



Liberalisation Benchmark in the Postal Sector (Draft)

Limits of the existing quantitative analyses

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Liberalisation Benchmark in the Postal Sector

This document is a copy of the slides used for the third conference on “Competition and Universal Service in the Postal Sector”, Toulouse, November 13-14, 2003.

It is incomplete without the oral commentaries made for the presentation.



Liberalisation Benchmark in the Postal Sector

- 1. Critical outlook of the existing studies
- 2. Approximation of the liberalisation degree on the addressed mail delivery market
- 3. Liberalisation benchmark analysis could also cover upstream markets for bulk mail

Motivation

- Opening up of the postal market relies on intermediate steps
- Mail market segmentation is complex
- European Union members are taking different regulation decisions to introduce competition into postal sector
- So that comparisons of liberalisation degrees are far from being obvious
- Many studies or communications provide quantitative indicators of the degree of liberalisation and compare countries.
- Results are largely published but never reviewed.

Purpose of presentation

- Critical outlook
- In depth review of existing studies
- Do they rely on a robust methodology based on a comparable set of data between countries (analysis focused on Germany, Netherlands, United Kingdom, Sweden and France)?
- How is defined the reference market (sizing + segmentation)?
- Recommendations to assess the current degree of market opening and to investigate competition intensity
- How to set a reliable metrics? Which data to use?
- What can be really said today about liberalisation in the 5 studied countries?
- What is (are) the relevant market(s) to analyze?

Review of existing studies

- Up to now, 4 studies or communications
 - ▶ “The BvDP Liberalisation Index”
 - ▶ “TPG Post’s vision of responsible liberalisation of the postal market”
 - ▶ market analysis of “Private Postal Operators in Europe” by MRU
 - ▶ “The World Bank Group Postal Liberalization Index”

- Assessment consisted in
 - ▶ Assumptions analysis, amongst others: reference market, segmentation level (unit of account), postal items definitions (for instance direct mail)
 - ▶ Understanding accurately the index calculation
 - ▶ Data cross-checking from official sources (regulators, EC, postal operators annual reports) for the 5 selected countries

The BvDP Liberalisation Index: data

- Biased data (unaddressed mail taken into account) and a reference market including 2 segments already liberalised: parcels + an hypothetical market “Potential Value Added Services”

Number of Letters 2000 (Million)			
	Express	Direct Mail	Standard
S	66	1 947	1 524
NL	0	6 182	1 691
D	66	12 848	9 210
UK	52	6 758	19 864
F	1	14 213	13 051

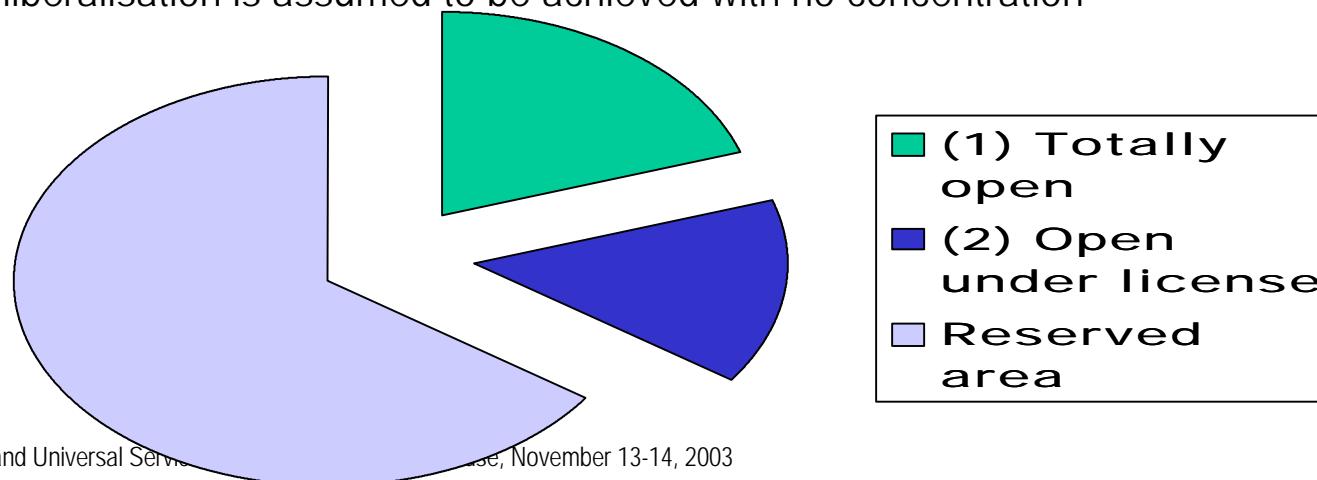
Number of parcels 2000 (Million)		
	Express	Standard
NL	0	16
S	6	85
F	39	335
UK	50	579
D	200	1 380

Potential VAS (M €)	
NL	1 733
S	1 787
F	11 518
UK	16 445
D	21 358

- Value Added Services are all the services which supplement traditional postal services in upstream (ex:addressing, packing and order make-up) and downstream (ex:return handling, debt collection, financing) areas covering the entire postal chain
- Valuation of this potential market is not explained but amplifies the parcels effect as parcels are consuming more VAS than letters

The BvDP Liberalisation Index: computation methodology

- Quantitative components assessed on the 6 selected market segments (Letters - Exp+Std - DM, Parcels - Exp + Std - VAS) with different weightings
 - ❖ (1). Market share (revenue) totally open
 - ❖ (2). Market share (revenue) open under license
 - ❖ (3). Market share (revenue) of competition on (1) + (2) provided by national postal operators
 - ▶ **Opening degree measures**
 - ❖ (4). Market share (revenue) of biggest operator
 - ❖ (5). Market share (revenue) of the 5 largest operators (including (4))
 - ▶ **Concentration level measures**
 - ❖ For VAS, liberalisation is assumed to be achieved with no concentration



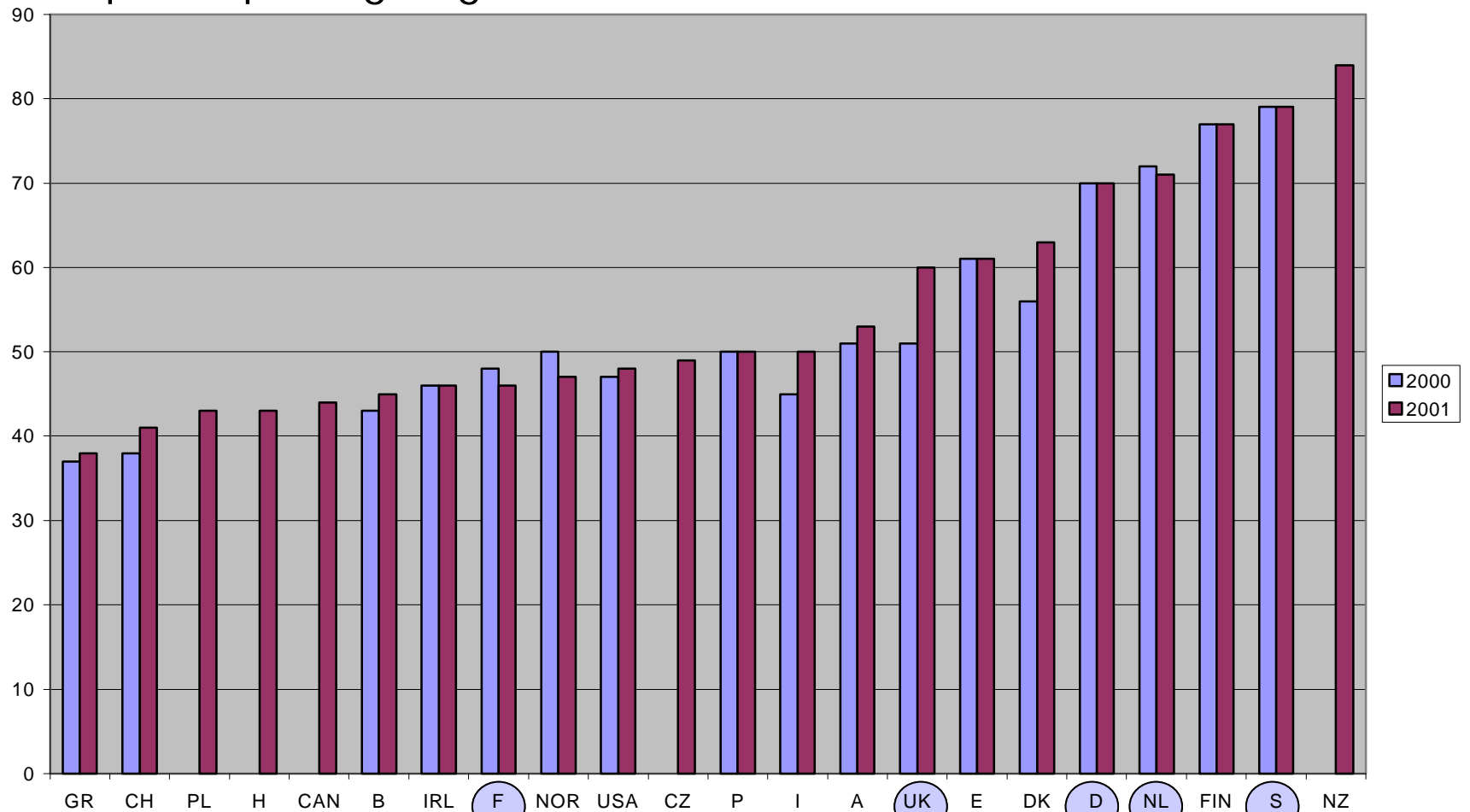
The BvDP Liberalisation Index: computation methodology continued

- Qualitative criteria are only used for addressed mail segment (not yet completely liberalised)
 - ▶ (1) legal conditions
 - ▶ (2) progress with liberalisation
 - ▶ (3) state ownership of postal services
 - ▶ (4) current competitive conditions
 - ▶ (5) other barriers to entry

- “The overall index is calculated as the average of quantitative and qualitative components”
- Index breakdown is intricate/not transparent (weightings not explained nor displayed)

The BvDP Liberalisation Index: results

- Not surprisingly results can't be backed up and no account used to compare opening degrees



TPG Post's vision of responsible liberalisation of the postal market

- TPG's analysis of competition in the Netherlands: real competition mistaken with potential competition over a broad reference market with hazy outlines

addressed mail in the Netherlands (TPG) % open to competition

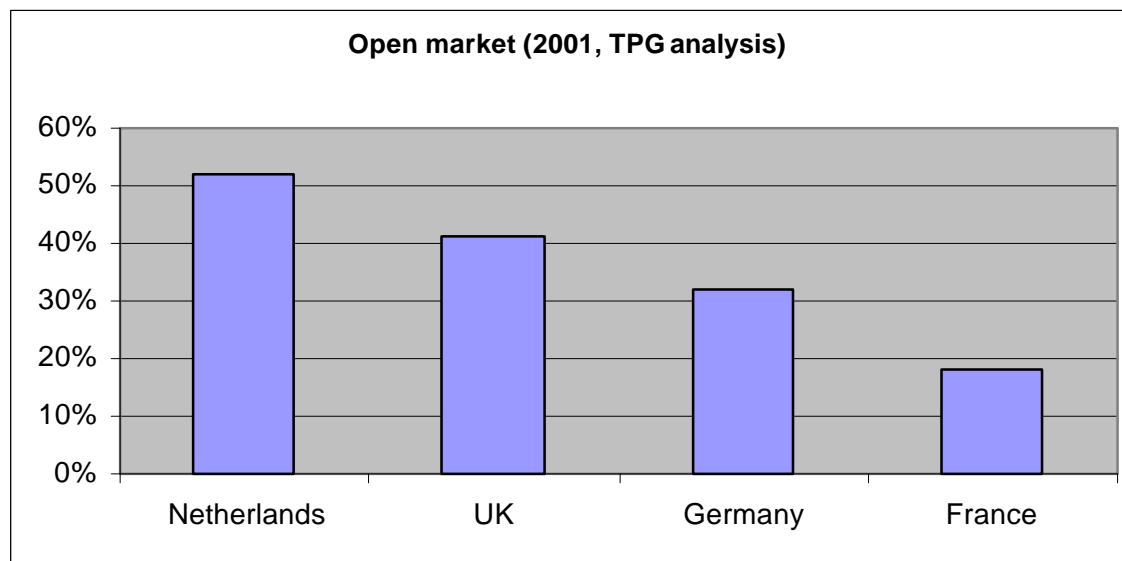
Volume composition	Billion/year	%	Electronic	Physical
Business letters	3.1	47%	100%	13%
Direct Mail (*)	2.4	36%	100%	95%
Consumer mail	0.5	8%	100%	55%
International	0.5	8%	100%	74%
Parcels, registered	0.1	2%	na	100%
Total	6.6		100%	52%

* including magazines

- Not any details about competitors market shares or traffic losses driven by competition
- Data issues mainly related to direct mail volumes (comprising various kind of postal items)

TPG Post's vision of responsible liberalisation of the postal market

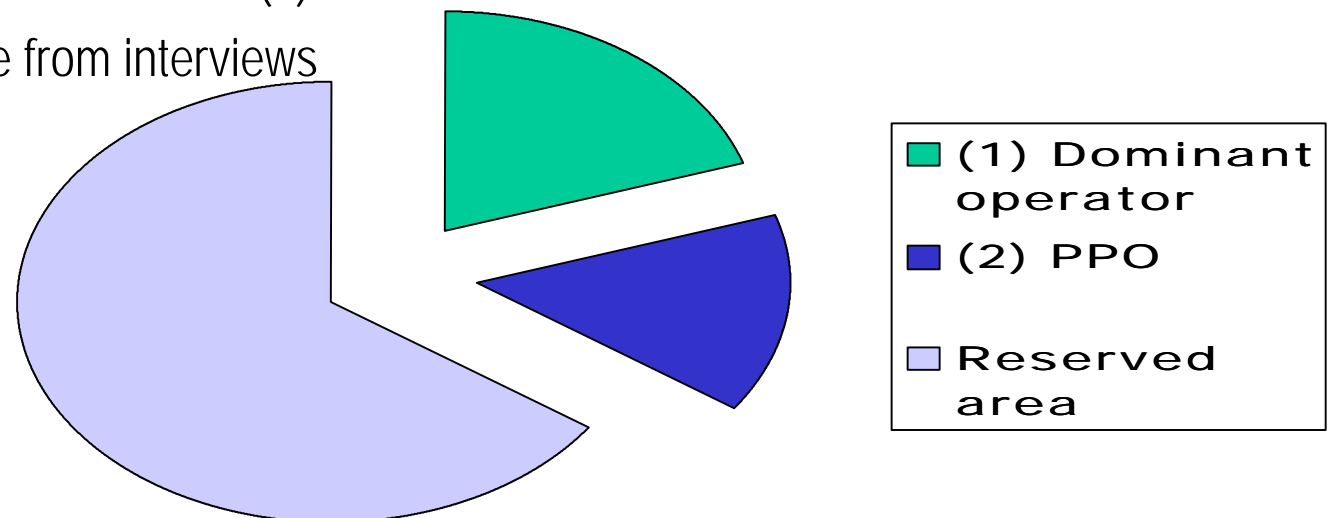
- TPG also provides an European comparison on the same broad reference market (addressed mail, parcels, magazines).
- No possibility to check UK, German and French figures as no details are provided.



- No conclusion can be drawn about liberalisation degrees across Europe

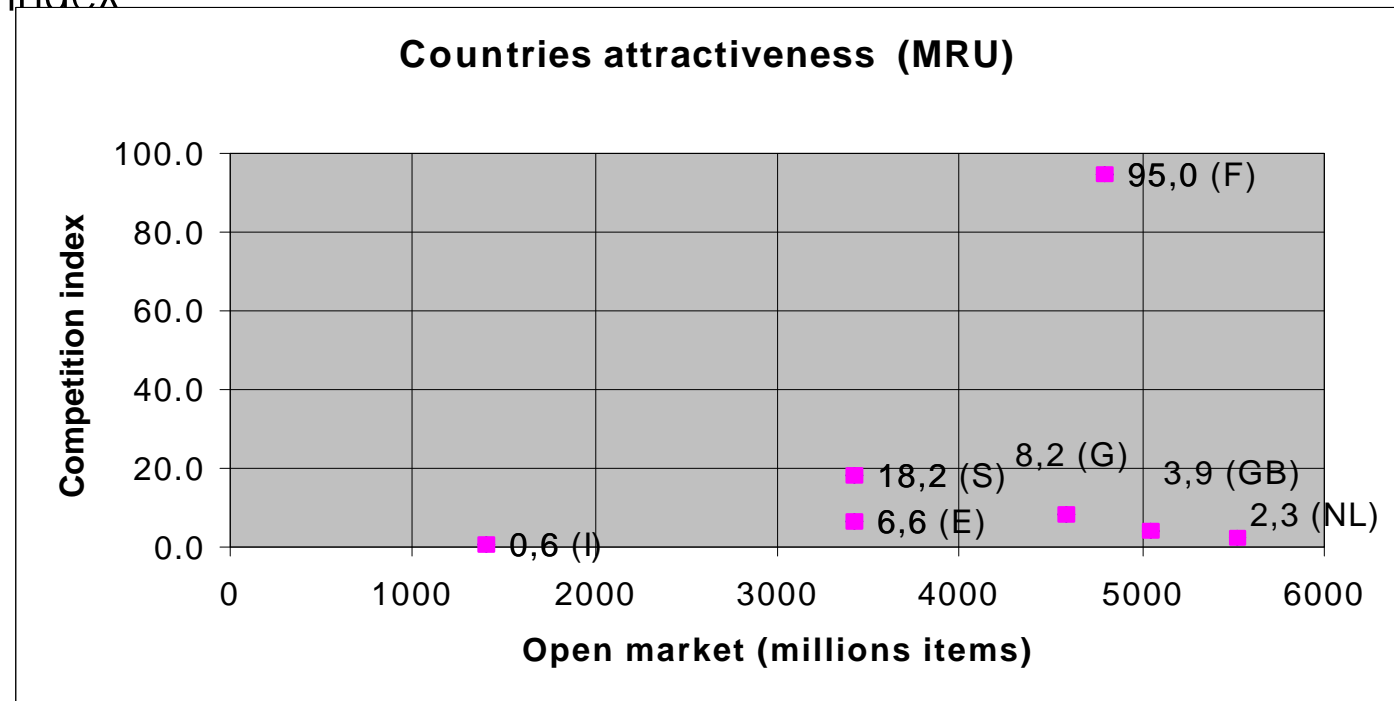
Private Postal Operators in Europe (MRU)

- MRU's objective: "Assessing for the PPO of 7 European countries the attractiveness of the letters (including DM) market up to 2 kgs given the size of the open market and the competition intensity on this market"
- Approach:
 - ▶ The Letters volume open to competition up to 2 kgs gives the PPO's potential market (1+2)
 - ▶ MRU sets up a "competition index applied to this liberalised market = $\text{USP mail volume (1) / PPOs total mail volume (2)}$ " (2)
 - ▶ PPOs Data come from interviews



Private Postal Operators in Europe (MRU)

- Each country is ranked by using the 2 criterias “potential market” and “competition index”



- MRU concludes that there are few incentives to enter into the French and Italian markets:
 - ▶ In Italy: “competition is already intensive on a relatively small market ”
 - ▶ In France: “despite a strong potential, there are high entry barriers”

Private Postal Operators in Europe (MRU): too many weak points

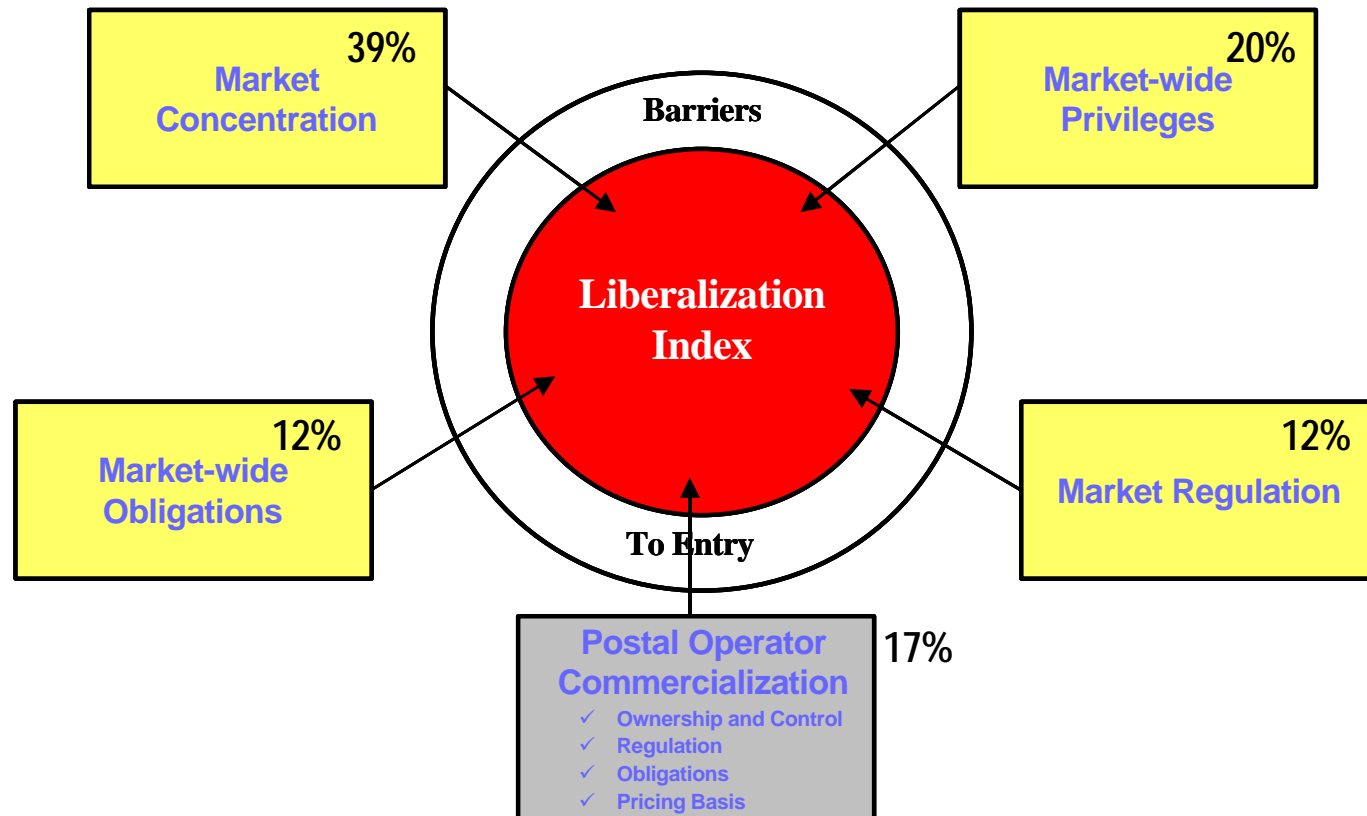
- The reference market is too vast and aggregated to be precisely defined and easily checked ; comparisons are *de facto* hazardous
- PPOs data is mistaken for instance for Germany, MRU overestimates competitors volumes:
 - ▶ PPOs 1999 traffic (all licenses): REGTP [181 millions] /MRU [500 millions]
 - ▶ PPOs 2000 traffic (all licenses): REGTP [252 millions] /MRU [796 millions]
- Attractiveness analysis is not robust as it should integrate many other factors such as geographical criteria, USPs automatisisation level etc.
- The “competition index” is not a relevant indicator to quantify competition intensity
- Open market figures and competition index measures can't be interpreted as they don't rely on accurate and comparable data.
- MRU's results are often quoted and even used by OPTA

The World Bank Group: An Index of Postal Sector Liberalization

- “The Liberalization Index is designed to help the World Bank evaluate the role of legislative, regulatory and institutional changes on the liberalization of the postal markets”.
- Regional analysis (Latin America, Africa, Western Europe, Asia, Eastern Europe) at the worldwide level with a specific attention to the developing world.
- It is not intended as an investment assessment tool but as an overall analysis framework to understand the impacts of postal reforms on market dynamics
- Reference market is addressed mail up to 2 kgs split into 2 segments: business mail and consumers mail
- Information collected from questionnaires sent to Universal Service Providers (26 out of 45 answered with only 3 EU members)

An Index of Postal Sector Liberalization (WBG): 5 types of criteria both quantitative & qualitative

- A panel of industry experts assigned various weights to each of the factors



- Qualitative indicators represent 61% of the global index

An Index of Postal Sector Liberalization (WBG): factors meanings

- Market concentration (39%): degree of competition
 - ▶ Monopoly if USP's market share $\geq 90\%$
 - ▶ Liberalized market if USP's market share $\leq 70\%$
- Market regulation (12%): Legal and regulatory structure + any specific legislation
Independence of the regulator and whether the regulator has control over setting prices for reserved services
- Market-wide obligations (20%): USO burden and its impacts on competition
- Market-wide privileges (12%): The degree to which the universal service provider competes on a level playing field with private companies
 - ▶ Universal service has the potential to distort competition
- Commercialization (17%): Degree of corporate freedom and commercial flexibility.
Measures the extent to which the universal service provider is permitted and required to operate its business in the same manner as a private company.
 - ▶ Qualitative components are assumed to be reflecting the impacts of political decisions on competition

An Index of Postal Sector Liberalization (WBG): results and conclusion

- Each country is ranked from +1 (perfectly liberalized) to -1 (completely closed to competition) but ranking remains confidential
- Regional analysis at the worldwide level: description of market structure (concentration, number of operators, regulatory/legislative framework etc.) is given at a disaggregated level. What is the added value of the index?
- The WBG liberalization approach is mainly political, i.e. based on experts judgements about the impacts of different regulation decisions on market structure. Such analyses can't be synthetised from an index.
- Information should be rather country focused before any comparison attempt

Critical outlook of existing studies: summary

	Reference market (and its segmentation)	Index breakdown / calculation methodology	Main disadvantages
BVdP	Addressed mail (Std + Express + DM) + parcels (Std + Express) + VAS	Average of qualitative (entry barriers) + quantitative (market shares&concentration level) criteria	<ul style="list-style-type: none"> ■ Biased volumes (including unaddressed mail) ■ Parcels + VAS reported in the index ■ Intricate average of quali + quanti factors
TPG	Addressed mail (business + consumer + DM + international) + parcels & registered	Opening degree given by the % of open market to competition (estimated electronic & physical competition)	<ul style="list-style-type: none"> ■ Analysis of potential competition. No details on the real competition level.
MRU	Addressed mail up to 2 kgs (reserved area + open market, letters - direct mail and international mail reported -)	“Attractiveness” of potential market for the PPOs depends on the open market size and on the ratio between PPOs and USP market shares	<ul style="list-style-type: none"> ■ Traffics of poor reliability (including unaddressed mail, PPOs volumes overestimated) ■ Debatable methodology
WBG	Addressed mail up to 2 kgs (business + consumers mail) Focused on developing countries	Qualitative measurement of political decisions impacts on market dynamics based on experts judgements	<ul style="list-style-type: none"> ■ Index mainly based on qualitative criteria assumed to be reflecting political decisions

Critical outlook of existing studies: conclusion

- Current estimates of liberalisation degrees are unsatisfactory:
 - ▶ Data issues: heterogeneous from one country to another, unreliability due to different market segmentations / definitions (ex: non addressed mail reported)
 - ▶ Debatable methodologies (ex: reference market including parcels)

- Comparisons from these estimates don't give any indications about relative degrees of market opening or competition levels.

- Data cross-checking* by country on competition market shares and PPOs volumes for the “addressed mail market” shows a relatively low level of competition despite different liberalisation progresses.

* From recognized sources (Regulators, USPs, EC), this part of the study is detailed in the full report

Recommendations to assess the current degree of market opening

- Market [delimitation + segmentation] should be identical for all countries
 - ▶ Delimitation: delivery of addressed mail market
 - ▶ Segmentation: letters + direct mail, both precisely defined (type of postal items, weight limits)
- Data used (volumes/revenues) for comparison should cover this same market
- Trade-off between a fine segmentation (accurate data) and a standard market perimeter (comparable data)
- Specifics of market data reporting by country depends on regulatory / legislative framework
 - ▶ Postal items, postal activities definitions
 - ▶ USO, reserved area, licenses
 - ▶ Regulator field of intervention

Focus on regulatory framework in relation to the addressed mail market

- Different segmentations resulting from
 - ▶ the reserved area perimeter and
 - ▶ the types of postal items included in the addressed mail market

Addressed mail	advertising mail	business mail	consumers mail
Germany	Monopoly under 50g	Monopoly under 100g since 01/01/2003 (previously 200g)	
Netherlands	Completely open*	Monopoly under 100g	
United-Kingdom	single piece: monopoly under 100g		
	bulk mail: liberalised for a mailing > 4000 items**		
Sweden	Completely open		
France	Monopoly under 100g since 01/01/2003 (previously 350g)		

*According to OPTA, the legal definition of printed matter is ambiguous. Advertising mail with added text in writing could be considered as letter and therefore part of the reserved area (if under 100g)

** in the same format from a single postal user from a single site

- Direct impact on the extent of market opening
 - ▶ obvious in Sweden
 - ▶ difficult to estimate in UK because of complex segmentations based on different criteria depending on the type of item (weight limit for single piece items / items number for bulk mail)
- Availability of harmonised data is at stake due to regulatory “sectorisations”

Focus on regulatory framework at a lower level

- Analysis of regulated activities and related definitions unmask more specificities

Country	"postal services" definition	"postal items" definition	Services subject to license or registration
Germany	Conveyance (defined as collecting, transporting or delivering postal items to the addressee) of postal items (defined as written addressed communications), parcels <= 20 kg, newspapers, magazines, periodicals, catalogues and books	see postal services definition	All postal services (licences : Items of correspondence <=1000g i.e. registered letters, international & express mail)
Netherlands	No specific definition for postal services Conveyance of mail = activities for processing traffic in order to deliver postal items for a charge	items of correspondence, printed matter, parcels (defined as wrapped & addressed items not containing any items of correspondence nor printed matter,	
UK	The service of conveying postal packets from one place to another by post, the incidental services of receiving, collecting, sorting and delivering such packets and any other service which relates to any of those services and is provided in conjunction with any of them	"letter":any communication in written form on any kind of physical medium to be conveyed and delivered otherwise than electronically to the person or address indicated by the sender on the item itself or on its wrapping (excluding any book, catalogue, newspaper or periodical); and includes a postal packet containing any such communication. "postal packet":letter, parcel, packet or other article transmissible by post	Letters <= 350g & <= 1£
Sweden	Regular delivery of letter for a charge	Letters = addressed mail <= 2 kg	letters <= 2 kg
France	In debate	In debate	

No standard definition for the addressed mail market

- There are various addressed mail definitions:
 - ▶ Regular delivery in Sweden
 - ▶ In Netherlands, direct mail includes printed matter close to unaddressed advertising mail
- Data observed/collected by regulators depends on their intervention field:
 - ▶ In Germany, addressed mail up to 1 kg (under licensing regime) includes registered items, international and express mail
 - ▶ In Sweden, licences are only necessary for “the regular delivery of letters for a charge”, therefore express mail volumes/revenues are not reported
 - ▶ In UK, licences are granted on a complex set of criteria which are not related to the addressed mail market definition but aimed to gradually open Royal Mail’s licence to competition for specific activities (such as consolidation, bulk mail, enhanced document exchange services)
 - ▶ In France and Netherlands licensing systems don’t exist (yet), is there any reliable information available about current competition?

A fair estimate based on the price&weight limits of the reserved area

- Data from the CTcon Study (1998) for the EC on the weight & price limits of the reserved area
- Segmentations from the weight bands are “easy” to check, to standardize across countries (comparable figures) and not too volatile over time
- It gives a normative background, useable as a first estimate of opening degree at an aggregated level of analysis



It doesn't address issues related to

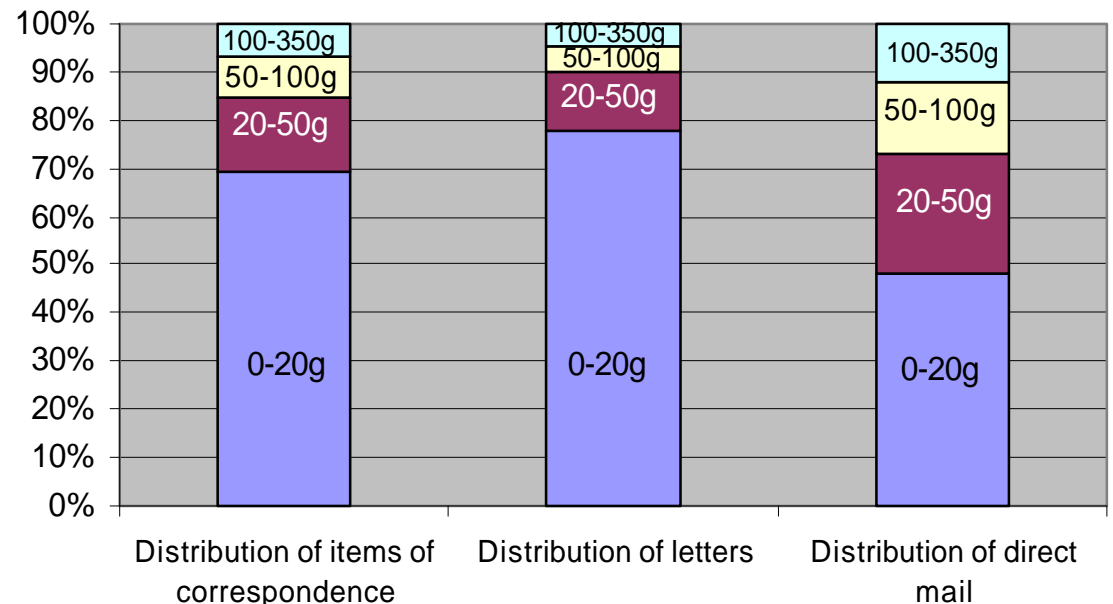
- ▶ specific segmentations (ex:business mail included or not in the reserved area, distinction between business mail and advertising mail)
- ▶ different postal items definitions (ex:direct mail)
- ▶ specific regulatory framework (ex:UK)

Market outlines: definition and sizing in relation to weight bands

letter post items		
Items of correspondence		other letter post items
letters	direct mail	such as: - books - catalogues - new spapers - periodicals
Items of correspondence other than direct mail	a communication consisting solely of advertising, marketing, or publicity material and comprising an identical message, except for the addressee's name, address and identifying number as well as other modifications which do not alter the nature of the message which is sent to a significant number of addressees	

Up to 350g

- 59.2 billions of items (11 countries)
 - ▶ 73.4% letters
 - ▶ 26.6% DM



Market segmentation: liberalised volumes in function of weight bands

Direct Mail Letters	0g	<= 20g	<= 50g	<= 100g	<= 150g	<= 200g	<= 250g	<= 300g	<= 350g
0g	100.00%	87.10%	80.50%	76.30%	75.30%	74.50%	73.80%	73.60%	73.40%
<= 20g	43.30%	30.40%	23.80%	19.60%	18.60%	17.80%	17.10%	16.80%	16.60%
<= 50g	34.10%	21.20%	14.60%	10.40%	9.40%	8.60%	7.90%	7.60%	7.40%
<= 100g	30.10%	17.20%	10.60%	6.40%	5.50%	4.70%	3.90%	3.70%	3.50%
<= 150g	29.10%	16.20%	9.60%	5.40%	4.40%	3.60%	2.90%	2.60%	2.40%
<= 200g	28.20%	15.30%	8.70%	4.40%	3.50%	2.70%	2.00%	1.70%	1.50%
<= 250g	27.30%	14.40%	7.80%	3.60%	2.60%	1.80%	1.10%	0.90%	0.70%
<= 300g	27.00%	14.10%	7.50%	3.20%	2.30%	1.50%	0.80%	0.50%	0.30%
<= 350g	26.60%	13.70%	7.10%	2.90%	2.00%	1.20%	0.50%	0.20%	0.00%

- The reduction to 100g in the weight limit has a limited impact on USPs. In average USPs keep 93.6% of their reserved area on the addressed mail market up to 350g.
- Various scenarios of combinations of weight limits for both letters and direct mail can be analysed

Normative measure of the current market opening degree (in volume)

Addressed mail	advertising mail	business mail	consumers mail
Germany	Monopoly under 50g	Monopoly under 100g since 01/01/2003 (previously 200g)	
Netherlands	Completely open*	Monopoly under 100g	
United-Kingdom	single piece: monopoly under 100g		
	bulk mail: liberalised for a mailing > 4000 items**		
Sweden	Completely open		
France	Monopoly under 100g since 01/01/2003 (previously 350g)		

Direct Mail Letters	0g	<= 20g	<= 50g	<= 100g	<= 150g	<= 200g	<= 250g	<= 300g	<= 350g
0g	100.00%	87.10%	80.50%	76.30%	75.30%	74.50%	73.80%	73.60%	73.40%
<= 20g	43.30%	30.40%	23.80%	19.60%	18.60%	17.80%	17.10%	16.80%	16.60%
<= 50g	34.10%	21.20%	14.60%	10.40%	9.40%	8.60%	7.90%	7.60%	7.40%
<= 100g	30.10%	17.20%	10.60%	6.40%	5.50%	4.70%	3.90%	3.70%	3.50%
<= 150g	29.10%	16.20%	9.60%	5.40%	4.40%	3.60%	2.90%	2.60%	2.40%
<= 200g	28.20%	15.30%	8.70%	4.40%	3.50%	2.70%	2.00%	1.70%	1.50%
<= 250g	27.30%	14.40%	7.80%	3.60%	2.60%	1.80%	1.10%	0.90%	0.70%
<= 300g	27.00%	14.10%	7.50%	3.20%	2.30%	1.50%	0.80%	0.50%	0.30%
<= 350g	26.60%	13.70%	7.10%	2.90%	2.00%	1.20%	0.50%	0.20%	0.00%

Sweden

NL (max)

Germany

France

??

UK ??

??

Regulatory specificities imply more research...

- **In the Netherlands**, given the restrictive legal definition of printed matter, a percentage of direct mail remains in the reserved area. But the analysed scenario is based on a complete liberalisation
 - ▶ 30.10% is a maximum as strictly speaking only printed matter (unpersonalized advertising mail) were liberalised
 - ▶ What is the share of printed matter in the direct mail?

- **In the United-Kingdom**, the market opening policy relies on the licensing regime. Licences are granted for 3 types of postal business irrespective of the weight or cost of the individual postal item and not necessarily part of the addressed mail delivery market:
 - ➔ The weight band segmentation is not relevant to assess the liberalisation degree in this country

Normative measure of the current market opening degree (in revenue)

Direct Mail Letters	0g	<= 20g	<= 50g	<= 100g	<= 150g	<= 200g	<= 250g	<= 300g	<= 350g
0g	100.00%	92.50%	88.10%	84.80%	83.80%	82.80%	81.90%	81.50%	81.10%
<= 20g	46.80%	39.30%	34.90%	31.70%	30.60%	29.60%	28.70%	28.30%	28.00%
<= 50g	34.80%	27.30%	22.90%	19.70%	18.60%	17.60%	16.80%	16.30%	16.00%
<= 100g	28.50%	21.00%	16.60%	13.30%	12.30%	11.30%	10.40%	10.00%	9.70%
<= 150g	25.90%	18.40%	14.00%	10.80%	9.70%	8.70%	7.80%	7.40%	7.10%
<= 200g	23.60%	16.10%	11.70%	8.40%	7.40%	6.40%	5.50%	5.10%	4.70%
<= 250g	21.40%	13.90%	9.50%	6.20%	5.10%	4.20%	3.30%	2.90%	2.50%
<= 300g	20.10%	12.60%	8.20%	4.90%	3.90%	2.90%	2.00%	1.60%	1.30%
<= 350g	18.90%	11.30%	6.90%	3.70%	2.60%	1.70%	0.80%	0.30%	0.00%

Sweden
NL (max)
Germany
France
??
UK ??
??

Conclusion on the current liberalisation degrees for the 5 selected countries

- Liberalisation degrees on the addressed mail delivery market (up to 350g)

	% (volume)	% (revenue)
Sweden	100%	100%
Netherlands *	max 30,1%	max 28,5%
Germany	10.60%	16.60%
France	6.40%	13.60%

* Direct Mail includes personalised addressed mail which stays in the TPG Post's exclusive concession. Only printed matter delivery is fully open to competition

- Difficult to provide any estimate for the UK; no data available. Up to now competition has been marginal (temporary licences on niche activities). The new licensing regime since 01/01/2003 should introduce more competition...too early to conclude
- These results call into question the important differences in market opening degrees usually published
- Is the addressed mail delivery market the relevant reference market to investigate?

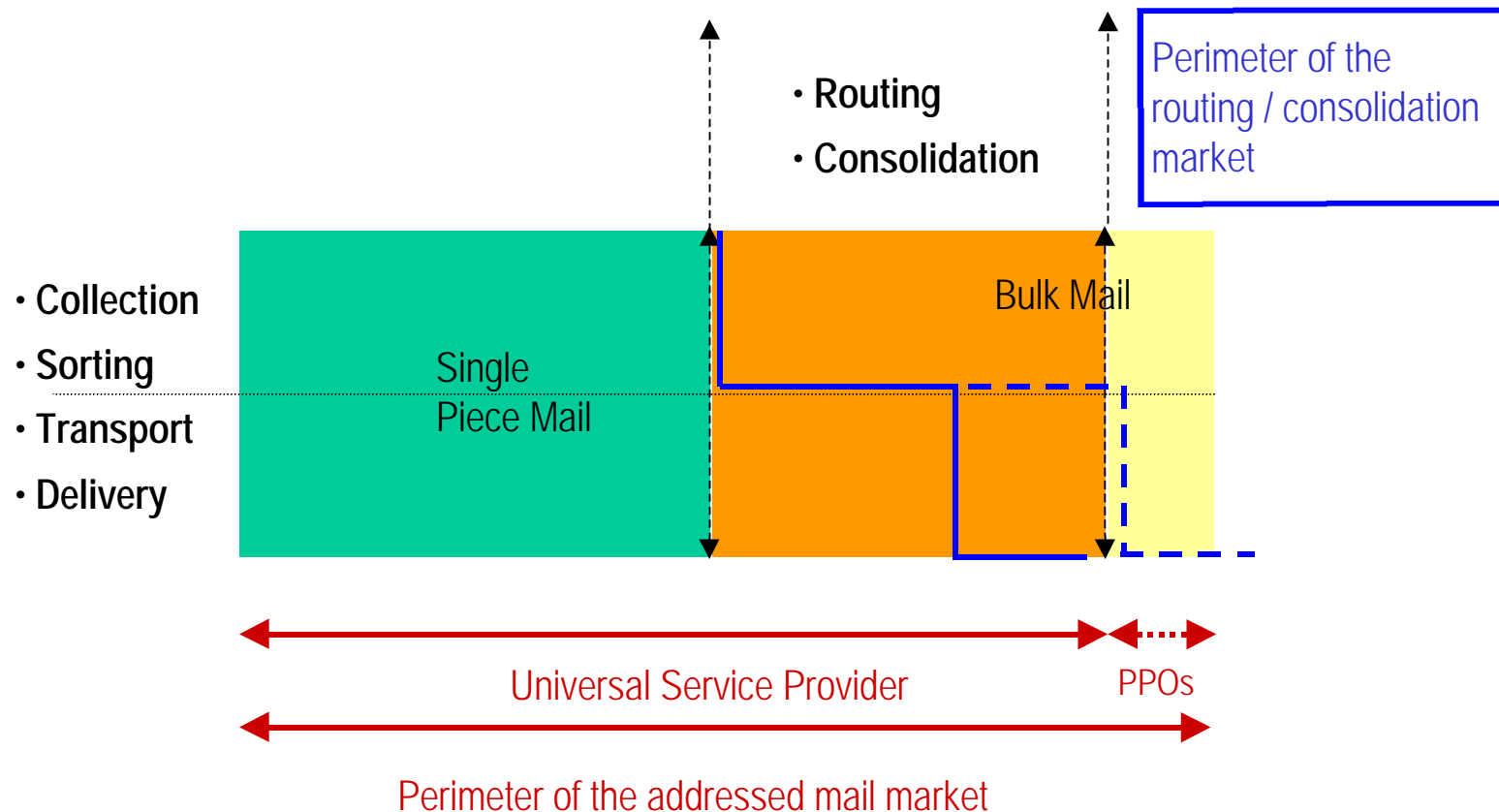
Liberalisation and competition on upstream markets for bulk mail: a quick introduction

- Competition on these markets (collection, sorting and transport of large mailings) has not yet been properly analysed across Europe
- These markets are usually assumed to be not very attractive (ex:CTcon, 1998)
- Recent debates about consolidation in Germany and in the United Kingdom, examples in the USA with worksharing and in France with the sortation/routing sector prove that these markets may develop or even exist
- Consolidation consists in collecting from various senders and pre-sorting postal items before they enter the USP's network
- If competition exists on upstream markets, it seems reasonable to expand the liberalisation benchmark analysis to these markets

Brief overview of the recent debates

- In March 2003, the German government decided to forbid consolidation of postal activities remaining in the German Post's exclusive licence. This decision was taken within the scope of transitory rules of the law on DPAG's exclusive licence extension.
 - ▶ Was the potential competition on this market a threat to DPAG before the total opening of the market in 2009?
- At the same time, Postwatch submitted a complaint to the OFT on the twofold grounds:
 - ▶ Royal Mail may be abusing its dominant position in the market for the delivery of letters to consumers in order to prefer its own business in the market for mail consolidation in the UK. (ex: unfair trading conditions on large senders seeking access to its own network)
 - ▶ there are essential features of the market for mail consolidation which are likely to be significantly harming the interests of consumers

Market outlines for the analysis of liberalisation and competition on upstream services for bulk mail



Questions to address to build a reference frame for the upstream markets in Europe

- Information on bulk mail preparation firms
 - ▶ In France, ~ 400 companies on a market valued at 1 billion € in 1998
 - ▶ In the USA more than 2/3 of total USPS volumes are prepared
 - ▶ In Germany and in the Netherlands, a market which seems less developed (restrictive conditions on bulk mail preparation: “same sender, same format”) despite lettershop activities or mailing houses
- Financial and technical conditions on which mail preparation firms may have access to the USP’s network
 - ▶ Access contracts?
 - ▶ Discounts on the normal cost of posting a single piece letter in consideration of the bulk mail preparation?
- Competition on the addressed mail delivery market doesn’t give the full picture
 - ▶ Exhaustive inventory by country to define and to precise the perimeter of the upstream services market