choices in downstream access model**
  - End-game upstream competition and economies of scale in delivery <-> low access prices
  - End-game upstream competition plus end-to-end <-> access prices linked to retail prices minus avoided cost
  - End-game end-to-end and consolidation activities <-> application of transparency and non-discrimination

# Recommendations (3)

- Continued attention to:
  - Increasing efficiency of NPOs
  - Creating a level playing field (apart from above: VAT, access to letterboxes, access to postal sector infrastructure, strategic barriers, standards' harmonisation within EU, labour conditions)
  - In sum, regulatory challenges...

# Thank you!

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