

Universal Postal Service and Competition: Experience from Europe

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Executive summary

All over Europe, national postal operators – the providers of universal postal service – are facing two major challenges: Declining mail volumes and electronic substitution on the one hand, and increasing competition from private operators on the other hand.

The UK is different from other EU postal markets as, despite full liberalisation in 2006, hardly any market entry from end-to-delivery firms has occurred so far, while access competition has grown on an unprecedented basis. As a result, Royal Mail still carries out the final delivery for almost all letters in the UK. Faced with possible end-to-end entry in the future, Royal Mail, and some observers appear to be concerned that end-to-end entry may endanger the sustainability of Royal Mail's universal service. Ensuring the universal service obligation is the primary statutory duty of postal regulators in the UK. Prices of first class letters for individuals are comparatively low in the UK. At the same time, the level of access discounts is higher than in other European countries. This is one factor that may explain why end-to-end-competition has not yet developed in the UK, and postal competition is largely based on downstream access.

Against this background, WIK-Consult has prepared this study on behalf of TNT Post UK. The study's objective is to discuss how end-to-end-competition in the mail market affects universal service, based on experience from those European countries where there is end-to-end competition today: Germany, Sweden, the Netherlands, and Spain.

Overall conclusions

In the letter markets we surveyed, the incumbents' have experienced substantial market entry, and today have market shares of 83 to 90 per cent. Despite this end-to-end-competition, universal service has continued to be provided, in all parts of the countries. Generally, quality of universal service has improved, in particular with respect to routing times, and longer opening hours in the postal agencies that replace traditional rural post offices. However, incumbent operators in the liberalised markets have tried different approaches to provide the universal service, and in some cases regulators had to take actions to ensure universal service was provided without service disruptions. Such areas of concern, that may warrant close regulatory surveillance, include, in particular, the post office network and public tariffs offered to individual households, the most vulnerable group of customers.

With the exception of Spanish Correos' most two recent results, all universal service providers have managed to operate profitably. Correos was profitable in most years, but posted small negative results in 2009 and 2010 (the two years following the financial crisis).

The three profitable operators (Dutch PostNL, German Deutsche Post, and Sweden Post) do not receive any compensation for universal service, and indeed provide their universal service products on very successful commercial terms. That said, these three

operators, over the last two decades, have used their commercial flexibility to modernise their sorting and transportation networks as well as their post office networks. As a result, their cost structure has become more flexible, allowing them to respond to changing market conditions. In Spain, Correos has traditionally received state aid of approximately 60 million EUR per year. According to the new Spanish postal law of 2011, a compensation fund will be established to finance the universal service in the next years.

Undoubtedly, the changing communication patterns, and the decline of mail volumes in many countries, create challenges for all postal operators, including universal service providers. In all countries we have observed, the loss of volume to competition has had some negative influence on the revenues and profits of universal services providers. However, this competition appears to be much less important a risk than the decline of total market volume that result from changing demand behaviour and electronic substitution. How postal operators meet these challenges appears as the most important factor determining whether or not they can be maintain financial success.

In the liberalised postal markets we surveyed, universal service providers have undergone major organisational changes to achieve greater efficiency. End-to-end-competition has provided strong incentives for this modernisation that included, for example, an overhaul of post office and delivery networks, , sorting technology, formats and price structures, as well as their operational and management structures. In order to ensure universal service can be sustained in our increasingly digital societies, modernisation of universal service providers is a necessity. In the four different countries, we believe end-to-end competition has helped to achieve a sustainable universal service, and indeed improve universal service quality, by putting pressure on incumbent operators to modernise.

Universal postal service and competition in Germany

The German postal market is completely liberalised and open to competition since January 2008, after competitors had established local delivery networks sine 1998 already. In 2009, the combined market share of end-to-end-competitors of Deutsche Post was 10 per cent by volume. The biggest competitor is TNT Post.

In contrast to many other European countries, volumes in the German mail market have slightly increased since 2001, while Deutsche Post lost about 5 per cent of its volume. Prices for single-piece mail have dropped in real terms, as required by regulation, and tariffs for bulk mail decreased as a result of liberalisation and emerging pressure from competitors. Just a few weeks before full market opening, in December 2007, Deutsche Post had increased the access discounts it offer both to bulk mailers and consolidators by more than 5 percentage points.

In Germany, there is no obligated universal service provider. The duty to ensure universal service rests on the regulators: the regulator that may choose to impose obligations, or procure elements of the universal service only in case the market would not provide an sufficient service level voluntarily. The market as a whole provides universal service. However, Deutsche Post alone fulfils the legal requirements regarding universal service. Deutsche Post provides the universal service voluntarily and considers these services as profitable commercial products. Transit time performance has been constantly on high levels during the last ten years. Deutsche Post has restructured its postal network by replacing nearly all post offices by agencies, but network density and accessibility was maintained.

The establishment of a universal service fund for financing the universal service obligation is legally possible but there are no plans for introducing such a fund. The German regulator BNetzA sees no need for introducing such a fund as the market provides sufficient universal service.

Deutsche Post has operated profitably for more than ten years. A major restructuring process of Deutsche Post already took place between 1993 and 1999. Employment in the mail segment has remained relatively stable in the last ten years.

Universal postal service and competition in the Netherlands

The Netherlands has completely opened its postal market for end-to-end-competition on 1 April 2009. Before that, several operators had been delivering direct mail, following liberalisation of this segment in 2000. In 2010, competitors reached a combined market share of around 17 per cent. Most competition is in the direct mail segment. The biggest competitor is Sandd, a firm owned by Dutch venture capitalist Trimoteur.

Volumes in the Dutch mail market have declined slowly, but continuously, in the past five years. Volumes of incumbent operator PostNL have declined at a higher rate due to loss of market share. Overall, PostNL has lost about 27 per cent of mail volume since 2001. Prices for single-piece mail have considerably increased since 2001. Bulk mail tariffs for direct mail and periodicals declined around full liberalisation; driven mainly by emerging competition.

A universal service fund for financing the universal service obligation is legally possible but there are no plans for introducing such a fund because the Dutch regulator has not detected any need for such compensation. Universal service is provided without any compensation (other than the price senders pay for their service).

PostNL is the designated universal service provider and fully delivers on its universal service obligation: Transit time performance has been constantly on very high levels during the last ten years. PostNL started to transform its post office network between 1992 and 1998, and has replaced most post offices by franchised agencies.

In 2001, TNT provided mail, express and logistic services internationally. The logistics division was divested in 2005. In 2011, TNT was split into two separate companies ('PostNL' which contains the Mail segment and 'TNT Express' for Express services). TNT has been very profitable for more than 10 years, with some drop in profits in 2009 and 2010. Total employment numbers in the mail segment remained relatively stable but job profiles for delivery workers have changed as sorting and delivery operations were modernised.

Universal postal service and competition in Spain

Since January 2011, the Spanish postal market is completely open to end-to-end-competition. However, competitors in Spain have always been allowed to deliver intra-city mail, and there was substantial entry long before 2011. The market share of competitors of incumbent Correos is around 12 per cent, and was largely stale during the last ten years. The biggest competitor is Unipost.

Mail volumes of Correos have decreased considerably during the last three years, and competitors' volumes declined as well. This likely reflects the strong recession of the Spanish economy after 2008. Letter post prices for single piece items increased considerably (by more than inflation) but are still low compared to the UK and other EU countries.

Correos is obliged to provide universal service in Spain until 2025. Current service levels comply with the Spanish legal requirements. Correos has reduced the number of post offices although density of this network is very low compared to other EU countries. Service quality has improved considerably over the last ten years, particularly transit time performance. These improvements likely result from improved management of Correos.

The new Spanish postal law which came in force in 2011 allows the possibility to establish a universal service fund, funded from competitive operators (max. 0.5 per cent of net revenues and the state budget for remaining compensation). This fund is expected to be implemented in the second half of 2011.

Correos depends quite heavily on traditional letter services. After 2008, revenues of Correos have declined and EBIT was negative in 2009 and 2010 even though Correos receives state aid to compensate its universal service obligation. These payments are approximately 60 million EUR per year since 2008, when they were reduced from about 90 million EUR previously.

Universal postal service and competition in Sweden

In Sweden, the postal monopoly was abolished at the beginning of 1993. Even before 1993, bulk mail was liberalised enabling Bring City Mail (the biggest competitor) to enter the market in 1991. The combined market share of all end-to-end-competitors was

around 12 per cent in 2010, largely stable over the last ten years. Competitors to Sweden Post do not operate in all of the country but the major competitor Bring CityMail serves more than 50 per cent of all Swedish households.

Mail volumes in Sweden have been steadily declining during the past ten years, and were down 14 per cent between 2001 and 2010. Posten increased tariffs for single-piece mail in line with inflation. Tariffs for bulk mail declined after liberalisation.

Sweden Post is the designated universal service provider and fulfils the legal requirements, providing nationwide service all over Sweden. Sweden Post has constantly outperformed its transit time target during the last ten years. Posten recently started to slightly reduce the post office network after it had increased considerably the number of postal agencies in the early 2000's.

There is no legal mechanism for financing of the USO, and Swedish authorities see no need for it. While Sweden Post's total revenues increased, mail revenues continuously declined during the last ten years. Total employment continuously declined. Until 2007, Sweden Post received state aid (~38m GBP per year) in return for providing basic cashier services in post offices.

1 Introduction

All over Europe, national postal operators – the providers of universal postal service – are facing two major challenges: Declining mail volumes and electronic substitution on the one hand, and increasing competition from private operators on the other hand.

Despite full liberalisation in 2006 the UK has – unlike other European markets – hardly witnessed any end-to-end entry, i.e. there are no operators that deliver significant volumes of mail to UK households using their own staff and infrastructure. Instead, much competition has emerged in upstream market segments, where consolidators use downstream access to Royal Mail's delivery network.

The objective of this study is to discuss how end-to-end-competition in the mail market affects universal service, based on experience from those European countries where there is end-to-end competition today (Germany, Sweden, the Netherlands, and Spain). In doing so, the report discusses, first, the effect of competition on universal service in each market, and, second, the effect of end-to-end competition on the sustainability and profitability of the incumbent universal service provider.

This report was prepared for TNT Post UK between June and August 2011. The report analyses experience in foreign postal markets in the past ten years. All data presented in the report is for the period 2001-2010 (where available).

2 Universal postal service and competition in Germany

Table 1 Key statistics: Germany

Population (2010)	81.8 million
Number of households (2009)	40.2 million
Internet penetration* (2009)	79 %
Market share of USP** (2009)	90.0 % (volume-based) 88.2% (revenue-based)
USP Mail volume** (2009)	17.5 billion
USP turnover Mail (2010)	11.8 billion GBP
USP EBIT Mail (2010)	960 million GBP

Note: * Percentage of households having access to the internet at home.
 ** Markets shares are related to the licensed area (letters up to 1 kg).

Source: Population and Internet Access: Eurostat; Number of Households: National Statistic Bureaus, Market Shares and USP data: publications of regulators and USPs.

2.1 Liberalisation

Gradual liberalisation of the German postal market started in 1998 with the reduction of the limits of the reserved area to 200g and five times the standard tariff for a 20g letter. Letters with identical contents and a minimum number of 50 pieces (i.e. bulk advertising) were only part of the reserved area below 50g. In addition, competitive postal operators were allowed to deliver letters below these limits if they provided services with higher quality than universal services, e.g. with same-day delivery or tracking and tracing.¹ The next market opening steps reduced the reserved area (for non-identical letters) to 100g and three times standard tariff in 2003 and to 50g and 2.5 times standard tariff in 2006. The market is completely opened since January 2008.²

There is regulated downstream access to outward and inward sorting centres of Deutsche Post since 2000. Since a ruling of the competition authority in 2005, customers and competitors have non-discriminatory access while before 2005, access was available to direct customers only.

Deutsche Post is a stock listed public limited company. Currently, the German government holds a share of 30.5%, all other shares are at free float.

¹ Further exemptions from the reserved area included document exchange, collection of letters from post box facilities of the USP and delivery to the recipient as well as collection of letters at the sender and deposit at facilities of Deutsche Post.

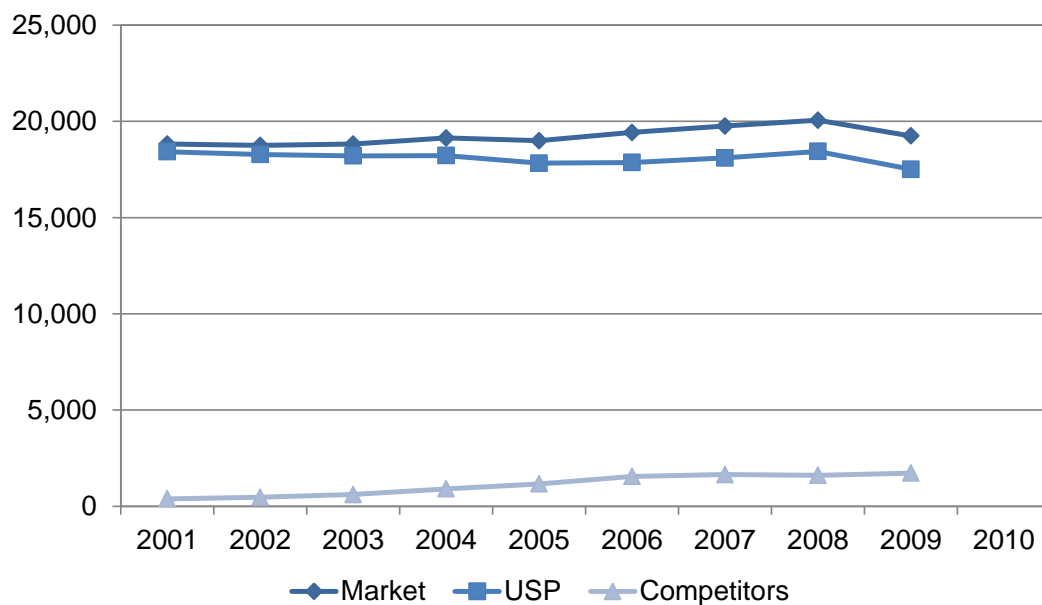
² Note that the 1998 postal law had determined the postal monopoly to end by the end of 2002. The law was changed in 2001 to extend the reserved area until 2007, and phase out the monopoly more gradually, more in line with the schedule of the EU postal directive.

2.2 Market development

Mail volumes

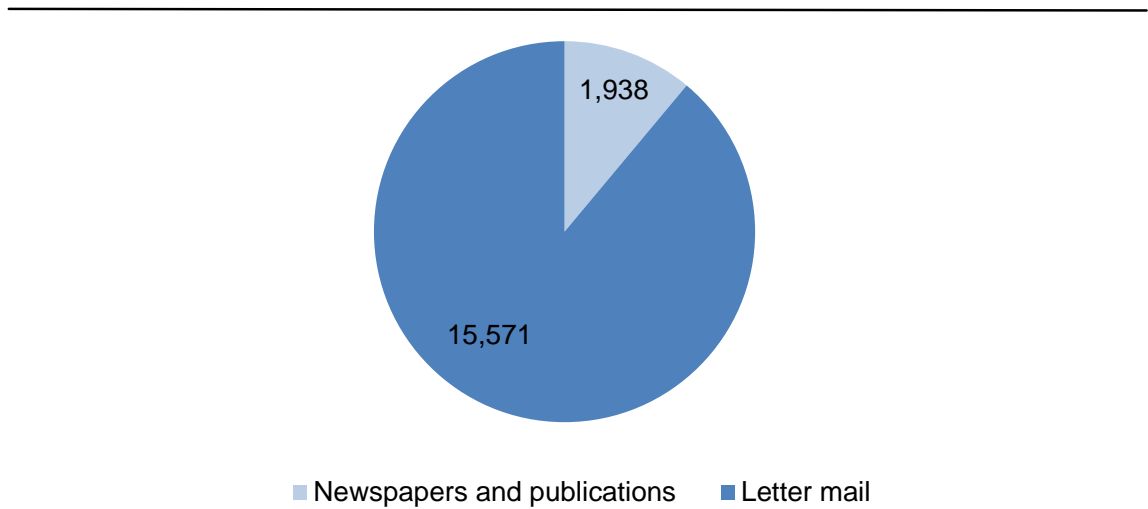
In contrast to many other European countries, volumes in the German mail market have slightly increased (2%) from 2001 to 2009. However, Deutsche Post lost about 5% of its letter mail volumes during that period while competitors slowly increased their volumes (see Figure 1).

Figure 1 Development of mail volumes in Germany (million items)



Source: Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen 2001-2010; Deutsche Post, Annual Reports 2001-2010.

Figure 2 Breakdown of mail volumes of Deutsche Post (million items) in 2009



Source: Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen 2001-2010; Deutsche Post, Annual Reports 2001-2010.

Breakdown of Deutsche Post's mail volumes by type of mail shows that newspapers/publications and letter mail have both contributed to Deutsche Post's loss of volume. While newspapers and publications have steadily declined during the last ten years, a temporary recovery of mail volume in 2008 was mainly due to increased rebates Deutsche Post offered its business customers, and an increase in Deutsche Post's market share. In 2009, letter mail volumes of Deutsche Post were affected by the economic crisis on the one hand and structural changes, especially electronic substitution of transactional mail, on the other hand.

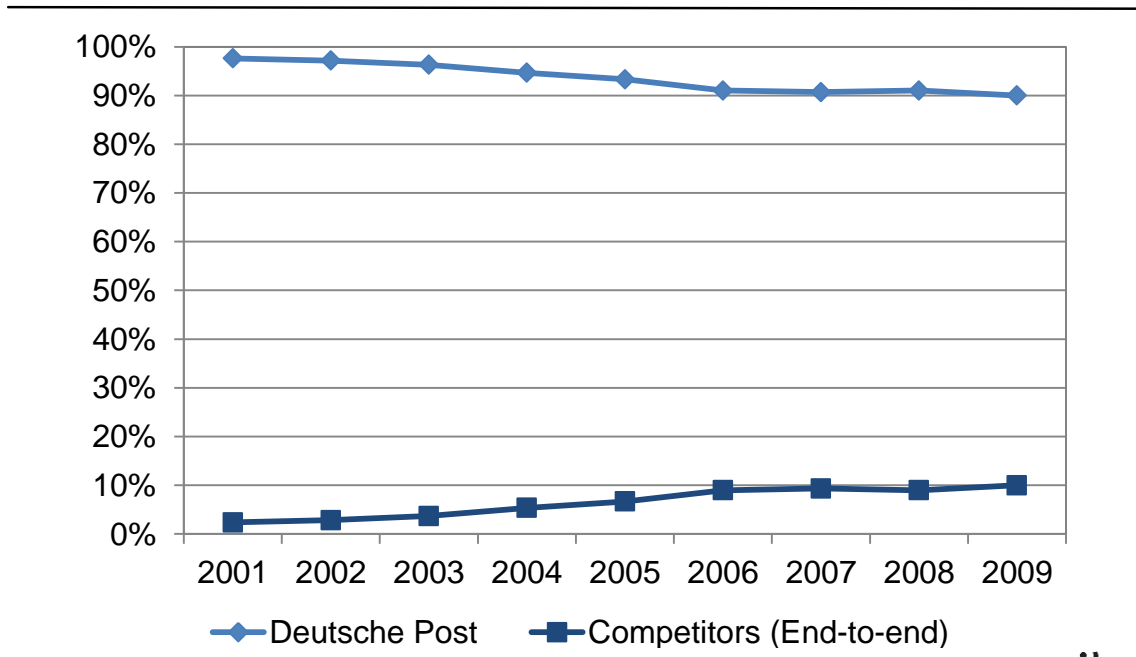
Competition

Development of competition in Germany was considerably influenced by liberalisation of services with higher quality than universal services. This enabled competitors to deliver low-weight items. A large number of competitors used this exemption from the reserved area and built up local delivery networks (competitors could meet the quality standards only on a local level). In 2009, there were more than 1,400 competitors active in the German market, most of them focused on local or regional delivery of first class letters from business senders.³ In recent years competitors increasingly started to join their networks to supra-regional networks in order to enhance coverage. Some regional competitors also began to build up networks of contact points (as agencies, e.g. in supermarkets) and street letter boxes. Competitors offer transit times between D+1 to D+3 and deliver five days per week, usually Tuesday to Saturday. Their market share

³ See Bundesnetzagentur, Tätigkeitsbericht Post 2008/2009 and WIK-Consult, Nachfrage nach Postdienstleistungen von Geschäftskunden, 2009.

developed gradually and reached approximately 10% of market volume in 2009, after a slight cut back in 2008 (Figure 3). Currently, the biggest competitor in Germany is TNT Post, with an estimated market share of about 3-4%.⁴

Figure 3 Development of market shares in Germany (volume-based)



Source: Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen 2001-2010

Since a ruling of the competition authority in 2005, competitors in Germany are also allowed to consolidate mail items and access the delivery network of Deutsche Post. Consolidated mail volumes evolved quickly and nearly reached the level of end-to-end volumes in 2009, with 8.4% of market mail volumes.⁵

⁴ See Tour de Force, Financial Times Deutschland, 25 May 2011.

⁵ Calculated by WIK-Consult based on Bundesnetzagentur, Tätigkeitsbericht Post 2008/2009, p. 38-39.

Table 2 Case study: Business model of TNT Post Deutschland

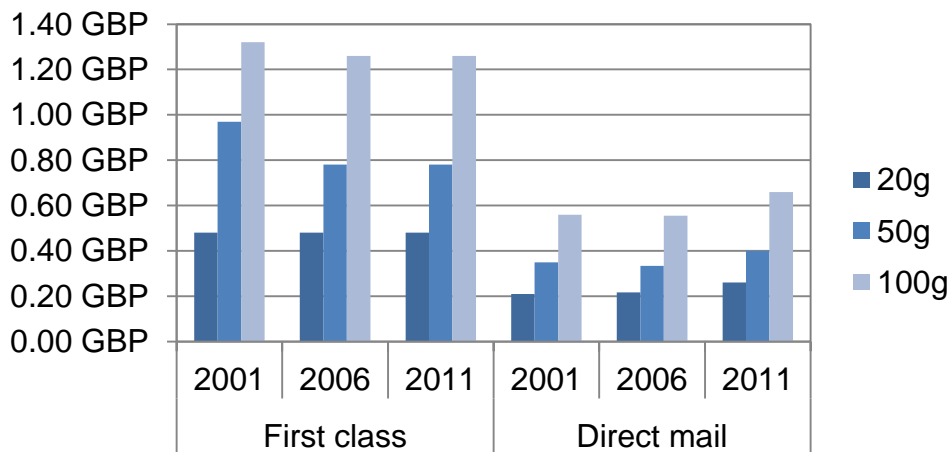
Name of competitor	TNT Post Deutschland
Active in the market since	2000, as EP Europost (joint venture of TPG Post and Hermes Logistik Gruppe). Re-branding to TNT Post in 2006.
Ownership	PostNL
Market share 2010	3-4%
Main activities	TNT Post Deutschland was active in delivery of addressed as well as unaddressed letters until 2010 when the unaddressed mail segment was sold. TNT Post focuses now on transactional mail from business customers and delivers D+1 to D+2. Through its subsidiary Postcon, TNT Post offers also consolidation services.
Territory of delivery	76% of German households
Frequency of delivery and week days	5 days per week, Tuesday to Saturday

Source: Homepage of TNT Post Deutschland.

Prices

Prices for single piece first class mail have considerably decreased in real terms since 2001. While Deutsche Post actively lowered prices by between 1.8% (20g letter) and 19.6% (50g) in the period from 2001 to 2006, prices remained stable from 2006 on. Compared to an increase of consumer prices by 15% since 2001, letter prices have dropped noticeably in real terms.

Figure 4 Prices of first class letters and direct mail in Germany (in GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: Deutsche Post AG, Price lists.

Until it was required by a decision of the competition authority in 2005, Deutsche Post denied to offer downstream access products to consolidators (but offered such products to bulk mailers directly). Access tariffs of Deutsche Post regulated by German postal regulator BNetzA in an ex-post procedure.

Just weeks before full market opening, in December 2008, Deutsche Post voluntarily increased access discounts for letters by 5 percentage points in response to competitive from end-to-end delivery firms. In 2010, Deutsche Post further increased rebates for business customers using downstream access for pre-sorted items by 12 percentage points. This move induced protests from competitors who filed a complaint to the regulator. However, the regulator did not find evidence of abusive rebates and decided to close the proceeding in September 2010.

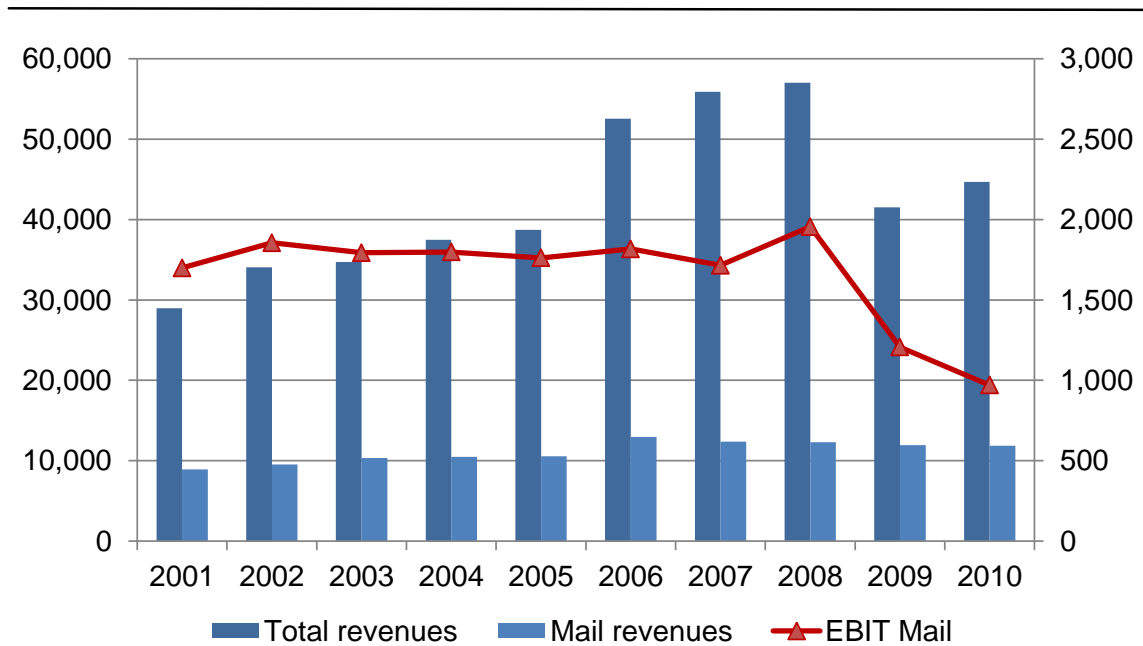
Financial data

Between 2001 and 2007 Deutsche Post was very profitable, and the mail segment was the most profitable business division. In spite of constantly rising total revenues and stable mail revenues, Deutsche Post group's EBIT sharply dropped in 2008 below the profit zone. The loss resulted mainly from restructuring of DHL's express business in the U.S., where DHL had failed to become profitable. The sale of the former Deutsche Post-subsiidiary Postbank negatively influenced revenues in 2009, but EBIT recovered. By contrast Deutsche Post's mail segment is very profitable. Even though EBIT dropped somewhat in 2009 and 2010, the mail segment has earned more than € 1 billion in all years since 2000 (and about € 2 billion in years 2001-2008).

Although letter mail volumes are declining, Deutsche Post could stabilize mail revenues during the last years. Increased parcel business due to internet trade has compensated revenue losses in letter mail.⁶ With its investments in digital mail solutions for businesses and private senders ('E-Postbrief'), Deutsche Post tries to shape transformation of its mail business towards digital communication (but this strategy includes a risk of cannibalising physical mail volumes).

⁶ See Deutsche Post, Annual Report 2010. The mail segment includes universal service parcels but not express items.

Figure 5 Revenues and EBIT of Deutsche Post (million GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

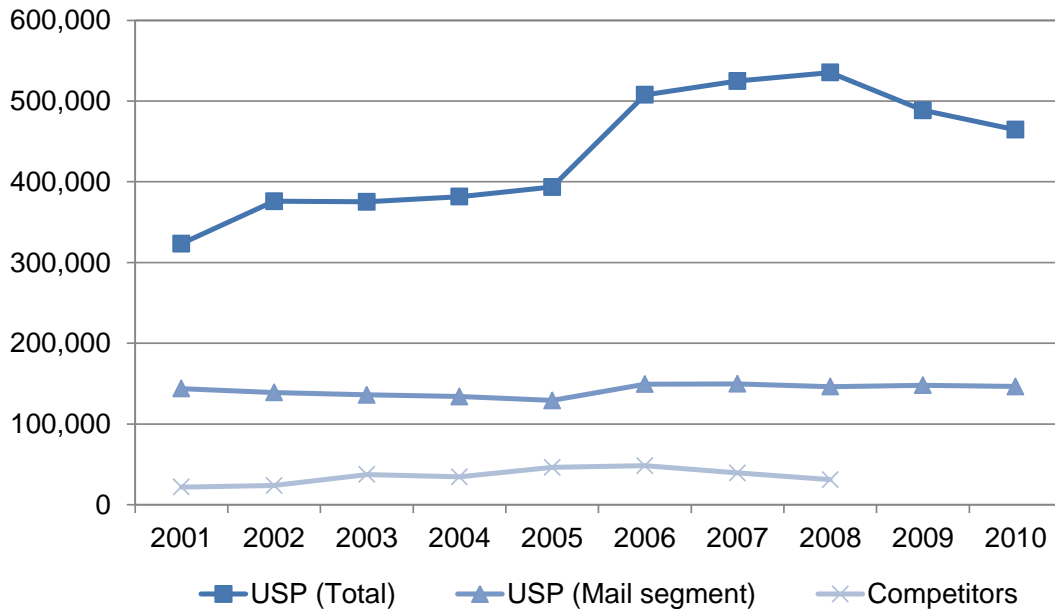
Source: Deutsche Post, Annual Reports 2001-2010.

Employment

The number of Deutsche Post's group employees has grown considerably until 2008, mainly due to external (non-mail) growth (see Figure 6)⁷. In 2009 and 2010, this figure declined somewhat because of the sale of Postbank as well as DHL Express business in UK and France. Employees in the mail segment have remained quite stable. Competitors in Germany also employ a large number of staff that declined by one third from 2006 to 2008, the latest available figure. Market exits of some big competitors as well as rationalisations due to strong competitive pressure are responsible for this development.

⁷ See Deutsche Post, Annual Reports 2005 to 2007.

Figure 6 Employees of Deutsche Post and competitors



Note: Total employment of USP and of competitors are headcount figures, employment in the mail segment of Deutsche Post is given as Full Time Equivalent (FTE).

Source: Deutsche Post, Annual Reports 2001-2010; Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen 2001-2008.

2.3 Universal service regulation and performance

Scope of universal service

Unlike most other European countries, there is no obligated universal service provider in Germany. Rather, the market as a whole is expected to provide universal service. In practice, the services voluntarily offered by Deutsche Post alone are already fulfilling legal requirements for universal service as described in the table below. However, the government takes the view that other providers as well contribute to the universal service: universal service is what the market provides (for universal service products, notably: letters and deferred parcels), not just incumbent Deutsche Post.

Table 3 Legal requirements for universal service for the German postal market and performance of Deutsche Post

	Legal requirements for universal service for the market	Performance of Deutsche Post compliant with legal requirements?
Scope of universal service	National and international services for: <ul style="list-style-type: none"> • Letters up to 2 kg • Registered and insured letters up to 2 kg • Letters with cash on delivery up to 2 kg • Letters with expedited delivery up to 2 kg • Parcels up to 20 kg • Newspapers and periodicals 	Yes
Frequency of delivery	6 days per week	Yes. There are no exemptions.
Number of post offices	Minimum number 12,000 post offices	Yes
Density of post offices	There has to be <ol style="list-style-type: none"> 1) one post office in every municipality with more than 2,000 inhabitants, 2) a post office in max. 2 km distance in every municipality with more than 4,000 inhabitants, 3) one post office per 80 sqkm in all administrative districts. 	Yes
Number of street letter boxes	Until December 2007: at least 108,000; since 2008: no minimum number required. There has to be a street letter box in max. 1 km distance from all addresses in all residential areas.	Yes

Source: Post-Universaldienstleistungsverordnung; Deutsche Post, Preise und Leistungen; Homepage of Deutsche Post.

Transit time

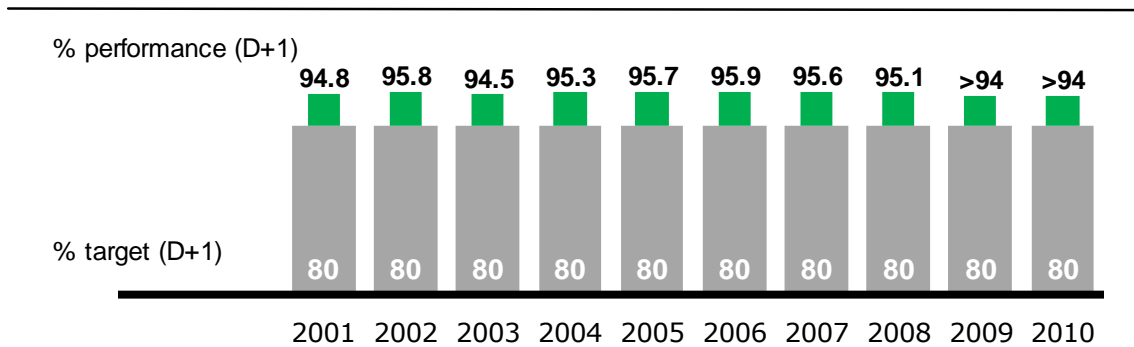
Transit time performance of Deutsche Post has been constantly above 90% during the last ten years and therefore easily reached the legal target of at least 80% for D+1. In 2009 and 2010, a slight deterioration of services could be observed when transit time figures sank below 95%.

Especially during summer of 2009, news reports on delayed deliveries and lacking delivery on Mondays appeared in German media. These quality problems were apparently induced by a new sorting and delivery routine involving reduction of night shift sorting that Deutsche Post tested during the summer months, as a pilot project to save costs in low-volume seasons.⁸ In 2010, Deutsche Post conducted similar measures but clearly communicated those steps and limited them to a defined period,

⁸ See Deutsche Post, press release of 31 August 2009: ‚Deutsche Post steht zu ihrem Qualitätsversprechen‘

which might have helped avoiding a comparably negative echo in the media as in 2009.⁹

Figure 7 Transit time targets and performance of Deutsche Post



Source: Deutsche Post, Annual Reports 2001-2010.

Post offices

Deutsche Post started to modernise its postal network in the 1990s when after the German reunification there were more than 29,000 contact points.¹⁰ The major part of restructuring had therefore been accomplished in 2001, with less than half of the number of post offices (12,818) and already 58% of them being agencies in retail stores.¹¹ The total number of post offices has been stable during the last ten years, however, the share of agencies has risen to more than two thirds of all postal contact points. While post offices and agencies are offering the complete range of universal services, there are additionally about 1,000 contact points ('Postpoint') with a slightly reduced service offer (e.g. no insured letters).¹²

Today, Deutsche Post's retail network is quite dense with 3.5 postal contact points per 100 sqkm and 1.5 postal contact points per 10.000 inhabitants (Figure 8). This service level has been maintained during the past years, or rather even improved, as the so-called 'Postpoints' offering basic postal services which are not included in the figure below.

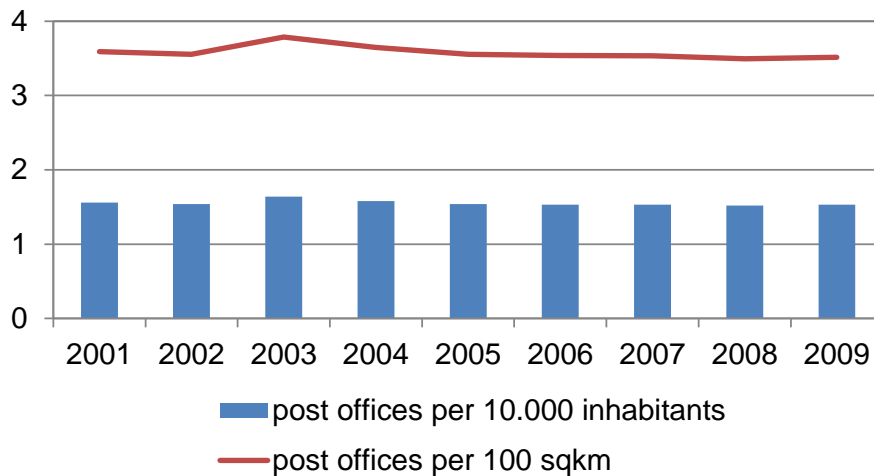
⁹ See Deutsche Post, press release of 1 June 2010: 'Deutsche Post reagiert auf saisonbedingte Mengenrückgänge'.

¹⁰ See UPU Statistics 1990.

¹¹ See Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen 2001.

¹² See Niederprüm/Söntgerath/Thiele/Zauner, 'Post-Filialnetze im Branchenvergleich', WIK-Diskussionsbeitrag Nr. 346.

Figure 8 Density of the post office network in Germany (Deutsche Post only)



Note: Includes post offices with own staff as well as agencies operated by other businesses.

Source: Number of postal outlets: for 2001-08: Bundesnetzagentur, Marktuntersuchung für den Bereich der lizenzpflichtigen Postdienstleistungen; for 2009: Bundesnetzagentur, Tätigkeitsbericht Post 2008/2009; Number of inhabitants and country size: Eurostat.

The number of street letter boxes of Deutsche Post was reduced by about 30,000 from 2001 to 2009 due to rationalizations, to about 111,000 in 2009. However, the German regulator Bundesnetzagentur has not found any breaches of the legal requirement on the maximum distance to the next street letter box for residential customers.¹³

In addition to the postal contact points of Deutsche Post, competitors in Germany have built up regional networks of postal contact points and street letter boxes for private and business senders. In 2009, competitors provided more than 3,700 street letter boxes and about 27,500 contact points.¹⁴

Universal service funding

German postal law allows to install a fund for financing a (potential) universal service obligation. Such a fund would be set up in the following situation: First, if there are universal service deficits, the regulatory authority shall oblige a market dominant operator to provide the service in question. Second, if the operator credibly proves that such an obligation would be an economic disadvantage, the regulator may decide to publicly procure the service causing the disadvantage. The universal service has to be assigned to the operator demanding the least financial compensation. Third, financing of the compensation would take the form of a universal service fund. Each licenced operator on the German letter post market (including Deutsche Post) with a revenue

¹³ See Bundesnetzagentur, Tätigkeitsbericht Post 2008/2009, p. 97.

¹⁴ See Bundesnetzagentur, Tätigkeitsbericht Post 2008/2009, p. 95.

greater than 500,000 EUR during the last calendar year would have to contribute to this fund. The contribution would be calculated according to the share of each licence holder's revenues to revenues of all licence holders.

Since German postal law came into force in 1998, the regulator has not observed any universal service deficits, and the universal service fund has been put into place.

3 Universal postal service and competition in the Netherlands

Table 4 Key statistics: Netherlands

Population (2010)	16.6 million
Number of households (2009)	7.3 million
Internet penetration* (2009)	90 %
Market share of USP (2010)	83.4 % (volume-based)
USP Mail volume (2010)	4.1 billion
USP turnover Mail (2010)	3.7 billion GBP
USP EBIT Mail (2010)	161 million GBP

Note: * Percentage of households having access to the internet at home.

Source: Population and Internet Access: Eurostat; Number of Households: National Statistic Bureaus, Market Shares and USP data: publications of regulators and USPs.

3.1 Liberalisation

In the first market opening step in June 2000, the Dutch postal monopoly was limited to national and incoming items of correspondence weighing less than 100g and costing less than five times the standard tariff.¹⁵ Delivery of direct mail (bulk advertising) was thus liberalised. In 2006, the reserved area in the Netherlands was limited again to correspondence mail weighing less than 50 g and costing less than three times the basic tariff. The full liberalisation of the Dutch Postal Market on 1 April 2009 enables Sandd, the biggest competitor of PostNL¹⁶, to enter the market for transaction mail. The parcels segment (letters > 500g) has always been open to competition.

Since 2009, PostNL is legally required to grant downstream access (Article 9 NL Postal Act) for senders and other postal operators. Conditions and tariffs of downstream access products have to be non-discriminatory and transparent. There is no specific regulation of access prices; they are controlled by competition law only. If there is a lack of actual competition, the Minister may set specific rules for access conditions and tariffs, by general administrative order (ministerial regulation). Dutch regulator OPTA monitors access, reports to the Minister, but does not yet have legal power to regulate access.

PostNL (and TNT N.V. previously) has been a public limited company since 1989 with IPO and stock listing of 30 per cent of the shares in 1994. In 2006, TNT was fully privatised; the Dutch state ownership share is zero. On 26 May 2011, TNT was split into

¹⁵ The standard tariff corresponds to the standard tariff of the Fastest Standard Category of the lowest weight step.

¹⁶ The name of the Dutch incumbent was changed to PostNL in 2011. Earlier names include TNT Post, TPG Post, and Royal PTT. This report uses the current name PostNL consistently.

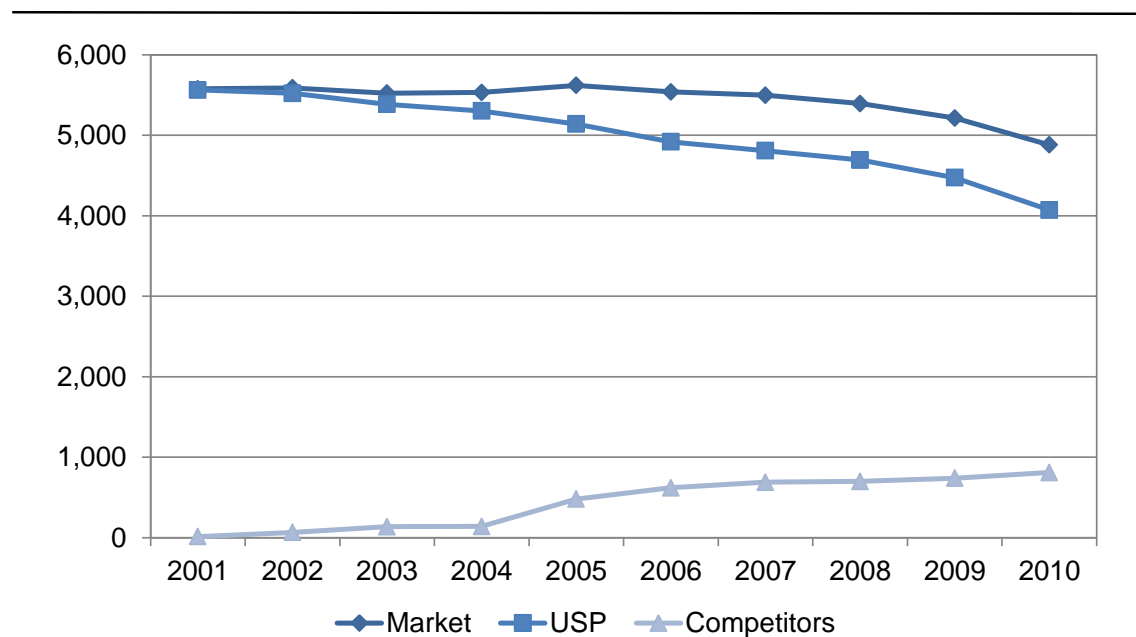
two separate and independent, listed companies: 'PostNL' which contains the Mail segment and 'TNT Express' for express services.¹⁷

3.2 Market development

Mail volumes

Market and USP mail volumes have been steadily declining in the past five years. The market entry of Sandd in 2001 and Selekt Mail in 2002 had a noticeable impact on the development of PostNL's mail volume (see Figure 9). As its market share decreased, PostNL's volume decreases more than total market volume. In 2010, PostNL's mail volume was 73% of the volume it had in 2001.

Figure 9 Development of mail volumes in the Netherlands (million items)



Source: RBB (2007) Post market monitor and TNT, Annual Reports 2001-2010.

The Dutch postal market has lost 12% of its mail volume since 2001. A high rate of internet penetration and electronic substitution in the Netherlands contribute to this decline of physical mail volumes. Furthermore, the economic crisis in 2009 had a negative impact on market mail volumes.

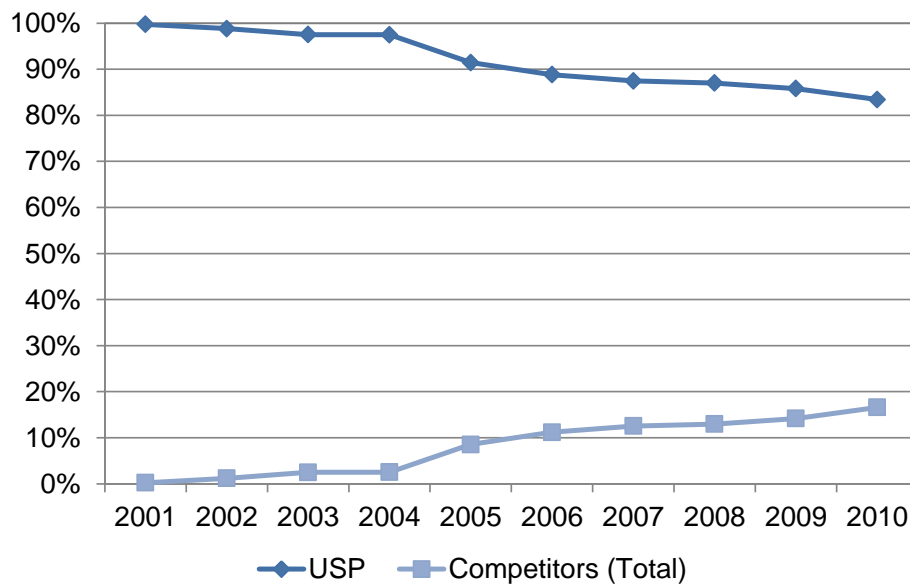
¹⁷ See PostNL (2011), PostNL launched, press release of 26.05.2011.

Competition

Competition on the Dutch mail market was mainly driven by direct mail, which was opened to competition in 2000. This has led to the entry of the two main competitors, Sandd and Selekt Mail, in this market segment. Since full liberalisation of the Dutch Postal Market on 1 April 2009, Sandd also entered the transaction mail segment. PostNL reacted by establishing a “low-cost-provider”, called Netwerk VSP, which formerly distributed unaddressed mail solely, to better compete with competitors.

In 2010, competitors together reached a market share of 16.6% (see Figure 10). Sandd’s market share (around 10% in 2010) accounts for the largest part of the competitive market share, followed by SelektMail (around 6% in 2010). Other competitors of PostNL have a market share below 1%. PostNL expects that the market share of all competitors will increase up to 20-25% in 2015.¹⁸

Figure 10 Development of market shares in the Netherlands (volume-based)



Source: RBB (2007), Post market monitor; TNT, Annual Reports 2001-2010, PostNL (2011), Analysts presentations for Capital Markets Day 2011, and Homepage of Sandd.

The only serious actor on the Dutch postal market is Sandd (for a detailed description of the company’s business model see Table 5) since Sandd took over of the second biggest competitor SelektMail from Deutsche Post in early 2011 (see Table 6 for a description of SelektMail’s business model).

¹⁸ PostNL (2011), Analysts presentations for Capital Markets Day 2011, slide 7.

Table 5 Case study: Business model of Sandd

Name of competitor	Sandd B.V.
Active in the market since	Founded in 1999; Market entry in 2001
Ownership	Trimoteur Holding BV
Market share 2010	Around 10%
Main activities	Sandd delivers pre-sorted bulk mail from business customers at two days per week. Sandd has begun operation in the market segments for addressed advertising mail and periodicals. Since full market opening in 2009, Sandd is increasingly active in the segment of transaction mail.
Territory of delivery	100% coverage
Frequency of delivery and week days	Two delivery days per week: Tuesday and Friday

Source: www.sandd.nl and ITA Consulting / WIK-Consult (2009), The evolution of the European postal market since 1997.

Table 6 Case study: Business model of SelektMail

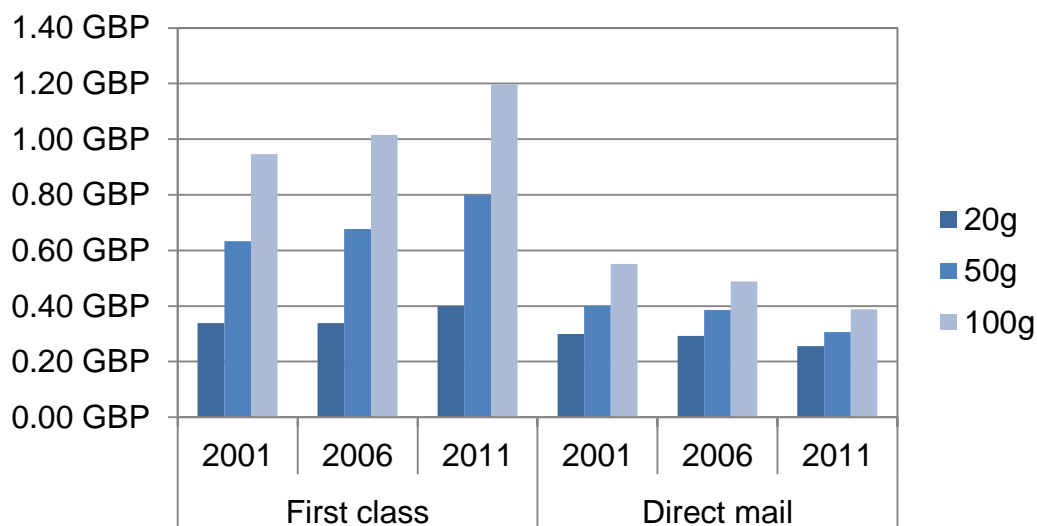
Name of competitor	SelektMail
Active in the market since	Founded in 2002 by a Joint venture of Deutsche Post (51%) and advertising group Wegener (49%). Entry on the Dutch postal market in 2002.
Ownership	In 2009, Deutsche Post fully acquired SelektMail, and sold SelektMail to Sandd (Trimoteur Holding BV) in January 2011.
Market share 2010	Around 6%
Main activities	The focus of SelektMail is on addressed direct mail, periodicals and magazines (> 5,000 items) from business customers.
Territory of delivery	100% coverage
Frequency of delivery and week days	SelektMail distributes printed matters in two delivery rounds a week (Tuesday/Wednesday and Thursday/Friday). For delivery SelektMail uses a rolling system similar to CityMail Sweden.

Source: www.sandd.nl; Dutch News (2011) and ITA Consulting / WIK-Consult (2009), The evolution of the European postal market since 1997.

Prices

Prices for single-piece mail (first class) have slightly increased since 2001. The stamp rate for direct mail remained nearly stable until 2010, but was lowered in 2011 (see Figure 11).

Figure 11 Prices of first class letters and direct mail in the Netherlands (in GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: TNT, Price lists 2001-2011.

In 2002, PostNL slightly increased the prices for letter post items weighing 50g and more. PostNL further adjusted the stamp prices for first class mail in January 2007 and again in January 2011. For direct mail, the stamp prices remained nearly unchanged between 2001 and 2010. In 2011, recently, PostNL decreased the stamp rate for direct mail by 10-18% (different reductions for different weight steps).

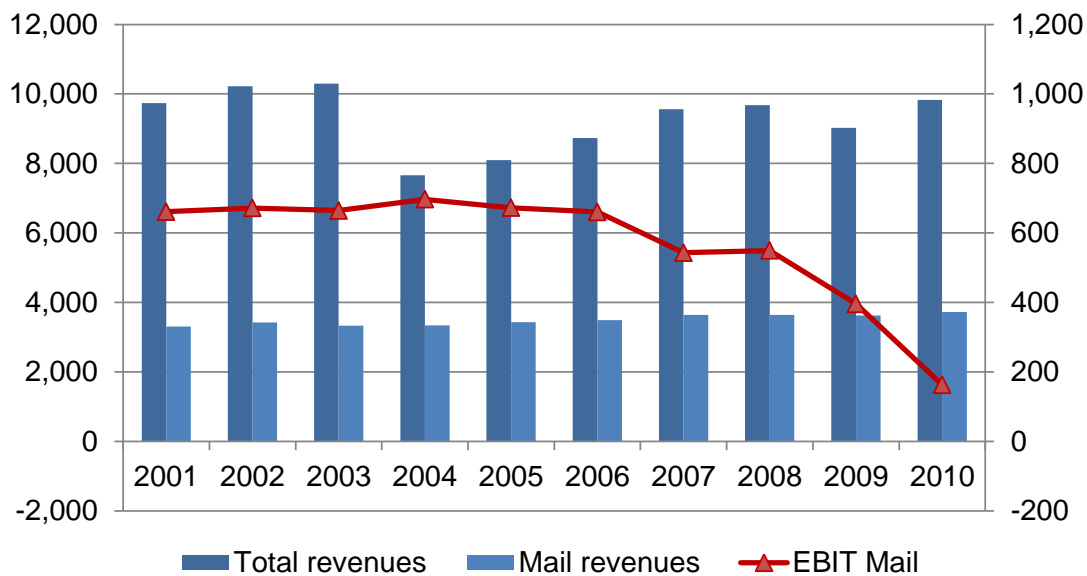
Stamp prices for first class mail have developed roughly in line with Consumer Price Index in the Netherlands: While CPI rose by 18% between 2001 and 2010, the stamp price increased by 13 to 21% (for different weight steps).

No public information is available about bulk tariffs. However, the market situation is characterized by strong price competition in the bulk mail segment. SelektMail was considered to be the most aggressive competitor in terms of prices. After SelektMail was taken over by Sandd (and an increase in wages paid by entrants), prices are expected to increase modestly after 2011.

Financial data

TNT used to operate Mail, Express and Logistic services on an international level. In 2006, main parts of TNT's logistic segment were sold. However, TNT's revenues increased, mainly due to acquisitions in the Express segment. Mail revenues slightly increased since 2001 (see Figure 12). In 2011 the express business of TNT was split from the letter post segment, which is now renamed as PostNL.

Figure 12 Revenues and EBIT of TNT (in GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: TNT, Annual Reports 2001-2010.

Figure 12 shows that TNT's total revenues have increased since 2004, with a marked decline in 2009 due to economic crisis. The decrease of total revenues in 2004 largely results from adjustments in accounting and reporting of TNT's business segments. Since 2004, TNT is required to prepare their consolidated financial statements in accordance with IFRS accounting standard.¹⁹

The development of mail revenues was relatively stable. EBIT was generally positive, with a downward trend after 2006.

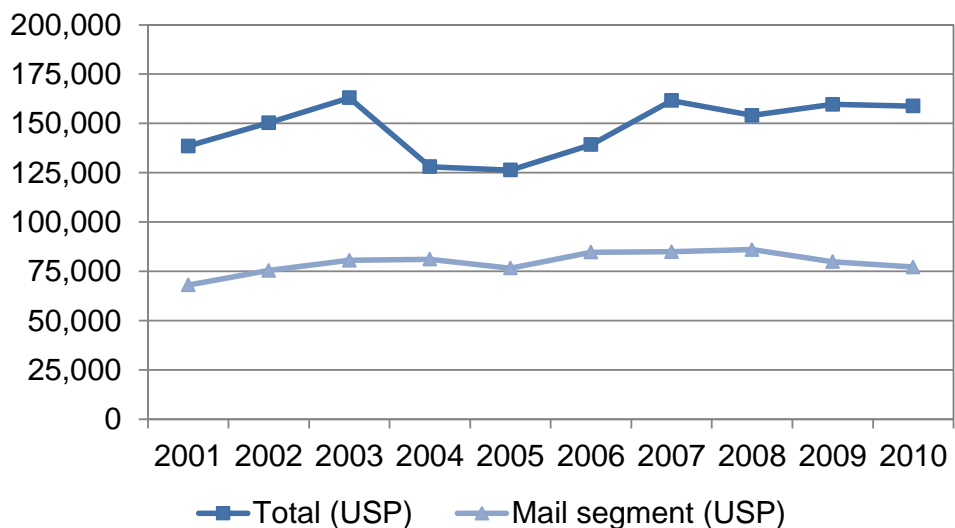
¹⁹ See TNT, Annual Report 2005, p. 4.

Employment

At first sight, the development of the number of employees working at TNT appears erratic (see Figure 13). It reflects the opposing effects of rationalization measures and the realisation of synergies on the one hand, and acquisitions in the express segment and foreign mail markets on the other hand.

Employment in the mail segment has remained quite stable. However, PostNL is restructuring its delivery activities (introduction of sorting machines able to sort the mail to delivery sequence) with substantial effects on labour conditions of mailmen: job profiles have changed from full-fledged traditional postmen to postal delivery workers that just deliver mail that is already sorted in walking sequence. In 2007, the company announced its intention to replace 11,000 full-time postmen by part-time deliverers.²⁰

Figure 13 Employees of TNT/PostNL (Headcount)



Source: TNT, Annual Reports 2001-2010.

Figures on employment of competitors in the Netherlands is not publicly available. Sandd currently employs about 1,150 people.²¹

Since 2010, legislation in the Netherlands requires postal companies to employ at least 80% of their mail deliverers under a labour contract. Sandd has recently reached a collective labour agreement (CLA) with the unions. This agreement foresees that 80 per

²⁰ See TNT, Annual Report 2010, p. 19 and 205.

²¹ See Homepage of Sandd.

cent of their labour force shall be paid according to the CLA until September 2013, following a transition plan agreed with the government.²²

3.3 Universal service regulation and performance

Scope of universal service

Table 7 Legal requirements for universal service and performance of PostNL

	Legal requirements for universal service for PostNL	Performance of PostNL compliant with legal requirements?
Scope of universal service	National services priced at the single-piece tariff for: <ul style="list-style-type: none"> • Letters up to 2 kg • Parcels up to 10 kg • Registered and insured postal items • Postal items for blind persons up to 7 kg International services for: <ul style="list-style-type: none"> • Letters and Books up to 2 kg • Parcels up to 20 kg • Postal items for blind persons up to 7 kg 	Yes
Frequency of delivery	6 days per week	Yes, no exemptions.
Number of post offices	Minimum number of 2,000 service points, at least 902 of which provide a full range of services.	Yes
Density of post offices	Distribution requirements: <ol style="list-style-type: none"> 1) 95% of inhabitants in urban areas should have a postal outlet offering full range of services within 5 km. 2) 85% of inhabitants in rural areas (outside residential centres of more than 5000 inhabitants) should have a postal outlet offering full range of services within 5 km. 	Yes
Number of street letter boxes	No minimum number, but density requirements: <ol style="list-style-type: none"> 1) A public posting box within a radius of 500 m in residential centres. 2) A public posting box within a radius of 2,500 m outside residential centres. 	Yes

Source: Postwet 2009, Art. 16 and Postbesluit 2009, Art. 3.

PostNL is the Dutch designated Universal Postal Provider. PostNL is obliged to provide it by a ministerial decree. The domestic universal postal services consist of letters and printed matters, parcels and registered and insured items paid at standard single rates, i.e. universal service is limited to single piece items. The Dutch Postal Act 2009 does

²² See TNT, Annual Report 2010, p. 16 and Harry Koorstra (2011), Mail in NL, Capital Markets Day, 9 May 2011, slide 12.

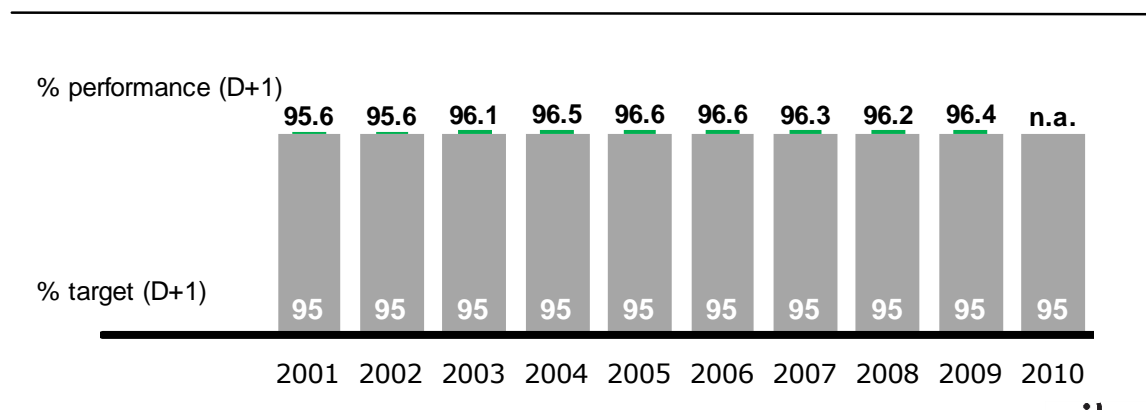
not require PostNL to offer domestic services for the delivery of bulk letters, bulk printed matter such as advertising, magazines and newspapers or unaddressed mail items.²³

In the Netherlands, the universal postal service includes the collection and delivery of mail six days a week; PostNL fulfils this requirement.²⁴ There are no exemptions from daily delivery or from delivery to the door. Also, there is no indication that the required minimum number and density of post offices and street letter boxes are not met by PostNL. However, PostNL is authorized to replace a post office with a postal agency without approval of OPTA or the ministry. PostNL is not required to obtain approval of OPTA or the ministry before closing a post office or an agency as well.

Transit Time

PostNL has constantly fulfilled its transit time target of 95% for delivery of letters on the next working day (D+1) during the last ten years (see Figure 14).

Figure 14 Transit time targets and performance of TNT/PostNL



Source: OPTA, Market Monitor, several years; and Dutch Postal Law.

There are no sub standards by region. The performance is measured by a research institute on behalf of TNT. Regulator OPTA confirms, based on these results, if PostNL complies with the routing time standard.

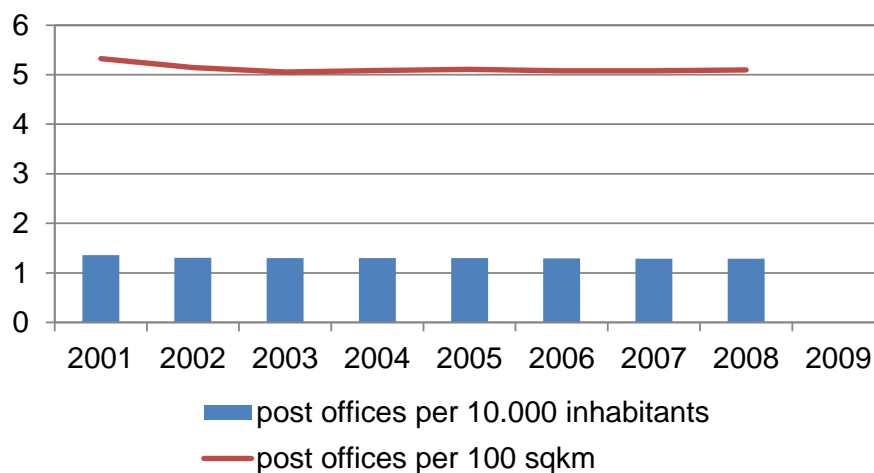
Post Offices

The total number of post offices in the Netherlands has been stable during the last ten years at around 2,000. At the same time, the share of agencies has risen to nearly 90% of all postal contact points. PostNL’s retail network is quite dense with 5 postal contact points per 100 sqkm and 1.3 postal contact points per 10.000 inhabitants (Figure 15). This service level was maintained during the past years.

²³ See TNT, Annual Report 2010, p. 189.

²⁴ See TNT, Annual Report 2010, p. 16.

Figure 15 Density of the post office network in the Netherlands



Note: Includes post offices with own staff as well as agencies operated by other businesses.

Source: Number of postal outlets: OPTA, Market Monitor, several years; and TNT, Annual Report; Number of inhabitants and country size: Eurostat.

PostNL already started to transform its post office network in the 1990's by replacing relatively expensive, company-operated post offices by comparatively cheaper postal agencies in order to save costs. All of them offer the complete range of universal service. The increasing use of agencies instead of company-owned post offices has led to an expansion of opening times and therefore to improvements in the accessibility of postal services.²⁵

The number of street letterboxes was reduced during the last ten years with a total decline around 9% from 2001 to 2010. Currently there are around 18,000 street letter boxes in the Netherlands.

Universal service funding

Since privatisation of the Dutch incumbent in 1989, PostNL did not receive any state aid.

Under the new Dutch postal law, that came into force in 2009, the possibility of a compensation fund for PostNL for financing the Universal Postal Service was installed. In order to activate the fund, PostNL has to inform OPTA that net costs are expected for operation of the Universal Postal Service in the following calendar year and may submit an application to OPTA, within six months of the end of the calendar year in which the net costs arose, for reimbursement of the net costs it incurred in the previous calendar

²⁵ See ITA-Consulting/WIK-Consult (2009), The Evolution of the European Postal Market since 1997.

year. The remuneration provided to PostNL shall only be allocated where OPTA considers that the existence and amount of the net costs have been sufficiently demonstrated. The remuneration is financed by collecting contributions from all postal providers (including PostNL) on the basis of their relevant net revenues within the Netherlands.²⁶

In the Netherlands neither net costs were calculated nor a universal service fund has been put into practice.

²⁶ See Dutch Postwet 2009, Art. 30 and 31.

4 Universal postal service and competition in Spain

Table 8 Key statistics: Spain

Population (2010)	46.0 million
Number of households (2001)	14.2 million
Internet penetration* (2009)	54 %
Market share of USP (2008)	88.3 % (volume-based) 94.4 % (revenue-based)
USP Mail volume (2010)	4.4 million
USP turnover Mail** (2010)	1.8 billion GBP
USP EBIT Mail** (2010)	- 4 million GBP

Notes:

* Percentage of households having access to the internet at home.

** USP Turnover and EBIT refer to Correos total, not to the Mail segment.

Source: Population and Internet Access: Eurostat; Number of Households: National Statistic Bureaus, Market Shares and USP data: publications of regulators and USPs.

4.1 Liberalisation

Competitors in Spain have traditionally been allowed to deliver intra-city mail. For many decades, only letters sent between cities were part of the reserved area. Further liberalisation of the Spanish postal market started in 1998 with the reduction of the reserved area to 350g and five times the price of a 20g-letter of the fastest standard category. According to the schedule of the European Postal Directive, Spain further lowered the weight threshold of the reserved area to 100g in 2003 and 50g in 2006, the price limit sank accordingly to 3 times and 2.5 times the standard tariff for a 20g letter. Since January 2011, the Spanish postal market is completely open to competition.

The new Spanish postal law of 2011 regulates access conditions to the delivery network of Correos. Competitors can choose between a standard contract²⁷ whose conditions are monitored by regulator or individually negotiated access also supervised by the regulator. No precise information is available, but it appears that downstream access is not much of a business in Spain at present. Competitors apparently prefer using own delivery networks, perhaps due to poor service by Correos.

Correos is a public limited company owned by the Spanish state.

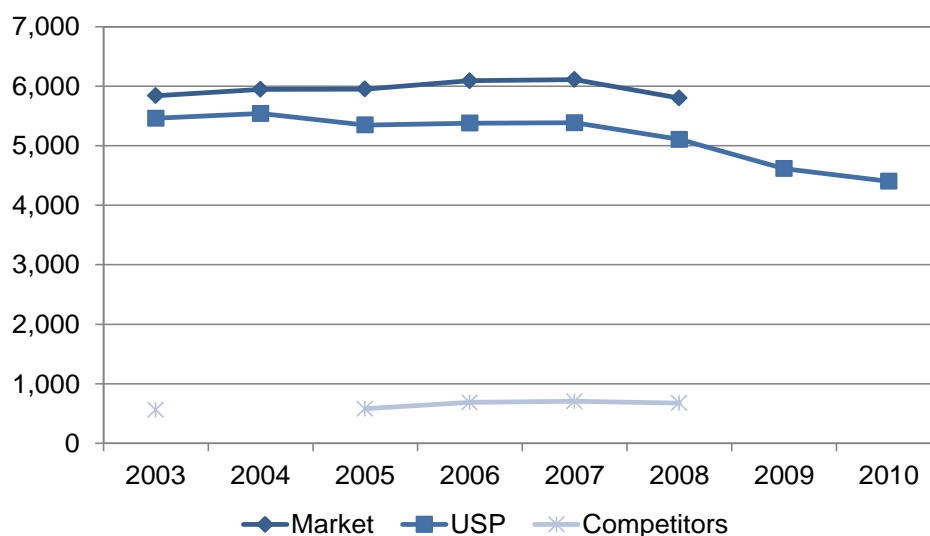
²⁷ According to information provided by the Ministerio de Fomento, such a contract has not yet been set up.

4.2 Market development

Mail volumes

After mail volumes in the market had slightly increased until 2007, a downward trend seems to have started in 2008. USP volumes have dropped considerably during the last three years, and also competitors' volumes were declining in 2008 (no data available for 2009 and 2010). Correos explains its loss of volume with the economic crisis and electronic substitution.²⁸

Figure 16 Development of mail volumes in Spain (million items)

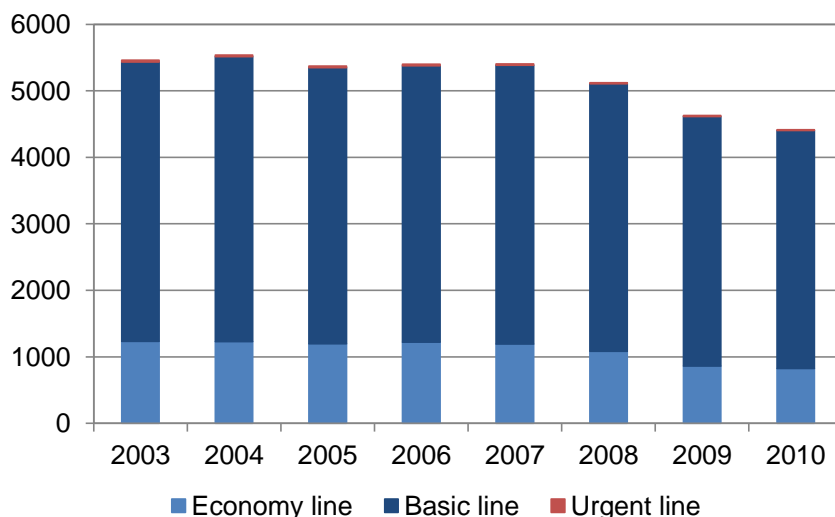


Note: Mail volumes of Correos are exclusive volumes of the 'urgent line' mail.

Source: Ministerio de Fomento, Memoria del Sector Postal 2003-2008; Correos, Annual Reports 2003-2010.

²⁸ See Correos, Annual Report 2010, p. 158 ff.

Figure 17 Breakdown of mail volumes of Correos (million items)



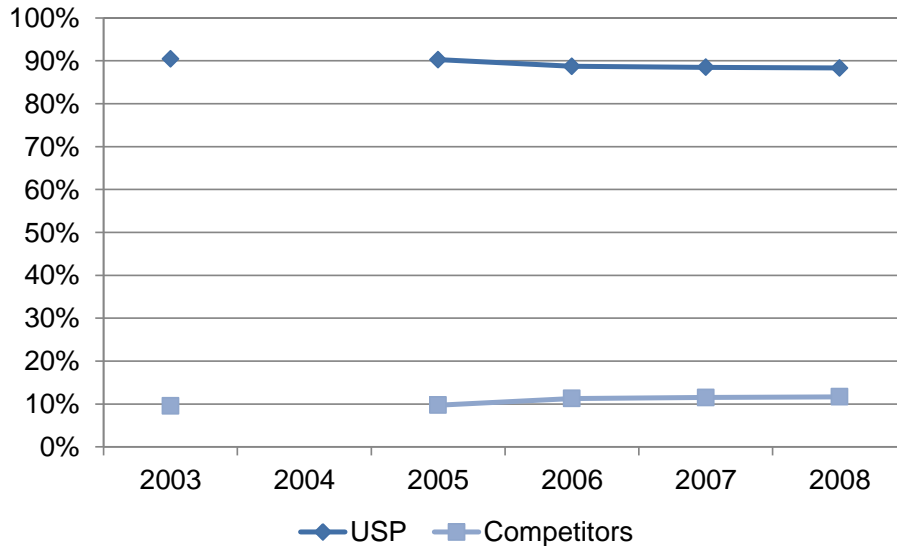
Source: Correos, Annual Reports 2001-2010.

Correos' loss of mail volume has mainly been caused by a loss of basic line-mail products, i.e. first class mail. To a lesser extent, also economy line (direct mail, pakets, newspapers and publications) and urgent line-mail has contributed to the decrease. Urgent line-volumes dropped by almost 50% from 2003 to 2010, with the improvement of transit time performance of first class mail (see chapter 5.3 on universal service regulation and performance below). In spite of overall declining mail volumes, international mail increased during the last two years, and economic recovery in 2010 was the driving force behind rising direct mail volumes.²⁹

²⁹ See Correos, Annual Reports 2009 and 2010.

Competition

Figure 18 Development of market shares in Spain



Note: Market shares are volume-based. No figures available for 2004.

Source: Ministerio de Fomento, Memoria del Sector Postal 2003-2008.

Competitors of Correos held a volume-based market share of 11.7% in 2008. Unipost, the largest competitor had 10.3%.³⁰ The combined market share of all competitors was relatively stable since 2003. However, apart from Unipost, there is a large number of competitors active in the market. In 2008, there were more than 500 single licences for universal services, and more than 2,600 general authorisations for other postal services, including distribution of value-added postal services, parcels weighing 10-20 kg, unaddressed direct mail as well as newspapers and periodicals.

Competitors in Spain focus on delivery of transaction mail and direct mail in larger cities, which may be explained by the former definition of the reserved area which never included intra-city mail. The biggest competitor is Unipost (see Table 9). All other competitive operators are very small enterprises delivering local mail, about half of them one-man-businesses.³¹

³⁰ See Ministerio de Fomento, Memoria del Sector Postal 2008.

³¹ See Ministerio de Fomento, Memoria del Sector Postal 2008, p. 38.

Table 9 Case study: Business model of Unipost

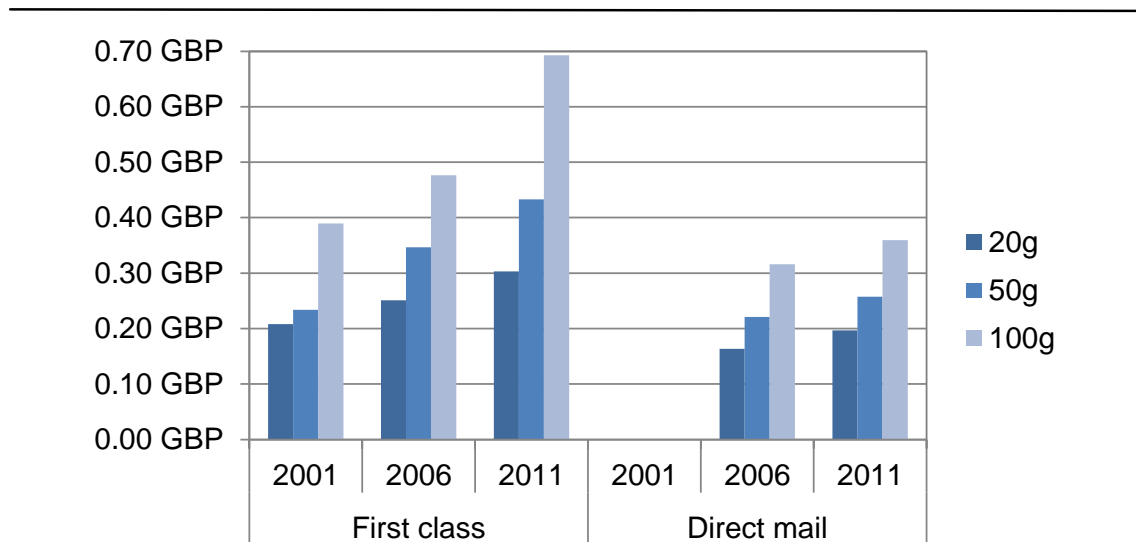
Name of competitor	Unipost S. A.
Active in the market since	2002
Ownership	Deutsche Post AG with 37.69% of shares
Market share 2010	~12%
Main activities	Unipost is a group of several local delivery companies who operate under the same brand and focus on local mail in the B2X-segment. Unipost delivers transactional mail up to 2 kg and addressed direct mail up to 500g, international service is also offered. Transit time is D+1.
Territory of delivery	1,300 municipalities, ~70% of Spanish population
Frequency of delivery and week days	n/a

Source: Homepage of Unipost S. A.

Prices

Letter prices in Spain have considerably increased between 2001 and 2010, for first class mail (42% to 80% for different weight steps) as well as for direct mail (see Figure 19). The price increase was strongest for heavy items up to 100g. However, these strong price changes have to be seen in light of inflation of around 28% since 2001.

Figure 19 Prices of first class letters and direct mail in Spain (in GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: Correos, Price lists 2001-2011.

No public information is available about bulk mail tariffs. There is price pressure on bulk mailings due to competition from Unipost with its presence in more than 1,300 Spanish

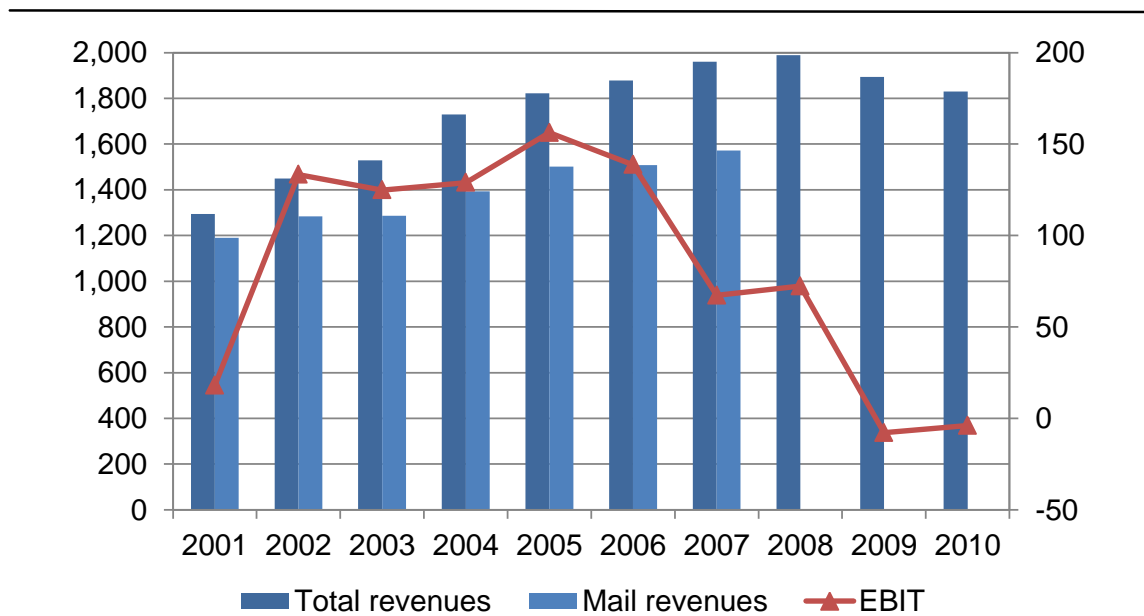
cities. Accordingly, Correos refrains from a uniform tariff for its direct mail products and offers lower rates for local destinations.³²

Financial data

After a period of rising revenues until 2008, Correos’ revenues have declined during the past two years due to the economic crisis and electronic substitution.³³

For Correos, the effect of declining revenues is aggravated by reduced state aid: Until 2007, Correos received government contributions of around 90 million EUR per year for provision of the universal service. Since 2008, state aid is around 60 million EUR per year.³⁴ Accordingly, Correos reports a negative EBIT in these two last years while EBIT had been slightly positive before.

Figure 20 Revenues and EBIT of Correos (in mGBP)



Notes: Foreign currencies converted using average exchange rates for six months before July 2011. No data about EBIT in mail segment. Figures relate to total EBIT of Correos. Mail is the major component of Correos’ total business, and represents more than 75per cent of Correos’ revenues.

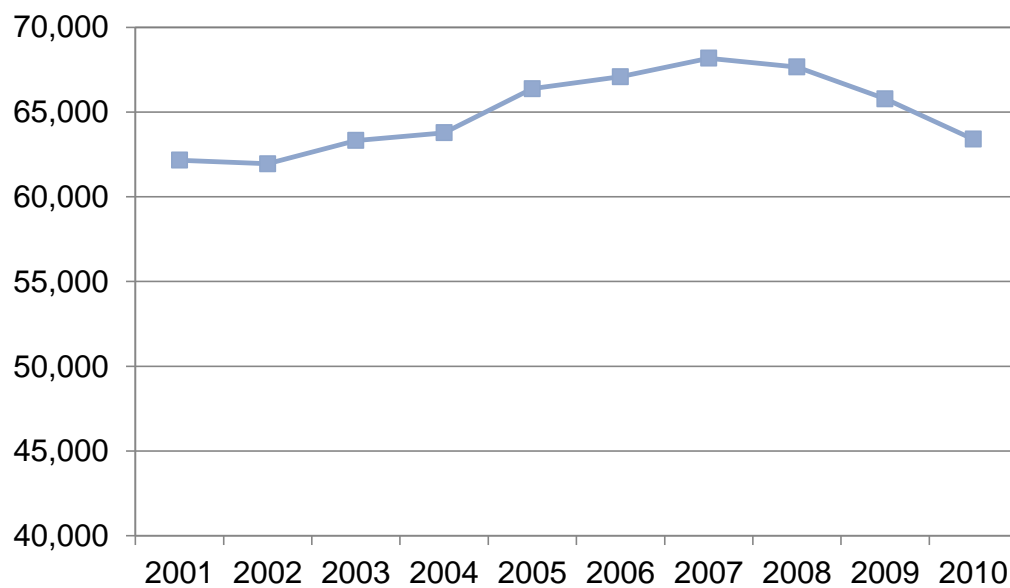
Source: Correos, Annual Reports 2001-2010.

Employment

Employment figures of Correos have developed in line with revenues: the number of employees slightly increased as long as revenues were also growing but when revenues dropped in 2008 Correos reduced its staff (see Figure 21).

³² See Correos, Price lists 2001-2011
³³ See Correos, Annual Report 2009 and 2010.
³⁴ See Correos, Annual Reports 2005-2010.

Figure 21 Employees of Correos (Headcount)



Source: Correos, Annual Reports 2001-2010.

The main competitor Unipost employed about 5,000 people in 2009, a strong increase compared to 2004 with about 4,000 employees.

4.3 Universal service regulation and performance

Scope of universal service

Table 10 Legal requirements for universal service and performance of Correos

	Legal requirements for universal service for Correos	Performance of Correos compliant with legal requirements?
Scope of universal service	The universal service covers: <ul style="list-style-type: none"> • letters and postcards up to 2 kg • parcels up to 10 kg • registered and insured items. Optionally, addressed direct mail, books, catalogues and periodicals may be included in the universal service by decree. Currently, these services are not part of the universal service.	Yes
Frequency of delivery	5 days per week. Exemptions from delivery to the door are permitted by law.	Yes. Exemptions from delivery to the door are applied in practice. In 2008, 1,7% of population received postal items by roadside or cluster boxes.
Number of post offices	No legal requirement	-
Density of post offices	The network shall be adapted to geographical conditions and needs of users.	-
Number of street letter boxes	No legal requirement	-

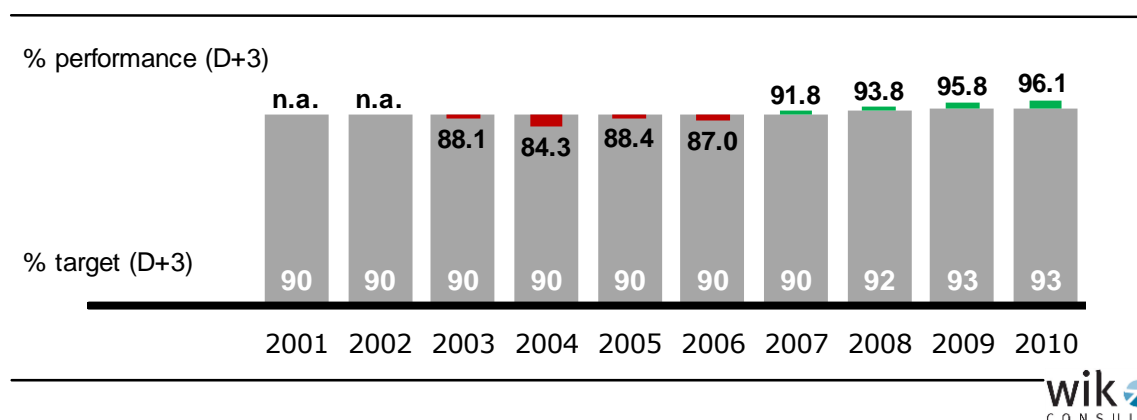
Source: Ley 43/2010, de 30 de diciembre, del servicio postal universal, de los derechos de los usuarios y del mercado postal.

At the end of 2010, a new postal law was adopted that determines Correos as the designated universal service provider for the next 15 years. Correos' services are compliant with the Legal requirements for universal service (see Table 10).

Transit time

Correos does not offer a standard product that is delivered on the next working day. Standard transit time targets and performance for letters in Spain refer to D+3, i.e. delivery on the third working day after posting (see Figure 22). Additionally, Correos offers an express product with a transit time of D+1.

Figure 22 Transit time targets and performance of Correos



Source: Correos, Annual Reports 2003-2010.

Transit time targets for Correos were raised to 92% in 2008 (D+3) and to 93% in 2009 (D+3). Compared to the first years of the new millennium, Correos managed to greatly improve its transit time performance. This could have been achieved due to re-organisation of the transport network and investments in automated sorting technology.³⁵ Correos now fulfils its D+3-target. Note that D+3 transit time target in Spain are substantially lower than the standards in the UK and other European countries.

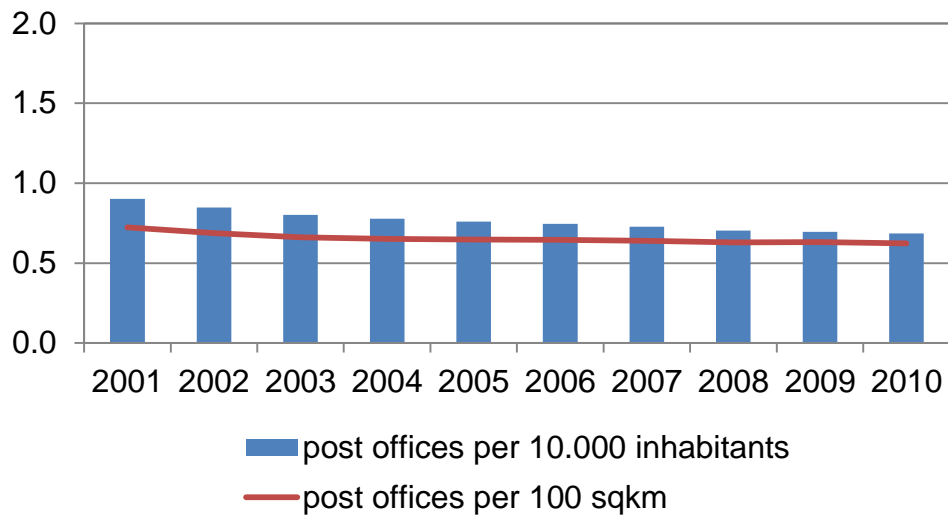
Post offices:

The density of the post office network of Correos is very low. In 2010, the number of postal contact points per 10.000 inhabitants and per 100 sqkm is constantly less than 1. However, in rural areas, provision of universal postal services is safeguarded by postmen who serve as mobile post offices called “rural linkages” (not included in Figure 23).³⁶ As there are no agencies, all postal contact points of Correos are post offices.

³⁵ See Correos, Annual Reports 2006 and 2007.

³⁶ See Correos, Annual Report 2010.

Figure 23 Density of the post office network in Spain



Source: Statistical data: Eurostat; Post offices: Correos, Annual Reports 2001-2010.

There are around 33,000 street letter boxes in Spain. This figure has remained stable during the last years.

Universal service funding

The costs of the universal service obligation are calculated by the obligated operator itself but have to be reviewed and approved by the Ministry responsible for postal sector regulation.³⁷ For the year 2006, Correos had calculated an alleged cost of the universal service obligation of 227.6 million EUR (~198 million GBP). This calculation was approved by the Ministry.³⁸ Correos has received substantial state aid as a compensation for these costs. In 2005, the first year of publication of state aid figures, the subsidies amounted to 90 million EUR and now have declined to around 60 million EUR.³⁹

The new Spanish postal law which came into force in 2011 implements two possible sources for financing net costs of the universal service in the future. First, a universal postal service compensation fund can be set up. Second, if the amount provided by the fund is not sufficient to cover net costs of the universal service, the Spanish State will provide tax money for the remaining costs.

³⁷ In 2011 and future years, the new regulatory authority will assume this competence.

³⁸ See Ministerio de Fomento, Memoria del sector postal español 2008, p. 29. Net costs of the USO are not published for later years than 2006 yet.

³⁹ See Correos, Annual Report 2010.

A universal service fund is currently not applied in practice but it is expected to be implemented in the second half of 2011. Once the fund will be set up, all single licence holders will have to contribute financially to the fund if their revenue with universal services is at least 50,000 EUR per year. The tax imposed on the operators is 0.5% on net revenues. The obliged universal service operator is exempt from this taxation. The state budget contributes for the remaining compensation (in excess of the contributions collected from licensed postal operators).

5 Universal postal service and competition in Sweden

Table 11 Key statistics: Sweden

Population (2010)	9.3 million
Number of households (2009)	4.7 million
Internet penetration* (2009)	86 %
Market share of USP** (2010)	87.9 % (volume-based)
USP Mail volume (2010)	2.5 billion
USP turnover Mail (2010)	1.4 billion GBP
USP EBIT Mail (2010)	79 million GBP

Note: * Percentage of households having access to the internet at home.

** Markets shares are related to the licensed area (addressed letters up to 2 kg).

Source: Population and Internet Access: Eurostat; Number of Households: National Statistic Bureaus, Market Shares and USP data: publications of regulators and USPs.

5.1 Liberalisation

Sweden was the first country in the EU to completely liberalise its postal market, years before other Member States started to do so. The postal monopoly was abolished at the beginning of 1993. Even before 1993, bulk mail was exempt from the reserved area enabling Sweden Post's main competitor CityMail to enter the market in 1991. There is no regulated downstream access to the delivery network of Posten for competitors.

Posten had been a public limited company owned by the Swedish state until 2009. In June 2009, Sweden Post and Post Danmark merged, creating the corporate company Posten Norden AB. Posten Norden is a Swedish public company whose owners are the Swedish state with 60% and the Danish state with 40% of shares.⁴⁰

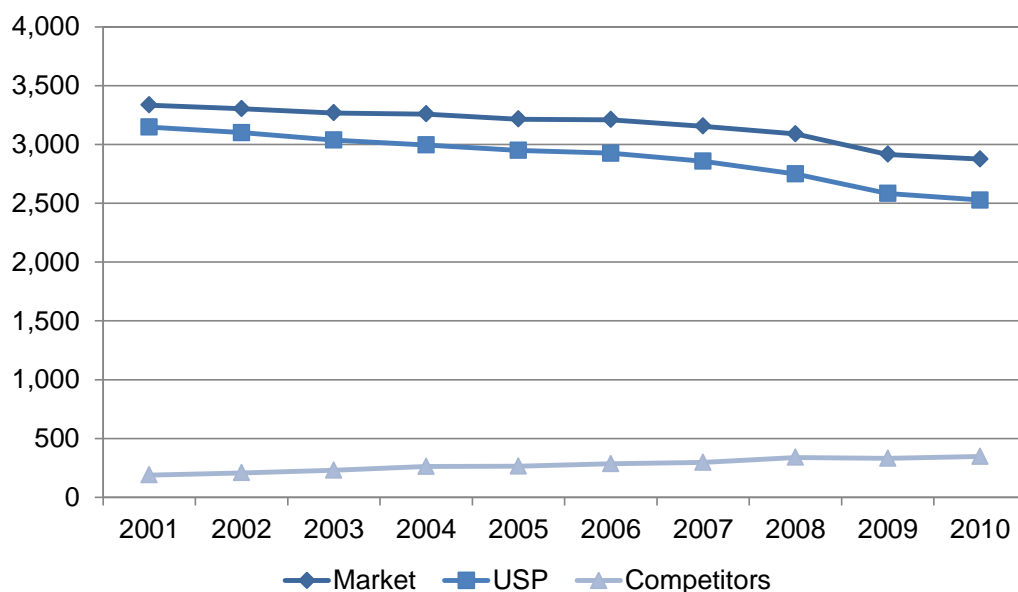
5.2 Market development

Mail volumes

Market and USP mail volumes in Sweden have been steadily declining during the past ten years (see Figure 24).

⁴⁰ See Posten Norden, Annual Report 2009, p. II.

Figure 24 Development of mail volumes in Sweden (million items)



Note: Mail volumes are without newspapers and publications

Source: PTS, Service och konkurrens 2002-2011.

In 2010, market mail volumes were only 86% of what they were in 2001. Sweden Post's mail volumes have developed even worse than the market trend, with only 80% of 2001's letter mail volumes remaining in 2010. Since 2007, volume decline of Sweden Post has accelerated: while Posten suffered from a moderate loss from 2001 to 2006 (on average -1.5% per year), the average yearly loss amounted to 4% from 2007 to 2010. In the recent past, lost volumes consisted exclusively of priority mail items while non-priority mail items remained stable.⁴¹

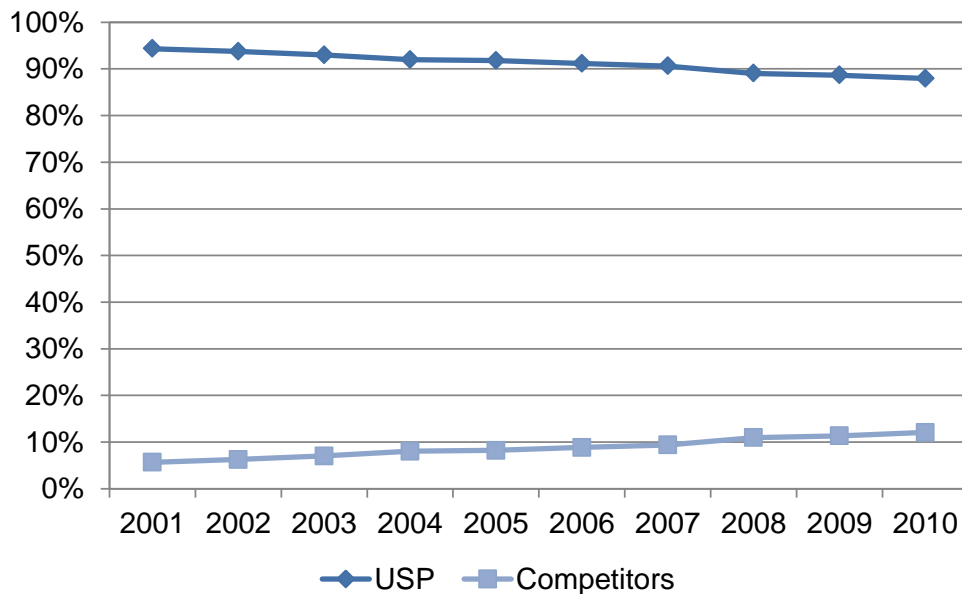
There are three main drivers for this speeding-up of volume decline. First, the economic crisis has negatively influenced market mail volumes in 2008 and 2009. Second, electronic substitution is quite strong in Sweden, and a high internet penetration rate as well as the electronic delivery system 'ePostboxen' offered by Sweden Post further contribute to the decline of physical mail volume. Third, strong competition by Bring CityMail has resulted in declining USP mail volumes even when the economy picked up steam in 2010. This is mirrored by the development of volumes of competitors which rose by about 84% since 2001.

⁴¹ See Posten and Posten Norden, Annual Reports 2006-2010 (no published figures for priority and non-priority mail before 2006).

Competition

Sweden Post is facing end-to-end competition in the postal market, with a combined market share of all competitors of 12.1% in 2010 (see Figure 25).

Figure 25 Development of market shares in Sweden



Source: PTS, Service och konkurrens 2002-2011.

The only serious actor among the more than 30 competitors on the market is Bring CityMail whose market share (11.7%) accounts for the largest part of the competitive market share. Although Bring CityMail has managed to double its market share since 2001 and geographically expanded its delivery area, the company still struggles for profitability, and depends on financial support from its owner Posten Norge (Norway Post).⁴² Competitors to Sweden Post do not operate in all of the country but the major competitor Bring CityMail serves more than 50 per cent of all Swedish households. Therefore, CityMail's market share is substantially higher than 11.7 per cent in the market it serves (only 'industrial mail', only to parts of the country).

Bring CityMail focuses on pre-sorted bulk mail, both addressed direct and transactional mail (for a description of the company's business model see Table 12). In 2009, another competitive operator offering bulk mail services entered the market. MTD (Morgontidningsdistribution) is owned by a publishing house and uses its early morning distribution network for newspapers to deliver letters also, however, with low mail volumes.

⁴² See PTS, Annual Report 2011, p. 16.

Table 12 Case study: Business model of Bring CityMail

Name of competitor	Bring CityMail Sweden AB
Active in the market since	1991
Ownership	Owned by Norway Post who bought the company in 2002 (until then under the name of CityMail).
Market share	2010: 11.7%
Main activities	Bring CityMail delivers pre-sorted bulk mailings (addressed direct and administrative mail) from business customers. Bring CityMail offers also unaddressed mail services. Transit times are D+3, and customers can determine the day of the week they want their mail to be delivered (day-certain delivery).
Territory of delivery	Focus is on large Swedish cities and their surroundings, especially Stockholm, Gothenburg, Malmö as well as the island of Gotland. Bring CityMail's delivery area covers more than 50% of all Swedish households.
Frequency of delivery and week days	Bring CityMail uses a rolling scheme for mail delivery called 'ABC-delivery'. With ABC-delivery, mail is delivered on the first day in one area of a city, on the second day in another and on the third day in the last area of a city

Source: www.bring.se; PTS, Service och konkurrens 2011.

Prices

The last stamp price increase of Sweden Post took place in 2009. Before, prices had increased in 2003 (see Figure 26). Stamp prices have developed in line with the Customer Price Index in Sweden: during the period 2001-2010, CPI rose by 17.7%, corresponding to a stamp price increase of 20% for first and 22.2% for second class letters. Thus, real letter price have remained stable in the recent past. Prices for single piece as well as bulk mail include 25% VAT.

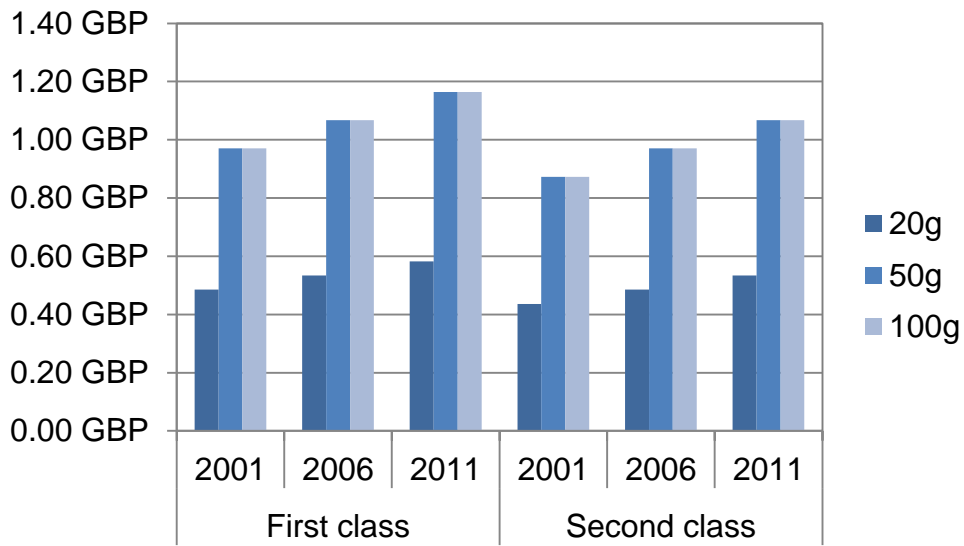
No precise information was available about bulk tariffs but research papers indicate substantial drops in bulk tariffs after CityMail entered the market to compete with Sweden Post.⁴³ In 1996, Posten AB wanted to introduce zonal prices for addressed bulk mail, in response to the market entry of CityMail. Sweden Post offered lower prices for mail to those (urban) areas where CityMail delivered, too. After a two-year legal dispute, Posten AB was allowed to keep, subject to some conditions, introduce the two-stage zonal price system, which is still in force today. Prices for first class mail, economy mail and addressed direct mail of Posten AB are differentiated between two different zones (Metropolitan and National).⁴⁴ However, the market situation is characterized by strong price competition in the bulk mail segment.⁴⁵ Today, bulk mail tariffs are subject to ex-post price control.

⁴³ See Andersson, Peter (2008): Liberalization and market performance: towards higher efficiency in Sweden, in: Crew, Michael A. / Kleindorfer, Paul R. and Campbell Jr., James I., Handbook of Worldwide Postal Reform.

⁴⁴ Letters for the Metropolitan zone, that includes the 19. biggest cities and conurbations in Sweden, are cheaper than letters for National zone, which contains the rest of the country.

⁴⁵ See PTS, Annual Report 2011, p. 16.

Figure 26 Prices of first class letters and direct mail in Sweden (in GBP)



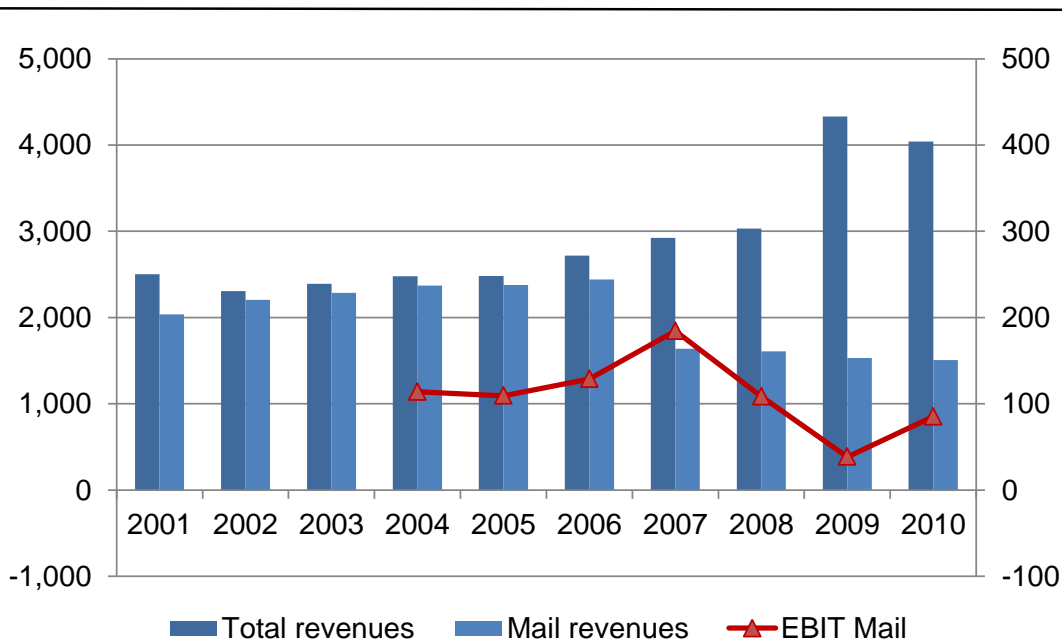
Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: Deutsche Post AG, Price lists.

Financial data

Figure 27 shows that Posten's total revenues slightly increased until 2008 in spite of decreasing mail volumes and the closing down of the Cashier Service segment in 2008. Posten has achieved this through acquisitions mainly in the Scandinavian countries on the one hand and organic growth in IT services and logistics on the other hand, reflecting the trend to distance selling.

Figure 27 Revenues and EBIT of Posten/Posten Norden (in GBP)



Note: Foreign currencies converted using average exchange rates for six months before July 2011.

Source: Posten/Posten Norden, Annual Reports 2001-2010.

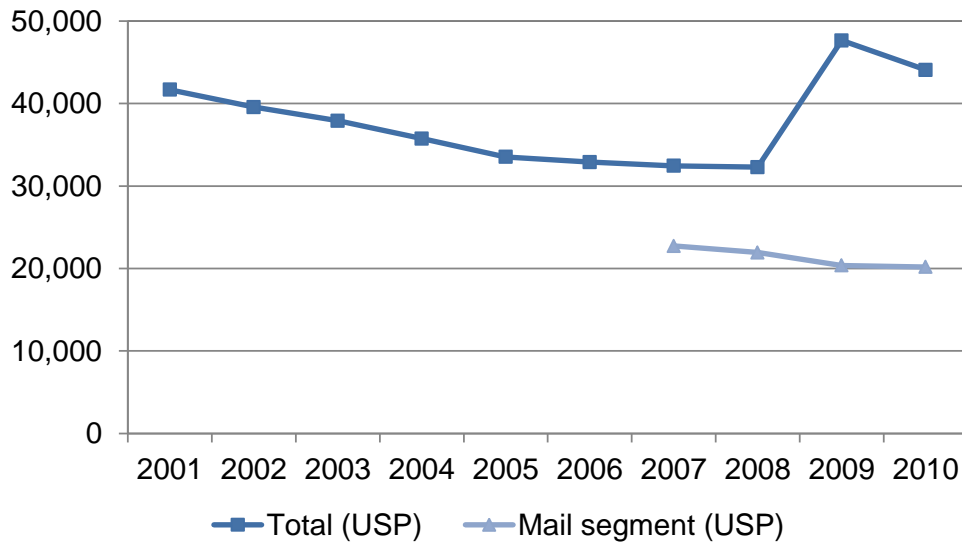
The decrease of mail revenues from 2006 to 2007 originates from adaptations in accounting and reporting of Posten's business segments. Posten had reported mail and logistics revenues together until 2006, yet in 2007 the segments have been accounted separately. 2009's revenue surge stems from the merger of Swedish and Danish Post when, at the same time, profits were very low due to a weak market environment causing Posten's revenues without structural changes to go down by 7%, as can be seen in the drop of mail revenues.⁴⁶

Employment

The number of employees was reduced by 20% from 2001 to 2005, and kept quite stable after that period until 2008 (see Figure 28).

⁴⁶ Posten Norden, Annual Report 2009, p. 2.

Figure 28 Employees of Posten/Posten Norden (Headcount)



Source: Posten/Posten Norden, Annual Reports 2001-2010.

Reduction of employment was caused by rationalization measures undertaken in light of mail volume decline. Several acquisitions in 2006-2008 slowed down this reduction, while employment in the mail segment decreased further. Employment figures for 2009 and 2010 include also employees from Post Danmark after the merger of Swedish and Danish Posts. Realisation of synergies led to further employment reduction in 2010.

Recent figures on employment of competitors in Sweden were not available. Bring CityMail employed about 1,100 people in 2004.

5.3 Universal service regulation and performance

Scope of universal service

Table 13 Legal requirements for universal service and performance of Posten

	Legal requirements for universal service for Posten	Performance of Posten compliant with legal requirements?
Scope of universal service	The universal service covers: <ul style="list-style-type: none"> • letters and • parcels up to 20kg. 	Yes
Frequency of delivery	5 days per week, except in special geographical circumstances	Yes
Number of post offices	No legal requirement	-
Density of post offices	Needs of users shall be taken into account	Yes*
Number of street letter boxes	No legal requirement	-

Note: * This is an assessment based on the annual market survey published by PTS, Service och konkurrens 2011.

Source: Postlag utfärdad den 1 juli 2010, SFS 2010:1045

Posten fulfills the legal requirement to deliver at least five days per week. However, there are exemptions from daily delivery for households in remote areas. The number of households without 5-day-delivery dropped from more than 1,100 in 2001 to 986 households in 2010 (In 2010, 986 households were exempted from 5-day-delivery (~0.02% of population)).

A new postal law transposing the Postal Directive 2008/6/EG came into force in September 2010. According to the new law, PTS can refrain from designating a universal service provider under the conditions that 1) the market provides universal services nationwide and 2) prices as well as quality of these services are compliant with the legal prescriptions. PTS has nevertheless decided to oblige Posten as the designated universal service provider, against which Posten has first appealed at the Administrative Court, then at the Administrative Appeals Court. A decision is pending.⁴⁷

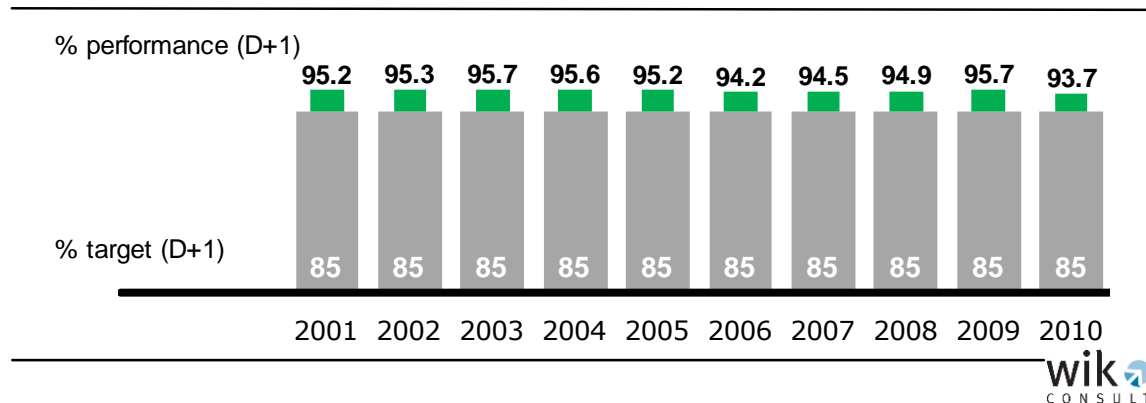
Transit time

Sweden Post has constantly outperformed its target of 85% for D+1 delivery of letters during the last ten years. In 2010, a slight impairment of transit times was caused by disruptions of flight traffic by volcanic ash and internal procedural issues.⁴⁸

⁴⁷ See PTS, Service och konkurrens 2011, p. 21-23.

⁴⁸ See PTS, Service och konkurrens 2011, p. 37.

Figure 29 Transit time targets and performance of Posten



Source: PTS, Service och konkurrens 2002-2011.

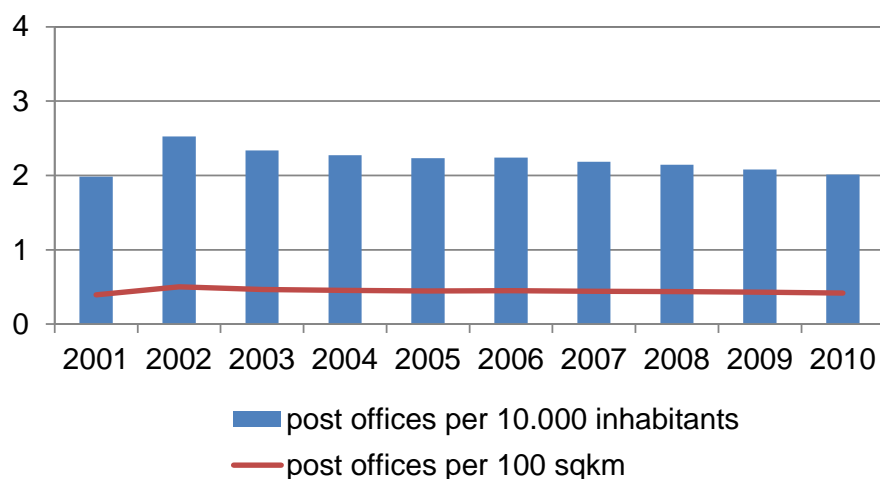
While overall transit time performance is satisfying, Posten seems to have adjusted its collection and delivery time scheme in order to save costs. Sweden Post has restructured its mail sorting procedures within two restructuring programs called 'Brevservice 2009' and 'Brevservice 2010'⁴⁹. These restructurings also affected collection and delivery hours. While collection takes place earlier than before, some receivers get their mail later during the day than they used to. In a survey of PTS on this matter, 12% of respondents said they receive mail after 3 pm.⁵⁰

⁴⁹ See PTS, Service och konkurrens 2011, p. 34 ff.

⁵⁰ See PTS, Service och konkurrens 2011, p. 36.

Post offices

Figure 30 Density of the post office network in Sweden



Note: Includes post offices with own staff as well as agencies operated by other businesses.

Source: Number of postal outlets: PTS, Service och konkurrens 2002-2011; Number of inhabitants: Eurostat.

Posten started to transform its post office network in 2001 when contact points owned by Posten itself were increasingly replaced by agencies situated in food retail stores, combined with an increase of the total number of postal outlets. This led to an improved allocation of outlets for the Swedish population: on average, there are 2.0 postal contact points per 10.000 inhabitants in 2010 compared to 2.5 in 2002. After a phase of dissatisfaction of postal users who had to get accustomed to new locations and personnel, users quickly valued the advantages of prolonged opening hours and reduced queue time in agencies.⁵¹ In 2003, Posten started to thin out the network slightly but in 2010 still provided more outlets than in 2001. In 2010, there were 1,880 outlets and 2,341 stamp agents additionally. Today, Posten runs 310 outlets of its own as business centers but plans to close them down in 2013, as business users increasingly use other distribution channels such as the Internet and postal agencies.⁵²

The number of street letterboxes has been reduced during the last years with a decline of 3% from 2005 to 2007. PTS reports a further reduction in connection with the Brevservice 2009 project but did not publish figures.⁵³

⁵¹ See Temo, Undersökning av befolkningens post- och kassavanor 2005, p. 9.

⁵² See Posten, Pressmeddelande Januari 14, 2010, Postens företagstjänster flyttas till postombuden och internet and PTS, Service och konkurrens, p. 32.

⁵³ See PTS, Service och konkurrens 2010 and 2011.

Universal service funding

There is no legal mechanism for financing of the USO, neither under the old postal law nor under the new postal law which came into force in 2010.

Posten has been receiving state aid (400m SEK / ~38m GBP per year) until 2007 for providing cashier services in remote areas. When the cashier services segment was closed down in 2008, payment of state subsidies ended.

6 Conclusions from foreign experience

6.1 Comparability of benchmark counties with the UK

Table 14 General indicators for comparability

	Germany	Netherlands	Spain	Sweden	UK
Country size in sqkm (2010)	357,022	41,528	505,992	449,964	242,900
Population in millions (2010)	81.8	16.6	46	9.3	62
Population density (inhabitants per sqkm; 2010)	229	399	91	21	255
Degree of urbanisation (2009)	74%	82%	77%	85%	90%
GDP per capita in thousand GBP (2010)	26,218	30,628	19,831	31,855	23,455

Note: GDP converted to GBP using average exchange rate from 2010.

Source: Country size: UPU; Degree of urbanisation: World Bank; other statistical data: Eurostat.

As regards population density, the UK can be best compared to Germany and the Netherlands. Considering the degree of urbanisation, the UK is in the top position in our comparison, closely followed by Sweden and the Netherlands. But, the degree of urbanization is still relatively high in Germany and Sweden.

In recent years, the Gross Domestic Product (GDP) of the UK decreased more than in the other four countries. When comparing the GDP per capita in 2010, the UK compares best to Germany and Spain.

All in all, Germany and the Netherlands appear to be best comparable to the UK regarding economic factors. But the economies of Sweden and Spain still compare relatively well to the UK.

Table 15 Postal indicators for comparability

	Germany	Netherlands	Spain	Sweden	UK
Mail volumes per capita (2010)	234	294	128	308	271
End-to-end competitors' market share by volume (2010)	10.0%	16.6%	11.7%	12.1%	<1%
End-to-end competitors market share by revenue (2010)	11.8%	NA	5.6%	NA	<1%
Price (2011) for a 20g	0.48	0.40	0.30	0.58	0.46
50g	0.78	0.80	0.43	1.17	0.46
100g FSC letter* (GBP)	1.26	1.20	0.69	1.17	0.46
Level of access discounts	Medium	NA	Low	NA	High

Notes: Foreign currencies converted using average exchange rates for six months before July 2011.

FSC letter = Letters of the Fastest Standard Category.

In Germany, mail volumes and market shares relate to the licensed area (letters up to 1 kg) and to 2009.

In Spain, mail volumes and market shares refer to 2008.

In Sweden, market shares relate to the licensed area (addressed letters up to 2 kg).

In the UK, mail volumes relate to the licensed area and to financial year 2009/2010.

Source: Mail volumes and market shares: reports of the NRAs, USPs and competitors; Prices: Price lists of the USPs; Access discounts: WIK assessment based on previous work, see WIK discussion paper no. 336: Downstream access and delivery competition in the letters markets.

The UK has very high mail volumes per capita, as have Sweden and the Netherlands. Volumes are lower in Germany, and much lower in Spain. At the same time, letter post prices of the fastest standard category (FSC) for individuals in the UK are comparatively low; this is especially true for letters weighing between 20 and 100g. Only in Spain and the Netherlands, sending letters up to 20g is cheaper than in the UK. The level of access discounts is very high in the UK compared to other countries.

All in all, the UK postal market is quite comparable with the four other countries. Compared to the four countries, postal services still are relative inexpensive in the UK (despite the massive increase in 2011), and volumes are relatively high.

6.2 Impact of competition on universal service

	Germany	Netherlands	Spain	Sweden
Transit Time Target (2010)	D+1: 80%	D+1: 95%	no D+1 target; D+3: 93%	D+1: 85%
Transit Time Performance (development since 2001)	stable on a high level (D+1: >94% in 2010)	stable on a high level (D+1: 96% in 2009)	considerably increased from a very low level (D+1: 70% and D+3: 96% in 2010)	stable on a high level, (D+1: 94% in 2010)
Post offices (development since 2001; density per 1m inhabitants)	largely stable; high density (153 in 2009)	largely stable; high density (129 in 2008)	declined by 13.5% since 2001; low density (69 in 2010)	largely stable; low density (201 in 2010)
Postal agencies (development of share of postal agencies on total post offices)	continuously rising share on a high level (2011: >95%)*	continuously rising share on a high level (2010: 88%)	no postal agencies	high share of postal agencies (2010: 84%)
Street letter boxes (development since 2001; density per 1m inhabitants)	stable since 2002, strong decline before; high density (1,353 in 2009)	declined by ~9% since 2001; high density (1,092 in 2009)	declined by ~13% since 2001; low density (718 in 2010)	slightly declining; low density (3,204 in 2007)
Exemptions from delivery	none	none	In 2008, 1.7% of population received postal items by roadside or cluster boxes.	In 2010, 986 households were exempted from 5-day-delivery (~0.02% of population).
Single piece tariffs, 20g of FSC (development 2001-2010, compared to CPI development 2001-2010)	slightly decreased since 2001 by -2%, (CPI: 15%)	increased by 13% since 2001, but roughly in line with CPI development (18%)	considerably increased by 42% since 2001 (CPI: 28%)	increased by 20% since 2001, but in line with CPI development (18%)
Bulk mail tariffs (development since full liberalisation)	declining tariffs for transaction mail after full liberalisation	declining tariffs for direct mail and periodicals after full liberalisation	-	declining tariffs for bulk mail after full liberalisation

Note * The share of postal agencies in 2009 was 71%. Meanwhile, this share is considerably increased; however, there is no official data available recently. We estimate that the share of postal agencies on post offices is higher than 95% in 2011 (Estimation by WIK).

Source: Transit time: National postal laws and reports of the NRAs and USPs; Post office network: Reports of the NRAs, USPs and UPU; Letter post prices: Price lists by USPs and assessments by WIK, CPI: Eurostat.

Germany: The level of universal service of Deutsche Post has been largely unchanged in the last ten years. Deutsche Post has restructured its postal retail network by replacing postal offices by agencies but network density was maintained. However, customers in Germany benefit from improved access to postal agencies of competitors (e.g. Hermes). All in all, since full market opening in 1998, end-to-end-competition has not negatively affected universal service and has even led to improved access (more post offices/agencies operated by Deutsche Post and other letter or parcel carriers). Letter post prices of Deutsche Post for individuals decreased but price development seems to be driven by regulation mainly. Deutsche Post decreased the tariffs for bulk mail around the time of full market opening (2008).

Netherlands: The level of universal service has been unchanged in the last ten years; there are no exemptions from delivery. TNT has restructured its postal retail network at a high level by replacing post offices by agencies; the total number has been stable since 2001. The number of street letter boxes has been reduced; at a very high service level, in order to reduce cost. All in all, universal service has not been negatively affected by end-to-end-competition. Letter post prices for individuals increased in line with inflation. Incumbent PostNL has not fully used the price increases allowed by price regulation. Tariffs for direct mail and periodicals declined due to competitive pressure.

Spain: Transit time performance has considerably improved in the last ten years. This seems to have been driven by improved management of Correos as well as regulation (higher transit time targets). Correos has reduced the number of post offices and street letter boxes although the density of the post office network is very low. Letter post prices for individuals were considerably increased (more than inflation) but price are still lower than in other countries. All in all, changes in universal service offer a mixed picture: accessibility of post office decreased but transit time improved. During the last ten years, Correos' market share has not changed significantly. Local end-to-end-competitors are active on the Spanish postal market since more than 30 years, but the organisation of Correos underwent during the last ten years. Therefore, it is not clear that end-to-end-competition has had much of an effect on universal service. Declining market volumes appear as the more important challenge to Correos.

Sweden: The level of the universal service has largely stayed the same in the past years. Transit time performance is largely stable on a high level. Posten recently started to slightly thin out the delivery network after it had increased considerably the number of postal agencies in the early 2000's. Posten increased letter post prices for individuals in line with the extent allowed by price regulation.

Conclusions: In the letter markets we surveyed, the incumbents' have experienced substantial market entry, and today have market shares of 83 to 90 per cent (by volume). Competitors of the USPs have developed new business models rather than copying the incumbents' products and technology. Despite this end-to-end-competition, universal service is continued to be provided, in all parts of the countries. Generally,

quality of universal service has improved, in particular with respect to routing times, and longer opening hours in the postal agencies that replaces traditional rural postal offices.

However, incumbent operators in the liberalised markets have tried different approaches, and in some cases regulators had to take actions to ensure universal service was provided without service disruptions. Such areas of concern, that may warrant close regulatory surveillance, include, in particular,

- the post office network and
- public tariffs offered to individual households, the most vulnerable group of customers.

6.3 Impact of competition on sustainability and profitability of the USP

	Germany	Netherlands	Spain	Sweden
Major restructuring process	between 1993-1999	between 1992-1998	since 2005	in the 1990's
Financial situation in 2010	profitable	profitable	loss making, despite state aid	profitable on low level
EBIT (average) of the last 5 years (2006-2010)	1,022 GBP	722 GBP	43 GBP	111 GBP
EBIT Mail (average) of the last 5 years (2006-2010)	1,766 GBP	533 GBP	43 GBP	1,124 GBP
Dependency on traditional letter services	low	low until 2010, high since 2011 due to separation of TNT	high	medium
State Aid	substantial state aid during separation from Telecom operator (1990s); see European Commission cases	none after 2000	60m EUR (~52m GBP) in 2010 for provision of universal services	400m SEK (~30m GBP) until 2007 for provision of basic cashier services
Employees in Mail segment (development 2006-2010)	slightly declined since 2006 (-2%)	declined since 2006 (-8.9%)	declined since 2006 (-5.5%*)	declined since 2006 (-11.1%**)
Employees in Mail segment (development 2001-2010)	slightly increased since 2001 (+1.8%)	increased since 2001 (+13,3%)	slightly increased since 2001 (+2%*)	considerably declined since 2001 (-22.5%**)

Notes: Foreign currencies converted using average exchange rates for six months before July 2011.

* For Spain, there is no data about employees and EBIT in Mail segment. Because of revenue share of Correos Mail segment on total revenues of Correos is around 85%, we use total employment and total EBIT of Correos instead of Employment and EBIT in Mail segment.

** Development of Employment in Mail segment refers to 2001 resp. 2006 to 2009. Employment data for Posten AB solely is only available up to the merger with Post Danmark in 2009.

Source: Annual Reports of the USPs and own calculations based on this data.

With the exception of Spanish Correos' most two recent results, all universal service providers incumbents have managed to operate profitably. Correos was profitable in most years, but posted small negative results in 2009 and 2010 (the two years following the financial crisis).

The three profitable operators (Dutch PostNL, German Deutsche Post, and Sweden Post) do not receive any compensation for universal service, and indeed provide their universal service products on very successful commercial terms. That said, these three operators, over the last two decades, have used their commercial flexibility to modernise their sorting and transportation networks as well as their post office networks. As a result, their cost structure have become more flexible, allowing them to respond to changing market conditions.

Undoubtedly, the changing communication patterns, and the decline of mail volumes in many countries, create challenges for all postal operators, including universal service providers. In all countries we have observed, the loss of volume to competition has had some negative influence on the revenues and profits of universal services providers. However, this competition appears to be much less an important risk than the declines of total market volume that result changing demand behaviour and electronic substitution. How postal operators meet these challenges appears as the more important factor determining whether or not they can be maintain financial success.

In the liberalised postal markets we surveyed, universal service providers have undergone major organisational changes to achieve greater efficiency. End-to-end-competition has provided strong incentives for this modernisation that included, for example, an overhaul of post office and delivery networks, , sorting technology, formats and price structures, as well as their operational and management structures. In order to ensure universal service can be sustained in our increasingly digital societies, modernisation of universal service providers is a necessity. In the four different countries, we believe end-to-end competition has helped to achieve a sustainable universal service, and indeed improve universal service quality, by putting pressure on incumbent operators to modernise.