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GREEN PAPER
ON THE DEVELOPMENT OF THE SINGLE MARKET
FOR POSTAL SERVICES

(Communication from the Commission)

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The Annexes, pages 255 to 371 are on AEI-EU as a separate document.

EXECUTIVE SUMMARY

1. NATURE OF DOCUMENT/CONSULTATION

A Green Paper is a discussion document. This Green Paper seeks to launch the debate on the Community's postal sector. To do so, it has the following objectives:

- to provide a thorough-going analysis of the current situation;
- to discuss what should be the Community objectives for its postal sector and whether action is needed a Community level to achieve them;
- and (assuming that action is needed) to discuss how these objectives could be achieved and suggest detailed options.

During the preparation of the Green Paper, there was extensive consultation, particularly with the governments of the Member States. The publication of the Paper will now launch a period of even wider consultation during which the Commission will seek the views of all interested parties - including representatives of Member States' governments, of users (from individual consumers to large users), of operators (both public and private) and of trade unions. All parties will be invited to consider whether the analysis of the current situation is correct; whether the Community objectives proposed are the right ones; and whether the means proposed for achieving these objectives will be effective. Detailed discussion of the potential economic and social impact of possible proposals will also be encouraged.

The Community's postal sector is subject to many forces. Technological change in other sectors has promoted indirect competition with postal services. Within the sector, there has been a succession of competition cases. Most importantly, customer needs are evolving, probably more rapidly than in the past. Action therefore seems imperative. If it is not taken, events will significantly alter the landscape, and it will become less and less easy for the Community to play its full part in helping to shape a sector which is so important to its commercial and social life.

Following the consultation period, the Commission will define its views on what proposals should be made in the light of views and information received during the consultations. If appropriate, it will then draw up draft directives. This implies that there is much detailed work still to be undertaken. The Green Paper is not intended to contain this level of detail, but, as is appropriate for a discussion document, presents options at a more general level.

In determining what action should be taken, the central guiding principle must be the maintenance and, if appropriate, the development of a universal postal service which would provide collection and delivery facilities throughout the Community, at prices affordable to all and with a satisfactory quality of service. Then, provided that the universal service is secured, there should be as much freedom of choice as possible.

2. THE COMMUNITY'S POSTAL SECTOR

The Community's postal sector contributed nearly 1.3% of its GDP (in 1989), and presently employs 1.7 million of its citizens. Some key facts are as follows:

Size: Including postal financial services, the postal operators (public and private together) generate some ECU 59 billion annually.

Mail services are provided both in the reserved area (letters) and in the non-reserved (parcels and express services). Trends in all three products are moving upwards (in the range of 3% to 10% growth per year).

The ratio of turnover between services provided by postal administrations and those provided by private operators is approximately 60:40. The postal administrations' share of the Community's GDP is similar to that held in the US by the postal administration there; the share of private operators, however, is substantially smaller in Europe.

Segments: The sector's most important market segments are publishing, mail order and direct mail, the latter two being responsible for 0.7% of the Community GDP. Other major segments include business in general and the financial services sector (including banking) in particular.

Operators: Postal administrations provide services in all three product areas - letters, express and parcels. The private operators are located mainly in parcels and express, but also offer some cross-border letter services (sometimes in apparent contravention of national postal law).

The non-reserved areas, particularly express, are very profitable. Letters, where they are profitable, are priced on a cost-plus basis; however, many printed paper services are heavily loss-making.

3. WHY SHOULD THE COMMUNITY BE INVOLVED?

The analysis of the existing situation identifies several problems that would seem to justify action at Community level. Many of these problems concern the variability of the quality of universal services. Resolution of such quality related problems is paramount.

Broadly, there are five areas of concern for the Community.

3.1 Present lack of harmonisation

The operations providing universal service in each Member State have evolved independently, with the effect that there are now many operational differences between them. This can lead to significant problems for mail passing between Member States; it can also have opportunity costs. Most obviously, the universal service is defined differently in different Member States with the effect that customers cannot confidently post similar items in different Member States. But problems of inter-operability are to be found at every level. At a more detailed level, for example, problems are encountered because of lack of harmonised norms for envelopes.

3.2 Single market implications

Service performance for universal service varies greatly between different postal administrations. There are some Member States where next day delivery performance reaches the generally accepted target of 90%; in others, performance is 15%/16%; in others, performance is between the two (but tending more towards the former). The generally accepted, but not very demanding, service

target for cross border mail is delivery within three working days; performance is currently measured at an average of only about 40%, and with large variations between different postal administrations.

Such variations have particular implications for the parts of the Community's commercial and social life that are heavily reliant on postal services. Large senders of mail include the key sectors of publishing, financial services, mail order and advertising. For such sectors variability in performance of universal services can lead to market distortions. For example, it would be much easier to sell insurance services to an individual household in a Member State where the performance is 90% rather than in another Member State where it is 16%. It would be more difficult for a company to market its products by post in another Member State than for a company that was based in that Member State.

For example, it does not appear co-incidental that one of the Member States with very poor service has a mail order sector only one fifth the size of that of other Member States of comparable economic size. This harms the mail order companies' prospects. Significantly, it also reduces the choice of the individual consumer. Those who live in regions disadvantaged by poor postal services - and there are many - are therefore isolated not just from the personal contact that can be achieved through mail, but also from the services that can be provided through the mail.

Such disruptions of the Single Market affect not only senders but also receivers of mail. If a particular region of the Community is thought to have an unreliable universal service, companies (such as mail order) would be less interested in trying to market their products there. The consumers (as potential recipients) would therefore have a reduced choice.

3.3 Cross-border service performance

In terms of number of days taken from collection to delivery, a domestic item takes an average of 1.5 to 2.0 working days, whereas a cross-border item within the Community takes an average of 4.0 days. A small part of the gap is explained by operational practicalities. But the larger part of the gap cannot be explained in this way. This quality gap effectively creates a "frontier effect". Expressed in terms of achievement against target, service performance for postal administrations' cross-border letter services within the Community has been measured at an average of 40%. Behind this average lie significant variations.

This level of service probably falls short of user expectations. Indeed, it should be mentioned that expectations are likely to become more demanding as cross-border communication increases. Relative to user demand, static performance would be perceived as worsening. In fact, there appear to have been some improvements, stimulated particularly by the introduction of competition (partly in breach of exclusive rights which were unenforced). However, there is still a large gap between the targets which postal administrations set themselves (either on the basis of customer requirements or operational practicalities) and the reality.

Since effective cross-border communications are essential for the commercial and social life of the Community, it is a matter of concern to the Community that service performance for cross-border services is so unreliable.

3.4 Divergences

One of the objectives of the Community is to ensure its own cohesion. Clearly, the wide divergences to be found in the postal sector do not help the achievement of this objective. Postal services provide one way in which messages can be communicated and goods delivered. Any regions having unreliable postal services would therefore be disadvantaged in terms of their communications and goods delivery requirements. Both individuals and businesses in such regions could feel cut off.

This situation of being disadvantaged would not be only by reference to their requirements. It would also be relative to the conditions enjoyed in other parts of the Community where the performance of the universal service was more reliable.

3.5 Market distortions

In the comments on the single market implications, it was noted that divergences in the service levels of universal services in different regions can contribute to market distortions in other sectors which are reliant on postal services. However, it should be noted that there are potential market distortions within the postal sector itself. These could be caused in the case of the scope of the exclusive rights being larger than was needed to ensure the universal service. In order to prevent such distortion, Member States therefore need to apply the proportionality principle. An example of its application is the transferring by some Member States of direct mail to the non-reserved area.

4. OBJECTIVES OF GREEN PAPER

The Green Paper therefore has two general objectives.

- to provide a status report of the present situation, identifying problems and challenges that already exist and those that are likely to arise in the future;
- to discuss possible solutions and responses, and to lay out detailed options for the future, the final proposals needing to be defined after the consultation process which will follow publication of the Green Paper.

The paper is therefore divided into four sections:

1. description of the postal sector (Chapters 2-6);
2. summary of problems and challenges (Chapter 7);
3. possible solutions to the problems and challenges (Chapter 8);
4. policies that are proposed (Chapter 9).

It must be emphasised that the Green Paper is a discussion document. Naturally, it represents the views of the Commission as at the present moment, and after some extensive consultation with Member States and certain other interested parties. Publication of the Green Paper will start a period of wider consultation to which all interested parties will be invited to contribute. After this consultation period, the Commission will need to draw up its proposals, taking account of the contributions received.

5. POLICY FUNDAMENTALS

It is agreed by everyone that the absolute policy fundamental is the need to ensure the continuation of the universal service, and thus to ensure that the postal administrations' public service mission is carried out in good economic and financial conditions. The main concrete meaning of this universal service requirement is that there should continue to be a postal service available throughout the Community, both for national services within a Member State and for cross-border services linking two Member States. This universal service must be provided at an affordable price, have good quality of service and be accessible to everyone. Then, provided that the universal service is secured, there should be as much freedom of choice as possible, as far as it respected, in accordance with the principle of subsidiarity, the pursuit of the public service mission.

Naturally, the Green Paper needs to discuss these policy fundamentals, as well as any subsidiary objectives, in the context of Community legislation and policy. As well as considering the implications of the single market, it must also take into account the possible implications of both political and economic union. It should also discuss the application of the relevant articles of the Treaty of Rome.

6. GENERAL OPTIONS

There are certain general options as means to achieving these broad objectives. (Naturally, the implications of taking no action should also be considered.) In broad terms, there are two paths - that of liberalisation and that of harmonisation.

The sector is already significantly liberalised - about 50% of the revenue generated in the sector relates to non-reserved services. The present position results from a longer-term trend to open the market, and the Green Paper options seek further ways to ease restrictions. By contrast, levels of harmonisation (by reference to possible Community objectives) are rather low. As a result, the Community has a postal sector with many divergences - not only regulatory, but also in terms of such important customer aspects as access, service provided and tariffs.

Possibilities for reform can be approached by first considering the extreme options of complete liberalisation and of complete harmonisation. These two options are effectively at opposite ends of a spectrum of different possible scenarios. The option of taking no action at all should also be examined. The last option to be discussed is that which seeks an equilibrium combining the benefits of both progressive opening of the market and selective harmonisation. Within this option many variants exist; some of these are discussed below at Paragraph 6.4.

6.1 Complete liberalisation

The normal market condition is that of the free market. However, complete liberalisation of the postal sector would lead to the loss of the universal service, certainly at prices affordable to all. Initially, there were a few proponents of this solution. Now, nobody seriously believes that the universal service imperative would be met if there was complete liberalisation. Certainly, no private operators seem interested in providing a standard letter service to all parts of any national territory.

6.2 Complete harmonisation

If it was intended to have a postal sector that was completely harmonised, it would be necessary to have a single operational body that ensured that such harmonisation was implemented. Such an operator - effectively a single postal administration covering all the Community - would have overall responsibility for all aspects of what was considered to be the public administration part of the Community's postal sector.

Total harmonisation would imply the same tariff being applied throughout the Community, as well as the same access conditions and the same levels of service. A single tariff (for which there appears to be no demand) would cause overwhelming problems. It would also be impractical, demanding cross-subsidies of massive proportions. (Tariffs presently vary by as much as a factor of three.) Central co-ordination of policies relating to areas such as marketing or personnel would be likely to lead to an over-rigidity which could not respond to local conditions. Further, the implementing body, the single postal administration, would be a costly additional overhead.

In summary, complete harmonisation would lead to many restrictions, but few benefits. Further, it should be emphasised that nobody is now asking for the single operational body that would be needed to implement harmonisation at this level.

6.3 Status quo

If this theoretical option were to be exercised, the result would be a widening of the gap between already very divergent positions, and, in view of what was noted at Paragraph 3, make more difficult the proper functioning of the Single Market. This would lead to a "two-speed" Europe in postal services. In short, the Single Market in postal services would not be achieved, with significant indirect effects on other sectors particularly served by postal services. It would also probably not be the appropriate response to the implications of political and economic union.

6.4 Equilibrium: further opening of market/strengthening of universal service

This option accepts that in order to ensure the universal service it is necessary to have some restriction of the free market. This would be in the form of the establishment of a set of reserved services that confer some special and exclusive rights on national postal administrations. However, the scope of the reserved area must be strictly proportional to the universal service objective. At the same time, the regulatory control of part of the market (reserved services granted to ensure universal service) would make possible certain harmonisation measures to ensure that the universal service operates effectively in all twelve Member States.

Each Member State already reserves certain services in order to achieve a universal service objective; but the scope of such reserved services is usually larger - sometimes significantly - than is necessary to meet the objective. Further, the actual objective (including service performance) must be achieved in practice. In addition, there are gains to be obtained from simply clarifying what is reserved and what is not.

It is proposed that there should be a Community definition of the universal service that should be provided throughout the Community. This definition has not yet been drawn up. However, it is possible to indicate how the market should, under

this option, be partially liberalised without threatening the universal service objective.

Under this option of seeking equilibrium, certain services should be removed from the reserved area (if, indeed, they presently form part). These are express services and publications. (Parcel services are already liberalised in all twelve Member States.) Based on the analysis that has been made to date, the liberalisation of cross-border letters and, *a priori*, of direct mail would also be envisaged. In both cases, it will be necessary to ensure that the appropriate regulatory control systems are in place to prevent such liberalising measures leading to circumvention of legitimate exclusive rights of reserved service providers. Particularly in the case of direct mail, it will be necessary fully to analyse the economic implications for the universal service of such a liberalisation measure.

The liberalisation process ought to be implemented in a gradual manner. It should take into account the necessary phases for adaptation in order to maintain the economic and financial balance needed for the provision of the universal services.

For the services which remain as potentially reserved - which would broadly cover personal and business correspondence - it would be possible to establish clear limits that indicated the precise scope of the reserved area. These limits would be defined in terms of weight and price.

It should be emphasised that if any Member State were concerned that specific proposals might prejudice its universal service objective, it could consider applying a more restrictive solution, provided that it was still proportional to the objective and conformed to Community law.

Turning to the harmonisation measures to be implemented in parallel with these liberalisations, they must spring from the fundamental Community objective that there should be a universal service of sufficient quality and at affordable prices. As mentioned above, there is not yet a Community definition of the universal service required across the Community. It seems clear that such a definition is needed and that, when drawing it up, potential users - including consumer representatives - should be consulted. However, certain harmonisation requirements are already clear.

Universality implies easy access, and this is presently often not the case. Given the present divergences in service performance, some harmonisation would be needed in this respect also. Tariffs appear to be generally affordable; however, in certain cases, the tariffs do not reflect the costs, and such tariff-setting, as applied by the postal administrations, could, in the long term, jeopardise the economic viability of the universal service network. Further, it is right that the postal administration should be able to use the universal service network to provide non-mandatory services, but at present there are no common rules for this.

These present and future problems indicate that harmonisation measures for universal services are appropriate in the following areas:

access: rules should be the same for all users meeting the same conditions; for the access needs of other service providers (either other postal administrations or private operators), there may need to be specific technical measures to ensure inter-operability;

- service:* standards should be set for all universal services; performance should be measured by a common system that accurately reflects users' experience of the service; results should be published;
- tariffs:* prices for each service should be related to the average costs of that service; present differences in tariff structures should be reduced in order to diminish present market distortions.

These harmonisation measures could be implemented, considering that basic customer requirements would be likely to be very similar in each Member State.

7. PROPOSED SCENARIO

The last option is the preferred scenario since it finds the appropriate balance. It combines gradual opening of the market with the implementation of harmonisation measures to meet Community objectives. It will therefore ensure the universal service under proper conditions, whilst providing optimum freedom of choice for users. It will be noted that there is no single solution, but rather a set of measures which provide the common structure needed. Each proposal is therefore part of a coherent whole; at the same time individual proposals do respond to certain specific problems.

In summary, the Green Paper considers that the universal service objective can justify the establishment of a set of reserved services, which would help to ensure the financial viability of the universal service network. In this way, the public service mission, which is and will remain a feature of universal postal services, would be guaranteed. The scope of the reserved services, which would confer some special and exclusive rights on the universal service provider, should be directly proportional to the objective. The universal service objective would thus be secured, and there would be as much freedom of choice as possible for potential users.

It should be mentioned that some advance comments have been received on recent drafts of the options. On the basis of these comments, it seems that there could be a consensus on the general orientations. However, there appear to be certain points that cause concern to some interested parties. These points seem to relate to the need for adaptation periods and also to certain liberalisation proposals, such as for direct mail, intra-Community cross-border mail and international mail. The debate during the consultation period that will follow the publication of the Green Paper may well concentrate on such points. However, the balance of the whole set of policy options presented should be considered.

It should be emphasised that this broad option of further market opening combined with strengthening the universal service could itself be implemented in a number of ways. The intention is that the main remaining choices will be made in the light of the debate that will follow the publication of the Green Paper. More detailed work will thus be needed before implementation. Much of this will involve discussions with user groups in order to identify their requirements in more detail, particularly with regard to the ways in which they may need greater freedom of choice. As mentioned, a Community definition of the universal service is required. Further analysis is also required before the weight and price limits for the reserved area can be defined. Service thresholds for the universal services need to be agreed. More detailed work is also required to implement the principle that tariffs should be related to average costs.

However, even though this more detailed work remains to be undertaken, the set of policy options is presented in the confidence that the common structure proposed, by

linking liberalisation and harmonisation, would ensure the universal service and give optimum freedom of choice.

The main policy objectives for the Community's postal sector are shown in the table overleaf:

1. TO ENSURE PROVISION OF UNIVERSAL POSTAL SERVICE THROUGHOUT THE COMMUNITY AT PRICES AFFORDABLE TO ALL THROUGH THE ESTABLISHING (INASMUCH AS IT WAS NEEDED IN MEMBER STATES INDIVIDUALLY) OF A SET OF RESERVED SERVICES WHICH WOULD CONFER SOME SPECIAL AND EXCLUSIVE RIGHTS, IN ORDER TO MAINTAIN THE RESOURCES NECESSARY FOR THE UNDERTAKING OF THE PUBLIC SERVICE MISSION IN GOOD CONDITIONS; AT THE SAME TIME, CONSISTENT WITH THIS OBJECTIVE, TO HAVE THE LARGEST POSSIBLE PART OF THE SECTOR OPERATING IN FREE COMPETITION.
2. TO HAVE COMMON OBLIGATIONS FOR THE UNIVERSAL SERVICE OPERATORS OF THE COMMUNITY IN RESPECT OF THE SPECIAL AND EXCLUSIVE RIGHTS GRANTED TO THEM BY THE RESERVED SERVICES IN ORDER TO ENABLE THEM TO PROVIDE UNIVERSAL SERVICES, IN PARTICULAR WITH REGARD TO THE QUALITY OF SERVICE PROVIDED.
3. TO MAKE ANY NECESSARY EFFORTS TOWARDS COMMUNITY COHESION THROUGH APPROPRIATE HARMONISATION MEASURES.

These main policy objectives therefore treat general regulatory issues, the obligations of the reserved service provider and, thirdly, the subjects of harmonisation and cohesion. These are in turn translated into detailed options under three headings, each relating to one of the main policy objectives:

Part I: *GENERAL REGULATORY ISSUES*

Part II: *OBLIGATIONS OF UNIVERSAL SERVICE PROVIDERS*

Part III: *HARMONISATION AND COHESION*

These options are put forward in the confidence that they would have a very positive effect on the Community's postal sector - on all customers, large and small, and all operators, public and private. In short, they will create a dynamic single market in postal services.

PART I: GENERAL REGULATORY ISSUES

1. ESTABLISH A SET OF UNIVERSAL SERVICES

The key social requirement for postal services is the maintenance of the universal service. Universal service without any conditions about price can be provided in the competitive (non-reserved) sector. But, in order for the service to be at a price affordable to all, it is necessary to have sufficient economic returns to scale. These can only be achieved through the granting of some special and exclusive rights - hence the need for reserved services. (Although it is possible for there to be more than one reserved service provider in each Member State, this is unlikely; for the sake of simplicity, all the proposals refer to only one reserved service provider - assumed to be the postal administration - in each Member State.)

2. DEVELOP THE DEFINITION OF UNIVERSAL AND RESERVED SERVICES

Detailed work is still needed before such a Community definition of the possible set of reserved services can be made. Throughout this analysis, the objective will be to seek the least restrictive solution. Conditions in some Member States may permit the scope of the reserved services there to be less than the set defined at a Community level, but always consistent with the objective of ensuring universal service. Whatever the result, the definitions must be such as to distinguish clearly between what is in the reserved area and what in the non-reserved area.

3. ENSURE COMPATIBILITY OF OTHER MEMBER STATE COMMITMENTS WITH COMMUNITY LEGISLATION AND POLICIES

As with all sectors, efforts need to be made to reduce the possible tensions between, on the one hand, Community law and policies and, on the other, potential obligations arising from other conventions or treaties that Member States may have signed.

4. SEPARATE REGULATORY AND OPERATIONAL FUNCTIONS

In order to ensure that the user's interests are best served through the impartial treatment of all operators, it is essential that regulatory and operational functions should be separated. The independence of the regulatory function will better enable it to achieve the best balance between public and private operators, and between reserved and non-reserved service providers. It will monitor the effectiveness of the reserved services, in terms of the service provider both maintaining a good universal service and meeting its other obligations shown below at Proposals 5, 6 and 8. If the situation arises, it will need to consider what action may be necessary in the case of performance falling short of the obligations.

PART II: OBLIGATIONS OF UNIVERSAL SERVICE PROVIDERS**5. ACCESS CONDITIONS TO UNIVERSAL SERVICES TO BE SAME FOR ALL**

The rule must be equality of treatment of users (customers) of universal services. Within this rule, it is recognised that customers have varying requirements and can co-operate with universal service providers to varying extents. This is partly a function of size, but particularly of the ability to prepare mail in ways that are beneficial to the postal operation of the universal service provider, thus allowing the latter to offer discounts.

6. TARIFFS OF UNIVERSAL SERVICES TO BE RELATED TO AVERAGE COSTS

The guiding principle should be that tariffs should be related to average costs. The consistent application of this principle is the best guarantee of the financial soundness of the postal services. Cross-subsidies can be permitted across geographic areas in order to allow the péréquation tarifaire and from the non-reserved area to the reserved area. There could also be cross-subsidies from the reserved to the non-reserved area if they were necessary to assure the universal service and if they were compatible with competition rules. With these exceptions, in order to ensure fair treatment for all, cross-subsidies, whether from one service to another or, because of discounts, from one group of customers to another, should be minimised and phased out.

7. INTER-ADMINISTRATION COMPENSATION TO REFLECT DELIVERY COSTS

The existing system of charging between postal administrations (called terminal dues) is not cost based, leading to significant distortions between remuneration and actual delivery costs incurred. The same principle of basing on tariffs on costs should apply to the financial compensation system between postal administrations..

8. SERVICE STANDARDS FOR UNIVERSAL SERVICES TO BE SET AND PERFORMANCE MONITORED

The justification for establishing a set of reserved services is based on the social requirement for universal service. The actual service performance is therefore crucial in ensuring that the social requirements are met. Standards therefore need to be set for the universal services, performance monitored and control systems put in place. It is important to note that such standards are only thresholds - universal service providers should still try to have a performance higher than the standards.

PART III: HARMONISATION AND COHESION

9. HARMONISATION APPROPRIATE WHERE BENEFICIAL TO CUSTOMERS

The more tangible the benefit for the consumer, the stronger the case for harmonisation. The clearest benefits would seem to be gained from some harmonisation of access conditions and from harmonisation of service standards and performance monitoring (described above at Proposal 8).

10. COHESION ASPECTS TO BE TAKEN INTO ACCOUNT

It is important always to keep in mind the need to ensure that the Community throughout has an effective postal sector that properly meets the postal needs of the whole of the Community. Most of the improvements necessary can be gained through better management. However, some capital investment could be needed, which, particularly in less favoured regions, could entail a significant financial burden.

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GLOSSARY

CHAPTER 1: INTRODUCTION

A Green Paper is a discussion document. This Green Paper on Postal Services is published as the basis for discussion of what changes need to be made to the Community's postal sector in order to achieve the Single Market in postal services.

In co-operation with Member States, the Commission has invested a significant amount of time and effort in the preparation of this paper. This investment is appropriate because of the importance of the postal sector to the commercial and social well-being of the Community. The Single Market can only function with good communications and distribution channels. Effective postal services have an essential part to play in providing these channels.

An analysis of today's postal services in the Community shows a sector with many tensions and divergences. After 1992, if nothing were to be done, these problems would increase to a level that would be incompatible with the objectives of the Single Market.

The fundamental difficulty is that there is presently no Community approach. The Green Paper is the first step to resolving this. It presents policy options, when implemented, would help to give the Community the effective postal services that it requires.

In order to arrive at the policy options, the present situation needs to be analysed in detail to determine what the important issues are. Possible solutions then need to be discussed, and proposals made. Some readers of the Green Paper may be less familiar with the postal sector, and so the analysis is preceded by a general introduction to the sector.

To prepare the Green Paper, the Commission has received information and opinions from all the Member States. The postal administrations have also contributed, as have trade associations representing the larger private operators. Some user groups have also given their views. In addition, several reports, some initiated by the Commission, have helped the preparation of the paper.

A few words are appropriate concerning mention of Member States in the paper. In all cases, the English name is used. When the Member States are listed in tabular form, the order used follows the Community practice of an alphabetic order using the names in the native language. Specifically regarding Germany, it should be noted that all figures relate to the Federal Republic pre-unification.

CHAPTER 2: THE POSTAL SECTOR - BRIEF DESCRIPTION

1. GENERAL

Postal services provide one way in which messages can be communicated and goods delivered. They therefore play a vital role in modern society, and will continue to do so. Good postal services are an engine for economic growth; poor postal services have a debilitating effect, both economically and socially.

However, the role played by postal services will change as society's requirements for communicating messages and having its goods delivered change. Demand for postal services will be affected by the competition from other communication media and delivery channels. It will also depend on society's view of the quality of service provided by postal services.

2. IMPORTANCE TO COMMUNITY

In the EC, mail services of the postal administrations and private operators combined generate an estimated annual turnover of some ECU 46 billion, postal administrations contributing ECU 26 billion and private operators ECU 20 billion. Postal administrations also have counter operations and financial services which generate a further ECU 13 billion. In total, therefore, the turnover of the Community's postal services is ECU 59 billion - or 1.3% of the EC's Gross Domestic Product (GDP).

The Community's mail order and direct mail industries, which are closely linked to the postal services, generate a further ECU 26.4 billion and ECU 6.4 billion respectively. Together, this is 0.8% of the Community's GDP.

Combining these figures with those of the revenue of the postal operators themselves, the share of the GDP is 2.0% (allowing for some overlap in the revenue generated). This figure does not take into account the commercial value of the postal services. An effective postal infrastructure is not only an objective in itself, but also necessary to support commerce and administration. Mail volumes and revenues have been growing consistently in recent years, certainly keeping up with the growth in the Community's GDP.

It should also be remembered that postal services bring benefits which cannot be quantified in financial terms. They are an important means by which individuals can

communicate with each other, or receive information. Because of their universal coverage, postal services make a significant contribution to the social cohesion of the Community.

Put simply, postal services are a vital part of the Community's economic and social life.

3. CUSTOMER TRENDS

The average EC citizen receives 260 mail pieces annually, the greater proportion of them generated by business or other organisations.

In terms of general use of postal services, more than 80% of mail is generated by business or other organisations. Table 1 shows the approximate composition of senders and recipients of letters; it indicates that more than half the items are delivered to individuals. In a very real sense the "customer" of a mail service is the recipient of the item as well as the sender.

Table 1: *Letters users matrix*

	TO	
FROM	ORGANISATION	INDIVIDUAL
ORGANISATION	35%	45%
INDIVIDUAL	10%	10%

Source: CEC Estimation (1990)

The postal requirements of the "organisation-to-organisation" sector may contract somewhat as a result of new communication technologies. However, total volumes are likely to remain stable as a result of growth in other sectors, particularly the business-to-individual sector (and the individual-to-business mail thus stimulated).

At a more detailed level, some market sectors are especially dependent on mail services. As their name implies, mail order (part of the distribution/sales sector) and direct mail (a form of advertising) rely heavily on them. Other sectors, such as publishing and finance, are also significant users. In some cases - particularly that of publishing - usage

varies between Member States because of the different tariff policies applied. All three sectors are forecast to continue to grow.

It is important to note that customer (user) perceptions of the efficiency of the postal service will affect the kinds of use for which postal services may be thought appropriate. If a customer in one country is almost certain that a business communication will arrive next day, he may well use the ordinary letter post for sending such a message. However, a customer in another country may perhaps not have the same degree of confidence in the service, and will choose another medium by which to send a similar message.

4. PRESENT LEGISLATION

No two Member States have postal legislation exactly alike. However, there is a progressive trend throughout the Community to separate regulatory and operational functions. Thus postal administrations should be simply public operators. The regulatory powers are vested in a government body, although this sometimes operates under the same organisational umbrella as the postal administration.

In no Member State is there any monopoly over parcel services. Express services are now under the monopoly in only three out of the twelve Member States.

Although the legal position is still evolving, letters up to a certain weight or a certain price are reserved as state monopolies for domestic (inland) services. These monopolies cover the mandatory provision of all reserved items universally across the territory of the reserved service provider.

In addition to letter services which postal administrations have to provide as mandatory reserved services, administrations are often obliged to provide certain other services universally - such as parcel services up to a certain weight - even though these fall in the competitive sector.

Where services are in the non-reserved (competitive) sector, postal administrations and private operators compete. The private operators include, among others, express (including urgent deliveries of documents and/or parcels) companies, freight forwarders and international letter mail companies.

Parcels and, in particular, express are two markets that have been growing significantly. The practical effect of both these markets being non-reserved is that approximately 43% of the postal sector's revenue is now generated by private operators. If the postal

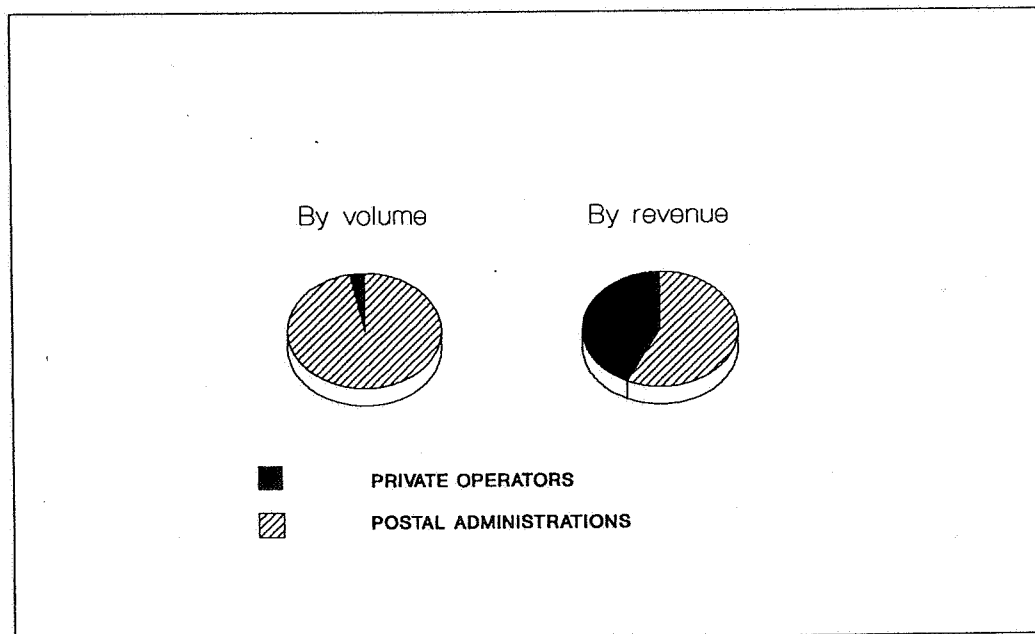
administrations' revenue from non-reserved services is added, the non-reserved services account for rather more than half the revenue of the postal sector.

The regulatory aspects of the postal sector are studied in detail in Chapter 3.

5. SERVICES PROVIDED

The services provided by postal administrations can be divided into mail services and services provided at post office counters. The latter consist of mail facilitating services (stamp sales etc.) and financial services such as Giro or carrying out financial transactions for the government and the public. However, the counter services are provided in competition (and besides should be considered more as part of the financial services market). This Green Paper therefore concentrates on mail services.

Figure 1: Shares of the postal sector



Customers trends and the services provided are studied in more detail in Chapter 4.

These services presently divide into the product segments of letters, express and parcels (although other services are emerging). Letters and express services provide postal services for communication items, and parcels and express services provide postal services for goods-bearing items. There are significant overlaps between the services.

Letters services are provided almost exclusively by postal administrations. With limited exceptions, parcel and express services are in free competition. Postal administrations tend to be market leaders in parcel services, but not in express. Figure 1 shows the operators' shares of the postal sector, measured by volume and by revenue.

For all services, by far the largest part is for delivery within the same Member State where the communication or goods originated. Access to postal services provides use of an important medium for communicating messages and of a channel for distributing goods. It is therefore of concern that the access conditions can vary significantly between Member States. This is the result as much of decisions taken by the regulatory bodies concerned as of the differences in posting rules applied by the postal administrations.

6. ECONOMICS

The usage of postal services is closely related to the general economic situation - in terms of both comparative usage in different Member States and usage trends.

Productivity varies significantly between the postal administrations of Member States, being partly affected by the different levels of usage, but also reflecting different levels of efficiency. These differences in productivity are one of the factors that cause wide ranges in tariffs between Member States for what are broadly similar services. Another factor is the differing cost of labour, personnel costs accounting for some 70% of the cost of providing letter services.

It is clear that there are also significant differences in the principles applied to setting tariffs. This is evident, for example, from the varying approaches towards subsidies and cross-subsidies. However, the apparent wide range of tariffs that these factors collectively cause becomes less broad if the relative spending power of the citizens of different Member States is taken into account. Further, the postal administration of each Member State structures its tariffs as unitary rates covering the whole of its territory.

While the network that provides the universal service is not physically inter-connected in the way that the telecommunications network is, the universal postal operation has significant network costs that do not change with volume. In order to provide the universal service at an affordable price, it is important that high volumes are put through the universal service network and sufficient revenue generated to assure the economic viability of the network.

All Member States have decided that, in order to ensure sufficient volumes, some services ought to be reserved, thus granting the postal administrations some special and exclusive rights. However, there are significant divergences in the scope of the reserved areas of the different Member States. A potential user who has the same postal requirements in all Member States may well find that the regulatory and operational rules for meeting these requirements are different in each Member State.

The economics of postal services will be discussed fully in Chapter 5.

7. EMPLOYMENT

Postal services are significant employers in the Community. The public postal administrations employ 1.35 million staff, and private operators a further 0.35 million staff. Because postal operations are so labour intensive, they are particularly sensitive to personnel trends. The changing demographics of the Community could have a significant effect on the availability of staff that the postal operators will continue to need to recruit. This in turn may affect pay levels in the sector. Combined with new market and technological trends, it will put still greater emphasis on the need for effective training.

The social aspects of the postal sector will be studied further in Chapter 6.

8. COMMUNITY DIMENSION

It is now accepted that a Community approach is needed to establish a single market in postal services. This is necessary in order to resolve the issues that have arisen and will arise in the sector. It is also needed to ensure that the policy for the postal sector aids the creation of the Single Market in other sectors which have particular reliance on the postal sector - examples being the printing/publishing and advertising industries.

In summary, the objective of the Green Paper is to propose how to achieve the dynamic, customer-oriented postal sector that the Community needs.

CHAPTER 3: THE REGULATORY ENVIRONMENT

1. INTRODUCTION

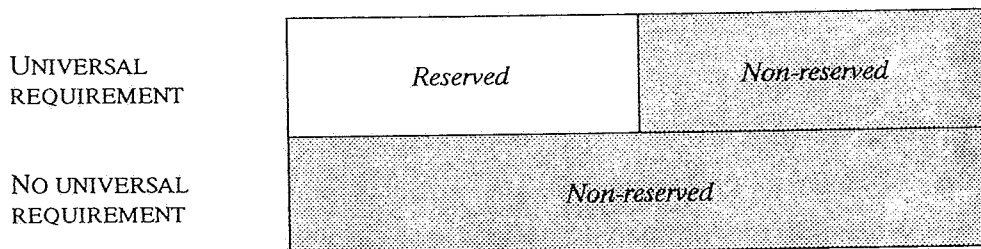
The aim of this chapter is to examine the existing regulatory situation in the Member States, putting this in its international and Community context. In particular, it will analyse common aspects of Member States' legislation, as well as the differences. Whether present legislation is well adapted to the future Community regulatory requirements will be discussed in more detail in Chapters 7 and 8.

2. TERMINOLOGY

All countries have some services that are provided as monopoly services by some public undertakings. Such services are more correctly called "reserved services", meaning that the provision of the services are reserved to one or more operators. Such reserved services are normally the subject of some special and exclusive rights (these rights in effect curtailing the normal operation of the free market). In the postal sector, the reserved service operator in each Member State is the postal administration.

The granting of these special and exclusive rights is often called a concession, implying that this privilege of being awarded the reserved services carries obligations, for instance regarding the standard of service provided.

Figure 1: *Division between reserved and non-reserved, and between mandatory services with universal requirement and non-mandatory services without universal requirement.*



Services not reserved are called, naturally, non-reserved services. Such services are therefore provided in the competitive sector, and the laws of the market apply.

If a service is reserved, there is an obligation on the part of the operator to whom it is reserved to provide the service. In the postal sector, reservation of services is inter-linked with the requirement for a service to be provided universally at an affordable price across the territory covered by the reserved service provider.

All services that an operator (or operators) have to provide universally are therefore called mandatory services (the phrase "obligatory services" being synonymous). Some of these services may be provided as reserved services. Others would then be non-reserved - that is, obligatory non-reserved services which have to be provided by operators upon whom the obligation is placed, but in the competitive part of the market.

In the postal sector, all postal administrations have obligations placed upon them by international agreements to provide services beyond the limits of their reserved services. It should be noted that in the non-reserved area some Member States require operators other than their postal administrations (perhaps the national railway operator) to provide some obligatory services.

These obligatory non-reserved postal services have to be provided universally by the operator(s) upon whom the obligation is placed. However, the competitors do not have such a universal obligation (although they can provide universal service if they decide to do so for their own commercial reasons).

All other services (which are therefore non-obligatory) will be provided in the competitive sector. Postal administrations can compete in this area if they choose to do so.

3. EXISTING MEMBER STATE LEGISLATION

The postal legislation of Member States is discussed here comparatively, with particular regard to the status of the postal administrations and the extent of their reserved areas. In addition, the postal administrations have their own regulations that expand on national legislation, or can even add to it. The effect of these postal regulations is also analysed.

3.1 GENERAL

Each Member State has separately determined that the most important objective concerns the provision of a universal postal service at affordable tariffs throughout its territory. Each also requires a universal service to be provided for certain

items collected on its territory, but for delivery in another country, and for such items collected in another country but for delivery on its own territory.

To ensure provision of the universal service, each Member State, again separately, has decided to impose the obligation to provide the universal service on its postal administration. In order to provide financial support for the universal service, or indeed to ensure its financial viability, each Member State has decided to establish some reserved services which confer special and exclusive rights to the postal administration.

It must be emphasised that the scope of the universal services is not (or is not necessarily) the same as that of the reserved services. In practice, all Member States impose on their postal administrations obligations of universal service that go beyond the scope of their reserved services.

However, the scope of the reserved services varies from Member State to Member State. In all cases, these reserved services are stated in national legislation. Most national postal laws do not state how these definitions were arrived at. Although the establishing of reserved services is connected integrally with the universal service obligation, the postal law of some Member States implies the connexion, while that of others states it explicitly.

3.2 LEGAL STATUS OF POSTAL ADMINISTRATIONS

Table 1 below summarises the legal status of the postal administrations. (See Annex 4 for a more detailed summary.)

Table 1: *Legal status of postal administrations (1991)*

STATUS	FINANCIAL AUTHORITY	MEMBER STATE
Limited Public Company	Independent	<i>Ireland Netherlands</i>
Public Enterprise	Financial autonomy	<i>Belgium Germany Greece Portugal United Kingdom</i>
Public autonomous establishment	Financial autonomy	<i>France</i>
State Administration	Separate budget	<i>Denmark</i>
	No financial autonomy	<i>Spain Italy Luxembourg</i>

Source: European Research Associates study (with updates)

3.3 SCOPE OF RESERVED AREAS

Table 2 overleaf summarises the scope of the reserved area of each of the Member States. It should be noted that this represents the juridical position, the *de facto* position sometimes being less restrictive. (The table here is intended to give a general perspective; it is reproduced at Annex 4 with all the necessary qualifying notes.)

Table 2: Member States' reserved services - juridical position (1990)

MEMBER STATES	LETTERS UP TO	OTHER SERVICES UNDER MONOPOLY					
		PRINTED PAPERS (1)	SMALL PACKETS	FAX (PUBLIC)	EXPRESS MAIL	PARCELS	STAMP SALES
Belgium	2 kg	■	-	-	-	-	■
Denmark	1 kg	N/a (2)	-	-	-	-	-
Germany	1 kg	■	-	■	-	-	-
Greece	2 kg	■	-	-	-	-	-
Spain	2 kg (3)	-	-	-	■ (4)	-	-
France	2 kg	■	■	■	-	-	-
Ireland	2 kg	■	■	-	■	-	-
Italy	2 kg	-	-	■	-	■ (5)	-
Luxembourg	2 kg	-	-	-	-	-	-
Netherlands	500 g (6)	-	-	-	-	-	-
Portugal	2 kg	N/a (2)	-	■	■	-	■
United Kingdom	£1 (7)	N/a (2)	-	-	-	-	-

- Note 1: This column refers to those administrations that apply a categorisation between letters and printed papers.
- Note 2: Not applicable, because postal administration applies a first class/second class categorisation.
- Note 3: Letters for collection and delivery in the same town (intra-urban traffic) are not reserved in Spain. Post cards are not reserved.
- Note 4: Inter-urban express services are under the monopoly; intra-urban and cross-border express services are non-reserved.
- Note 5: Although Italy has placed parcel services in the non-reserved area, the transport of parcels between large cities remains reserved.
- Note 6: There is also a price limit operating in combination with the weight limit of 500 g. (The price limit presently proposed is DF1 8.20 (ECU 3.60) for domestic services, but this is currently being reviewed by the court in Luxembourg.) Post cards are not a reserved service.
- Note 7: Price limit of £1 (ECU 1.45) is applied (with no weight limit). Reduction to a limit of about £ 0.33 (ECU 0.48) is said to be being considered.

Source: European Research Associates study

All Member States reserve letters (up to certain limits that vary between Member States). Some (Belgium, Germany, Greece, France and Ireland) reserve printed papers to some degree, and some (Spain, Ireland and Portugal) some or all express services. (Under the Spanish legislation, express services between Spanish towns or cities are reserved, while intra-urban and cross-border express services are non-reserved; in Ireland, the juridical monopoly over express services is said not to be enforced.) The parcel services of all Member States are now non-reserved.

It should be emphasised that Table 2 above summarises the current situation in terms of the different services of the postal administrations. When possible uses of services are examined, the position may become more complex. An example of this is direct mail. For those Member States that operate a categorisation between letters and printed papers, direct mail would normally fall into the category of printed papers. Five of these administrations have a monopoly over this category. In addition, the three administrations which categorise into first and second class mail would regard direct mail simply as "letters": if direct mail met the normal criteria for being reserved, it would be treated as such.

The existing position results from trends that continue to change the legal situation of the postal sector. Italy was the last Member State to make parcel services non-reserved (although, rather surprisingly, the Italian legislation still considers the transport of parcels to be reserved). Several Member States formerly treated express services as reserved, but only three now hold this position. The European Commission has played an important role in these changes in national postal legislation, either through administrative interventions or through formal decisions (see below at Paragraph 6.2).

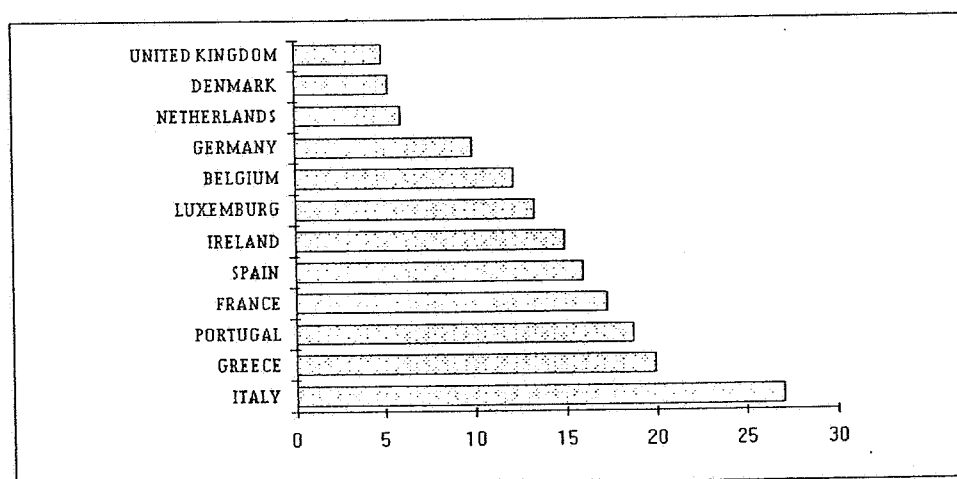
In order to define the limits of their reserved areas, Member States use a variety of criteria. Although it is difficult to control in practice, all Member States apply some form of a contents criterion. Parcels are defined as goods-bearing items, and items containing goods are excluded from the reserved area. (However, some Member States regard a parcel that is accompanied by an individual communication as a letter.)

As part of the definition of the reserved area, most Member States also apply a weight criterion. The limit applied ranges from 500 g (in the case of the Netherlands) to 2 kg (in the case of several Member States).

Other Member States apply a price criterion. For example, in the UK the upper limit for the reserved area is set at a value of £1. (The British government is said to be considering reducing this limit substantially.) In the case of the Netherlands, there is a price limit that operates in conjunction with the weight limit. In Germany, a weight limit of 1 kg has been set (but probably to be reduced to 500g), and a price limit has also been set at ten times the tariff for the ordinary letter service.

Table 3 below shows the practical effect of these different limits in terms of the entry price thresholds for express services (or other services that the customer perceives to be qualitatively superior to the normal letter service). Where Member States have formally established price levels as the limits for their reserved areas, these limits are divided by the basic tariff to show the factor. (As an example, the United Kingdom's £1 limit is divided by the then basic tariff of £0.20, giving a factor of five times.) For other Member States, the price limit is assumed to be the tariff for a letter of 2 kg (taken as the practical limit of the letter monopoly, even if a postal administration states that it has a monopoly over all letters whatever their weight). To determine the factor, the tariff at 2 kg is divided by the basic tariff.

Table 3: *Monopoly limits expressed as factor of basic tariff (at 1990 tariff levels)*



Source: CEC (using information from postal administrations)

This diversity highlights how unharmonised the sector is in legal terms - even though the postal sector of one Member State would normally be thought of as being very similar to that of another Member State.

3.4 DEFINITION OF SERVICES

Although all Member States affirm that their reserved services include some or all letters, some do not define what is meant by a "letter". Of those that do define a letter, the definitions are not always clear and differ from one another. The problem here is that what an operator understands by this word may well be different from what a layman might understand.

Firstly, there is no proper distinction between a letter and a parcel. Under the operators' definition "letters" include packets. But it is not clear how a packet differs from a parcel, since both are goods-bearing. The service performance of parcel and packet services is more or less the same. If a customer posts an item as a packet it is reserved, but if the same item is posted as a parcel it is non-reserved.

Express services pose another problem. Described approximately, such services involve the rapid shipment of documents and parcels, often with additional features provided such as special collections and the tracking of the items during transit.

Most Member States state that they intend express services to be in the non-reserved sector. However, no postal legislation offers a definition of what is express. It is indeed difficult to state clearly what differentiates express services from ordinary letters (or parcel) services.

Rather than trying to define express services, some Member States simply use a price limit (as mentioned above at Paragraph 3.3) to ensure that such services are placed in the non-reserved area.

3.5 MAIL PREPARATION BY INTERMEDIARIES

Some postal administrations grant contracts to operators who may collect mail from the original customer, prepare the mail in some way, and then post the mail with the postal administration. Such operators are called consolidators, mailing houses or mail preparers.

This pre-mailing process can range from printing the items and preparing them for posting to simple enveloping. If the item was reserved, this intermediate operator would be obliged by law to post the item with the postal administration for final delivery. Since the intermediary is carrying out some activities which would save the postal administration some costs, these contracts usually include discount arrangements.

On the other hand, other administrations do not permit third party operators to act as intermediaries in this way.

At least one administration insists on pre-sortation as a condition of access to certain postal services, but states that discounts are not permitted by law. However, the services concerned are printed paper services which receive preferential tariffs. (Such tariffs are discussed in detail below at Chapter 4, Paragraph 8.4 and at Chapter 5, Paragraph 6.3.)

It is not always clear whether these differences arise from the varying legislative positions in different Member States or from variations in commercial attitudes to the provision of postal services.

3.6 POSTING AND DELIVERY BY SELF

It now seems accepted by all Member States (in practice, if not always in law) that any citizen or organisation has the right to deliver his or its own mail to the intended addressees. At the same time, there is an understandable concern as to how this principle might be interpreted with regard to subsidiaries posting on behalf of parent companies. In the latter example, a number of "parent" companies might each have, for example, only a 10% stake in the company specialising in postal deliveries.

This "self-delivery" principle seems applicable either within a national territory or cross-border (where the originator of the mail delivers it to an address in another country). However, for the right of posting of items that would be reserved if they were for delivery in the national territory, a distinction seems to be drawn by some Member States between posting in one's own country or elsewhere.

Subject to contract conditions, anyone can post where he likes in a national territory if the item is for delivery within that territory. However, some national legislation forbids the same item being taken across a border into another country

and then posted there for delivery in that country. (The Member States which hold this position are amongst those who consider such mail crossing borders to be part of the reserved area - see below at Paragraph 3.8.)

If such activities are forbidden by the postal legislation of certain Member States, the same legislation would also forbid the originator of the mail to take it across a border into a second country and post it there for delivery either back in his own country or in a third country - whether the motivation was to reduce postage costs or to improve the quality of service.

Such restrictions will need to be viewed in the context of obligations under the Treaty of Rome. In particular, it would be relevant to consider the obligation to permit freedom to provide services in the Single Market and the obligation to make restrictions of the free market proportionate to the objective of the public undertaking concerned (see below at Paragraph 6.1).

3.7 HYBRID SERVICES

There are, or may be, certain services that combine features of the ordinary letter service with those of another service, which may or may not involve the same item being in the same physical state.

Postal administrations offer a service called "postal electronic mail". This service and its commercial viability are discussed in detail at Annex 12. Briefly, it involves the transmission of an electronic image of a document or its conversion in digital format and transmission to a distant point, where the image is printed out, enveloped and sent to the addressee (or addressees if the same image is sent to a number of addressees).

Postal electronic mail therefore provides an example of a hybrid service which involves the item changing its physical form: when it is enveloped and addressed, it becomes a postal item. A delivery facility is added to a service that is non-reserved.

The regulatory authority will therefore first need to determine whether postal electronic mail is an integrated service or not. If it were, the regulatory view would be that it was wholly reserved or wholly non-reserved. Alternatively, the authority might decide that the two elements should, from a regulatory point of view, be considered as separate. Under the latter view, if the item to be delivered

meets the criteria of being placed in the reserved area, the delivery element could be reserved to the postal administration: in this way, a hybrid service could combine reserved and non-reserved elements.

3.8 CROSS-BORDER MAIL

The legislation of most Member States does not distinguish between destinations of the items with which the legislation is concerned - whether the destinations are in the national territory (in the case of domestic mail) or outside (in the case of cross-border mail).

However, with minor restrictions, both the Netherlands and the United Kingdom place cross-border mail in the non-reserved sector. Two other administrations (those of Belgium and Denmark) permit private companies offering international letter mail services to operate using the postal systems of their national postal administrations.

Ten Member States (including Belgium and Denmark) have legislation that places out-going cross-border letter mail in the reserved area if it meets the same criteria (weight and/or price) that determines the reserved area for domestic mail. However, the majority of these Member States (or the postal administrations of those States) have chosen not to enforce the exclusive rights of the postal administration with regard to this mail, or have been ineffective in doing so.

3.9 SPECIFICS OF NATIONAL LEGISLATION

3.9.1 CITY MAIL

"City-mail" involves the provision of postal services within a particular city, that is, where mail is both collected and delivered in the same city. In most countries such activities are illegal, but Spanish postal legislation specifically permits it.

Some private operators offering international letter mail services use city mail-type operations to deliver mail in certain cities. (This is discussed at Chapter 5, Paragraph 9.2.)

3.9.2 DOCUMENT EXCHANGES

Document exchanges involve the delivering of mail by exchange users directly into the boxes of other exchange users, these boxes being provided in a Post Office

box-type facility. The operation of such exchanges by private operators are permitted in some national legislations. For example, such exchanges and the transfer of mail between them are specifically permitted in the United Kingdom's legislation.

3.9.3 *TRANSPORT*

Most national legislation places the transport of mail in the reserved area (assuming that the delivery of the mail is reserved).

In practice, all postal administrations sub-contract part of the transport of the mail to other carriers - to national railway companies in the case of domestic mail, and to seafreight or airline companies for cross-border mail.

In addition, as noted at Paragraph 3.6 above, all national legislation permits a customer to post his mail where he wishes (at least within his own national territory). If third party intermediaries are permitted to function, they can negotiate contracts to post the mail anywhere in the national territory. In either case, the customer or the intermediary can choose to post the mail at the point nearest to the delivery office, thus obviating the need for the postal administration to transport the mail between sorting centres.

The postal legislation of at least one Member State (that of the United Kingdom) now places the transport of mail in the non-reserved area.

3.9.4 *OTHER*

All national legislation places unaddressed items in the non-reserved area. In addition, Member States may place certain very specific items in the non-reserved area. An example here is the delivery of Christmas cards, which the Netherlands legislation has put in the competitive area.

4. REGULATORY STRUCTURES

Most markets are self-regulating. However, where there is reserved service operator, it is necessary to have some body responsible for regulating the market. It is important to distinguish between such a regulatory role and any operational function - particularly because the same body often used to carry out both functions.

4.1 SEPARATION OF REGULATORY AND OPERATIONAL FUNCTIONS

In the recent past, postal administrations were responsible for the regulatory function governing the postal sector, as well as being the public operator. This has been recognised by more and more Member States to be inappropriate. Most Member States have now separated the regulatory authority from any operational function.

In some Member States, the ministry responsible for regulation is organisationally entirely separate from the operator. In others, the operator and regulator are both placed under the umbrella of the one ministry. The latter relationship causes some concern amongst private operators that there could be a danger of what has elsewhere been termed "regulatory capture" (where the regulator becomes in some way beholden to an operator).

The regulator in each Member State is a department in the relevant ministry. The British government is currently considering establishing an Office of Postal Services. This would be a semi-autonomous regulatory body, similar to the Office of Telecommunications (Ofcom) which is the regulatory body for the United Kingdom's telecommunications sector. If and when the Office for Postal Services is established, its main tasks will be to monitor the quality of the universal service, and to advise the Minister on the appropriate extent of the postal administration's reserved area.

4.2 RESPONSIBILITY OF REGULATOR

The functions of the different national regulators vary, but there are some responsibilities that should be common to all:

- advising the government on the scope of the universal services required, and on the means for meeting this requirement (for instance, through some reserved services);
- ensuring that the special rights of the reserved service operators are observed;
- ensuring satisfactory quality of service on the part of the reserved service provider;
- ensuring fair competition in the non-reserved area.

All these responsibilities are important, but the last mentioned is becoming key.

Some national regulators oversee the obligations placed on the reserved service providers. The scope of these obligations varies between public operators, thus itself causing the responsibilities of the regulators to diverge.

For example, there are variations in the attitude on the part of regulators to overseeing aspects such as access conditions. Regarding the setting of tariffs, no regulator claims any involvement; while this may be the formal position, it is probable that some of the national regulators do exert some influence.

In several Member States there is also a formal obligation placed upon the postal administration that tariffs for the basic letter service and some other services should be set at a unitary rate for delivery covering the national territory (rather than having tariffs related to distance or the location of the addressee). This principle is called the "*péréquation tarifaire*", and is discussed at Chapter 5, Paragraph 6.1. (In 1979, the Commission made a recommendation that the principle ought also to be applied to the basic letters - up to 20g - going to other Community countries - see Annex 5.)

At present, no national regulator appears to make service performance a condition of the reserved services. Most postal administrations set themselves published targets, and then issue details of their performance against those targets. It is not known how any regulator views either the targets or the performance.

4.3 RESPONSIBILITY OF OPERATOR

The obligations placed on the public operator (that is, the postal administration) vary between Member States. In some, they have simply to provide universal service and equal access for potential users (assuming all conditions are the same). Others have more detailed obligations. Some also have specific "missions" placed on them - for instance relating to the distribution of publications.

Most public operators also share with their national regulators the responsibility for the defence of their special and exclusive rights. This situation may evolve as the role of the regulator becomes more defined.

In the non-reserved sector, public operators have a particular responsibility to ensure that the power that they enjoy as a result of the reserved services is in no

way allowed to give them an unfair advantage in the market for the non-reserved services.

5. THE INTERNATIONAL REGULATORY DIMENSION

In terms of regulation, the postal sector has important international and Community dimensions. Here, the international dimension linking Community and non-Community countries is studied first. The Community dimension and the relationship with the international dimension is discussed below at Paragraph 6.

5.1 UNIVERSAL POSTAL UNION (UPU)

The UPU is a special agency of the United Nations. All Member States are members of the UPU by virtue of being signatories to the United Nations Charter. The UPU holds a congress every five years at which it reviews its Convention, the articles of which, if retained, are then re-confirmed.

After each Congress, the new Convention is signed by the members of the UPU. Each signatory signs as representing the Government of his country. Previously, postal administrations signed alone; now, both the national regulator and the postal administration tend to sign together.

The Convention provides the framework for the operational relations between the postal administrations of the world in the exchange of mail. The articles of the Convention are divided into rules and recommendations. Because the Convention has the status of a treaty into which its government has entered, each member of the UPU must treat the rules as having a binding force.

Here, it is important only to emphasize those articles which may need further discussion later in the Green Paper. For example, Article 20 of the Convention refers to the weights of items that administrations should accept in the international letter post system, thus imposing obligations on the "inward" administrations to deliver these items. (Here and elsewhere, the article numbering system of the 1989 Convention is used; the text of all the articles mentioned is shown in full in Annex 5.)

Article 25 deals with the subject of international items letters posted outside of the country of origin of the letters. This article is therefore important for the discussion of one of the areas of real or potential competition in the Community's

postal sector. The compatibility of Article 25 with the Treaty of Rome is discussed below at Paragraph 6.3. (The potential application of Article 25 is studied in more detail in Annex 6.)

Closely related to Article 25 is Article 73, laying down the normal rules to be applied to compensation arrangements (known as terminal dues) between postal administrations for the delivery of letter items on each other's behalf.

5.2 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The GATT was established after the second world war, with the intention of gradually reducing the protectionist measures that acted as barriers to trade. The Community negotiates as a single trading entity with its other trading partners.

Periodic negotiating "rounds" take place to liberalise trade. The current "Uruguay" Round, launched in 1986 in Punta del Este, was intended to be completed in December 1990 in Brussels; this was not possible due to a number of divergences between participants, notably in the agricultural sector.

The Uruguay Round constitutes the first attempt to extend the basic trade-liberalising principles in the GATT to international trade in services. The framework for the coverage of services will be called the General Agreement on Trade in Services (GATS). Although negotiations have not been completed the main principles of the GATS are already clear.

The key principle for reserved service providers is that they should provide access to users of the services on equal terms, regardless of the national base of the potential users. In the postal sector for example, if a large customer based in the country of a postal administration warranted preferential tariffs, a similar customer based outside but meeting the same posting conditions should have access on the same terms.

If sectors have special characteristics that call for either modification or specific interpretation of some of the framework rules, these sectors would be the subject of an annex to the GATS. Whether or not a sectoral annex is agreed, the GATS framework would apply to all service sectors - and therefore to the postal sector.

In terms of the application of GATS principles to the postal sector, the main point of concern relates to the possibility that any change in the structure of terminal

dues within the Community could give private operators an unfair opportunity if they collected cross-border mail from one Community country and took it outside the Community to another country for remailing back into a second Community country.

The Community would need to decide how to react to such a practice if it were to come about. The Community may need to discuss this potential problem with its trading partners in the general context of GATS, but without seeking to establish a sectoral annex to deal with it.

5.3 CONFERENCE OF EUROPEAN POSTAL AND TELECOMMUNICATIONS ADMINISTRATIONS (CEPT)

The CEPT is a body representing the public postal and telecommunications operators of most countries of Europe. Its membership includes the administrations of all the Member States and all EFTA countries. It also includes Czechoslovakia, Hungary, Yugoslavia, Turkey, as well as the smaller states of Monaco, San Marino and the Vatican. Other countries, from central and eastern Europe, have expressed their intention to apply for membership.

As stated in the preamble to its constitution, the CEPT was established in view of "the importance and difficulty of the common problems confronting the various European postal and telecommunications administrations" and "the desirability of establishing a wide measure of co-operation between the administrations". The CEPT is now divided into postal and telecommunications sections.

The CEPT (posts) carries on its activities in accordance with Article 8 of the UPU Constitution which permits UPU members to form groups for their own purposes, providing that these are compatible with their obligations to the UPU. (Such groups are called "*unions restreintes*".) Since 1969 there has been a formal link between the CEPT and the UPU.

The CEPT is presently reviewing its organisation, partly in response to the development of a Community postal policy. The CEPT is primarily a forum for public operators. However, it also covers some regulatory questions, and the CEPT may consider it appropriate to separate the two aspects in line with the trend in Member States and elsewhere to separate operational and regulatory functions.

6. THE COMMUNITY REGULATORY DIMENSION

Whilst the Green Paper should not seek to provide a comprehensive legal background to its consideration of possible proposals for the postal sector, it is appropriate here to identify some of the most relevant rules as well as to record previous judgements which also have relevance to the present debate. It is also appropriate to discuss the compatibility of other treaty commitments with obligations under the Treaty of Rome.

Although, until the present time, the Community has not developed a regulatory policy for its postal sector, general principles have been applied in decisions and interventions relating to postal services. These decisions, as well as relevant resolutions of the European Parliament, are summarised in Annex 5.

6.1 TREATY OF ROME

Two basic principles of the Treaty of Rome are that there should be no restrictions on the trade of goods between Member States (Article 30) and that the objective is that there should be freedom to provide services within the Community (Article 59). Closely connected is the freedom for nationals of a Member State to establish themselves in another Member State (Article 52).

However, the Court of Justice recognises that, in certain circumstances and for reasons of public interest of a non-economic nature, Member States may grant special or exclusive rights. Such rights constitute exceptions to the freedom to trade in goods and to the freedom to provide services.

Such exceptions, which would be derogations from Articles 30 or 59, could be permitted only if two further conditions were met. Firstly, it should be demonstrated that the same objectives could not be met by less restrictive means. Secondly, the scope of the special or exclusive rights must be as small as is needed to achieve the objectives (this being known as the rule of proportionality). Of course, once special or exclusive rights have been awarded, the manner in which they are exercised must still be fully in accord with the rules of the Treaty.

Member States ought therefore to seek the least restrictive option to achieve the objectives identified. In particular, the restrictions to the principles of free movement of goods and services should only be applied to the "relevant" market.

Undertakings entrusted with reserved services in the "general economic interest" must still abide by the general competition rules that forbid cartel-like behaviour (Article 85) and the abuse of dominant market positions (Article 86). In addition, any state aid granted by a Member State government which could distort competition is incompatible with the common market (Article 92).

Article 90 refers to public undertakings and those to which Member States give special or exclusive rights. In its first clause, Article 90 states that each Member State must ensure that its national legislation regarding such undertakings is compatible with all the Articles of the Treaty, particularly the competition rules (contained in Articles 85-94) and the rule forbidding discrimination on the grounds of nationality (Article 7).

However, in its second clause, Article 90 recognises that undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly will be subject to the Treaty's rules, in particular to those relating to competition, in so far as the application of the rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them. The development of trade must not be affected to such an extent as would be contrary to the interests of the Community.

In its third clause, Article 90 obliges the Commission to ensure that the provisions of Article 90 are properly applied, and, if necessary, to issue directives or decisions to this end. It should, in particular, adopt necessary measures, laying out in general terms the obligations of Member States in relation to Article 90.1, in order to ensure that the scope of the exclusive rights awarded to undertakings in the Member States is appropriate to their objectives and in accordance with the provisions of the Treaty of Rome. If appropriate, the Commission may also issue decisions to reduce the scope of such exclusive rights, by reference to the obligations of Member States under Article 90.1. The right of the Commission to apply Article 90.3 by means of directives was upheld in a judgement given in March 1991 by the European Court of Justice with regard to telecommunications terminal equipment.

At the same time, the Council, acting on proposals from the Commission, should implement whatever harmonisation measures are needed to achieve the internal market (Article 100a). The internal market is described as an area without

internal frontiers in which there would be free movement of goods, people, services and capital (Article 8a).

Article 222 recognises the right of Member States to organise the system of property ownership within their own territory by declaring the Treaty's neutrality on the subject. Therefore, a Member State may opt for a system of public or private ownership of companies. However, Article 222 does not exempt either from the rules of the Treaty which will apply equally to both. This has been confirmed by the Court of Justice in a series of judgements underlining that such companies, whether private or public, remain subject to Community law where applicable.

Another article which would be important in the present debate is Article 234, which stipulates that rights and obligations arising from agreements concluded before the entry into force of the Treaty of Rome between one or more Member States on the one hand and one or more third countries on the other, shall not be affected by the provisions of the Treaty of Rome.

Article 234 further provides that, to the extent that such agreements would not be compatible with the Treaty of Rome, the Member State or States concerned should take all appropriate steps to eliminate the incompatibilities established.

6.2 APPLICATION OF COMPETITION RULES

Case law has been built up, interpreting how the competition articles (that is, Articles 85 to 94) should be applied to the postal sector.

Since 1984, the Commission has investigated the legal status of express services in Belgium, Denmark, France, Germany and Italy. Each of these Member States had previously considered express services to be part of its postal administration's reserved area. Following intervention from the Commission, each made express services non-reserved.

The postal authorities had interpreted these services as being standard postal services and therefore within their national monopolies. The ruling in each case was that these were different (or value-added) services which should be considered non-reserved. Decisions based on similar grounds have been addressed to the Dutch and Spanish authorities in respect of their postal laws

relating to express services. The Court of Justice overturned the first of these decisions on procedural grounds, without challenging its substance.

One particular concern on the part of the Commission is that if a price limit is used to help define the border between reserved and non-reserved areas, it should be applied equally between the competitors in the non-reserved area - both the postal administration and private operators. In order to apply this principle, a regulator needs to understand fully the nature of the competition in the sector for which it is responsible. Where there is direct competition between services that are very similar, it would be unreasonable if one of the competing services was regarded as reserved. This would permit such a service to have a tariff lower than the price limit set as the "floor" price for the other competing services.

Another case currently being studied by the Commission concerns the postal law of Denmark which is being examined under Article 90 procedures in order to determine whether it is inconsistent for the law to forbid private operators to offer remail services in competition with the postal administration, while at the same time the postal administration provides remail facilities for mail generated outside the country.

A further important case in course concerns a complaint by an association representing several private operators, the International Express Carriers' Conference (IECC). The IECC complained that a new system of terminal dues agreed between several Member States' postal administrations (and others outside the EC) and also certain uses of Article 25 of the UPU Convention were intended to impede their members' remail activities, and therefore constituted an abuse of dominant position (contrary to Article 85 and 86 of the Treaty of Rome). Following investigation, the Commission has decided to open formal proceedings under the competition rules.

(Terminal dues and remail are described at Annexes 8 and 9, and discussed in detail at Chapter 5, Paragraphs 8 and 9.)

6.3 TREATY OF ROME AND UPU CONVENTION

As indicated above at Paragraph 5.1, the agreement of national governments to the UPU Convention is renewed every five years. This clearly has relevance in terms of the application of Article 234 of the Treaty of Rome.

The debate concerning this compatibility of the UPU Convention with the Treaty of Rome centres on Article 25 of the UPU Convention (previously Article 23). This article contains two separate provisions:

- Article 25.1 states that no UPU member country is obliged to deliver postal items that were transported out of the country, posted in a second country, for mailing back into the first country for delivery (a practice often described as A-B-A remail);
- Article 25.4 permits UPU member countries to turn back mail which they receive from another administration if the items originated from a third country but were not posted in that third country (usually called A-B-C remail).

The intention of Article 25.1 is that it should protect the domestic postal monopolies of the UPU members. Whether Article 25.1 is compatible with the Treaty of Rome depends on certain conditions and interpretations.

Firstly, it is important to know whether the regulator alone has the responsibility to protect the monopoly. Article 25.1 refers to action to protect the monopoly being taken by "the member country". This poses the question: who is the main signatory of each member country to the UPU Convention - the national government or the postal administration? Further, Article 25.1 could be used to send back items that were not included in the domestic monopoly of the inward administration.

The issue of compatibility with the Treaty of Rome is clearer in the case of Article 25.4. Its use involves a postal administration whose exclusive rights have not been infringed helping a postal administration whose monopoly has been infringed. In other cases, the use of Article 25.4 could well break the commercial law of the country where the original customer was situated.

An example could be taken of a customer who was located in a country where there was no monopoly over international mail. If his mail was remailed through another country, it is possible that his mail could be consolidated with material from third countries where the postal law included international mail within the reserved area. In such circumstances, it seems highly unlikely that the postal operator in the country of delivery would be able to distinguish between the mail originating in the countries which were (in the sense of their attitude to the

juridical position of international mail) less restrictive and those that were more restrictive.

6.4 OTHER COMMUNITY POLICIES

Some articles of the Treaty of Rome were formally modified by the Single European Act. This initiated work in several areas which has significance to the postal sector. (In addition, as noted above, the Single Market needs to be achieved in the postal sector itself.) The most relevant such areas are shown below. (The possible effects of the Single Market on the users of postal services are discussed in detail at Chapter 4, Paragraph 9.)

6.4.1 TRANSPORT

The Commission has recently drawn up regulations and also made further proposals concerning the air transport industry. Initially the initiatives on market access have concentrated on freight-only air transport services (known as "full freighters"). It is intended to extend the same principles to passenger aircraft that carry freight.

The regulations will directly affect the express segment of the postal sector. They may also increase the flexibility for letter and parcel mail transported by air, and reduce the costs.

The Commission is proposing in the third package that there should be free operating access within the Community market. With the agreement of the third country outside the Community, there should be freedom to fly from an EC country to a third (non-EC) country - the so-called "fifth freedom". Subject to health and safety requirements, there would be no restrictions on the frequency of service, the type of aircraft or the volume of the cargo carried.

There are currently many restrictions on international air traffic in force outside the Community. The Community will need to negotiate, on a reciprocal basis, reductions in these restrictions by offering parallel reductions within the Community. The present liberalising measures therefore apply only to air transport companies incorporated in a Member State.

In parallel with such measures in the air transport sector, there have also been certain liberalisations relating to road transport. In particular, there is now

greater freedom to provide cabotage services which permit a transport operator to both collect and deliver on trunking journeys carried out completely outside the country in which the operator is based. This liberalisation measure should be important for postal operators wishing to establish truck networks beyond the borders of their own countries.

6.4.2 CUSTOMS AND VAT

The simplification of customs procedures and the eventual elimination of internal borders will facilitate the speedy movements of all mail between Member States.

For the longer term the proposals for VAT are that it should be charged in the Member State of departure and deducted in the Member State of arrival, with a "clearing house" system to equalise the tax receipts of the Member States themselves. In the interim, VAT should be applied at the rate in force in the country of the taxable organisation taking receipt of the goods or services.

Concerning intra-Community distance selling (including mail order) to customers who are either individuals, non-taxable institutional bodies or exempted taxable persons, the régime applicable will, in principle, be that of taxation at the rate appropriate in the country of the customer. In this case, the provider of the goods or services would have either to become registered in that country or to appoint a fiscal agent there.

For individuals, the tax, in principle, will otherwise be that charged in the Member State of departure.

VAT will continue to be applied to the services of transport for goods or letters imported from third countries into the Community in the same way as at present. Concerning intra-Community trade, the VAT on transport services will be applied in principle in the Member State of departure. However, when the customer is a taxable person identified for VAT in a Member State other than the Member State of departure, the principle of reverse charging, and VAT will only be due to be paid by that customer at the rate in force in the Member State where he is identified for VAT purposes. Therefore, the procedure of the eighth directive will not be necessary for the re-imburement of VAT.

The Commission has recognised that neither VAT nor customs charges should be a source of competitive advantage or disadvantage to any of the different postal operators, either public or private, where they compete in the non-reserved sector. Accordingly, the Commission will be reviewing the competitive interface between the services of the public operators and those of the private express carriers, in order to ensure that the fiscal treatment is equal where there is direct competition.

6.4.3 DATA PROTECTION

In 1990, the Commission published a draft directive on data protection, and is currently amending it following consultation. The directive, which will have particularly significant effects on direct mail and mail order companies, treats the subject of the obtaining, storing, processing and transmitting data of a personal nature.

Following amendments, the directive is likely now to permit companies to process and transfer such data, provided that it is not of a sensitive nature and provided that the person about whom the data is held has been given opportunities to know that the data has been collected and, if he so chooses, to stop any further use of the data.

6.4.4 INTER-OPERABILITY

The Commission is concerned with developing proposals for technical standards in telecommunications and information technology. In terms of standards that may have an importance in the postal sector, standards have been developed for EDI. Progress has been slower on inter-operable standards for bar-coding systems for distribution. Elsewhere, proposals are being developed for postal electronic mail to normalise on the X-400 standard.

CHAPTER 4: COMMERCIAL ASPECTS

1. INTRODUCTION

This chapter describing the commercial aspects of the postal services discusses the postal sector from the user's perspective: it therefore concentrates on those aspects which are more "visible" to the user. Naturally, it is very much linked to the succeeding chapter which analyses the economic and operational aspects - that is, those parts which, though "invisible" to the user, underlie the services that are provided to him.

The current chapter analyses the overall market and studies customer requirements. It gives an overview of the postal services which are intended to meet these market requirements, and also surveys the indirect competition (particularly of telecommunications-based services) which may be attempting to satisfy the same requirements.

No chapter on the commercial aspects of the postal sector would be complete without an analysis of the possible effects of 1992 on the sector, and this analysis is included in the last paragraph.

In summary, the chapter deals with the relationship between customers of postal services and the operators of those services. The following chapter will look behind the operations that provide these services, in particular studying their costs and profitability.

2. MARKET OVERVIEW

Postal services operate in the communications and distribution markets. There are also postal financial services, but these are provided in the financial services market, which is fully competitive, and therefore less in need of detailed analysis of their own. (They would anyway demand a more specialised analysis in their natural context.) The Green Paper on postal services - and, indeed, this chapter - concentrates on mail services.

The communication market covers all the ways in which organisations and/or individuals communicate with each other - telecommunications, television, radio, written media and the post. The users of these different media include the advertising industry.

The distribution market is very different, particularly in terms of the customer base. Distribution involves the transport and delivery of goods to the addressee. Postal

distribution through parcel services is a specialised segment within the sector, concentrating particularly on delivery of individual packages, but now also covering larger consignments.

This global description of the markets in which postal services operate is important in order to be aware of the indirect forms of competition with which postal services compete. Thus, for example, an advertiser can choose to use any or all (or a combination) of the communication media mentioned in order to convey his message to the potential consumers: postal services (in the form of direct mail) provide only one possible medium for his message. A company wanting to send a piece of business correspondence could send it by telefacsimile (usually called fax), by express mail or by the standard letter service.

This multiplicity of choice is also true for other communication needs. Figure 1 overleaf shows some, if not most, of the options available to different sorts of users for their various communication needs.

The figure analyses different communication needs and mentions some of the means by which these needs could be met. The means are divided into postal and non-postal (many of the latter being based on telecommunications). The final column shows the trends in demand for the postal means corresponding to the different communication needs.

The figure divides potential customers into three groups: large organisations (in terms of level of communications requirements), small organisations and individuals.

It should be noted that which medium of communication could be used depends not only on what facilities are available to the customer originating the message, but also on the facilities at the disposal of the receiver of the communication. At a simple level, a telephone can be used to communicate only if the intended receiver of the message has access to a telephone.

The choice made by the large organisation with significant communication requirements will be similarly affected. Often the means available to the intended receiver of the communication will be a function of size. An individual will have access to postal services, and probably also to telephone services. A small organisation may well in addition have a fax terminal by which he may receive messages from the large organisation.

Figure 1: Communication "matrix"

CUSTOMER SECTOR	COMMUNICATION NEED	COMMUNICATION MEDIUM		POSTAL DEMAND TRENDS
		NON-POSTAL	POSTAL	
LARGE ORGANISATIONS	FINANCIAL	Automated Banking Fax Electronic Mail EDI	Letters	(to large businesses) declining (to small businesses/individuals) stable
	BUSINESS CORRESPONDENCE	Telephone Fax	Letters Express	Stable - but could decline Strong growth
	ADVERTISING	Television Radio Bill-boards Tele-marketing Newspapers Magazines	Direct Mail Catalogues	Strong growth
SMALL ORGANISATIONS	FINANCIAL	Fax	Letters	Growth
	BUSINESS CORRESPONDENCE	Fax Telephone	Letters Express	Growth
	ADVERTISING	Newspapers Magazines	Direct Mail Catalogues	Growth
INDIVIDUALS	TO BUSINESSES	Telephone	Letters Business reply cards	Growth
	TO INDIVIDUALS	Telephone	Letters Cards	Stable

Source: CEC

A large organisation will have these facilities, and may well also have other sophisticated systems for communicating data or payments (including automated banking processes and perhaps Electronic Data Interchange -EDI).

For the distribution of goods, there is less indirect competition because in all cases the goods have to arrive physically at the desired point. However, postal services compete or collaborate in this market with other transport operations - including freight forwarders and other general transport expeditors. Within the scope of postal services, there is considerable competition amongst express and non-express parcel carriers, and between public and private operators.

There are three main different types of postal (here meaning "mail") services: letters, parcels and express. Because of definitions that are not clear, there are significant overlaps between these services (see Chapter 3, Paragraph 3.4). Where such overlaps exist, there is competition amongst postal services (for instance between the letter packet service and the parcel service). In addition, express services compete directly with letters (for the delivery of documents) and with ordinary parcel services (for the movement of goods).

3. CUSTOMERS

Customers have their own individual needs, but these are likely to be shaped by the services that are actually offered. These services may be responding to an active demand that already exists, or, in the case of new services, may stimulate a demand that was previously latent.

3.1 CUSTOMER REQUIREMENTS

The fundamental requirement is that all citizens should have access to postal services. For potential users, it is important to know that all potential addressees can be accessed by the universal system.

All customers are looking for a good service/price combination. For the universal service, this will include a fair service, easy access conditions and simple tariff structures.

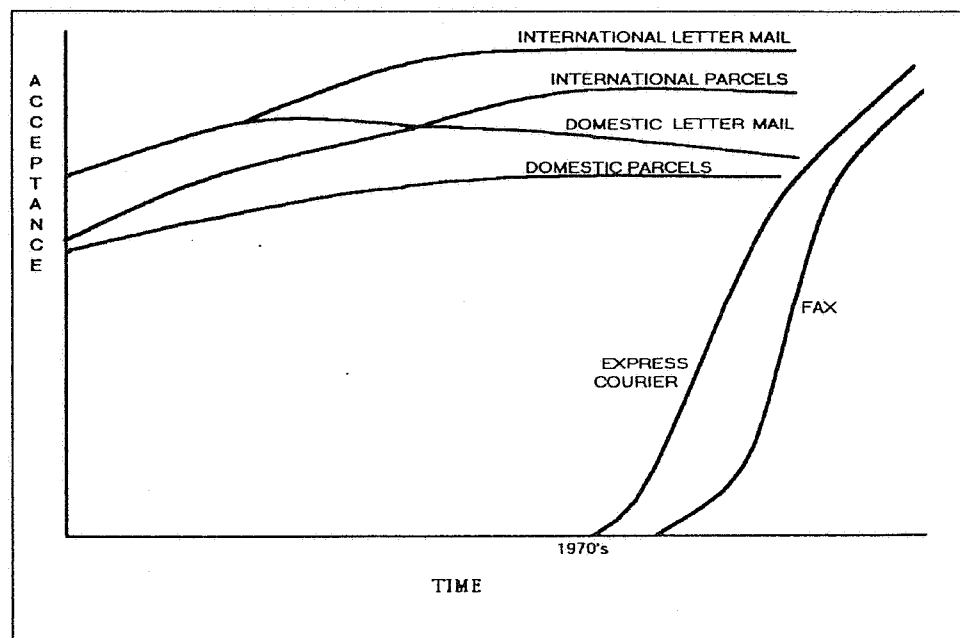
Large customers want service providers to have a flexible approach, and, where appropriate, to tailor service packages to the needs of their individual organisations.

3.2 PROPENSITY TO USE SERVICES

Most products and services have a life-cycle; after maturity, they tend towards decline. However, although many postal services are long-established, user acceptance appears stable. Against that, since they are already well-established, there will not be an explosion in user acceptance in the way that has recently been experienced by fax machines. Figure 2 below shows these trends graphically.

This stability in user acceptance may obscure the need for "traditional" postal services continually to develop themselves (for instance, in the way in which they are marketed), and for other services - such as express - to evolve.

Figure 2: Service acceptance trends



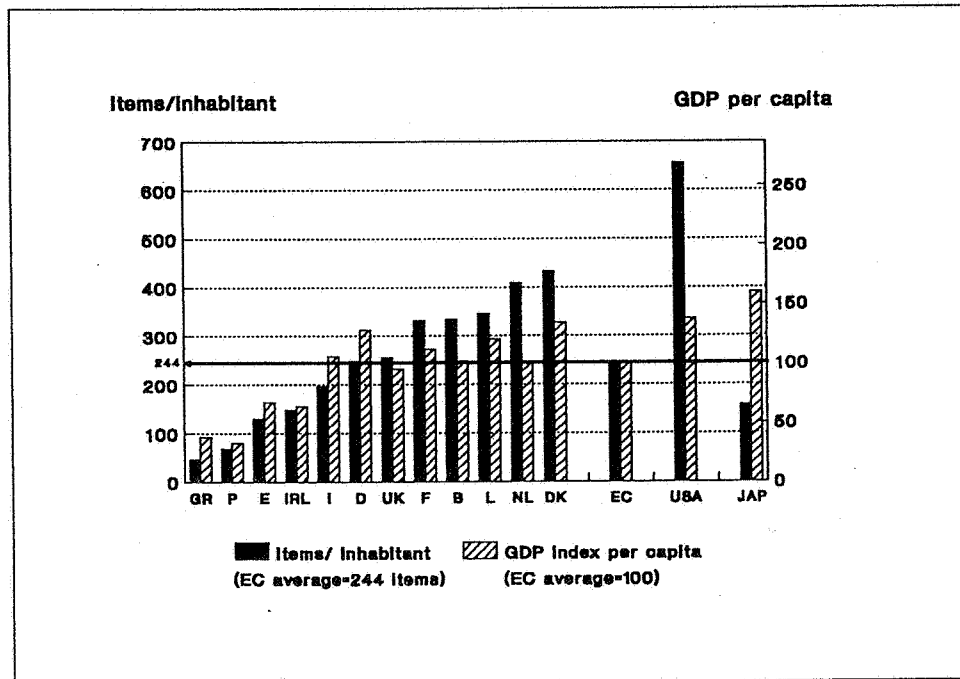
Source: CEC

That mail is accepted as an important medium for communication and an important channel for distribution is demonstrated by the fact that the average EC citizen received 260 mail pieces in 1990 (243 in 1988). By comparison, the average US citizen receives 650 pieces annually.

Within the Community, there are wide variations in usage. Figure 3 below shows per capita usage in each Member State. It compares this to Gross Domestic

Product per capita. There is some correlation between GDP per capita and usage. (The figures used in formulating the figure are to be found at Annex 2, Table 6).

Figure 3: *Posting levels / GDP per capita (1988)*



Source: Sofres study and CEC Economic Report n° 38

3.3 MARKETS

Tables 1 and 2 below show in broad terms the break-down of who (or what) posts mail items and who receives them. The first matrix shows the composition of senders and receivers of letters, and the second of parcels.

Table 1: *Letters users matrix*

	TO	
FROM	ORGANISATION	INDIVIDUAL
ORGANISATION	35%	45%
INDIVIDUAL	10%	10%

Source: CEC estimation (1990)

Table 2: *Parcels users matrix*

	TO	
FROM	ORGANISATION	INDIVIDUAL
ORGANISATION	25%	60%
INDIVIDUAL	5%	10%

Source: CEC estimation (1990)

These analyses of the average break-down cover quite significant variations between Member States. Table 3 shows the percentages of letters originated by organisations (sometimes loosely described as the "business" market) and by individuals.

Table 3: *Origination of letter volumes*

PERCENTAGE SPREAD OF VOLUMES (LETTERS)		
MEMBER STATES	ORGANISATION MARKET	INDIVIDUALS MARKET
Belgium	71.0%	29.0%
Denmark	60.0%	40.0%
Germany	76.4%	23.6%
Greece	50.5%	49.5%
Spain	75.0%	25.0%
France	81.5%	18.5%
Ireland	69.0%	31.0%
Italy	56.2%	43.8%
Luxembourg	71.0%	29.0%
Netherlands	86.0%	14.0%
Portugal	79.9%	20.1%
United Kingdom	74.5%	25.5%

Source: Sofres study - 1988

3.4 SEGMENTS

The analysis above reveals the global picture. At a more detailed level, Table 4 shows the break-down of organisational customers by business sector. A comparison is made between the postal administrations' experience of the market (primarily providing letter services) and that of private operators (mostly providing parcel and express services).

Table 4: *Users: relative importance to operators*

CUSTOMER CATEGORY	POSTAL ADMINISTRATIONS	PRIVATE OPERATORS
Mail order	15%	20%
Advertising	12%	15%
Press	20%	5%
Banking	10%	14%
Insurance	10%	9%
Public services (Note 1)	10%	N/a
Industry (Note 2)	5%	25%
Rest	18%	12%
TOTAL	100%	100%

Note 1: While some private services are used by public administrations, the percentage overall is too small to be appreciable.

Note 2: The principal industrial clients are the automobile, computer and petrol sectors.

Source: Sofres study

As indicated above, mail order, advertising (in this case meaning direct marketing) and publishing are the three most significant users of postal services. These individual segments are analysed in Paragraphs 3.4.1-3 below.

3.4.1 MAIL ORDER

Mail order is the "distant selling" of goods as an alternative to retail. It is integrally linked to the postal sector. Here postal services could provide one-stop shopping for the mail order companies - customer communication, catalogue distribution, statement sending and goods distribution (the last item now being undertaken increasingly by the private sector).

Mail order started as an outlet for the clothing industry. It has now expanded into other areas, the fastest growing presently being the distance selling of music (by compact disc), films (by video) and computer software (by floppy disk). A related area is "distance learning" services provided by correspondence schools.

Mail order provides competition with retail companies. In view of the Single Market, an increasingly important dimension is that it provides ready access cross-border to goods that may not be available locally.

Figures for the mail order industry within the Community have been obtained for the seven Member States with the largest mail order markets (Belgium, Denmark, Germany, France, Italy, the Netherlands and the United Kingdom). Together, mail order revenue in these countries was worth some ECU 26.4 billion in 1989. This equated to 0.7% of the GDP of those Member States. By way of comparison, in 1989, the mail order in the EFTA countries was worth some ECU 3.6 billion, in the USA ECU 123 billion and Japan ECU 12.6 billion.

Table 5 below summarises figures provided by the European Mail Order Trader Association (EMOTA) for the seven Member States with the largest turnover, and compares them with figures for EFTA, Japan and the US.

Table 5: Mail order turnover in 1989

COUNTRY	TURNOVER - TOTAL (million ECU)	TURNOVER PER CAPITA (ECU)
Belgium	535	55
Denmark	522	102
Germany	12 284	199
France	5 585	100
Italy	1 127	20
Netherlands	780	53
United Kingdom	5 585	96
Total (of 7 Member States)	26 418	102
Total EFTA	3 651	111
USA	122 850	508
Japan	12 640	104

Source: EMOTA

3.4.2 DIRECT MAIL

Direct mail involves the sending of a targetted message to an individual (whether as a private person or as a particular post-holder in an organisation), as part of a strategy to send the same or similar messages to other specific individuals. (There is another form of direct mail that is less important in terms of revenue, but still significant - unaddressed mail which is delivered to targetted areas, rather than to targetted individuals.) It therefore operates in the advertising/communications market.

Direct mail was responsible for 11.7% of advertising spending in 1989 - that is, ECU 6.4 billion out of a total of ECU 54.5 billion. (This figure excludes the revenue generated by unaddressed direct mail.) This was virtually the same percentage as in 1984 even though total advertising spending increased 87% in the meantime. These figures indicate that direct mail is presently responsible for 0.15% of the EC's GDP (excluding extra revenue gained for the advertisers).

In 1989, the average EC citizen received 43 direct mail items. By way of comparison, his US counterpart received about 170 - nearly four times as many.

Operationally, direct mail is very important to Community postal administrations. Addressed direct mail presently accounts for approximately 18.5% of their volumes. It is likely to become increasingly important as other sources of mail, perhaps particularly the business-to-business segment, may reduce their demand. (See Figure 1 above at Paragraph 2.)

3.4.3 PUBLISHING

Letter post services are also important for the publishing industry. All publications can be sent by post - newspapers, magazines and books. Postal distribution of publications competes with the retail channels such as book shops or news stand sales, and with local deliveries of newspapers.

The *Fédération Internationale de la Presse Périodique* (FIPP) estimates that total postal distribution of press items within the Community currently accounts for 15.2 billion items annually. Of this figure, approximately 92% is for delivery in the country where the publication was produced.

In addition to the intra-Community cross-border postal distribution of press items (estimated to be 1.1 billion items), there is also a significant international element. In particular, there are large flows of magazines in each direction between North America and Europe.

The use of postal services to distribute publications varies from Member State to Member State, usually depending on the preferential tariffs that are available for this use (see at Paragraph 8.4 below and at Annex 13). They tend to prove less effective for daily publications where the publisher demands complete reliability of delivery.

However, some markets - such as technical publications - have the majority of their copies delivered by post. In general, postal services can be the most effective method of distribution for publications, either where small numbers are involved or the subscribers are dispersed.

4. SERVICES AND OPERATORS

The main mail service categories are letters (including printed papers), parcels and express. There are certain other services, which tend to be either intermediate between these categories (such as special letter delivery services - the "*lettre exprès*") or hybrid services linking mail services with other forms of communication (an example being postal electronic mail - see Annex 12). These other services are not very important when measured by the revenue they generate (but might become more so in the future).

The estimated revenue of the main categories is shown in Table 6.

Table 6: *Mail services - estimated revenue share by service category*

SERVICE CATEGORY	POSTAL ADMINISTRATIONS (ECUs billion)	PRIVATE OPERATORS (ECUs billion)	TOTAL (ECUs billion)
LETTERS	21.0	1.0	22.0
PARCELS	3.0	5.0	8.0
EXPRESS	2.0	14.0	16.0
TOTAL	26.0	20.0	46.0

Source: CEC (from several sources)

Mail services refer to the postal movement of all types of packages weighing up to 30 kg. They comprise letters, documents, packages and parcels, etc. (See Annex 1 for a more detailed list.)

The postal administrations are the public postal operators of each Member State. The description "private operators" is more wide-ranging. It covers large companies which have significant international volumes - such as DHL, Federal Express, TNT and UPS. It also covers other operators - such as freight forwarders - for whom postal work is somewhat marginal to their main business. A third category covers those private parcel and express carriers which tend to concentrate on domestic deliveries within one national territory. This last category probably generates the largest amount of revenue, but is also very diversified with many companies sharing the market.

It should be recognised that the distinction between the express and parcels markets is somewhat blurred. Thus, while the total figure for the sector is accurate, those for express and parcel services (especially those provided by private operators) are necessarily more approximate.

4.1 LETTERS

The letter services are mostly subject to the exclusive rights of postal administrations. The small proportion of letters revenue gained by private operators is due to the activities - whether juridically permitted or not - of remailers, city mailers and document exchanges. (The first two of these activities are discussed at Chapter 5, Paragraph 9; document exchanges were mentioned at Chapter 3, Paragraph 3.9.)

According to special surveys in the various Member States, a break-down of the senders and receivers of ordinary letter mail items shows that organisations account for slightly over 80% of items sent (see Table 1 at Paragraph 3.3 above for a more detailed break-down), but only 45% of those received.

Table 7 shows the reasons for posting found by a 1989 sample. (The results are intended to be illustrative rather than broadly representative.)

Table 7: *Reasons for mailing*

23.6%	Direct mail
18.4%	Sending of money/cheques
17.9%	Business correspondence
12.3%	Invitation/notifications of events
10.6%	Personal communications/greetings
17.2%	Other (including printed papers)

Source: Postal administration sample

Turning to cross-border letter mail, the intra-Community market generated about 5% of the postal administrations' turnover in 1990. It is therefore worth some ECU 1.6 billion. If extra-EC mail is added, the total cross-border mail generated by postal administrations would be worth about ECU 3.2 billion in total. To this should be added the revenue gained by the private operators through their cross-border letter operations. This is probably worth an additional ECU 0.4 billion.

4.2 PARCELS

In all Member States, parcel services are in free competition. Most postal administrations are obliged, as a part of the mandatory area, to offer a universal

(domestic) delivery service of parcels up to certain weight limits. These limits vary considerably within the Community.

Private operators offering domestic parcel service rely as much as possible on their own collection and delivery networks. For certain deliveries, especially to some remote areas, private operators have the option of posting items with the postal administrations.

The postal administrations' domestic parcel delivery services have in recent years faced a severe test from the rapidly growing private sector. In fact, the total volume of parcels handled by postal administrations within the Community declined from 1980 to 1990, when the trend was finally reversed. Although postal administrations are usually the market leaders in their national parcel markets, their overall market share is now about 38%.

As with domestic parcel services, the international parcels market is in free competition. It is divided into surface movements (tending to be dominated by the larger transport companies and freight forwarders) and air movements (tending to be dominated by the large express companies). The postal administrations attempt to compete in each segment. Some are obliged to offer a service up to a certain weight limit.

Private operators offering international parcel service rely as much as possible on their own networks. Sub-contractors are used by smaller operators, or by larger operators in countries generating or receiving smaller volumes.

4.3 EXPRESS

Express services have existed in one form or another for at least 100 years. (One derivative of this earlier phase is the special letter delivery - the "*lettre express*" in French). The modern express services, however, have evolved in the market gap that was created by the general perception that postal administrations' service was declining at the very time that customer service needs were becoming more demanding.

As their name indicates, express services are intended to provide fast delivery. Strangely enough, relatively few operators provide guarantees of delivery times. However, their general reputation is one of speed and, perhaps more importantly, reliability.

Each operator naturally tries to maintain a competitive advantage over his competitors who then may follow any initiative. Thus, collection on demand, credit facilities and account management have become standard. Price can sometimes play a part, since operators may have different costs depending on their volumes and the scope of their operations. Relative speed and reliability (as well as image) are also important.

In general, however, the terrain for seeking competitive advantage seems to be moving. The ability to offer "tracking and tracing" is now becoming very important. This facility involves a network where the progress of each document or package through the process from collection to delivery is noted electronically. Tracking and tracing involves heavy investment, but offers the reward of being able to know where each item is in the process.

The second important area is the "dove-tailing" of the express operation into the customer's operation. Thus, express operators may offer warehousing and distribution facilities to help customers reduce stock-holding costs, or may provide other facilities to support customers' "just-in-time" strategies. They may also be able to offer themselves as the single distributive source for retailers, thus obviating the need for a retail outlet to receive a number of smaller deliveries.

A third area of potential comparative advantage is that of customs-clearance (for cross-border items). Efficient customs-clearance operations ensure that customs procedures impose the minimum possible delay on the package to be delivered. However, for express services within the Community, the scope for gaining competitive advantage from fast customs clearance will diminish after 1992.

As stated above, the overall express market in the Community is worth some ECU 16.0 billion. (The qualifying remark that there is a potential overlap with parcels revenue figures bears repeating here.) Of this figure, 11% is generated by cross-border services.

The US market is said to be at least three times as large as the EC market. Efficient express services, by overcoming the geographical spread of the major centres, are seen to be indispensable to the well-functioning of American business. In terms of distance, many of the movements in the US market are similar to cross-border movements in Europe. The US market size and continued growth indicates that the EC market has far to go before its potential is reached.

Domestic express markets are served by a diverse spread of operators. Cross-border operations are more concentrated. At the European level DHL is the biggest cross-border operator with 26% of the market. Next is TNT which, including the revenue from its subsidiary XP, has about a 22% share of the market, followed by Federal Express and UPS, each with around 10% of the market. Private operators tend to specialise in moving either documents or goods packages. For example, DHL tend to specialise in documents, and TNT in goods.

In terms of cross-border express services, the Community's postal administrations have a relatively small market share. Presently, this averages about 10% of the international express mail originating in their individual countries. One way in which they hope to increase this share is through Unipost, an independent company founded in 1989 by some CEPT members and other associated postal administrations to provide centralised cross-border operational management.

Domestically, the EC's postal administrations have been more successful - a share of 15% or more is not unusual. Postal administrations' delivery operations for express items vary. Some provide express services whose provision is completely dependent on the universal network of the basic letter service. Others have express networks that are almost entirely independent of the basic network.

5. FINANCIAL FIGURES

Chapter 5 examines the operational and economic facts that underlie the services provided to customers. Here, the services provided are summarised as volumes and revenues gained by operators. First the figures are given showing the present position, and then at Paragraph 5.2 the possible effects of the discernible trends are discussed.

5.1 PRESENT POSITION

Table 8 shows the volume and revenue generated by the Community's postal administrations in 1988. (It omits the 5 billion unaddressed items also handled in that year, since these items tend to have a distorting effect.)

Table 8: *Postal administration volumes and revenues (1988)*

MEMBER STATE	LETTERS (inc printed papers)	PARCELS	EXPRESS	REVENUE
	millions	millions	millions	mill ECU
Belgium	3 145	3	4.5	824
Denmark	1 573	33	0.4	806
Germany	14 262	500	8.0	7 000
Greece	451	1	3.2	100
Spain	5 014	9	0.8	692
France	15 894	311	6.2	7 340
Ireland	494	4	1.5	188
Italy	10 534	49	5.4	2 651
Luxembourg	168	1	0.2	42
Netherlands	5 408	110	3.3	1 778
Portugal	596	6	0.3	135
UK	13 774	191	11.95	4 643
TOTAL	71 313	1 216	45.75	26 199

Source: Sofres study

In addition to the figure shown above of ECU 26 billion generated from their mail services, postal administrations generate a further ECU 13 billion from their postal financial services. (See Chapter 5, Paragraph 7.1.)

Private operators in the postal sector generate an estimated ECU 20 billion. Table 9 shows how this figure is broken down between the major players, and compares the revenue earned in the Community with that earned worldwide.

Table 9: *Total turnover of four big private operators in billion ECU (1990)*

OPERATOR	WORLDWIDE	COMMUNITY
DHL	2	0.5
TNT	3	1
UPS	12	4
Federal Express	7	1.5
Other	16	13
TOTAL	40	20

Note: The market shares mentioned at Paragraph 4.3 above refer only to the cross-border express market: they will therefore not correlate with the figures shown here.

Source: Several

5.2 TRENDS

Mail is likely to remain the mass-communication medium for any company which needs to convey a large number of individual messages, domestically or internationally. This would be particularly true of the financial services sector (of which postal financial services form only a small part) where statements, standing order renewals, premium notifications, dividend payments, etc need to be sent to individual addresses.

Recent annual volume growth rates of postal administrations are shown at Table 10.

Table 10: *Postal administrations: recent annual volume trends (1985-1989)*

MEMBER STATES	PERCENTAGE
Belgium	+ 5.1%
Denmark	+ 3.2%
Germany Note 1	+ 3.5%
Greece	+ 3.1%
Spain Note 2	+ 6.7%
France	+ 5.1%
Ireland	+ 2.1%
Italy	+ 7.8%
Luxembourg	+ 4.8%
Netherlands Note 1	+ 5.7%
Portugal	+ 7.6%
United Kingdom	+ 6.8%
AVERAGE	+ 6.1%

Note 1: Full figures are not available for Germany and the Netherlands. The trend figures shown for them were extrapolated from a shorter period, and are therefore excluded from the average.

Note 2: Spanish trend extrapolated from period 1984-1988.

Source: Postal administrations

Because of confidentiality, the trend figures for private operators are not so readily available. However, all the main cross-border express operators, both private and public, pronounce themselves confident of strong revenue growth in the Community. These growth predictions range from 15% to 25% per annum.

The effect of all these trends on the different parts of the postal sector can be combined to make revenue projections for the whole sector together. The trends used tend towards the lower end of the range. For example, only 3% growth per annum is assumed for letters (less than the recent growth experienced and allowing for reducing unit revenues). For express, a 10% annual growth rate is assumed; this assumes that the domestic express market grows at a smaller rate than the forecasts for cross-border services mentioned above. The forecast combined effect of these trends is shown in Table 11. (These projections assume no change in the juridical position of any of the services.)

Table 11: *Present and forecast revenue shares (billion ECUs and percentages)*

SEGMENT	OPERATOR (NOTE 1)	PRESENT	FORECAST - 5 YEARS	FORECAST - 10 YEARS
LETTERS	- PA	21.0	24.3	28.2
	- PO	1.0	1.2	1.3
PARCELS	- PA	3.0	4.2	5.9
	- PO	5.0	7.0	9.8
EXPRESS	- PA	2.0	3.2	5.2
	- PO	14.0	22.6	36.3
TOTAL	- PA	26.0	31.7	39.3
	- PO	20.0	30.8	47.4
SHARE	- PA	57.0%	51.0%	45.0%
	- PO	43.0%	49.0%	55.0%

Note 1.: PA = Postal Administrations

PO = Private Operators

Source: Several

6. SERVICE FEATURE - ACCESS

Access conditions refer to the conditions by which potential users can gain access to the postal services. There are three important aspects:

- the availability to customers of information on what services are available and how to use them;

- the method by which the services are paid for;
- the method by which the items are actually posted.

In a certain perspective, the access conditions for using services offered by private operators vary from those for services provided by postal administrations. Since private operator services all operate in the competitive sector, their access conditions are formulated as a result of competitive pressures and the profitability of their services.

In some cases this is also true of the services offered by the postal administrations. However, the access conditions for using many of the services of the latter have evolved over a period of time, and may owe more to this evolution than competitive pressures.

6.1 PRIVATE OPERATORS

While it is difficult to generalise, the service information provided by private operators must be at least adequate; otherwise, customers would not use the services, or would not continue to use them.

These services are targetted at organisational customers (and then usually at the larger customers). For such customers, private operators collect the material from their premises, and payment is usually made on an account basis. Some private operators are starting to offer more general access to their services, by permitting members of the public to post items at their operational offices. (In the United States, posting at such "lodging points" is much more common.)

In some countries, some private operators offer universal collection and delivery service to their customers. If they do not, they may contract with other private operators to provide part of their "network". Alternatively, for remote areas, they could post the items with the postal administration, usually at ordinary tariffs.

6.2 POSTAL ADMINISTRATIONS

Postal administrations are now investing to increase the ways in which potential customers can gain information about their services. Thus, service brochures are more widely available and customer service answering services are being established. However, at least for individual customers, the main source of information about postal administrations' mail services will remain the post office counters.

The "accessibility" of postal services, particularly for the individual customer, will therefore much depend on factors such as customer queuing times at counters and, indeed, the politeness of the staff.

For large customers, once they have decided to use a service, access to postal administrations' services can be the same as for private operators. Large customers can normally have contract facilities enabling them to have their mail collected and, in most countries, to pay on account for a large proportion of the postal services used.

Other customers pay for their postage in advance. Organisational customers may use franking machines which put a "meter" impression on the envelope, while others use stamps. Credit for meter machines is usually bought at post office counters.

Individuals will almost always use stamps. These can now be bought in a variety of retail outlets - not only post office counters. (The present position results from a long-term trend; whereas many postal administrations previously permitted only their own counters to sell stamps, this is now the situation only in Belgium and Portugal.)

If customers have to post their mail themselves, they do so either at post office counters or in posting boxes available in public places. The concept of universal service implies that these counters and posting boxes must be available throughout the territory. (The relative availability of counters is studied in Chapter 6, Paragraph 2.2.)

There are two particular subjects relating to access to the postal administrations' services that need to be discussed. The first concerns "mail preparation" and the use of private operators to undertake this work; the second concerns the access to printed paper services and the availability of discounts.

6.2.1 *MAIL PREPARATION*

Almost all postal administrations encourage customers to undertake activities that reduce the work content for the postal administrations themselves. The most obvious example of such an activity that could "save" the administration work is that of pre-sorting of mail. This involves the carrying out of all or most of the outward sorting process (and even part of the inward sorting process). Normally,

these processes are part of the "invisible" element of the postal operation, and are therefore discussed in detail at Chapter 5, Paragraph 3.

As mentioned at Chapter 3, Paragraph 3.5, some postal administrations permit private operators to act as intermediaries between the customers originating the mail and themselves. The private operator could undertake different activities which the customer himself may not be able to carry out, before the material is posted (at least in the case of reserved service items) with the postal administration. The postal administration then carries out whatever parts of the postal operation are still necessary.

However, there are some administrations that do not permit such operators to act as intermediaries in this way. Why they do not allow this is not clear. It is possible that they believe that the mail process comprises different activities which are indissociable. Alternatively, they might be trying to maximise the productivity of their sorting centres - particularly if they are mechanised. Whatever the reason, the prevention of the use of such intermediaries may reduce the flexibility for customers, and may prevent them from gaining access to certain discounts.

6.2.2 POSTING CONDITIONS

All postal administrations have "tiering" systems which classify their letter mail into two categories. In the case of the majority, the classification is between letters and cards ("*lettres et cartes*" in French or LC) and printed papers/small packets (called "*autres objets*" in French or AO).

This classification is therefore on the basis of the contents of the item. In other countries (Denmark, the Netherlands and the UK) in the Community but also several important administrations outside, the tiering is based on the choice of speeds offered to the customer. Usually, these classifications are titled first class and second class.

The second important area relating to posting conditions concerns the different definitions of what are printed papers, and what publications qualify for certain discounts.

A frequently used definition of printed papers refers to the requirement that the text should be identical between the different items sent in a posting. This would therefore place invoices and bank statements (where the figures shown refer to

the individual account of the addressee) in the category of letters. However, some postal administrations place such items in the printed papers category.

This is not only a question of different tariffs paid by the customer or different revenues received by the postal administration. In most countries, it also affects whether the mail should be considered reserved or not (see Table 2 at Chapter 3, Paragraph 3.3).

All administrations have definitions of a newspaper which determine what discounts a publication receives. The two main criteria are the percentage of editorial content in the publication and the frequency of publication. However, the application of these criteria varies greatly between Member States. Thus what may be considered a newspaper in one country would not qualify in another.

Access to discounts (whether for newspapers or other services) often depends on the volumes posted. But, again, the volume levels needed vary between Member States. (The structuring of discounts will vary almost inevitably because of the different operational systems; the crucial factor is the level of pre-sorting that is made possible by the different post-code systems - see Annex 10.)

7. SERVICE FEATURE - QUALITY OF SERVICE

Quality of service can be defined as giving the customer what he wants. However, what the customer wants can vary widely. As indicated elsewhere, customer expectations arise from a somewhat circular chain. If a postal administration provides good quality, then this comes to be expected, and customers therefore entrust important and/or urgent items to the letter service.

If the postal service then falls below the expectations which its previous performance had encouraged, customers are likely to be that much more aware of the failure. If, conversely, the services as experienced by the customers are (and were) poor, customers are likely to become less and less demanding in terms of what they require of the service.

Conventionally, postal quality of service has been measured in terms of time taken for the item, as measured across all or part of the span from collection to delivery. It is increasingly recognised that using this as the only measurement of quality does not give a complete picture of service reliability. For example, while 90% of items may be

delivered by the target date, are the remaining 10% delivered the next day or within the next ten days?

Another feature of the quality of postal services relates to the customer "interface". This could be measured in several ways. For instance, how long does it take to buy a stamp (or gain other access to the postal services); how easy is it to get information on how to use services; how readily are enquiries or complaints answered?

Although few, if any, regulatory bodies impose quality of service obligations on their reserved service providers (that is, their postal administrations), it is clear that the administrations themselves consider that they are under some obligation not only to set themselves service targets, but also (in most cases) to give information publicly on service performance.

This obligation is felt with regard to the universal services only: neither private operators nor their postal administration competitors publicly give details of performance of parcels or express services. (Surprisingly few express operators state guaranteed transit times.) As a result, the further description below relates only to letter services.

7.1 NATIONAL QUALITY

Annex 7 discusses the ways that targets are set and how performance is measured against target.

Impartial surveys carried out by consumer groups or other operationally disinterested organisations, all using end-to-end systems, have measured service performance of most of the postal administrations of the Community.

These results can be compared with those published by the postal administrations themselves (in each case, the results are for performance against the target stated by each postal administration). As Annex 7 indicates, postal administrations use a variety of different measuring systems, most of them measuring only the time taken by internal processes.

Table 12 below shows the results of postal administrations' performance against their advertised targets for their faster letter services (letters or first class letters). With the exception of Spain, the target is for next day delivery. One reason for the differences noted in the results in Table 12 is that the independent surveys

measure the whole process from collection to delivery (reflecting the customer's experience of the service) while most postal administrations' systems do not.

If there is a quality of service problem perceived by customers, it will not be resolved unless it is also recognised by the operator providing the service. In this regard, some postal administrations have found that the introduction of end-to-end measuring systems can lead to a painful confrontation with a reality worse than that previously perceived by themselves, but a confrontation that was necessary to improve service. For example, when the Irish postal administration in late 1988 introduced end-to-end surveys carried out by an external agency, the first results (which were published) showed a performance of 52% against target. Measured in the same way, current performance is now 94%.

Table 12: *Postal administrations' service: targets and performance (1988/89)*

MEMBER STATES	TARGET	RESULTS PROVIDED BY POSTAL ADMINISTRATIONS	INDEPENDENT SURVEY RESULTS (Note 1)
Belgium	90%	83%	68%
Denmark (Note 2)	97%	97%	N/a
Germany	90%	91%	81%
Greece	90%	44%	N/a
Spain (Note 3)	100%	80%	38%
France	81%	78%	70%
Ireland	90%	90%	84%
Italy	90%	55%	17%
Luxembourg	100%	97%	N/a
Netherlands	94%	93%	93%
Portugal	92%	85%	N/a
United Kingdom (Note 2)	90%	80%	80%

Note 1. The independent results were mostly obtained by national consumer organisations. Results from a survey carried out by Research International have also been used. No independent survey results are to hand for Denmark, Greece, Luxembourg or Portugal.

Note 2. The table shows letter service performance (first class letters in Denmark and the United Kingdom).

Note 3. The target for Spain is for delivery two working days after posting. All other targets are for next day delivery.

Source: CEC from several sources

As mentioned above, a single figure showing the performance against target is insufficient. It does not reveal how long or short is the quality of service "tail" - the (usually) diminishing percentages in the succeeding days.

Table 13 below shows the percentage of mail that was *undelivered* after one, two and five working days after posting. (The results for the last column are only partial. It should also be recalled that Spain has a service target of D + 2.)

Table 13: *The quality "tail" (1988/89)*

MEMBER STATES	SPREAD OF MAIL NOT DELIVERED BY		
	DAY + 1	DAY + 2	DAY + 5
Belgium	23.5%	3.5%	0.2%
Denmark	3.0%	0.5%	*
Germany	10.0%	*	*
Greece	56.0%	20.0%	N/a
Spain (Note 1)	44.0%	15.0%	22.6%
France	23.5%	6.5%	*
Ireland	15.0%	1.0%	*
Italy	83.0%	63.3%	18.8%
Luxembourg	1.0%	*	*
Netherlands	4.0%	*	*
Portugal	20.0%	4.0%	*
United Kingdom	23.5%	6.0%	*

* = Not appreciable

N/a = Figure not available

Note 1: The figures for Spain in the first two columns are the official published figures, and in the third that produced by a consumers' group. The latter produced figures of 96.5% undelivered by D+1, and 62% by D+2.

Source: CEC from several sources

As can be seen, administrations which have good quality of service figures for performance against target generally have short quality of service tails.

7.2 CROSS-BORDER QUALITY

Only about half of the Community's postal administrations publish any targets for mail crossing borders either within the Community or connecting with other countries. However, almost all administrations have internal operational targets, perhaps based on recommendations of the CEPT.

The principle is that cross-border mail should receive the same quality of service as the equivalent mail handled domestically for the outward operation and for the inward operation. Thus the usual target for inward cross-border letter mail is that it should receive a 90% delivery on the first working day (D + 1) after reception by the inward administration.

The CEPT oversees a survey assessing the quality of service crossing borders. The target of delivery by the third working day after posting is a composite of D + 1 in both the outward and inward countries, and a day for the transport between the two.

Interestingly, the CEPT employs an outside agency to measure end-to-end on a sample basis. The results to date have not been good. Just 40% of mail achieves the target. Expressed in another way, the average delivery time was 4.05 days.

The detailed break-down of the survey is not available. However a group representing the consumers' unions of Europe, the *Bureau Européen des Unions de Consommateurs* (BEUC), undertook a similar survey in March 1990. Using sampling procedures which would favour the postal administrations (for instance by only sending mail between capitals), it found that the performance figures were, respectively, 51% and 3.96 days. This sample revealed the results shown in Table 14. (Services from/to Luxembourg were not measured. There were abnormal conditions in Greece during part of the sample period, and the results for Greece were excluded.)

Table 14: *Average delivery time (days) within the Community for standard letters (1990)*

		COUNTRY OF DESTINATION										Average
		B	DK	D	E	F	IRL	I	NL	P	UK	FROM
COUNTRY OF ORIGIN	B	--	2.1	2.6	3.0	2.2	3.7	3.1	2.0	4.6	2.4	2.9
	DK	2.1	--	3.8	4.2	3.8	4.1	5.3	2.7	4.6	3.0	3.7
	D	2.6	2.6	--	3.2	2.7	4.8	5.1	2.1	4.3	3.0	3.4
	E	3.5	3.3	4.8	--	4.2	4.2	7.9	4.1	4.4	5.7	4.7
	F	3.0	3.8	3.2	4.8	--	4.8	5.0	2.7	4.6	4.0	4.0
	IRL	3.0	2.9	4.6	4.8	4.5	--	9.2	3.3	4.0	2.1	4.3
	I	4.5	4.1	5.4	6.3	6.5	5.6	--	5.1	5.0	5.1	5.3
	NL	2.8	2.1	2.2	3.0	3.0	4.1	7.1	--	4.5	3.9	3.6
	P	3.4	3.0	4.4	3.6	3.6	4.2	8.0	4.1	--	3.9	4.2
	UK	2.7	3.2	4.6	4.3	3.8	2.7	4.4	2.8	4.0	--	3.6
Average TO		3.1	3.0	4.0	4.1	3.8	4.2	6.1	3.2	4.4	3.7	3.96

Source: BEUC

8. TARIFFS

The question of tariffs can be approached from two different directions. The prices that the customer pays are "visible" (using the distinction used in the introduction at Paragraph 1). What he does not see, however, are the costs and tariff principles applied. Together the costs and principles applied lead to the prices that the customer pays.

Here, the "visible" aspects of tariffs will be discussed. The elements that are "invisible" to the customer - that is, the costs and tariff setting policies - will be discussed in Chapter 5, Paragraphs 5 and 6.

The discussion concentrates solely on services that are presently reserved, or are subject to special tariff policies. The key aspects from the perspective of customers are the level of the basic tariffs; the structuring of the tariffs; the availability of discounts and, lastly, preferential tariffs.

8.1 BASIC TARIFFS

In the Community, the tariffs for the basic letter service (for letters weighing up to 20g) vary by a factor of more than 3 - from 0.14 ECU to 0.50 ECU. If these prices are adjusted for the purchasing power within each Member State, the spread of prices reduces somewhat, as shown by Table 15.

Whether the citizens/customers of different Member States consider these prices to be good or bad value for money is not very much researched.

All postal administrations apply a single unitary tariff for letters, the same price being paid for delivery anywhere in the territory. (Exceptionally, the Spanish postal administration also offers separate local tariffs for items for local delivery.)

This principle - called the "*péréquation tarifaire*" - has been extended by nine out of the twelve Member States to mail going to other Community countries. (Amongst these postal administrations, eight offer this *péréquation tarifaire* for the basic letter up to 20 g; France offers it up to 100 g.) However, as Chapter 5, Paragraph 6.1 discusses, *péréquation* may imply a need for regulatory protection in order to prevent cream-skimming. The question would then need to be posed whether the potential liberalisation of cross-border services was more or less important than the principle of *péréquation* for such services.

Table 15: 1990 tariffs in ECU, for a letter from 0 to 20 g.

COUNTRIES	NATIONAL LETTER MAIL	PURCHASING POWER ADJUSTED (Note 1)
Belgium	0.33	0.31
Denmark	0.47	0.50
Germany	0.50	0.45
Greece	0.17	0.30
Spain (Note 2)	0.15	0.19
France	0.33	0.31
Ireland	0.36	0.57
Italy	0.50	0.56
Luxembourg	0.28	0.24
Netherlands	0.32	0.31
Portugal	0.18	0.31
United Kingdom (Note 3)	0.28	0.26
EC Average	0.32	0.32
Japan	0.34	0.40
United States	0.19	0.36

Note 1. Purchasing power adjustment made by applying private consumption/purchasing power standard index. (See EC Annual Economic Report No 42, Table 16.)

Note 2. Spain: The price of ECU 0.15 is that for a letter sent between two towns (inter-urban). The price for a letter within the same town (intra-urban) is ECU 0.08.

Note 3. Price shown for first class letter up to 60g.

Source: Postal administrations (1990)

8.2 PRICE STRUCTURES

Prices other than the tariffs for the basic letters are also "visible" to customers. It is noticeable that the price increments for higher weights vary significantly between the different postal administrations. Table 16 shows the tariffs at higher weight steps, but expressed as a factor of the basic letter tariff (for a 20g letter).

Table 16: 1990 tariffs for higher weights - factor of basic tariff

MEMBER STATES	PRICE AS FACTOR OF BASIC TARIFF		
	100g	250g	500g
Belgium	2.40	3.30	5.80
Denmark	1.36	2.40	4.00
Germany	2.40	3.20	4.00
Greece	1.40	2.00	4.00
Spain	1.95	4.25	8.50
France	2.50	5.20	6.50
Ireland	1.50	2.20	3.70
Italy	2.70	5.10	8.90
Luxembourg	2.10	4.20	5.80
Netherlands	3.00	4.00	6.00
Portugal	3.75	6.88	12.34
United Kingdom	1.50	2.70	5.10

Source: Postal administrations

8.3 DISCOUNTS

Attitudes towards discounts vary significantly. At least one administration does not permit discounts because of legal restrictions. Others do grant discounts, but their structures are likely to vary for two reasons. Firstly, the operations of different countries vary, thus causing a discount which one administration might offer in order to encourage cost savings to be inappropriate for another. For example, the United Kingdom offers discounts if addresses can be read by optical character readers; other countries do not offer such discounts, either because their criteria for discounts are different or because they do not have the same technology.

The second important point is whether the discount structure is published, and whether further discounts can be gained in addition. Here, again, there are different approaches. About half the administrations publish discount structures for letters and printed papers, from which sales staff are not allowed to vary; others prefer to permit negotiations on a customer-by-customer basis.

The problem with the latter approach is that it could stimulate large discounts in the reserved area. Above a certain level of discount, the discount awarded to one customer may have to be cross-funded from the revenue from another. This, for

example, would result from a discount of 76% that was granted by one postal administration to a government ministry.

Such a tariff is very preferential indeed. However, the phrase "preferential tariffs" is usually used to describe the concessionary rates granted particularly to publishers, as discussed below.

8.4 CONCESSIONARY RATES (PREFERENTIAL TARIFFS)

Many countries within the Community have concessionary rates (also called preferential tariffs) for certain sorts of traffic, particularly publications. More detail on such "cultural mail" is to be found in Annex 13. Here it should be noted that such tariffs are usually supported by government subsidy or by cross-subsidy by the postal administration. The principle is that they should encourage the spread of communication. It is the addressees who are being encouraged by lower prices to want to receive more such communication.

It is therefore consistent with these objectives that such subsidies should be made available to publishers based in other countries (not just other Member States of the Community) who want to distribute newspapers and magazines to the same addressees.

The position is by no means so clear in terms of concessionary tariffs for international mail. The political objective appears to be different: presumably the dissemination of publications of one's own language to other countries. It should be noted, however, that private operators help publishers from other countries to take advantage of such tariffs.

Private operators (either courier/remail companies or freight forwarders) collect mail in one country, take it to a second country where the tariffs are lower for posting onto a third country. In some cases, the administration in the second country may encourage such practice because it is profitable. However, for concessionary tariffs below cost, such incremental traffic is unwelcome for the postal administration.

Some countries offering preferential tariffs have evolved the rates over a period of time. Others try to apply fixed discounts to regulate the difference between the preferential tariffs and the regular letter rate. For example, the UPU

recommends a 50% discount for certain categories of cross-border printed paper services.

The overall position is that some postal administrations offer preferential tariffs, while others do not. Those that do offer them have evolved their prices separately from each other. Those that do not offer such discounted prices based solely on contents tend to have special prices based on mail preparation of publications.

These varying approaches have led to a wide range of prices paid for the same service. Table 17 shows the price for domestic delivery of a 350g magazine in seven of the Member States. (Figures for the other five Member States were not given.) It also shows these prices as a factor of the basic tariff.

Table 17: *Postal administration prices: domestic delivery of 350 g magazine (1989)*

POSTAL ADMINISTRATION	NOTES	PRICE National Money	PRICE ECU	PRICE AS FACTOR OF BASIC LETTER TARIFF	ORDINARY LETTER TARIFF (note 1) ECU
Denmark	2	Kr 2.90	0.37	0.79	1.41
Germany	3	DM 1.50	0.74	1.48	1.96
Spain		Pta 2	0.02	0.13	0.53
France		FF 1.79	0.26	0.79	2.22
Italy	4	Lire 39	0.03	0.07	3.86
Netherlands		Dfl 0.64	0.28	0.88	1.96
United Kingdom	5	GBL 0.38	0.51	1.82	0.96

- Notes:
1. This column shows the letter tariff for a 350g letter. It provides a comparison that is not quite direct. The prices shown here are for a faster service without any pre-sorting.
 2. Rate for a publication of more than 30 issues per year.
 3. Streifbandzeitung rate shown. Postvertriebstuck rate of DM 0.45 (ECU 0.22) could also be appropriate.
 4. For monthly publication.
 5. Second class publication service, basic pre-sort.

Source: Periodical Publishers' Association (UK)

Almost all postal administrations that offer loss-making preferential tariffs are trying to raise the prices in real terms in order to reduce the loss incurred or even put the services in profit (but still with lower margins than for ordinary letters). Because of the previous discounts awarded, this process can take a long time. For example, the Deutsche Bundespost has now come to an agreement with the publishing industry in Germany that 60% of costs should be covered by 1994. By way of comparison, in 1974 - twenty years before - the cost coverage was only 28%.

Naturally, the publishers would want any real price increases to be phased in. However, they tend to accept that the prices offered by postal administrations are low in comparison to retail prices. If a magazine is sold through the wholesale/retail chain, the cost to the publisher is usually a percentage of the cover price. This percentage when applied to even a mid-priced magazine will often be higher than the standard letter rate. Against that, hand delivery companies, by providing services in only high density areas, can often under-cut the unit prices offered by the postal administrations.

In many instances, it seems clear that preferential tariffs of postal services are used by publishers only to provide universal coverage of their publications. Thus, for example, one survey found that 7.5% of daily newspapers delivered to an address were delivered by mail.

The problem for postal administrations is likely to be that these newspapers are for delivery only in less urban (that is, more high cost) areas. The more urban areas where there are lower costs are also more convenient for the publisher to arrange delivery himself. If the unit revenue of the preferential tariffs for those items for "urban" delivery exceeds the unit marginal costs, this selective use of postal services for newspaper delivery makes the losses incurred by the postal administrations on such tariffs that much greater.

Postal administrations seem to find it impossible to impose exclusivity clauses on their customers, even when the latter are enjoying these preferential tariffs. Further, it is not possible for postal administrations to control how much the services are used. If a service is offered where the revenue gained from each item carried is less than the marginal cost of carrying the item, it is the total usage of the customers that dictates the losses incurred.

Nor is it possible for administrations to prevent access for publishers for whom the preferential tariffs were not intended: this is particularly true for cross-border services where publishers from one country post the non-domestic copies of their publications in a second country in order to take advantage of the loss-making preferential tariffs there for delivery in a third country. (The latter effect of the tariffs set is discussed again below at Chapter 5, Paragraph 9.1.)

Some postal administrations also have obligations to deliver certain categories of material for free on behalf of their governments. For example, most administrations deliver electoral material for free.

9. EFFECT OF SINGLE MARKET

Some of the anticipated effects of the Single Market are already being felt. Companies are beginning to re-align their strategies to take advantages of the potential benefits, particularly in terms of marketing and distribution. The investments that have been and are being made in order to implement their strategies are already stimulating economic growth.

Postal services will be affected directly by changes that the achievement of the Single Market will bring about. More importantly, the requirements of their customers and potential customers will change, thus having an indirect effect on postal services.

9.1 GENERAL ECONOMIC EFFECTS

It is estimated that the achievement of the Single Market will reduce present costs by an average of between 4.5% and 7% across all sectors. Since the costs which will be saved do not presently add value (being incurred because of extra documentation, the present inability to achieve returns to scale, and the like), the saving of these cost should result in lower real prices. These in turn should generate increased economic activity, which in turn should stimulate a "multiplier" process.

This growth in economic activity will increase demand for postal services. The "1992 effect" may particularly benefit the service industries, and they are already disproportionately heavy users of postal services. Further, it seems quite probable that the benefits coming from the Single Market may help companies in a way proportionate to their size - the larger the company the greater the potential

benefits. Users of postal services are also concentrated in large companies (which will also look for substitute services). Thus, if 1992 will cause a particularly significant increase in the activity of large companies, this could have an important effect on demand for postal services.

9.2 CUSTOMER STRATEGY

The abolition of customs controls, combined with the reduction in technical barriers to entry to national markets, will greatly enhance the flexibility of organisations in their choice of location. This in turn will be influenced by the need for concentration of activities in order to gain greater returns to scale.

The effect of this is that companies can locate activities further from the market being served, and, indeed, other parts of the organisations being served by those activities.

Such location strategies, as stimulated by 1992, will cause many services which are presently domestic to be carried out in future "cross-border" between Member States. To this trend should be added the certainty that 1992 will increase trade between Member States, and make all "domestic" markets more competitive.

A good example of the likely application of such location strategies is financial services, whether selling services to customers or servicing them with invoices, statements, etc. Increasingly, organisations are likely to centralize the locations of their financial service operational activities, while ensuring that these locations can still communicate effectively with whatever entities or persons necessary (such as other institutions, other information holders or customers).

For such strategies to work, effective communication channels are absolutely vital - including cross-border. For manufacturers and for "distance sellers" (particularly mail orders companies) effective distribution channels are also essential.

9.3 CUSTOMER EXPECTATIONS OF POSTAL SERVICES

In order for their communication and distribution needs to be met at the more demanding level suggested by their policies for 1992, companies and other organisations will need efficient postal services throughout the Community with the appropriate degree of flexibility.

For example, in the domain of distribution (where parcels and express parcels services operate), application of "just-in-time" policies will become more widespread as the location-at-distance strategies described at Paragraph 9.2 reinforce the need to keep stock-holdings at the minimum feasible level.

There has been a long-term trend that has been reducing the attitude that cross-border services are particularly special. The achievement of the internal market will accelerate this trend. If services provided to cross-border destinations are significantly inferior to those provided domestically within a national or regional territory, customers are likely to become impatient, and seek alternative means of communication or distribution.

In short, the achievement of the Single Market is likely to raise the expectations of what customers expect of their postal services (whether letters, parcels or express). Postal operators will have to satisfy these raised expectations or suffer.

9.4 PARTICULAR EFFECTS ON POSTAL OPERATIONS

In addition to this raising of customer expectations, there is likely to be a change in the profile of traffic. The point of origin of traffic that is presently domestic may move cross-border.

This has important economic effects on those operators who sub-contract the delivery outside their own territory (which more or less describes the position for mail exchanged between postal administrations). Each such operator would find their cross-border traffic increasing, that is apparently increasing the proportion of variable costs (that is, the tariff/compensation paid to the delivery operator).

At the same time, each operator has the (more or less) same fixed cost of his own network, and therefore will be increasingly reliant on sufficiently high volumes of traffic being generated outside his territory for delivery within it.

The abolition of customs controls in the internal market will represent a windfall gain for all carriers. The savings could be passed on to customers in the form of reduced tariffs. More likely, they could be re-invested in adding value to services. An example would be extending the "pipe-line" principle where distribution (whether contracted out or undertaken by an in-house agency) is seen not as a bolt-on activity, but rather as an integral part of the process.

The ability to clear through customs quickly is a skill which can give companies that are effective in this a competitive advantage. For goods circulating in the internal market, this is a skill that will no longer be required. Such companies will therefore have to seek other ways in which to maintain a competitive advantage. If not, their services will tend towards "commodity" status. Such commodity services are then sold on price, thus depressing profitability.

In short, postal operators (whether public or private) will need to establish fully effective cross-border services. The increased reliance of delivery networks on volume generated outside the territory will make absolutely necessary the putting in place of adequate tariff/compensation systems.

CHAPTER 5: ECONOMIC AND OPERATIONAL ASPECTS

1. INTRODUCTION

The previous chapter concentrated on the relationship between the postal operators and their customers. This chapter now describes the operations that provide the postal services, and analyses the economics that underlie the operations.

It attempts to identify the ways in which the main services - letters, parcels and express - are similar, and in what ways different. The chapter pays particular attention to the economics of those services for which there is a universal service requirement.

In discussing the economics of the postal operation, the intention is not to go into detailed theory. Rather, only general concepts are discussed in so far that they might have a bearing on the drawing up of proposals in the Green Paper.

The economic terms used are therefore straightforward. Where the term profitability is used, this refers to the margins of income less costs, whether the result is in surplus or in deficit. Costs are divided into fixed and variable costs.

Fixed costs are defined here as those costs that do not vary with changes in volume. Variable costs do vary in this way: They are the costs that could be avoided if the incremental volume was not handled. (It is accepted that this general discussion does not allow for the sensitivities of semi-variability and the changes in cost status that can occur over time.)

Marginal costs are the costs incurred if an additional activity is carried out (or an additional volume sold): they therefore cover variable costs plus any capital cost related to the additional activity.

2. UNIVERSAL SERVICE PROVISION

As stated above at Chapter 4, Paragraph 3, the foundation of any policy for the postal sector - either at national or Community level - is the need to ensure universal service across the whole territory concerned.

Each Member State presently considers that the way to ensure this is to have some set of services reserved to the postal administration. The special and exclusive rights thus

granted give the postal administration the protection it needs to provide the reserved services even in those areas where the provision of such services is loss-making. The protection in the reserved area usually makes possible universal provision also of some services that are non-reserved.

The fundamental point is that universal service should be provided at prices affordable to all - that each citizen or organisation of the Community should have access to a postal service at prices which he can readily afford for his main postal communication needs. (Usually, this is represented as a single tariff covering the whole of the territory concerned.) To ensure this affordability, sufficient volumes and revenues need to be guaranteed to the operator providing the universal service. The lower unit costs thus achieved can be translated into affordable prices.

The reason for this protection is that, while a postal administration can gain increasing returns to scale with greater volumes (for domestic mail, but much less for cross-border mail - see Paragraphs 3 and 4 below), it is not a natural monopoly. Without protection, competitors would be able to concentrate on the low-cost, profitable areas, leaving postal administrations only with the rump.

It might be considered that postal administrations could react by offering cost-plus prices for services in each locality. However, because of the need to have a tariff understandable to all potential users, the postal administration would not be able easily to stipulate the different tariffs that would apply. It would therefore want to have at least sub-regional tariffs covering several towns as well as some rural areas. Since this would still lead to some averaging of prices, competitors could still enter and cream-skim the most profitable services.

The other result of adopting a cost-plus approach for small localities is that the price for some areas would increase very significantly. If this happened, the objective of universal affordability would not be achieved. This would effectively discriminate in an unacceptable manner against those citizens who happened to live in the regions of the Community which are more expensive for the postal operators to serve. To mitigate the problem, a further reaction could be to reduce service levels in the unprofitable areas, but such a course of action would move further and further from the basic principle of universal service.

It perhaps could be argued that this problem could be overcome by central subsidies. But it would need to be considered whether this approach would cause more problems

than it solved. What would be the problems associated with trying to define the areas that justified such a subsidy, and then to calculate what the subsidy should be; what policing would be needed to prevent unfair manipulation of the subsidies particularly with regard to competitive services? Presumably, the decision would vary from year to year; they would also vary from Member State to Member State.

In order to portray the context in which the Green Paper's proposals are drawn up, it is necessary to discuss in detail the economics of the sector. This discussion is provided in the paragraphs below. Here, it is necessary to add two further points concerning universal service.

Firstly, it is a requirement that each postal administration should accept all mail posted. It therefore needs to be flexible enough to respond to peaks and troughs of demand. With significant peaks in demand, it may be inevitable that there is some diminution in the service. However, generally, service levels must be maintained.

Secondly, while universal service of the ordinary letter service is the key objective, it would be a worthwhile by-product if other services could be provided universally through the more intensive use of the network that provided universal letter provision. In this way, it may be possible for parcel and express services to be provided universally. The effect of this more intensive use of the network is that it would be more productive in terms of both lower unit costs and increased total revenue. This might enable the set of reserved services (if it was decided that such a set should be established) to be reduced in scope and/or the prices of such services to be lowered.

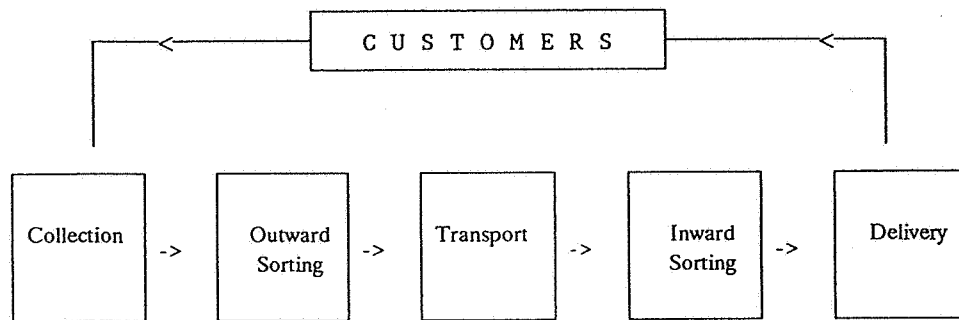
The combined effect would be to achieve economies of scale, the benefits of which could be passed on to potential customers. At the same time, if a reserved service network was established and was used also for non-reserved services, there could be a danger of unfair cross-subsidies that would disrupt the free competition in the non-reserved area. This subject is discussed further below at Paragraph 7.1.

3. POSTAL OPERATION - GENERAL DESCRIPTION

Almost all postal operations demand five operational phases. These phases are: collection, outward sorting and despatch, transport, inward sorting and, lastly, delivery. Collection and outward sorting are sometimes referred to as the "outward" part of the operation, and inward sorting and delivery as the "inward" part. To these five phases

can be added a sixth which precedes the whole process - that is, the selling of the service to the customer. The whole process is shown graphically in Figure 1 below:

Figure 1: *The connexion between different operational phases*



With the possible exception of the dispatch rider who undertakes the whole operation on his own, these phases are operationally distinct from one another. While they follow each other sequentially, they are not a "seamless" operation. This is demonstrated by the fact that five different operators could carry out the different phases. (Even if one organisation undertakes all the phases, it often uses different staff for each phase.)

Such complex operations necessitate the use of networks. Annex 3, in describing the postal operation, analyses the different types of networks employed in the postal sector. These networks provide the links between the different phases of the operation. The letter mail operation requires a network with a high level of interaction between all the different points of the network. However, in this case as well as for the other postal services, the operational phases linked by the networks remain distinct.

Postal administrations accept this reality that the operational phases are distinct from one another. Most offer contract facilities where customers can undertake some form of mail preparation which reduces the work that would otherwise be done by the postal administration. Some administrations contract out some of the transport operation (for example to the national railway operator).

For cross-border mail (discussed in more detail below at Paragraph 4), the transport phase is usually contracted out to a transport operator, and the inward part of the operation is undertaken by another postal administration.

Very approximately, the relative costs of the different phases of the letters process are as shown in Table 1 (which averages figures provided by several postal administrations).

Table 1: *Approximate composition of letter mail operational costs*

Collection		10%
Outward sorting	18%	25%
Transport	2%	
Inward sorting	5%	
Delivery		65%

Source: Several postal administrations

This break-down is very approximate. The break-down will vary from operator to operator; the proportion of costs of the outward and transport stages of express and parcel services may be somewhat higher than the figures shown above. Of all but the delivery phase, each phase - but most likely to be outward sorting - could be substituted by work carried out by the customer before posting. However, overall, the percentage for the mail work, whether carried out before or after posting, should be broadly accurate.

The percentages shown above are for the actual mails operation. They therefore exclude the pre-operation selling/posting phase. The cost to the operator of this pre-operation phase can vary from almost nothing to up to 10% of costs.

The different phases, and their economic implications, are discussed briefly below. (A more detailed description of the letter operation is to be found at Annex 3.) In this discussion, a division is drawn between fixed and variable costs. Throughout it should be remembered that the majority of postal operational costs (70% on average for postal administrations, somewhat less for private operators) are labour costs. The employment aspects of the sector are discussed in Chapter 6.

3.1 SELLING OF SERVICE

Postal services are paid for by the customers in one of three ways: by contract with retrospective billing, by meter machine (which prints out on the envelope the tariff paid by the customer) or by stamps.

The contract payments facility is a fixed cost to the postal operator, whether private or public; the cost of credit to him is variable in relation to the revenue. For letter services, these contract costs are usually negligible in proportion to total costs. For parcel and express operators, the proportions can be higher. Payments by meter machine have a similar economic profile (with the exception that the payment facility is bought in advance), and is also a negligible proportion of the overall cost.

Payment by stamps incurs a more significant proportion of mail costs. If the stamps are sold under contract by another vendor, the cost of the sale is variable to the postal administration. Even if the sale is made by the postal administration's own counters organisation, the cost may be represented internally as a variable charge to the mail organisation.

3.2 COLLECTION

Collections are carried out from three different places. Both postal administrations and private operators collect direct from customers' premises; for regular such collections the costs are fixed, with (at least for postal administrations) low unit costs.

Collections are also made by postal administrations from their own counters and from road-side collection boxes. Again, the costs are fixed. However, because of the lower volumes, the unit costs are higher (and in the case of collection from road-side boxes, much higher).

If demand increases in a particular area, it is possible that a new collection facility may need to be established - new boxes, or even a new collection round. Such incremental increases in costs after a significant increase in volume are often called "lumpy inputs".

Once established, their running costs become part of the fixed costs. Such additions to (or subtractions from) the collection network will affect demand at other collection points, but do not need to affect the structure of the rest of the collection network. In this way, collection networks are different from the sorting office networks which by their nature are more inter-active - as discussed below in more detail at Paragraph 3.3.

It should be noted that in rural areas (or less urban areas), collections are often combined with deliveries. Whether combined or not, volumes at each rural collection point tend to be low, with commensurately higher unit costs of collection.

3.3 OUTWARD SORTING

Outward sorting involves the reception of material collected and then carrying out whatever processes are necessary to send the mail to the centre responsible for delivery (or the intermediate centre responsible for forwarding the mail to the final delivery office).

This activity has a high variable element. This is especially true for the mail that can be handled the day after collection. Mail which needs to be forwarded straightaway may need a higher fixed element because the volumes cannot be predicted in advance. (But even here, it is likely that overtime will be used as a "float" to align man-hours spent with volume.)

It should be noted that mechanisation increases the proportion of fixed costs. Mechanised sorting demands regular engineering coverage, as well as having hard-ware running costs not related to volume.

In terms of networks, sorting offices (or the dispatching centres of private operators) and delivery offices are entirely inter-active. If the network planners add or subtract a centre, all other offices need to be aware, and adjust their sorting patterns accordingly.

3.4 TRANSPORT

If an operator undertakes his own transport (between the outward and inward parts of the operation), the costs are not volume-related (subject to the addition or subtraction of "lumpy inputs"). If, however, the transport operation is contracted out, the costs are represented to the postal operator as variable, if the contract terms are on payment by volume.

For light-weight items (such as letters), the unit cost of transport is negligible. Even for heavy-weight items, the expensive elements of the transport process are despatching and unloading: the incremental cost associated with increases in distance transported is very slight.

However, increases in distances can have an indirect effect in increasing costs. This is because the further the address point is from the point of collection, the more likely it is that there will be a greater complexity in routeing the postal item.

Thus, if an item collected is for delivery in the same area, it will be brought into the outward sorting office which will also be the "inward" sorting office responsible for feeding the delivery office to which the latter should be routed.

If a letter was being sent from one large town to another, two sorting centres would be involved. If a letter was being sent from one rural area to another area at some distance, there would be a greater likelihood that the item would be aggregated into an intermediate sorting centre, thus increasing the handling.

Any extra handling (as well as the additional time needed for transport between the handling centres) carries the danger of decreasing quality of service.

It is often stated that postal services have costs that are not distance-related. In a strict sense (in terms of transport costs as a proportion of total costs) this is true. However, on a practical level, distance implies greater operational complexity, and can carry higher costs - both monetarily and qualitatively.

3.5 INWARD SORTING

The economic profile of inward sorting is very similar to that of outward sorting. Theoretically, the work demand should be more predictable if the outward offices informed the inward offices of the volumes despatched. The sorting will have a high variable content. This is particularly true of the slower streams - such as printed paper (AO) or second class letters - if they do not have to be sorted immediately.

It should be noted that inward sorting is not usually carried out by automatic sorting machinery. The exceptions to this are the Netherlands and the United Kingdom where the post-coding system permits such automatic inward sorting (but even in these countries - less in the case of the Netherlands - the proportions of inward mail sorted automatically are not high). As noted at Paragraph 3.3 above, mechanised sorting has a higher fixed element than manual sorting - but this is less relevant to inward sorting.

3.6 DELIVERY

Delivery costs are, in effect, mostly fixed. There is no variation in costs if there are two items rather than one to be delivered to an address point passed on a delivery round. If the extra volume demands that an extra delivery point must be accessed, there would be no increase in costs in the case of town letter deliveries.

Even in those cases where extra delivery access would be more noticeable (such as on delivery rounds for small-volume parcel or express operators) there is likely to be spare capacity that could assimilate the extra delivery points. Even in rural letter deliveries, some extra address points could be added without increasing costs.

It is important also to look at the effects on delivery costs of possible declines in traffic. Again, costs would be unlikely to be saved, unless there were significant movements in traffic.

It is estimated that some 65% of operational costs are accounted for by delivery costs (somewhat less for express), and these costs are almost all fixed. In the rural areas where delivery productivity is inevitably low, the unit costs will be significantly higher than average.

3.7 OTHER

The non-operational costs are overheads which, for the purposes of tariff setting, must be allocated to the different postal services and indeed to the faces of the operations that comprise those services. While there are some sunk costs (in such items as accommodation, machinery and operational planning), they are relatively few, since the postal industry is "low technology", at least by comparison with other sectors of the communications industry. However, at least in the short/medium term, the overhead running costs tend to be "fixed".

4. CROSS-BORDER SERVICES

The operations described above at Paragraph 3 were essentially those of an operator (such as a postal administration) providing domestic services within a national territory. When mail crosses a border, the economics of the service usually become

different. To put this in the context of the revenue of the operators (both public and private), the proportions are approximately as shown in Table 2.

Table 2: *Proportions of volume and revenue*

SERVICES	VOLUME	REVENUE
Domestic	93%	90%
Intra-Community	4%	5%
International	3%	5%

Sources: Several

For analysis of the economics involved, it should be noted that there are two different types of cross-border service: either one operator handles all the phases from collection to delivery or the operator in the "outward" country entrusts the mail to another operator for delivery in the "inward" country.

In the first of these examples (which describes the position of certain large private express operators), the economics are essentially the same as those of the domestic operations - that is, there are significant network fixed costs so that the marginal effect of increases or decreases in traffic is slight.

Because such an operator probably has local subsidiary companies in each of the countries involved, there may well be an internal charging system that allocates cost with the effect that managers in the outward country see the costs as being variable.

The second example describes the position of almost all cross-border letter operations and many parcel operations (whether private or public). Here, the outward operator contracts with another operator for the delivery to be affected in the inward country.

In the case of postal administrations, delivering material on behalf of other administrations, the "contracting" rules are determined by the Universal Postal Union (see Chapter 3, Paragraph 5.1). The economics of these "exchanges" of mail need to be viewed from the outward and inward perspectives separately.

4.1 OUTWARD MAIL

For such exchanges of mail, the charge made by the delivery operator is a variable cost for the outward operator. The variable charge takes different

forms. For letter mail exchanged between postal administrations, the charges take the form of "terminal dues", which themselves are a complex issue and are discussed in more detail below at Paragraph 8. Such terminal dues are usually charged at the same rate for both postal administrations that exchange mail between each other.

For parcels exchanged between administrations, the system is different. Here, each administration charges the other "land rates" - but these are determined by the delivery administration, and are not the same in both directions. The system for postal administrations delivering each other's express items is similar to that of land rates: again, the delivery administration determines the charges.

For private operators contracting with another operator for delivery, the delivery costs are also variable, whether the operator is private or is the postal administration in the country of delivery.

4.2 INWARD MAIL

Essentially, the "inward" operator continues to have the same network fixed costs. Thus delivering more traffic in his delivery area will not increase costs proportionally; conversely, if there is a decline in the cross-border traffic that he receives in his country, the inward operator would not be able to make proportionate savings.

This point is perhaps particularly important for the letter delivery networks of the postal administrations. Presently, cross-border traffic accounts for an average of 7% of letter volume (up to 47% in Luxembourg). Slightly more than half this figure is made up of traffic passing between Community Member States.

This volume therefore helps to keep unit costs at affordable levels. However, because of the imbalance in the current terminal dues system (discussed in more detail below at Paragraph 8) between delivery unit costs and compensation received, most Member States find that their unit costs for delivering this traffic are not covered.

This situation is barely supportable whilst cross-border volumes are at their current levels (and while part of the revenue gained on the outward traffic is used to cross-subsidise the inward losses). But, as Chapter 4 Paragraph 9

indicates, the cross-border volumes are predicted to increase, perhaps dramatically, as a result of the Single Market strategies of large customers.

A large proportion of this increase could be at the expense of domestic traffic. This change in the structure of delivery traffic will have a very significant effect on the tariff policy. If terminal dues continue to under-compensate delivery unit costs, there might well have to be real increases in the tariffs for domestic mail.

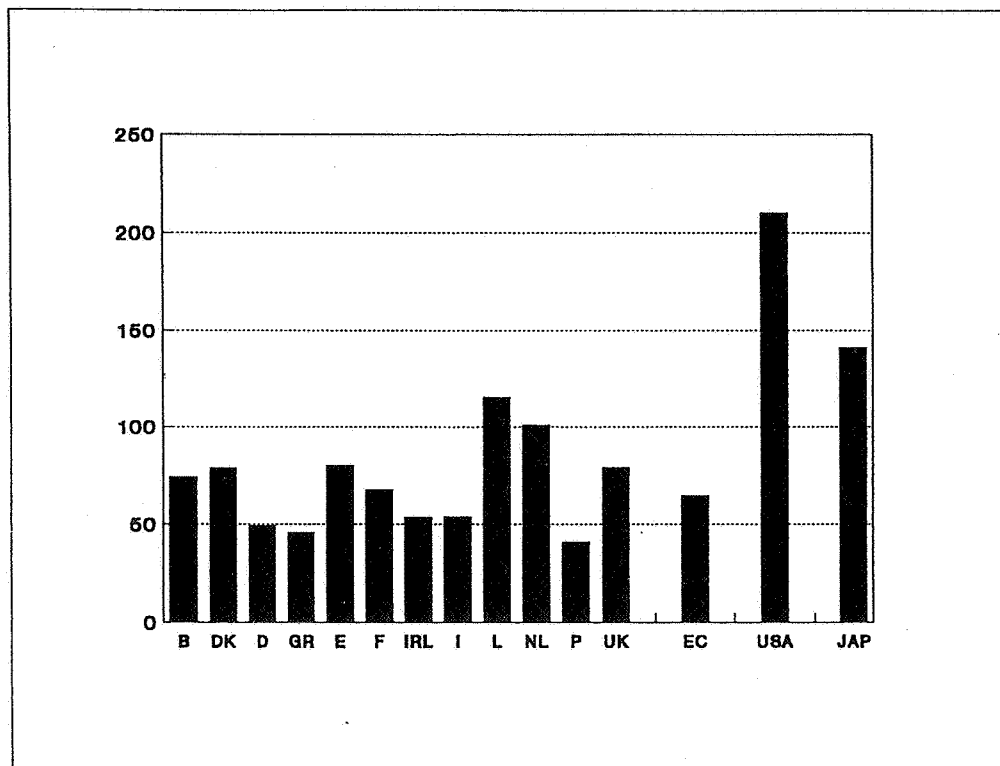
5. COSTS

What then affects the costs of the Community's different operators? Concentrating on the postal administrations, it has been noted that, on average, labour costs comprise about 75% of operational costs. Naturally, the labour unit costs (that is, the cost of labour per hour) will vary from country to country.

They will be affected by local labour market conditions, which are in turn affected by the prevailing economic situation of each Member State, as well as previous trends. (Thus, even taking a modest perspective of changes, one can note that real compensation in the Netherlands remained constant in the 1980s, whereas in the UK it rose by 23%.)

They are also affected by the relative position of postal staff in the informal ranking order of different occupations. It is therefore inevitable that there will be differences in the cost of a labour hour.

What is produced in each labour hour expended will also vary because of the different through-puts that are achieved. These through-puts are calculated by dividing the numbers of items (or the revenue gained from them) by the numbers of labour units (either total staff or their work-hours, or either expressed in terms of their monetary costs). Figure 2 below shows a simple productivity measure of the total number of postal items (excluding unaddressed direct mail, but including express items as single items) divided by the total number of employees of the postal administrations' mail services.

Figure 2: *Items per mails employee in thousands (1988)*

Note: The employees figures refer only to mails employees, and therefore exclude the staff employed on postal financial services.

Source: Sofres study

The employees figure used as a denominator in the calculation refers only to postal administration staff employed on mail services. It relates to costs which are (as described above at Paragraph 3) significantly fixed. Movements in through-puts may therefore be very much dependent on the volumes posted. (It must be stressed that the table is intended to give only an impression: apparent productivity will be affected by, among the factors, relative population density and varying levels of pre-sorting carried out by customers; further, no link is made here with the quality of service achieved.)

This poses an important question: to what extent is the propensity of "the average citizen" to post items with the postal administration a function of the external economic environment, and how much is it related to factors within the control of the postal administration?

Figure 3 at Chapter 4, Paragraph 3.2 shows that there is some direct link between general economic activity and the propensity to post mail items. However, in terms only of factors within their control, some postal administrations are more efficient than others. Each administration, of course, has the capacity to reduce its costs; if these reductions are then represented in lower real prices, an increase in volume will result. This can lead to an upward "virtuous" spiral where the higher volumes lead to lower unit costs, which in turn restrain the need for price increases.

A second important point is that the quality of the service perceived by the potential customer has a direct effect on the profile of the mail posted. The higher the perception of the quality, the more likely that customers will post the higher value items in the mass-volume ordinary stream - items such as business letters, invoices, statements, etc. These items may incur higher costs because they demand a greater degree of priority, but their tariffs are set at a proportionately higher rate with adequate profit margins.

The converse is also true. The worse the customer perception of the quality of service, the more the postal administration will be used as the "distributor of last resort". It will become more and more the receptacle for the low-value bulk postings, which are often attracted by preferential tariffs (see below at Paragraph 6.3) which themselves are often loss-making.

In short, simple productivity measures do not suffice. The profile of traffic is all-important to the revenue/cost structure and this is directly affected by the potential customer's perception of the quality provided.

6. PROFITABILITY AND TARIFF-SETTING

Table 3 shows the profitability of the Community's postal administrations in terms of their surpluses and deficits. These figures exclude the results of the generally profitable postal financial services provided by the postal administrations (see below at Paragraph 7.1). (Profit figures are not available for the Community operations of the private operators.)

Table 3: Profitability of mail services of EC postal administrations (1988)

MEMBER STATES	TOTAL COSTS	TOTAL REVENUE	SURPLUS/ DEFICIT	SURPLUS/ DEFICIT AS PERCENTAGE OF REVENUE
	Million ECU	Million ECU	Million ECU	%
Belgium (note 1)	745.9	503.1	- 242.8	- 48.3
Denmark	840.9	806.4	- 34.5	- 4.3
Germany	8 210.0	7 000.0	- 1,210.0	-17.3
Greece	123.5	100.3	- 23.2	- 23.1
Spain	1 000.0	692.3	- 307.7	- 44.4
France	7 838.0	7 340.0	- 498.0	- 6.8
Ireland	189.0	187.7	- 1.3	- 0.7
Italy	3 709.5	2 651.1	- 1,058.4	- 39.9
Luxembourg	45.0	42.3	- 2.7	- 6.4
Netherlands	1 731.0	1 778.0	+ 47.0	+ 2.6
Portugal	169.8	134.0	-35.8	- 26.7
United Kingdom	4 484.0	4 643.0	+ 159.0	+ 3.4
TOTAL	29 086.1	25 878.0	3 208.4	- 12.4

Note 1. The income for the Belgium does not include a payment of ECU 321 million received from the central government in respect of loss-making services provided. (See Paragraph 7.2 below.)

Source: Sofres study

What causes these variations in profitability? Differences in commercial expertise and in efficiency are important. However, the different tariff policies applied also play an important part.

There seems to be a direct relationship between the revenue gained per item and the relative profitability of the different administrations. Table 4 below compares the statistical order of the profitability margins and the average income received per item.

The profitability margins are placed in statistical order according to the percentage return on revenue. The average income received per item is ranked alongside. This is calculated by dividing the total revenue by the number of items (excluding unaddressed items).

Table 4: *Potential link between profitability and tariff-setting*

MEMBER STATE	REVENUE (Mill ECU)	SURPLUS/ DEFICIT (Mill ECU)	PERCENTAGE MARGIN	STAT- ISTICAL ORDER	REVENUE PER ITEM (ECU)	STAT- ISTICAL ORDER
Belgium	503.1	- 242.8	- 48.3%	12	0.26	7
Denmark	806.4	- 34.5	- 4.3%	4	0.50	1
Germany	7 000.0	- 1 210.0	- 17.3%	7	0.47	2
Greece	100.3	- 23.2	- 23.1%	8	0.21	10
Spain	692.3	- 307.7	- 44.4%	11	0.14	12
France	7 340.0	- 498.0	- 6.8%	6	0.45	3
Ireland	187.7	- 1.3	- 0.7%	3	0.36	4
Italy	2 651.1	- 1 058.4	- 39.9%	10	0.25	8=
Luxembourg	42.3	- 2.7	- 6.4%	5	0.25	8=
Netherlands	1 778.0	+47.0	+ 2.6%	2	0.31	6
Portugal	134.9	- 35.8	- 26.5%	9	0.19	11
United Kingdom	4 643.0	+ 159.0	+ 3.4%	1	0.33	5

Source: CEC analysis

What causes these variations in tariffs? Of course, there are cost differences beyond the control of the postal administrations. However, the main cause is the different attitudes to tariff-setting. Table 5 below, which compares average revenue received with the basic letter tariffs, is illuminating.

It is not altogether surprising that some administrations have an average revenue per item less than the basic tariff. All administrations have large customers who may deserve discounts in return for work that saves the administrations costs. However, the greater explanation is in terms of the preferential tariffs that are awarded on the basis of the content. (In the case of Italy, there must also be a question either whether the figures are accurate or whether there are revenue protection problems.)

It is also the case that there are varying degrees of pressure brought to bear on postal administrations to hold down prices - even if it is known that price increases are necessary to ensure cost coverage. Over a period of time, the cumulative effect is to engender substantial losses. To bring the postal administration back to break-even could take a long period of gradual real prices increases.

Table 5: Postal administration revenue per mail item

MEMBER STATE	1	2	INDEX [COL 1 / COL 2]
	REVENUE PER ITEM (ECU's)	BASIC LETTER TARIFF (ECU's)	
Belgium	0.26	0.33	0.788
Denmark	0.50	0.47	1.064
Germany	0.47	0.50	0.940
Greece	0.21	0.17	1.235
Spain	0.14	0.15	0.823
France	0.45	0.33	1.360
Ireland	0.36	0.36	1.000
Italy	0.25	0.50	0.500
Luxembourg	0.25	0.28	0.890
Netherlands	0.31	0.32	0.969
Portugal	0.22	0.18	1.244
United Kingdom	0.33	0.28	1.179

Source: CEC analysis

The particular points of the *péréquation tarifaire*, accounting principles, transparency and preferential tariffs are discussed below.

6.1 PEREQUATION TARIFAIRE

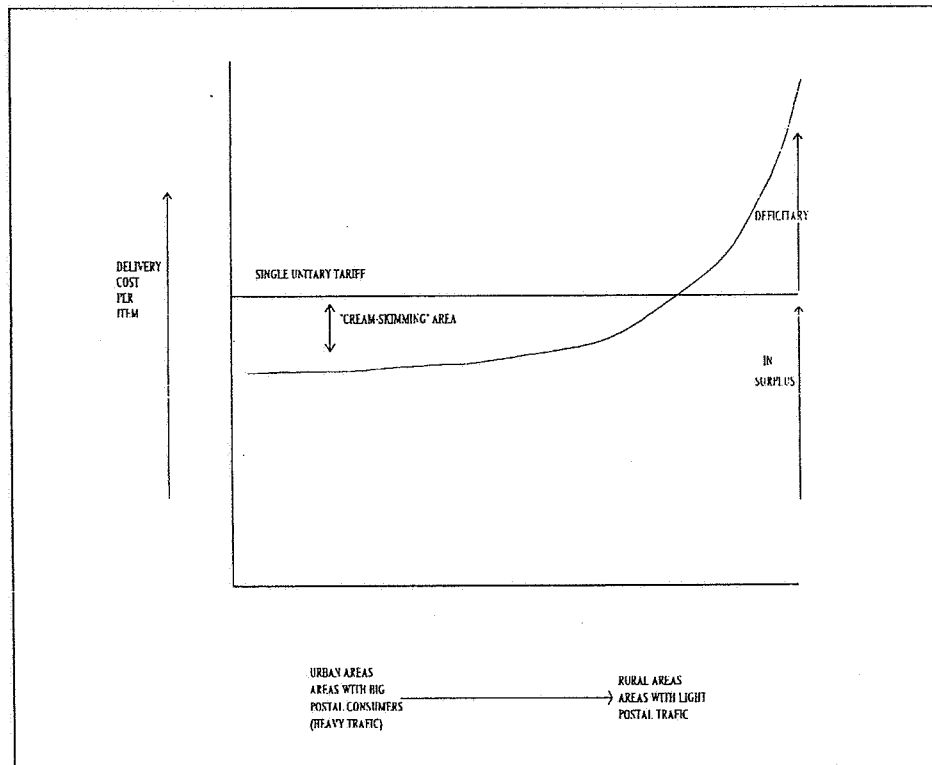
All Community postal administrations represent their public tariffs for letter delivery in their national territories as a single unitary tariff which makes distinctions only on the basis of different weights, not on the basis of the different locations of either senders or receivers of the mail. (In addition to having a single tariff covering the national territory, the Spanish administration also offers a separate rate for delivery within the town where the mail is collected.) This "single unitary tariff" is usually referred to by the more succinct French description of the "*péréquation tarifaire*".

The principle underlying the *péréquation tarifaire* is that the different costs associated with collection in/delivery to different areas should be "averaged out". The alternative would be to adopt strict cost-plus pricing based on the actual costs associated with different geographic areas. This could lead to a multiplicity of prices, and would probably be thought to fall unfairly on those who live in what, in postal terms, are higher cost areas.

Naturally, the average applied in the *péréquation tarifaire* would be higher than the actual cost in low-cost areas, such as town centres. It would also be lower than the costs in the more rural (or less urbanised) areas. The latter tend to be more expensive because the volumes are lower (for instance for collections), but also because the access points (posting boxes for collections or address points for deliveries) are simply more spread out, and therefore more expensive to reach.

It should be noted that the extremes of costs, when expressed as factors of the average, are significantly different. One postal administration has calculated that the cheapest total process (from collection to delivery) incurs 70% of the average costs, whereas the most expensive incurs more than 10 times the average. Against that, the volumes in the lower cost areas far out-weigh those in the higher cost areas.

Figure 3: *Péréquation of profitable and loss-making areas*



Source: CEC

The averaging principle applied in setting the same tariff for an item across a national territory carries dangers for the universal service provider offering such a *péréquation tarifaire*, if other operators can enter the market and select which areas they will serve. This danger, sometimes called "cream-skimming", is shown graphically in Figure 3.

The X-axis shows the different collection/delivery areas, while the Y-axis shows the unit cost of delivery. The cost of delivery is therefore a curve which is lowest in the heavily urban areas, rises gently in the gradually less urbanised areas, but then increases steeply in the very rural areas. The *péréquation tarifaire* is shown as a single horizontal line. Above the line, where the unit revenues do not cover costs, is the area which would be unlikely to be of interest to an operator seeking to enter the market. Below the line, where the costs of service are below average, is likely to be more attractive. (Just how attractive would depend on whether the overall service provided by the postal administration was in surplus or in deficit, and on differences in operational costs between public and private operators for directly comparable services.)

If another operator enters the market and concentrates on those areas where the postal administration's actual costs are below its average costs (that is, the relatively profitable areas), any success on the part of the new operator in taking away volume from the postal administration would raise the average cost line of the latter. The increase could be fairly gradual if all the costs were variable. However, since a large proportion is in fact fixed, the upward shift in the average cost line would be very marked.

It is in order to safeguard the universal service that each of the Member States has established a set of reserved services. It is usually considered to be at least a useful by-product that postal administrations, as the reserved service providers, can offer a *péréquation tarifaire* for domestic services. (Certain Member States go further, in stating that the provision of the *péréquation tarifaire* is an obligation placed on the postal administration as reserved service provider.)

For domestic services, it may be less necessary to separate the possible reasons for having a set of reserved services (between the safeguarding of universal services and the possible need for a *péréquation tarifaire*). However, it will become more important for cross-border mail. In effect, the universal service

for the cross-border mail between Member States is presently safeguarded by having domestic services (including the delivery of inward cross-border mail) placed in the reserved area.

All postal administrations offer such services to other Community countries at a single unitary tariff. (In fact, at present, the ranges of cost differences between different destinations are probably less than each postal administration experiences for its domestic mail; this situation could change if terminal dues were more closely linked to domestic tariffs.) Nine out the twelve Community administrations offer delivery of the 20 g letter to other Community countries at the same tariff as for domestic delivery. (In fact, this initiative was in response to a recommendation made by the Commission in 1979 that inland tariffs should apply to intra-Community letters at least up to the first weight step.) Of the nine administrations, the French postal administration offers the same tariffs as for domestic mail for intra-Community for letters up to 100 g.

6.2 ACCOUNTING

As with other sectors, an associated feature of different attitudes to tariff-setting is the different accounting principles that are used in different Member States. However, the impression is given that there are different degrees of understanding of costs on the part of the different postal administrations. In particular, it is not clear to what extent fixed costs are allocated correctly to the different postal "streams" (or services) that use the network that incurs the fixed costs.

A related subject is that of the relative degree of transparency. This is important to identify the losses that many administrations incur on preferential tariffs for printed papers (see below at Paragraph 6.3).

Some transparency may also be appropriate for those non-reserved services that are provided partly by using the reserved service network. The national regulator may wish to be able to investigate the way that tariffs are set to ensure that they cover at least the marginal costs that they incur.

6.3 PREFERENTIAL TARIFFS

Preferential tariffs are defined here as those tariffs that offer discounts unrelated to cost savings made possible by the presentation of the mail posted.

The previous chapter described at Paragraph 8.4 the policies (on the part either of national governments or of the postal administrations themselves) that have led to preferential tariffs being awarded. Here the intention is to study the economic effects of this tariff policy.

The offering of preferential tariffs is a political decision. They result in significant losses for the postal administrations that offer them. These losses have to be funded from somewhere - either by cross-subsidies from other postal customers (and sometimes telecommunications customers) or by direct subsidies from the government. They present an important control problem: the sizes of the total losses incurred are decided by the use that customers make of the tariffs, rather than being controlled by the postal administrations themselves.

Preferential tariffs offered by postal administrations also need to be viewed from the perspective of private operators. Table 6 below shows the relationship between the level of discounts offered and the percentage of publications in the total letter mail.

Table 6: *Postal administrations - printed papers distribution cost coverage*

MEMBER STATES	COVERAGE OF COSTS	PERCENTAGE OF NEWSPAPERS/MAGAZINES IN TOTAL LETTER MAIL
	%	%
Belgium	18.5	22
Denmark	51.9	29.3
Germany	56	11.5
Greece	98	24.5
Spain	5	3.1
France	33	11.8
Ireland	80	n/a
Italy	6	35.7
Luxembourg	19.3	23.5
Netherlands	75	13.7
Portugal	40	11.0
United Kingdom	100	3.0

Source: Universal Postal Union (1989)

With the exception of Greece and Spain (perhaps because of quality of service requirements), there seems to be a close correlation between cost coverage and

the percentage of newspapers and magazines in the letter mail. If the preferential tariffs discourage users from using private operators, they have the effect of hindering the establishment of possible alternative networks for newspaper and magazine distribution.

Where quality of service is paramount, the cheaper prices of the postal administrations will not prevent a publisher (for instance, of a daily newspaper) from trying to secure faster delivery by alternative means even if these means are more expensive. However, for other publications (such as monthly issues or trade magazines), quality of service is not so important, and price is the key determinant of the decision on which service to use.

In such cases, the low prices of the postal administrations prove attractive. Since these prices are usually made available at a loss to the administration, the subsidies or cross-subsidies that fund the losses are effectively preventing other operators from entering the market. The other operators would need to achieve a profit and, even if they might have some lower unit costs than the postal administration, they may well not be able to compete on the prices actually presented to the market place.

7. FUNDING

How are the losses of the individual services, particularly those with preferential tariffs, funded? Further, how are the losses on mail services shown at Table 3 above (a total of ECU 3.2 billion in 1988) funded? There are two sources - cross-subsidies and central funding.

7.1 CROSS-SUBSIDIES

Clearly, the services that do not offer preferential tariffs cross-subsidise those services that do offer such tariffs. But, as Table 3 indicated, either the tariffs of the former are not high enough to make this cross-subsidy and still achieve a net surplus, or the discounts for the preferential tariffs are so high that they exceed the ability of the non-preferential tariffs to subsidise them. (Effectively, these are two sides of the same coin.)

Another important source of revenue is the postal financial services offered by postal administrations. They are generally profitable and, as Table 7 below shows, help to reduce the overall losses or turn them into net surpluses.

The overall effect of these postal financial services is to reduce the overall loss of ECU 3.2 billion incurred by the Community's postal administrations to ECU 1.95 billion for their operations combined. The loss is thus reduced from 12.4% of turnover to 5.1%.

Table 7: *Postal administrations: funding from postal financial services (1988 - Million ECUs)*

MEMBER STATES	POSTAL FINANCIAL SERVICES			MAIL SERVICES	NET EFFECT
	Costs	Revenue	Surplus	Surplus/Deficit (Note 1)	Surplus/Deficit
Belgium	299.8	270.3	- 29.5	+ 78.2	+ 48.7
Denmark	271.5	350.0	+ 78.5	- 34.5	+ 44.0
Germany	2,180.0	2,180.0	—	- 1,210.0	-1,210.0
Greece	30.0	35.7	+ 5.7	- 23.2	- 17.5
Spain	300.0	488.0	+ 188.0	- 307.7	- 119.7
France	4,381.0	5,026.0	+ 645.0	- 498.0	+ 147.0
Ireland	56.0	59.0	+ 3.0	- 1.3	+ 1.7
Italy	1,422.0	1,436.0	+ 14.0	- 1,058.4	- 1,044.4
Luxembourg	8.0	10.4	+ 2.4	- 2.7	- 0.3
Netherlands	1,070.0	1,320.0	+ 250.0	+ 47.0	+ 297.0
Portugal	19.0	20.0	+ 1.0	- 35.8	- 34.8
United Kingdom	1,684.0	1,783.0	+ 99.0	+ 159.0	+ 258.0
TOTAL	11,721.3	12,978.4	+ 1,257.1	- 2,887.4	- 1,630.3

Note 1: The mail services surplus figure for Belgium shows the result after receipt of central subsidy of ECU 321 million

Source: Sofres study

Another source of cross-subsidy within the organisation, in the case of some postal administrations, has been funding from profits made by the sister telecommunications administrations. (In most Member States, the telecommunication administration and the postal administration report to the same Ministry.) Such cross-subsidies are likely to end in the near future as

governments increasingly wish to ensure that telecommunications administrations are operationally entirely distinct.

Such cross-subsidies (from one service to another, from one operational function of the postal administration to another, or from the telecommunications administration to the postal administration) all ask the same fundamental question. To what extent do the providers of those services that contribute the cross-subsidies have a "mandate" to charge higher than necessary prices for the "giving" services in order to carry out the cross-subsidy? Such a mandate could be in the form of a formally stated or instructed political decision, or in the form of a clear commercial statement that such cross-subsidies are being funded in this way.

Where the services that made the contribution are provided in the competitive non-reserved area (as is the case with express services provided by postal administrations or their postal financial services), market forces will provide the checks needed; it is then an internal decision if the profits gained in the competitive market are used to fund losses in other areas.

However, different questions are raised if the contributing services are in the reserved area - especially if the loss-making services to be cross-subsidised are in the non-reserved area (as is the case of most printed paper services in existing national legislation).

As discussed above at Paragraph 6.1, the *péréquation tarifaire* involves geographic cross-subsidies. In that case, however, it is usually clearly stated that the reserved service protection is required in order to permit such a sharing of costs between profitable and unprofitable areas. Further, most customers have posting requirements in both sorts of areas.

This is rather different from the case where a customer of one sort of service is paying a higher price than might otherwise be set in order to cross-subsidise the customer (either the sender or the recipient) of another service.

7.2 CENTRAL FUNDING

If, despite such cross-subsidies, the postal administration is still in loss, the other source of funds is the government.

In at least one case - that of Belgium - this funding is carried out on a commercial basis. The government instructs the postal administration to carry out certain "missions", which it knows are loss-making. The numbers of items that are carried in these streams are calculated each year, and a tariff applied. The government then pays the postal administration the amount thus calculated. In 1988, the Belgian government paid its postal administration ECU 321 million in this way.

Other administrations receive funding on a less transparent basis. It is assumed that they negotiate annually with their governments on the size of the central subsidy required. Presumably, the type of calculations made by the Belgian administration are also used in this discussion.

By contrast, some administrations are net contributors to their governments. For example, the Danish administration in 1988 had to pay ECU 86 million to its government out of its revenues, this figure turning a profit of ECU 44.1 million into a final loss of ECU 41.4 million. The British postal administration not only has to pay corporation tax on its profits, but also has to buy a proportion of government stock each year (the latter varying each year, and earning interest revenue for the postal administration).

8. TERMINAL DUES

Cross-border letter mail comprises letters posted in one country for delivery in another. When a customer posts such a letter, it is the "outward" administration that receives the revenue from the customer, while the "inward" administration does not. However, it is the inward administration that incurs the costs associated with the delivery of the item, and these costs may well comprise more than half the total cost of the whole operation (outward, transport and inward costs together).

For a long time, the UPU members applied the principle that cross-border mail was in balance, making the assumption that the same volume and the same type of mail was going in both directions of any "exchange" between two postal administrations. However, it became clear that such a principle, which was probably never valid, was leading to significant under-compensation for some delivery administrations.

In 1969, the UPU therefore introduced a compensatory system called "terminal dues", which compensated the delivery administration on the basis of the total weight of the

items to be delivered. These charges, which tended to favour less developed countries (which predominate in the UPU), were increased in real terms at successive conferences.

The subject of terminal dues is rather complex. A fuller description is given at Annex 8. Here, it is sufficient to note that any system based purely on weight will inevitably lead to differences between actual delivery costs incurred and the compensation payments made. Firstly, delivery costs are related more to the numbers of items delivered rather than their total weight. Secondly, the same compensation was paid regardless of the level of delivery service required. Thirdly, a single universal system ignores the reality that unit costs will vary - and mostly for reasons unrelated to efficiency.

Figure 4 below indicates the disparity between a weight-based system and average costs. The weight based terminal dues line rises steeply from zero, whereas the average cost line shows the reality of a unit cost for each item handled with a gently rising cost increment as the weight increases. The effect is that at very light weights there is under-compensation, and at heavier weights there is over-compensation.

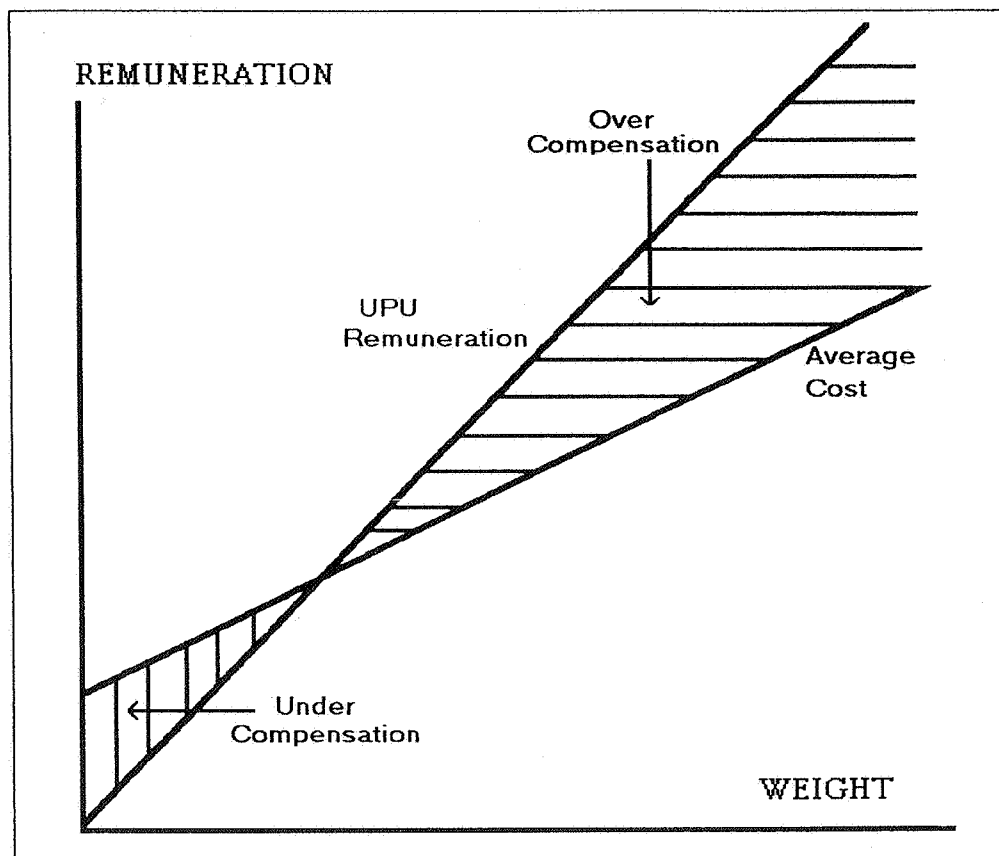
These disparities have relevance to the phenomenon of remail (described in detail at Paragraph 9). At the risk of over-simplification, the under-compensation area creates cost conditions that encourage A-B-C remail, and the over-compensation that encourage A-B-B remail.

The net effect was that many administrations incurred far more inward delivery costs than they received in terminal dues. (This is the case with the majority of Community administrations.) They had to fund these losses out of higher than normal profit margins on outward traffic. As long as administrations retained their outward traffic, the situation might have remained tolerable.

However, the very inequity at the heart of the terminal dues system encouraged the rise of remail as a competitive force that started to erode the outward revenue of most postal administrations.

It was, and is, inevitable that the terminal dues disparity should be addressed. In 1987, several CEPT administrations established a different system of terminal dues which included a charge per item (as well as a charge by weight that is lower than the UPU weight charge). It should therefore give a compensation closer to actual delivery costs.

Figure 4: Terminal dues: comparison of costs and compensation



Source: CEC (using UPU data)

Many of the largest trading postal administrations are partners in this "CEPT" scheme. It now covers not only six of the largest EC countries (in terms of international mail), but also all the EFTA countries (with the exception of Austria), as well as Australia, Canada and the US.

It must be emphasised, however, that an organisation representing several private sector operators, the International Express Carriers Conference (IECC), has lodged a complaint at the European Commission that this arrangement is anti-competitive in that it sought to discourage remailing activities. An investigation has been carried out by the Commission under the Community's competition rules, and formal proceedings have been opened.

The CEPT system, while closer to costs than the UPU system, is still based on an average across the administrations participating. This has the benefit of being easier to administer and provides some stimulus for the countries to improve the cost efficiency of their delivery systems. However, it does not recognise the significant cost and tariff differences that exist between administrations (even between European administrations).

The postal administrations of the five Nordic Union countries (including Denmark) have implemented for mail flows between them a system which compensates the delivery administration on the basis of a percentage of the latter's actual delivery tariffs. Certain other administrations are investigating, in pairs, the practicality of using national tariffs as the basis for charging each other.

In the meantime, the UPU has also addressed part of the problem of terminal dues. For most mail flows (unless otherwise agreed), there are now different charges for letters and for printed papers. This system is still based entirely on weight, and therefore very much reliant on the global average item weight in each stream (that is, in letters and also in printed papers).

The UPU has also added another charging system for mail flows where the average weight is significantly different from the global average. This system is based on a charge per item and a charge by weight; however, it is not clear how this system could actually be applied in practice.

It is thus clear that there is already considerable will to improve the terminal dues systems. It is recognised that some terminal dues system will continue to be necessary to provide compensatory arrangements between the 170 countries that are members of the UPU. Further, it would probably not be practical to charge on the basis of each item exchanged at the tariffs of the delivery administration. For compensatory purposes, some "bulking" will remain necessary. If, therefore, terminal dues are necessary, the optimum system or systems need to be sought.

In this, the need to establish a terminal dues system that properly compensates the delivery administration will become yet more urgent. The different remail systems (as described below) have already shown up the weaknesses of the UPU system. Some of the likely effects of the Single Market on the profile of traffic (as discussed above at Chapter 4, Paragraph 9), by causing existing core domestic traffic to become cross-border, will add to this exposure.

It may also prove necessary to implement a system that relates more closely to the domestic access conditions of each administration, in order to demonstrate that the entry conditions are equal for users, no matter how they wish to gain access to the reserved services of the delivery country (whether directly into the domestic system or indirectly through a cross-border system).

9. REMAIL

Remail is a cross-border mail service offered by private operators in competition with the services offered by the postal administration in the country of the customer. The remail operation usually involves the cooperation of a postal administration - either that of the country of delivery or that of a third country.

Annex 9 lays out the history of remail. It shows how remail evolved partly as the result of an established market need (poor quality of service for printed papers from the United States) and partly as a result of exploitation of the weaknesses of the UPU terminal dues system. Like all services, remail is sold on the basis of a price/service combination. The weighting of these features partly depends on the type of remail service used. It is sometimes said that remail is a price-cutting service. While it is true that remail prices are often lower than those of the competing services offered by postal administrations, it is also the case that remail can offer better service or improved facilities.

There are conventionally thought to be three types of remail. The original, and still the most important, is A-B-C remail. This involves a private operator collecting the international letter mail of large customers (in country A), freighting it to another country (country B) and posting it with the administration there for onward transmission to, and delivery in, a third country (country C).

In the case of A-B-C remail, the price paid is based on terminal dues, as paid by administration B to the administration in country C. A second type of remail is based on the domestic tariffs of the delivery administration. In the case of this type of remail (called A-B-B), the private operator collects the mail in country A, transports it to the delivery country (B) and posts it there with the delivery administration (B).

A third type of remail involves mail being transported from country A to country B for remailing back to country A. If the mail is physically transported out of country A and it meets the reserved service criteria of that country, this remailing system (called A-

B-A) contravenes the monopoly of country A (as discussed above at Chapter 3, Paragraphs 5.1 and 6.3). However, there are different variations of this system of remail, for which the legal position is not so clear-cut.

The present legal position of remail is discussed at Chapter 3, Paragraph 3.8. That discussion also refers to the position of mail which is generated in one Member State, is then remailed through the postal administration of a non-Community country for mailing back into the Community for delivery in a second Member State. (Such a practise might become more prevalent, depending on what decisions were taken on the terminal dues system that should operate within the Community - see Chapter 3, Paragraph 5.2.)

All three types of remail systems are discussed in detail below.

9.1 A-B-C REMAIL

It is said that the main commercial attraction of A-B-C remail is the cost savings that can be offered to customers on the basis of exploitation of the inequities inherent in the terminal dues system. This statement is generally correct, but it needs to be qualified somewhat.

9.1.1 COSTS AND PRICES

Firstly, in a direct comparison of costs between a postal administration and a private operator offering competitive remail services, the costs of the postal administration should, theoretically at least, be cheaper.

The main variable cost is the terminal dues payment. Formerly, this was the same UPU charge for all - whether the administration in country A or the remailing administration in country B - but now it may be different. The freight charges should be higher for the private operator, because he has to freight into the remailing country, as well as paying the onward freighting costs of the remailing administration.

The other main variable element - that of handling and sorting - again should favour the postal administrations, which ought to be able to exploit the (admittedly limited) returns to scale of the sorting operation. In addition, the remailing administration should logically be charging a margin on its services - again which should be passed on to the remailers' customers.

How, then, can remailers be cheaper? As indicated above, postal administrations have traditionally priced up their outward cross-border services in order to fund through cross-subsidy the losses that they make on inward cross-border services (the latter being the negative difference between terminal dues compensation and the actual costs of delivery). This loss can be important.

For example, the average delivery cost of a 20 g letter for an EC administration is in the range of 0.25 to 0.28 ECUs. The UPU compensation is 0.18 ECUs (and, before 1991, it was only 0.06 ECUs). Examples of light-weight costs perhaps show the more extreme cases of such disparities. However, one administration calculated that its total inward loss was significantly more than 10% of its total international revenue.

These losses have to be funded. By comparison, neither the private operator, nor the remailing administration that the private operator uses, actually carries out any delivery. The delivery is delegated to the administration in country C, and is paid at a fixed rate through the terminal dues system.

The second possible cause for remailing operations being cheaper is that remailing administrations sometimes offer prices which are below cost. This is either due to ignorance of actual costs (and, in particular, a lack of understanding of marginal costs) or due to a tariff policy that depresses prices. The latter refers particularly to printed paper prices.

Most administrations have low cross-border printed paper prices because of the political pressure from their domestic printing/publishing industry (and sometimes because of UPU recommendations). Often the prices are below cost. At least one EC administration offers printed paper reduced rates below the cost of terminal dues - before the addition even of other variable costs.

Private operators can exploit these different prices. In effect, the different prices offered by all administrations become part of a "spot" market for the "commodity" of the postal distribution of printed papers. In this way, administrations, often unintentionally, can become remailing administrations (and may even be unaware that this is happening).

9.1.2 SERVICE

In general, it should be expected that A-B-C remail would produce slower transit times than those that the postal administration in country A should be able to provide. Most obviously, there is an extra freighting journey involved (between country A and country B).

Secondly, for mail services carried by air, the direct flights available from country A would have evolved for commercial and historical reasons, and would normally be expected to align more closely with the mailing destinations of the customer rather than would the direct flights available from country B.

However, it would be wrong to generalise about the relative quality of service of remailers. This varies depending on the number of remailing centres used, and on their proximity to final destinations. Thus, for example, mail from the US for European destinations, if remailed through Puerto Rico would receive a poor service, but if remailed through Amsterdam would probably receive a good service.

This perspective of customers outside the Community wishing to have mail delivered across the Community is important: they may well prefer to concentrate their European distribution requirements in one location in Europe, rather than with one operator in North America which then transports separately to all the European destination countries.

In all these instances, the main point of comparison is with the competing postal administration, and it should be remarked that some postal administrations are worse than others in terms of transit times (see Chapter 4, Paragraph 7.2 for comparisons between the EC's administrations).

In general, if the postal administration is effective in its outward operation, it should be able to beat the transit times of the private operators. This is demonstrated by comparative tests undertaken by some large customers. However, where the postal administration has a relatively weak operation, the private operators may often be superior. This is indicated by the fact that private operators selling in certain countries can sell at prices higher than those of the competing administration, and can still maintain market share.

To add a general point that applies to the other remailing systems as well, service is more than simply transit times. It includes all other aspects that the customer perceives - such as the flexibility of collections, accounting procedures, credit availability, treatment of complaints, the effectiveness of sales account management, etc. (It could also include bolt-on features such as business reply service; a private operator has set up such a service that covers certain countries not covered by the postal administrations' own reply service.)

In these other aspects, it is by no means clear that the postal administrations have an advantage. In some cases they may have a definite disadvantage. For example, some administrations do not offer credit, but remailing administrations often do: thus a customer may have access to credit only if he uses a private operator. Generally, however, there is no reason why postal administrations should not match the private operators among these aspects - and some do.

9.2 A-B-B REMAIL

As described above, the cost motivation for A-B-C remail is the difference between delivery costs and terminal dues. For A-B-B remail, the cost motivation is the difference between domestic tariffs and terminal dues. The cost of terminal dues rises more steeply at each incremental weight step than most domestic letter tariffs. This encourages heavier cross-border mail collected by private operators to be posted domestically in the country of delivery. Similarly, the preferential rates offered for printed paper streams may make such items cheaper to post domestically.

There is also an important service motivation behind the evolution of A-B-B remail. Any mail going through the conventional international letter mail system between postal administrations (including A-B-C remail) has to go through at least two "offices of exchange". These are special offices used by postal administrations to despatch or receive cross-border mail. In order to give returns to scale - including in the expertise on handling international mail - each administration has only a small number of such offices, thus running the danger of bottle-necks.

Private operators, by contrast, can post A-B-B remail at any office they wish - one that is convenient to them and has good quality of service. If they choose,

they can post the mail for one country at several different offices thus improving transit times further. They may also be able to accelerate such mail by transporting from the outward country to the inward using their own air services (if they already have these available for their express services).

Some private operators, having freighted such cross-border mail into a country, may prefer to deliver some or all of it themselves. This delivery element is sometimes called "city-mailing" and was mentioned in Chapter 3, Paragraph 3.9.1. While such delivery systems may possibly be quicker (because they involve no transfer between operators) and cheaper (because they tend to deliver only in high density city centre areas), some of the letters so delivered almost certainly belong to the reserved area of the local postal administration.

By delivering only in certain areas and posting the higher cost material with the postal administration, such a system is effectively "creaming-off" the more profitable traffic. What at the moment may only be a relatively minor irritant to postal administrations could become very important if domestic mail starts to become cross-border mail (as speculated at Chapter 4, Paragraph 9).

Another derivative of A-B-B remailing is the concept of local posting which involves an operation carried out entirely within one country. Under this system, a private operator collects the mail from the customers and sorts by major town; the mail is then transported to these major towns and posted there for delivery in the local area by the postal administration.

Underlying this system is the reality that the local quality of service tends to be very good, regional less good, and long distances less good still. However, for such a service to be competitive either on service grounds or on price (since it is likely to be more expensive than the conventional service offered by the postal administration), there would need to be a wide perception of poor quality of service on the part of the postal administration. Such systems operate widely in the United States, and there is anecdotal evidence that they are growing in Italy.

9.3 A-B-A REMAIL

As described above, "physical" A-B-A remail involves a mail item being taken out of a country, posted with the postal administration of a second country for posting back into (and delivery in) the first country. Assuming that such mail meets the criteria for being placed in the reserved area of the country of

delivery, such a practice contravenes the exclusive rights of the reserved service provider.

Such practices are particularly dangerous for high tariff administrations whose prices can easily be under-cut by competitive prices based on an averaged terminal dues system. Strangely enough, all private operators and all remailing postal administrations abhor the practice - and yet it continues to exist.

However, there are other movements of mail about which there have been similar controversies, but which need to be viewed in a different way. It is not uncommon for publishers to centralise the printing of a European-wide magazine in one location, even if the publication is in different languages. If the material is then posted in the same country as the printer, it should be treated by the receiving administration as ordinary cross-border mail - even though it might otherwise have the appearance of domestic mail in the country of delivery.

This phenomenon of centralised production which could turn domestic mail into cross-border mail is likely to increase as customers modify their location and buying strategies as a result of the Single Market. Thus, a bank might centralise its statement-producing operation in one location (rather than producing the statements in each different country served), and then post all the mail out of the one location. Similarly, an advertiser may wish to produce all its direct mail in one location, and post there.

The fact that such mail might formerly have been domestic and therefore subject to domestic monopolies causes some people to contemplate whether such movements of mail thus caused should be considered an infraction of domestic monopolies unless the items concerned are posted in the country of delivery. Briefly, the question that should be put is as follows: should the single market in printing, electronic data and advertising adjust to possible interpretations of postal rules, or the converse?

A different question is posed by the possible implications of the single market in distribution. An example here could be of an advertising agency that wishes to carry out a European-wide mailing, including for the country in which it itself is based. If the agency prints all the material locally and then contracts the distribution to a postal administration in another country, how should the

material that was for delivery in the advertiser's own country be treated? Is such mail part of the postal administration's reserved area or not?

10. INVESTMENT AND TECHNOLOGY

Investments are made in the reserved sector to improve service and/or reduce costs. In the non-reserved sector, there is the added stimulus of trying to increase or maintain competitive advantage, and thus improve profits; here, investments may also be made to launch new services, to expand networks and to take over companies.

Below are discussed the technological requirements of the different parts of the postal sector. The investment perspectives of postal administrations (particularly in regard to their role as reserved service providers) and of private operators are then discussed in turn. For the latter, some analysis of the market structure is also needed.

10.1 TECHNOLOGY

For all product segments - letters, parcels and express - the basic fact is that the collection and delivery phases, which together account for the largest part of operating costs, cannot easily be mechanised. All these services will therefore continue to have a substantial manual element.

Beyond this reality, the essential technology requirements of the postal sector vary considerably between those of the express and parcel services on the one hand, and those of letter services on the other.

The main technological investment made in the letters segment is that of automated sorting machinery. The results have been mixed, and it is clear that such technology is of very much secondary importance by comparison with the need for effective management. By comparison, for value-added services such as express, it already seems an essential prerequisite for success. For cross-border letter mails, technological applications may play an important role in the future in helping to improve the present poor levels of service.

10.1.1 EXPRESS/PARCEL REQUIREMENTS

Express and parcel services tend to require more technological applications, partly because of their nature (the items being larger), but mostly because the service providers need to seek competitive advantages through different

facilities that are made possible through technology. (Express and parcels operate in non-reserved markets.) These include tracking and tracing, which may become the key determinant of success for the larger players over the medium term.

10.1.2 LETTERS - REQUIREMENTS FOR NATIONAL SERVICE

For ordinary domestic letter services, by contrast, the application of technology is far less necessary. Although the majority of postal administrations have invested in mechanised sorting technology, the letter operation will continue to be very labour intensive: personnel costs are 75% of total costs, while investment in mechanised plant accounts for less than 1% of revenue. This reflects the reality that standard letter services will remain predominantly based on manual operations. More importantly, the results of such investment have been mixed in terms of cost reduction, and, particularly, in terms of trying to improve quality of service.

There are several examples (the clearest being that of Italy) where heavy investment in such technology has not led to good quality; other examples (such as Ireland) demonstrate that it is possible to have high levels of service with no such investment at all. This seems to suggest that effective network management is the main guarantee of success.

Further evidence is provided by the example of the United Kingdom, where the postal administration, having previously invested heavily in mechanised sorting equipment, has recently improved its quality substantially with hardly any extra investment in mechanisation.

10.1.3 LETTERS - REQUIREMENTS FOR CROSS-BORDER SERVICE

For cross-border letter mail, use of technology may be more appropriate in order to help ensure the effective inter-action of the networks of the two different service providers involved (usually the two postal administrations). Here, the important need is for diagnostic tools to identify what quality of service is achieved where. For this, technological applications similar to that of tracking and tracing systems used by express operators could help to provide the necessary network information.

Unipost, a company subsidiary of the CEPT, has recently passed the first stage of approval under the European Nervous System (ENS) programme to initiate a pilot project providing an information network overseeing the movement of letter mails between five countries. The cost of the project is ECU 48 million, spread over two to three years.

In summary, for ordinary domestic letters, there is no essential technological requirement (although many postal administrations may choose to try to exploit technological possibilities).

10.1.4 FUTURE APPLICATIONS

Investment is a cyclical process. In the non-reserved sector, companies which have not made the investment in new techniques may now do so in order not to be left behind. In the meantime, those companies who presently have a competitive advantage obtained through past investment will probably seek areas to gain new advantage from technology to be developed.

In the reserved area providing the standard letter service, technological development is likely to progress more slowly. It appears that several administrations are in the "mature" phase of an investment cycle, where they have already invested in the automated equipment that is presently available for processing letters. For the short/medium term, postal administrations may well find that the most effective investment is in selective applications of information technology to help modernise the management of the letter networks and thus improve quality of service.

10.2 INVESTMENT - POSTAL ADMINISTRATIONS

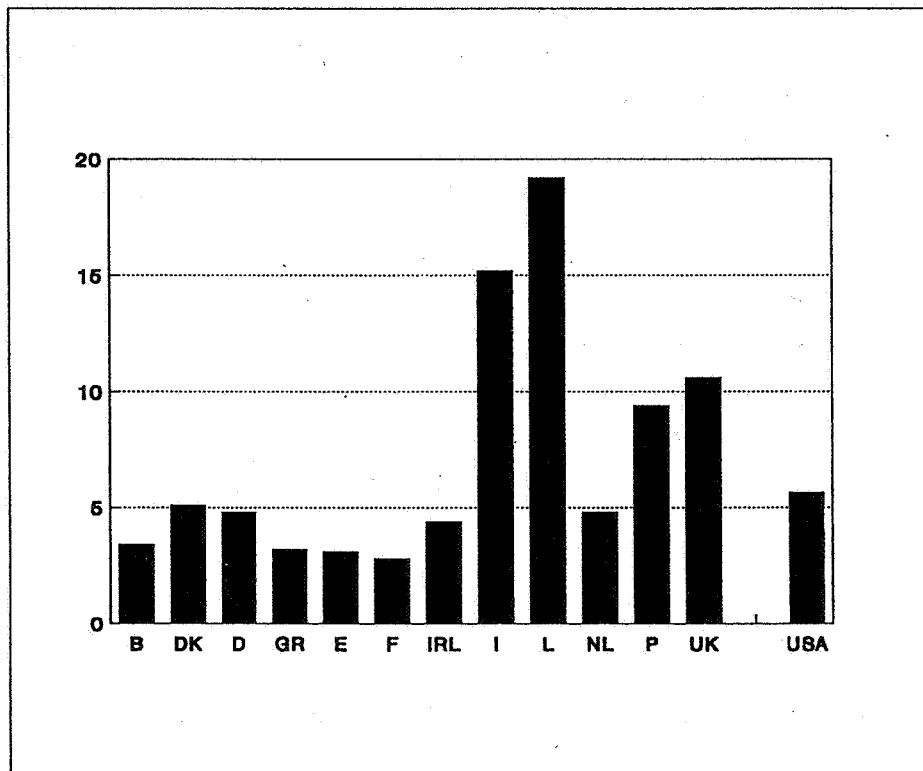
Whilst most reserved service providers are in deficit, they continue to make significant investments. This investment tends to fall into four categories: buildings, vehicles, information technology and mechanised plant. (The latter includes both automatic sorting machinery and mechanical handling equipment.)

As stated, reserved service providers make investments for the commercial aims of reducing costs or improving service. For the former, commercial principles of assessing return on capital should still be used. In this regard, it should be remembered that costs (particularly labour costs) will vary significantly from

country to country. This variation should have an effect on investment decisions.

Figure 5 shows the average investment carried out by the postal administrations in the years 1985-1988 (expressed as a percentage of turnover). The graph should be interpreted with some caution: it is quite possible to increase certain expenditure - for instance on staffing levels - to improve service, without appearing to make any investment. (The figures on which the graph is based are shown in Annex 11, Paragraph 4.)

Figure 5: *Investments made by postal administrations (1985 - 1988) - average investment as percentage of turnover*



Source: UPU

It should be observed that there is no direct statistical link between, on the one hand, the relative investments made over the previous period indicated and, on the other hand, the quality of service given to customers. Two contrasting examples support this observation. Italy, one of the heaviest investors, has the

worst quality of service, while Denmark, one of the lower investors, has the second highest quality of service in the Community.

Similarly, there appears to be no link between quality of service and investment specifically in mechanised sorting offices (the figures for the latter being appended at Annex 2). It should also be mentioned that there appears to be no relationship between investment recorded and unit costs (even if variations in the cost of labour are excluded).

Significant past investments have also been made in post-codes systems by all but one postal administration (the exception being Ireland). (Postal codes are discussed in more detail in Annex 10.) The investment was and is in the form of post-code planning, public awareness campaigns and data-base up-dating. In most mechanised sorting systems, the post-codes system was necessary to enable the sorting to be carried out. However, the newer generation of machines that permit sorting by Optical Character Reading systems will be able to "read" whole addresses, and will use post-codes as a checking device only.

Of course, investments in post-coding systems are still valuable, both for quality of service and for advertising purposes. It will therefore be necessary still to maintain existing systems. However, there does not seem to be a need to transform existing systems into an integrated European system. Against this, the implementation of more detailed systems in those countries which presently do not have them would enable the postal administrations there to offer greater facilities for pre-sorting by their customers.

For the future, the key investment for all postal operators would seem to be in network management and in the appropriate systems that will facilitate it.

10.3 PRIVATE OPERATOR INVESTMENTS AND OPPORTUNITIES

The image of the non-reserved part of the postal sector is that it is dominated by a few large companies, all of which have parent companies based outside the Community. In fact, the greater part of the market is held by companies which are from within the Community. Further, some shareholdings in the large companies with non-Community parents have recently been sold to groupings which include substantial Community interests. Besides, the new techniques which the large operators have brought to the Community, and the significant

investment which has enabled them to be introduced, all serve to benefit the Community.

10.3.1 MARKET COMPOSITION

While a few companies of non-European origin (such as DHL, Federal Express, TNT and UPS) are the well-known international players, the reality is that the larger part of the community parcels and express market is held by the smaller domestic operators who are almost all European in origin. In fact, the few companies named above, have a total market share of only 23% between them, much of this being generated by their cross-border services.

10.3.2 NEW TECHNIQUES

These larger companies have been effective in providing cross-border services by bringing the concept of the "integrator" to cross-border services in Europe - that is the concept of a single operator providing end-to-end service himself without sub-contracting to another operator. They have introduced Europe-wide air-based hub-and-spoke networks, which were originally pioneered by Federal Express in the United States. Tracking and tracing technology, first introduced by DHL and UPS separately, is now becoming more common in Europe.

Customer service facilities based on computers were developed particularly by the airlines, but it was Federal Express that made the first successful wide-spread application in the postal sector in the US, and is said to be contemplating a similar investment in Europe. It was also Federal Express that pioneered techniques which permitted express operators to offer integrated warehousing and distribution facilities. Together, these innovations have collectively benefited European business, particularly for cross-border trade.

10.3.3 INVESTMENT TRENDS

All the large companies have also made significant investments in their network infrastructures. For reasons of commercial confidentiality, the investment figures have not been released, but it is thought that only one of the four companies is presently making a return on its investment. Some of their investment is, however, obvious. For example, TNT has invested heavily in the

purchase of a fleet of freight aircraft from British Aerospace. Tracking and tracing technology has also involved heavy expenditure.

Heavy investments are also being made in central and eastern Europe in order to ensure comprehensive express networks across the whole continent.

10.3.4 MARKET RESTRUCTURING

There have been several take-overs, now leaving four key private operators in the cross-border express market (DHL, Federal Express, TNT and UPS) as well as the postal administrations (most of which share in the operations of a combined company, Unipost).

To reduce the financial burden, some companies have been seeking outside investment. Thus, DHL (Europe) has sold 58% of its shares to two airlines (Lufthansa and Japan Air Lines). TNT Worldwide Express is in the process of being merged into a new joint venture which is 50% owned by 5 postal administrations, including those of France, Germany and the Netherlands.

10.3.5 FUTURE DEVELOPMENTS

Private operators, both large and small, are likely to encounter both opportunities and threats as a result of future market developments. The liberalisation of cross-border mail will give some new openings if private operators can offer services superior to those of the postal administrations. However, the incremental opportunities as a result of formal liberalisation may be few, since this market segment is already substantially liberalised *de facto*.

Similarly, the liberalisation of direct mail is unlikely to lead to massive amounts of such mail being won by private operators. It is not clear that many private operators would want to make the investment in universal networks to make them directly competitive with postal administrations. Further, the private operators would be competing against prices which are usually significantly discounted because of content or volume and pre-sorting. (In the case of both cross-border mail and direct mail, satisfactory controls will need to be put in place to protect the letter mail that remained reserved.)

Against these apparently limited opportunities, private operators may find the appeal of their express services gradually being eroded by the likely diminution

of the service differential between the performance of their products and that of the ordinary letter mail. This may happen in relation to both their domestic services and, perhaps particularly, their cross-border express services. In the case of the latter, the quality of ordinary letter services should improve considerably as a result of the measures proposed in the Green Paper.

CHAPTER 6: SOCIAL ASPECTS

1. INTRODUCTION

This chapter discusses the social aspects of the postal sector from two perspectives.

Firstly, it will view the sector from the outside looking in - that is to say, taking the perspective of the customers. As discussed in Chapter 4, the "customers" can vary from large organisations with very big communication requirements to individuals sending single messages. While large organisations generate the greatest proportion of mail, here the perspective tends more towards the requirements of the individual customers or small enterprises. At the same time, it needs to be recognised that all customers (but particularly the larger customers) have needs that extend beyond the basic services.

Secondly, to complement this external perspective, the discussion will turn to the social aspects from an internal perspective - that is, the employment aspects related to the postal operators and their employees.

The function of postal operators is to provide service to their customers. The two perspectives should therefore meet together so that they become two ways of viewing the same situation. The changes in society (economic - including the effects of the Single Market - and social) influence the demands placed on postal operators, for example in terms of the proximity of access to customers, the quality of service or the ability of operators to provide "tailor-made" services.

As these requirements change, operators must adapt to them. This in turn requires that their employees should also adapt to changes in demand. At the same time, social developments regarding working conditions in the Community will also affect how postal operators function.

2. EXTERNAL CUSTOMER ASPECTS

It is, of course, not possible comprehensively to describe customer needs and analyse how well presently available services meet those needs. However, two points are clear: firstly, customers require a universal postal service, and, secondly, they need a flexibility of approach on the part of the postal operators. This need for flexibility is likely to grow stronger in the future.

2.1 PRESENT REQUIREMENTS

As stated in Chapter 4, the basis for all national policies for the postal sector is the provision of universal service at an affordable price. Further, the universal service must provide a quality which customers recognise as satisfactory.

Beyond the universal service, there is a demand for specialised services. A by no means exhaustive list would include such specialised services as deferred delivery services, deliveries on Saturdays for mail order companies, deliveries before 0730 on week-days to businesses, special rates for bulk campaigns, targetted unaddressed mail campaigns, direct marketing diagnostic services (where the postal operator analyses the effectiveness of an advertising campaign on behalf of the direct mail user), database leasing, etc.

2.2 PRESENT SERVICES

Although it has been stated that the fundamental basis for postal policy is the requirement to achieve universal service at an affordable price, often not stated explicitly is what this universal service implies in terms of accessibility by or to customers - that is, how easily potential customers should be able to post material and how regularly delivery points ought to be accessed by the universal service operator.

In this context, access should be interpreted widely. It therefore refers to the ease with which potential customers can find out about postal services. More particularly, it refers to the ability to buy the means of posting items (for most people, this meaning stamps) and then actually to post those items.

Post offices (post office counters operated by the postal administration itself or on a sub-contract basis by self-employed operators) provide an important source of information concerning postal services. (Naturally, they need to be supplemented by telephone enquiry numbers and enquiry addresses, by which potential customers can seek information on services.) As well as selling stamps, these post offices also contain posting boxes for customers to post their mail items. In addition, there are posting boxes placed in streets or public places. (For larger customers, mail is also collected from premises.)

Some aspects of accessibility of postal services are summarised in Table 1 below.

Table 1: *The postal "presence" - postal administrations (1989)*

MEMBER STATE	NUMBER OF POST OFFICES (Note 1)	AVERAGE POPULATION PER POST OFFICE	POST OFFICES PER 100 KM ²
Belgium	1 850	5 330	6.07
Denmark	1 300	3 939	3.02
Germany	17 500	3 489	7.04
Greece	929	10 728	0.70
Spain	12 985	2 978	2.57
France	17 000	3 258	3.10
Ireland	2 075	1 711	2.95
Italy	14 353	3 987	4.76
Luxembourg	106	3 472	4.08
Netherlands	2 624	5 550	6.28
Portugal	1 050	9 881	1.14
United Kingdom	21 000	2 704	8.60
EC average	92 772	3 484	4.10

Note 1 The numbers of post offices shown for Ireland and the United Kingdom include sub-contracted post offices. It is thought that other countries also have similar sub-contracted offices. If they were excluded from the figures shown for Ireland and the United Kingdom, the number of offices would be, respectively, 124 and 1 500.

Source: Sofres study

Accessibility, however, does not refer only to the universal service. It also refers to the need to have as wide a variety of services as necessary. Accessibility is therefore also important for non-mandatory services (where there is no obligation to provide a universal service placed on any operator).

Such services can be provided either by postal administrations or by private operators. It is understood that the geographic spread of these services will depend on the profitability of the different areas, with scarcer provision in less populated areas. It is also evident that some customers will be more profitable than others irrespective of where they are located. (However, this type of customer is usually concentrated in the business centres of the larger towns and cities.)

2.3 NEW CUSTOMER REQUIREMENTS

When considering future customer requirements, an affordable universal service of sufficient quality will remain the basis. Beyond that, it should be frankly

admitted that customer requirements are not known in detail. It therefore seems to follow that the postal domain should have the maximum possible freedom of choice (consistent with the maintenance of universal service) to enable service providers to meet the new needs of customers as they develop.

Over the medium and longer term, customers expect services to improve in quality and reduce in price (at least in real terms) or to maintain the price level. Their expectation of "normal" service will itself become more demanding over time.

Customers expect to be treated more on an individual basis. The larger the customers, the more likely that they will expect services to be "tailored" to their needs.

Customers want to know what they are buying in terms of quality of the service not only in the meaning of speed and reliability but also in terms of regularity. They also expect the suppliers of services to be easily accessible. (By this is meant not the regulatory aspects of access, but rather the facility for customers to find out what services best fit their needs and then for the supplier to be responsive after the service has been bought.) Customers expect an increasing variety of choice, and anticipate regular innovation in the market place to improve service and widen choice.

The changing shape of society will lead to changes in communication patterns. As an example, perhaps the newer generations will be less ready to write letters, but more willing to experiment with technological forms of communication. Perhaps the increasing proportion of the elderly within the population may increase the demand for direct mail, life assurance and other financial services, and buying by mail.

Demographic changes may also affect the postal operation. In most countries the movement from rural areas to towns has been halted, and in some countries is now being reversed.

General economic trends will affect demand for postal products. However, the sub-trends in different market sectors may be more significant. For example, if the mail order sector were to grow faster than the economic average, this would probably have a particular effect on postal growth.

2.4 COMMUNITY DIMENSION

2.4.1 COMMUNITY SOCIAL REQUIREMENTS

A universal service of a sufficient quality and at an affordable price must be achieved. If this is a Community objective (and it seems clear that it should be), it must be achieved throughout the Community. At the same time, the means used to achieve this objective must leave the greatest possible flexibility for the provision of whatever specialised services the market may demand.

The Community will therefore need to define what universal service it requires. This definition will need to comprehend the different service aspects that are relevant, in particular the quality required. The Community will also need to state how this will be achieved, and what area will remain for the provision of the more specialised services.

2.4.2 COHESION

As the discussion above concludes, universal service has little meaning without proper access throughout the territory. Similarly, universal service becomes a shadow phrase if its provision does not imply some threshold quality of service standards to be applied throughout the Community. Thus, a delivery once a week to a post office box collection point 10 kilometres away of items which have taken one week to arrive does not meet the standards for universal service that the Community would seem to require.

The Community therefore needs to ensure that all regions are sufficiently served by a universal service network. While it is operationally inevitable that the quality of service in rural areas will be less than in urban areas, it is important to ensure that the rural areas - or even whole regions - do not suffer unduly poor quality. If they did, this could have the effect of marginalising them. As noted elsewhere, good postal services are essential for commercial effectiveness: without them, economic growth in some regions of the Community could be held back.

Chapter 4 investigated the quality of service in the different Member States (see, for example, Tables 12-14 of that chapter). It should be remembered, however, that these results are national averages. There are variations in service performance between different areas in the same country, and some of these

variations could be significant. This implies that the quality of service in the less performing areas of the less performing Member States could be extremely poor.

How should this be overcome? The most feasible option appears to be organisational improvement on the part of the service provider, stimulated by the threat of regulatory action if the service does not improve. It is also just possible that the service provider responsible for the regions disadvantaged by severely poor postal services does not have the resources - in terms either of management or finance - to make the improvements necessary.

It is therefore appropriate that an assessment of the particular problems faced by less performing areas should be made. The result obtained could be an additional stimulus for the postal administrations responsible for serving such areas to do their utmost to align themselves with the average service performance in the Community, thus improving cohesion within the Community.

3. EMPLOYMENT

The postal sector is labour intensive. It is possible, depending on return on capital, for some phases - particularly inside sorting centres - to be mechanised. However, even when mechanised, these phases still demand a significant labour input.

Other phases can hardly be mechanised. These are the phases that the customer sees - the collections and deliveries. Together accounting for probably about 75% of total operational costs of all operators, these two phases are particularly labour intensive. As indicated in Chapter 5, these costs tend not to adjust easily to different volumes.

3.1 PRESENT CONDITIONS

The postal sector is one of the largest employers in the Community. Table 2 shows employment by Member State for postal administrations.

Table 2: *Postal administration employment (1988)*

MEMBER STATE	MAIL SERVICES (thousands)	POSTAL FINANCIAL SERVICES (thousands)	TOTAL (thousands)
Belgium	45.2	3.5	48.6
Denmark	27.6	2.2	29.8
Germany	313.8	27.0	340.8
Greece	10.2	1.3	11.5
Spain	63.5	4.2	67.7
France	269.8	29.5	299.3
Ireland	9.7	1.2	10.9
Italy	208.2	25.4	233.6
Luxembourg	1.5	0.1	1.6
Netherlands	58.9	10.5	69.4
Portugal	14.5	1.8	16.3
United Kingdom	184.8	45.5	230.3
EC TOTAL	1 207.7	152.2	1 359.9

Source: Sofres study

Private postal operators are also substantial employers in the Community. They employ some 350,000 staff in their Community operations. The majority of these are employed by the smaller express and parcel operators operating within national territories. Some 87,000 are employed within the Community by the four largest operators (DHL, Federal Express, TNT and UPS), many being employed on cross-border operations.

Total employment in the postal sector represents about 1% of the Community's work-force. Of postal administrations' total costs, approximately 70% are labour costs. For private operators, the percentage is somewhat less, but still very significant.

In the case of both public and private operators, employees are becoming more productive as volumes increase. (For example, total postal administration staffing stayed almost exactly the same in the four years to 1989, while volumes increased by some 13% on average.) At the same time, increasing flexibility has led to operations that are more well adapted to customer demands.

However, there seem some significant differences in terms of general conditions of employment. For postal administrations, the emphasis until now has tended to be placed on what have traditionally been considered the social advantages of public sector jobs - aspects such as full-time employment, with protection of jobs. Pay levels tend to be above the industry average. Private operators, by comparison, tend to rely on a higher proportion of part-time staff. They also tend to expect a high turnover of staff.

These employer attitudes either respond to or cause the different attitudes to skill levels within the job. Generally, postal administrations build higher skill contents into jobs, and expect a greater degree of employee commitment. Private operators, while some of their jobs are highly technically based, tend to rely heavily on unskilled, but reliable, staff who can be trained quickly.

Private operators tend to think that postal administration employees are over-protected. Postal administrations (and, indeed, the trade unions representing their employees), conversely, tend to consider that, for the most part, private operators function at close to the lowest level of protection for employees (in terms of general conditions, pensions, sick benefits, career structures, etc).

To some extent, the employment policies of each are reacting to their different circumstances. However, the preferred future trend may be for each to move closer towards each other (while still maintaining different policies as necessary).

3.2 EMPLOYMENT DEMAND

The experience of the recent past has been that volume growth in the sector, even allowing for increases in productivity, has led to an increase in overall employment in the sector.

It is not a simple task to predict likely future employment trends in the sector. The volume trends are generally upwards. At the same time, regardless of any developments at the community level, each postal operator is likely to be seeking productivity improvements. Thus, against a long-term growth trend of 6% compound increases per year in volume, employment might be expect to increase by perhaps 2-3% per year (the difference being the increased productivity).

Within this overall picture of a stable or rising employment, there are likely to be gradual changes in the proportions of staff employed by public and private

operators. Part of the environment that will cause such movements is the on-going liberalisation of the sector, brought about partly by regulatory decisions and partly by the faster growth of the non-reserved sector.

Regulatory decisions to implement liberalisation measures do not reach their maximum effect immediately. Postal administrations would therefore have time to make any necessary adjustments as a result of such measures. In this regard, it may be informative to draw on the example of the British postal administration which probably has a longer experience of competition than most other administrations. Despite facing increasing competition during the last five years as a result of deregulation, staff numbers actually increased by 10% during this period while productivity grew by 15% per employee. The Spanish postal administration has had to react to much more radical liberalisation (where local postal deliveries were made non-reserved), but still maintains a universal service.

For private operators, it would be necessary to establish new networks (or extend their existing networks) in order to take advantage of liberalisation measures. Initially, at least, these networks would not have the same economies of scale of the postal administrations' networks. The result would be that they would probably actually increase employment in the sector. (This would happen even if, against predictions, total volume did not increase.)

However, although total employment in the sector overall, and amongst postal administrations in particular, is likely to remain stable, there will be certain difficulties caused by the evolution of the sector. Naturally, certain new skills will become needed, while some other traditional skills will become less necessary. Since employers would presumably prefer to retain existing staff to undertake the new tasks, there will be a particular emphasis placed on effective training.

3.3 TRENDS IN PERSONNEL POLICIES AND WORKING CONDITIONS

Demography

Many countries are experiencing zero population growth, with the elderly making up an increasing proportion of the population, and the young a decreasing proportion. This is particularly significant for the postal operators who traditionally recruit large numbers of young unskilled or semi-skilled staff. In several Member States this has not been very difficult because of relatively high unemployment levels, the EC average unemployment rate being 9.5% in 1990.

Competition for labour

However, for the future, postal administrations will find that competition from their traditional rivals for this supply of labour will become more intense. They will also find that other companies (particularly office-based employers) will start to recruit heavily from this part of the labour market, and to train their recruits (whereas in the past they may have tended to recruit staff who had been partially trained before).

The potential effects for postal operators could be significant. Indeed, it is possible to envisage the provision of the universal service - which has been stated to be the main plank of the Community's postal policy - being threatened in certain regions if no solution could be found.

Effects on costs

The most obvious way for an employer to improve his attractiveness to a shrinking labour supply is to increase pay. However, with labour costs being a significant proportion of total costs, this could be very difficult for postal operators to do. Operators would not want to increase prices in real terms for fear of discouraging volume growth and going into a downward spiral.

It is not clear how much scope postal operators have for making themselves more capital-intensive (and less labour-intensive). Assuming that there is an adequate return on capital or that quality would be improved, they may invest heavily in new equipment. However, as noted already, the mostly costly phases - collection and delivery - will continue to be labour intensive. Because of operational necessity, the postal sector will remain comparatively less capital intensive than many other service industries.

Changing emphases

These labour supply problems will also emphasise the importance of retaining staff. Again, pay will be important. But so will other factors - such as training, job enrichment, career planning and internal communication.

Total employment demand appears, at the least, to be stable. However, there may be some shifts within that overall picture. Firstly, skill factors are likely to increase. Secondly, some jobs could be switched from postal administrations to

customers/partners (such as consolidators involved in mail preparation). In other cases, jobs may be reduced in the mail rooms of customers of the postal operators, as the latter take over certain tasks previously carried out by customers. Thirdly, all operators want to ensure optimum use of all their resources to maximise efficiency.

Employment amongst private operators such as courier companies and parcel carriers is likely to increase, perhaps partially at the expense of employment in postal administrations. But, as in the past, many of the private operators' new jobs will create additional employment in the sector. These new employment opportunities will result specially from finding new market niches to be served.

Postal operators: the context of the economy

It could be instructive to draw a comparison between an administration in a Member State with a relatively high GDP per capita and heavy mail usage and another Member State less favoured in these respects. For purely illustrative purposes, the table below compares some key statistics for Greece and the Netherlands.

Table 3: *Illustrative comparison between two postal administrations*

PARAMETERS	UNITS	GREECE	NETHERLANDS
<i>External economic factors</i>			
GDP per capita	EC index	38	100
Mail usage per capita	Items	47	409
<i>Employee statistics</i>			
Revenue per employee	ECU	8 722	29 202
Mail per employee	Items	40.5	100.7
<i>Postal administration networks</i>			
Sorting offices mechanised	%	0%	100%
Post offices automated	%	0%	99%

Source: CEC analysis

The link between investment and quality of service improvement is not proven by past experience (see Chapter 5, Paragraph 10). However, capital investment will usually give more flexibility to the organisation making the investment. This flexibility will be quantitative, in that it will be easier to respond to increased volumes. It would also be qualitative, since it would be easier to offer different

facilities to customers. These facilities might include the availability of discounts for OCR-readable mail; the possibility of reporting to customers on the progress of his mail (through tracing and tracing technology); or the ability to offer enveloping and other "mail-room" services.

Naturally, service industries will reflect the surrounding economic situation. However, it should be recognised, particularly in the case of public service industries, that their health can affect the external economic environment. Large economies tend to help create healthy service industries; healthy service industries will help to provide the efficiency needed to enable the overall economy to grow.

If an economy has service requirements that are not met, it will tend to look for alternative outlets. Thus, to take examples from the postal sector, customers in the US and in Italy evidently do not find their national public postal services very satisfactory; this has contributed to the rapid growth of providers of alternative postal services (as well as providers of services in indirect competition).

These apparently external aspects have important effects on employees, whether of public or private operators. It demands an adaptability and a willingness to train into new skills. Greater mechanisation will also change the environment in which postal employees work.

Cost/Quality balance

Naturally, one of the important requirements for all postal operators is to drive down costs as much as possible, while maintaining quality. One aspect which will need particular study is the proportion of management and administrative staff needed.

In their efforts to make real cost savings, postal administrations may not find it so appropriate to make economies in total operational expenditure (since traffic is forecast to continue to grow). Instead, they may find it more practical to examine administrative expenditure. Table 4 shows the variations between the different postal administrations concerning the proportions of operational and other staff.

Table 4: *Postal administrations: mails employment proportions*

MEMBER STATE	POSTMEN %	ADMINISTRATIVE STAFF %	MANAGERS %
Belgium	60.8	28.5	10.7
Denmark	41.7	40.9	17.4
Germany	59.3	30.0	10.7
Greece	65.6	28.3	6.1
Spain	72.2	26.3	1.5
France	54.5	41.5	4.0
Ireland	42.0	31.4	26.6
Italy	66.6	30.0	3.4
Luxembourg	80.4	9.5	10.1
Netherlands	81.0	17.2	1.2
Portugal	60.1	36.3	3.6
United Kingdom	79.8	11.2	9.0
EC average	64.3	28.9	6.8

Source: Sofres study

It seems clear from the table that there are different criteria being used to define the administrative staff. However, it needs to be emphasised that quality and productivity involve all staff from the chief executive to the person delivering the mail (and certainly all managerial and administrative staff in between). Everybody employed has to add value to the process.

Technical change

One of the dominant forces driving organisational change in both postal administrations and private organisations in the last decade has been technical change. This has permitted different or modified services to be offered; at the same time, it has placed greater emphasis on the skill of the operators' staff.

This trend towards greater skill content is partly in response to customer needs - for services based on improving productivity or with value-adding components. Specific examples could include the computer-based jobs increasingly to be found in post office counters, or the operation of tracking and tracing systems.

In a broader sense, there will be a need for staff to have the appropriate marketing skills, and for counters staff to be fully conversant with the wider (and probably more complex) range of services that will be offered to meet new customer needs.

In the future, the need for greater skill content may also be in response to a strategic need for operators to become more flexible. This need for flexibility may well encourage operators to become more capital-intensive (within the practical limits imposed by the operation).

3.4 TRAINING

Several of the trends noted above - particularly for the need for more or new marketing and technical skills - will give an even greater emphasis to training. This is likely to take several forms:

Training for customer orientation

The past years have seen significant changes in the postal sector. The future, with more indirect competition (for instance from telecommunications) is likely to see a quickening in the pace of change. Customer expectations will change rapidly, and they will demand quicker responses to their needs as they develop.

This will necessitate all staff being flexible in their approach in order to be truly customer oriented. Such flexibility does not come easily. Staff education combined with effective internal communication will be essential.

Training for new machinery

It is clear that postal operations will become technically more complicated. Not only will training on new machinery be particularly important, but also training to make more efficient use of staff through modern working methods.

Training for new services

The success of new services depends on the skills of the staff who operate them. Postal electronic mail provides one example that shows how new services will demand skills quite removed from traditional postal skills.

Management development

There is likely to be an increased emphasis on management development, particularly within specialisms (for example, operations, finance, marketing or personnel). Perhaps the most important managerial skill will be the ability to manage change.

4. THE CHALLENGE

In summary, the Community needs to ensure a sufficient service throughout - in all its regions. Beyond that, there ought to be the maximum freedom of action to enable customers' detailed requirements - whatever they may be - to be met.

This has implications for all those involved in the provision of services in the postal sector: regulators, operators and their staff, and the Community. While the Green Paper will not present specific options concerning the employment aspects, the Commission has launched a consultative committee, the *Comité Paritaire*, which will enable the views of both employer and employee representatives to be made known on the possible implications of the Community's policy for its postal sector (as the policy develops).

For the customer aspects, the social needs of their market requirements raise regulatory issues: what universal service is required and how should it be guaranteed while at the same time ensuring the greatest flexibility possible, according to the social needs and market requirements? There is also the specific issue of Community cohesion to be studied; this would need to embrace the possible need to invest Community funds to improve services in regions presently disadvantaged by poor postal services.

CHAPTER 7: EXISTING SITUATION: THE PROBLEMS AND THE CHALLENGES

1. INTRODUCTION

This chapter seeks first to summarise what are the problems inherent in the existing situation. For this, it adopts different perspectives: in order, that of the customer, then that of the operator, and then that of the national regulator. In identifying problems to be addressed, the analysis will tend to concentrate on divergences between Member States. Throughout, however, it should be borne in mind that there are certain common points which already lend coherence to the Community's postal sector. Chief among these is the policy agreed by all Member States that throughout the Community there should be a universal service at prices affordable to all and with a sufficient quality. (At the same time, as the analysis below will reveal, the way in which this policy is presently implemented does vary considerably.)

The effects of 1992 and the coming of the Single Market are then overlaid on the analysis. The "status quo" option is then studied by asking what would be the result if nothing was done to change the existing situation. To conclude, the whole is then viewed from the Community's perspective.

Possible solutions to the different problems will be discussed in the next chapter, together with the implications of the likely environment in which the postal sector will be operating.

2. THE CUSTOMER'S PERSPECTIVE

To gain the clearest view of the problems that customers may encounter as a result of the existing situation, it is best to adopt the perspective of a mailer who wishes to post mail with destinations spread throughout the countries of the Community.

Such a perspective enables a comparison to be made between the services available in the different Member States. (The intention here is more to compare domestic services; cross-border services are becoming increasingly important, but presently account for only about 10% of the sector's turnover.)

2.1 DEFINITIONS

The definitions of postal items vary - there is no Community definition of a standard "letter".

Some Member States divide their mail on the basis of letters and printed papers, others on the basis of first and second class. (In both cases in addition to parcels and express.)

In most Member States the limits are defined using the criterion of weight, in others the criterion of value, and others both. The actual application of each criterion can vary: the application of the weight criterion varies between 500 g and 2 kg.

In all countries, if the customer was sending a parcel (a goods-bearing item), he would have the choice permitted by the market in the non-reserved sector. However, the maximum weight of parcel that he could send to all addresses would again vary.

In all Member States this choice of how to send a parcel includes that of sending it as a letter packet (subject to the maximum weight permitted in the letter service). Thus an item which is in the non-reserved area may be sent by a service that is reserved.

As for using express services, the customer would find that in three Member States these are the monopoly of the postal administration. In six others, where there is no clear definition of the threshold for non-reserved services, it might not be clear whether a particular item was inside or outside the monopoly.

No specific regulatory position has been taken by Member States concerning new services in the postal sector. A special approach may be needed in the case of hybrid services such as postal electronic mail.

2.2 ACCESS

Access conditions for potential users of postal services are on two levels. On the regulatory level, they relate to the postal law of the Member State concerned. There is also an operational level on which the postal administration controls the posting conditions under which a customer may post his mail.

2.2.1 REGULATORY

There are variations between Member States as to whether private operators may act as intermediaries between him and the postal administrations.

As for his cross-border (intra-Community or international) mail, almost all Member States state that this is part of the postal administration's reserved area, although most regulatory bodies and/or postal administrations have chosen not to enforce, or not been effective in enforcing, this stated monopoly.

All Member States have universal service. There are some differences in the availability of mail facilitating services such as the sale of stamps. Collection facilities vary in terms of the density of posting boxes and the number of collections. There is less divergence in delivery facilities; all postal administrations in the Community deliver either five or six days per week, while some also deliver more than once per day at least in some areas.

2.2.2 POSTING CONDITIONS

The customer is likely to be confused on occasion by the diversity of posting rules applied. The rules concerning printed papers can be particularly diverse for example concerning the qualifications for treatment as a newspaper (and therefore for preferential postal tariffs).

Different posting conditions can act (intentionally or otherwise) as a restriction on entry to the postal system. In the customer's perspective, such restrictions are relative: if a postal administration gives fewer facilities than another, it will seem restrictive by comparison. This can distort the market, and cause some mailers to post into (or via) some countries but not others.

2.3 SERVICE

Customers, of course, are seeking some combination of quality of service, price and range of service. In reserved services there are presently wide variations.

2.3.1 PERFORMANCE

The service which the customer receives varies between postal administrations. One administration registers 99% service performance inland, another 15%. For

cross-border mail no official figures are available (although administrations do measure service for internal operational purposes).

2.3.2 MEASUREMENT SYSTEMS

The customer presently finds that almost all postal administrations have stated (but not enforceable) targets for national (domestic) mail, but not for intra-Community or international mail. The targets for inland letter mail relate to speed of transport, but not to any other aspects of quality.

Of the different service performance measurement schemes in use, the end-to-end measurement scheme is the most relevant because it relates to the customer's actual experience. End-to-end studies have tended to show significant over-estimation of actual performance by the other schemes employed by postal administrations. Customers may have more confidence in measurement schemes carried out independently.

2.4 TARIFFS

The customer will see that basic tariffs for a 20g inland letter vary from ECU 0.15 to ECU 0.50. It is possible that he may not find this surprising because the lower tariffs tend to be in those countries where the cost of living is lower.

However, he may find more difficult to understand the variations in prices beyond those of the basic tariff. In particular, the different preferential tariffs that are available increase the price differences in some cases, but in other cases unexpectedly reduce them (so that a country with a high cost of living becomes cheaper than a traditionally lower cost country).

2.5 CUSTOMER SATISFACTION

From the diversity described above, it will be clear that the customer wishing to reach addresses in all countries of the Community is unlikely to find the existing situation very satisfactory. However, it does not follow that all customers everywhere are unhappy with the quality of their postal service.

The level of satisfaction will depend on how customers define quality of service and how effective the postal operator(s), in the public and/or the private sector, is/are in achieving the desired level of quality. This level of satisfaction is likely to

vary depending on the location of the customer. It will also depend on the efforts the postal administration makes to provide guidance on the use of its services.

Naturally, the use that potential customers make of the postal services available will depend on how effectively the customer thinks his needs will be met by those services. In short, experience of a service gives a certain expectation of likely service which itself will dictate usage. These experiences and expectations will vary between Member States and, indeed, between regions of the Community.

A customer residing in a Member State where the postal administration provides 99% reliability of service (see Paragraph 2.3.1 above) may well entrust an important business letter to the ordinary postal services; one living in the Member State with only 15% reliability would be much less likely to do so.

Thus different expectations will lead to different usage patterns, and therefore to different perceptions of what postal services should be used for. In addition, competition (particularly indirect competition) may also change perceptions.

2.5.1 CROSS-BORDER SERVICES

It is likely that a customer having cross-border requirements would not find very satisfactory the services attempting to respond to these needs.

This would be partly because of the complexity of dealing with several administrations - should the customer chose to do so in order to achieve delivery in different Member States served by those administrations. It would also be partly because of the indifferent quality of service for such mail (the latter being detrimental to the idea of the common market).

2.5.2 ATTITUDES TO COMPETITION

If a customer feels that his reasonable service expectations are consistently not being met, he may prefer to see increased competition, or the introduction of competition. Against this, he would be unlikely to be willing that anything be done that might jeopardise the universal service.

Customers in most regions of the Community have access to express services (provided in most Member States on the basis of free competition). They may wish to use such a service when seeking a special service need above that which could be met by an effective standard service.

However, elsewhere, they may turn to such services when the standard letter service is simply not good enough to satisfy basic postal needs. In such cases, the express operators are likely to be able to charge higher prices because of the lack of competition from the standard letter services.

2.5.3 MOBILITY OF CUSTOMER EXPECTATIONS

Customer expectations tend always to move upwards. They are also likely to become increasingly individualised in nature. In general, such "mobile" expectations would probably be met better where the maximum competition was permitted (consistent with safeguarding the universal service). That this may not presently be the case may well be a source of some frustration for several customers.

3. THE OPERATOR'S PERSPECTIVE

The commentary below concentrates on the position of postal administrations as reserved service providers in the face of the problems which they now need to address.

3.1 JURIDICAL

It is not clear that it is the Member State, rather than the postal administration, that makes agreements in the framework of the UPU, even when they have the force of law.

It should be noted that decisions of the UPU (and perhaps even the recommendations of the CEPT) can potentially be in conflict with the Treaty of Rome.

3.2 ACCESS

There should be no great problem in carrying out some simplifications and modifications in order to make access conditions - at least for standard services - more uniform across the Community. However, more far-reaching attempts at harmonisation might well meet resistance from both administrations and consumers unless there were clear consumer and operational benefits.

Examples could include attempts to implement a norm of all the Community's postal administrations having either an LC/AO split or a first class/second class

split - rather than some having the former and the others having the latter. A further example might be a wish to introduce obligatory standard letter dimensions with standard weight steps.

Another area requiring a consistent policy is that of private operators entering the reserved service network as users. Some administrations try to discourage such access while other administrations treat them as large customers (like domestic "consolidators").

3.3 QUALITY OF SERVICE

However they define quality of service, all customers consider it as being the most important characteristic of the service. Presently, the service they receive from universal service providers is variable, and some of the performance results published are not considered by all customers to be reliable.

3.3.1 PERFORMANCE

The official figures of some administrations show that they are achieving the targets that they have set themselves for inland quality of service (although some of these administrations are considering changing to the more exacting end-to-end measuring system). Other administrations show themselves to be falling short of their targets by a greater or lesser extent.

The problem of improving service performance is made more difficult by the need to control costs. All postal administrations experience regular tensions between the pressure to control costs and the requirement to improve service.

Enhancing quality of service can be more difficult in services where the operator cannot manage the demand, but instead has to react to it. This is essentially the position of the public postal operators who are obliged to accept all mail that is posted with them. They therefore have to assimilate peaks and troughs of demand as best they can, without unnecessary increases in costs or unacceptable reductions in quality of service.

Attainment of service objectives may have been hampered in some administrations by insufficient or delayed investment in mechanised plant or information technology systems. However, such an investment is not a guarantee of either better service or lower costs.

The CEPT members have set an informal target of D+3 (third working day after posting) for cross-border mail (including intra-Community mail). Although they are not formally published, the intra-Community results reveal that presently only about 40% of items meet this target. This demonstrates the shortfall of service performance that needs to be remedied.

3.3.2 *MEASUREMENT*

There are three different measurement schemes used in the Community (to say nothing of the differences in sampling techniques). It seems to be generally acknowledged that end-to-end measurement is the only effective system.

Postal administrations have not yet been willing to publish results of their performance on intra-Community mail.

3.4 **TARIFFS**

Tariffs vary because of the different cost conditions in the countries of the Community, and also because of the different pricing principles applied (including different approaches to required levels of profitability and to cross-subsidies).

3.4.1 *ACCOUNTING*

There are different accounting conventions and rules applying in different countries of the Community. These will therefore affect any comparisons being made in the postal sector. Such differences will themselves tend to lead to differences in tariff-setting and, indeed, in managerial control. They will also make it more difficult to apply uniform principles concerning tariffs.

It is also the case that, within the confines imposed by the national accounting conventions, the cost data available varies greatly between the postal administrations of the different Member States.

3.4.2 *COSTS*

The different postal administrations have cost structures which may vary between one another. However, they are all subject to the same "squeeze" effect caused by the need to hold down prices while at the same time resisting upward cost pressure.

The differences in cost structures have various causes. Population density and the effectiveness of the existing transport infrastructure are key external factors affecting productivity. Productivity is also affected by the customers' propensity to use postal services, as well as by investments previously made in efficient systems or in mechanised plant. The cost of the key resource - that of labour - is greatly influenced by the pay environment which varies between Member States.

However, the operator will continue to face upward cost pressure through the real increases in the cost of labour. This pressure is likely to be accentuated by anticipated reductions in the supply of labour.

In the longer term, achievement of the Single Market may reduce the present variations in parts of the cost structure. However, as noted, some factors (such as population density) are out of the control of the operators. In certain other areas (such as the pay environment) variations in costs are unlikely to reduce quickly.

3.4.3 *DISCOUNTS*

Most postal administrations offer preferential tariffs for printed papers, the tariffs usually being set at rates which are loss-making. These administrations therefore cannot either forecast or control the extent of their losses, since these will be determined by the volumes posted by publishers.

Most administrations (but not necessarily the same ones) offer discounts for reserved services for work carried out by the mailers. In some cases, it appears that the discounts given may go beyond the costs saved. In addition to revenue protection problems, the danger here is that such discounts in the reserved area could act as incentives for custom in the non-reserved area.

3.4.4 *CROSS-SUBSIDIES*

All administrations try to market their inland letter services on the basis of a unitary tariff, thus necessitating some geographical cross-subsidies. Further cross-subsidies are stimulated by the pressure from "missions" that are imposed on some administrations either in the enabling legislation that gave the postal administrations their exclusive rights or as a result of political decisions taken by their governments.

In some cases, cross-subsidies are (or could be) the result of tariff-setting procedures which are not flexible enough. Furthermore, if discount structures are not reviewed regularly, over time the discounts awarded may diverge from the actual costs saved.

3.4.5 *TERMINAL DUES*

In summary, there are three major failings in the UPU terminal dues system:

- the same compensation is paid per kilo regardless of the numbers of items that the kilo comprises;
- the standard terminal dues system does not allow for the different levels of service required for the delivery;
- the structure is a universal system, and therefore suffers from the problem of averages.

Whatever the view about the value of the remail service that has evolved out of these disparities, no system such as that operating for terminal dues, with such a distorted financial basis, is a secure foundation for the movement of intra-Community and international mail. Since the former particularly will become more and more important, the method of compensation needs to be fundamentally overhauled.

A revised scheme, which introduces a charge per item, has been initiated by several CEPT administrations, among them seven EC administrations.

Whether this scheme could be considered an acceptable intermediate step towards the ultimate solution is considered elsewhere. That analysis also asks the question whether the CEPT scheme is an unacceptable breach of competition rules (and therefore whether it needs to be reviewed urgently).

3.5 **EMPLOYMENT**

Postal operators (public and private together) are significant employers - employing approximately 1.7 million staff in the EC. This causes employment in the postal sector (but particularly in the public sector part of it) to be very important in the wider social context.

In the postal sector, operational changes responding to the different trends in consumer demands will have some impact in terms of employment demand. At the same time postal operators will need to react to the social, and particularly the demographic, environment.

3.5.1 *DEMOGRAPHIC TRENDS*

The demographic trends will change the customer base, but, perhaps more importantly, they will have an effect on the supply of labour from which the operators need to draw.

3.5.2 *IMBALANCES IN LABOUR SUPPLY*

The total demand for staff in the postal sector (public and private operators together) is likely to remain stable. However, there could be instances where new employment demand does not match closely the old labour supply.

3.5.3 *TRAINING*

The trends noted above will give added emphasis to training. This is likely to be in the form of training for better customer orientation, for using new machinery, for the operation of new services and for management development.

3.6 **TECHNICAL**

Any form of harmonisation needs to be justified in terms of the possible consumer benefits. The potential impact on customers of any changes therefore needs to be assessed.

Private operators have tended to invest a greater proportion of their income in new technology and mechanisation than postal administrations. This was particularly necessary in the creation of new services (such as express).

However there is now an "investment momentum" driven by the need to gain competitive advantage through exploitation of technology (such as tracking and tracing or EDI), and through better operational control gained through improved network management systems.

4. THE NATIONAL REGULATOR'S PERSPECTIVE

In the majority of Member States the regulatory and operational functions have been separated; in other Member States there are plans to do so.

4.1 RESERVED AREA

All Member States have established a set of reserved postal services which grant some exclusive rights to the national postal administration. Their objectives were:

- to safeguard the universal service;
- to have a satisfactory quality of service in the reserved area (the quality in the non-reserved sector being stimulated by competition);
- and to have low, generally affordable tariffs in the reserved area.

National regulators do not necessarily agree on the means to achieve the objectives (that is, the scope of the reserved services), but they do now generally agree that the reserved area should be the smallest possible compatible with the universal service objective.

The differences in the scope of the reserved area arise probably less from the different circumstances in different Member States than from differences in the way in which the necessity for reserved services is analysed in the different Member States.

There are certain specific problems that need to be resolved. Each involves a question of definition.

4.1.1 PARCELS

Several Member States have reserved service limits that embrace medium-weight items. These are no longer what is commonly understood by "letters". However, these "packets" are grouped by postal administrations under the general title of "letters".

Despite this, the reality is that these packet services operate in competition with parcel services. The practical effect of this is that the limit of the postal monopoly in several Member States is in fact lower than it may appear in their postal laws.

Some national regulators also require their postal administrations to provide universal service beyond the scope of the reserved services up to a specified weight. However, such an obligation is not placed on all the postal administrations, and, where it is, the maximum weight set by the regulator varies.

4.1.2 *PRINTED PAPERS*

There is no clear definition of what is intended by "printed papers", even amongst those Member States whose postal administrations apply a tiering system dividing into the classifications of "lettres et cartes" and "autres objets", the latter including printed papers. For such administrations, one question is whether printed forms which include individual text or numbers (such as invoices or bank statements) should be classified as printed papers.

There is also the wider problem of direct mail. The view of most Member States is that printed publications should be in the non-reserved area. However, the regulatory view on direct mail is rather different. More than half the Member States seem to consider such mail as reserved.

Part of the reason is that, for at least three Member States, no distinction is drawn between letters and direct mail. Partly, also, there appears to be a concern that, if this mail was made non-reserved, a significant portion of direct mail could leave the universal service network. This in turn could perhaps put the economics of the network and the low unit costs of individual items in some jeopardy.

4.1.3 *EXPRESS*

A particular problem relates to the express segment. Nine out of the 12 Member States presently consider express to be free market services. However, very few have given a satisfactory definition of what they mean by "express" services.

4.1.4 *"A-B-A" REMAIL*

The exclusive rights awarded to the postal administrations are intended to prevent "creaming off". Where the items would have been covered by the reserved services of the country of origin and where the items are physically moved to another country for remailing back, this is a clear breach of the monopoly of the country of origin.

However, there are other circumstances where the mail is not actually physically moved out of the country of origin for mailing back. For example, a company may decide to have its direct mail printed and posted in another country for delivery only in its own country (or as part of a wider mailing requiring delivery in other countries).

4.2 OBLIGATIONS OF UNIVERSAL SERVICES

The main regulatory concerns will naturally concentrate on any reserved services. However, regulators ought also to consider what regulatory conditions should be established for mandatory non-reserved services.

Below are laid out the principal questions relating to possible obligations that could be placed on the reserved service provider. The regulator will also need to examine how far these are appropriate for the provider(s) of mandatory services that are non-reserved.

4.2.1 ACCESS CONDITIONS

The regulator needs to be aware of his postal administration in the context of the wider international market. Access rules can act as a facilitator or a barrier to use of the service by potential customers.

Most regulatory bodies readily agree to the principle of transparency. There should not be many problems in terms of the general applications - for instance, in terms of the publication of posting conditions, tariffs and (if available) service target and performance information. However, there could still be questions in terms of the detailed application, especially concerning tariff and discount information for contracts.

A particularly important aspect is the use by postal administrations of the same network to provide both reserved services and non-reserved services. Evidently, there could be a danger here of unfair cross-subsidies from the reserved sector which would enable the postal administrations to offer non-reserved services at prices below their proper cost.

However, this suggests that there should be sufficient controls to prevent such possible unfair practices. It is important that postal administrations ought to be able to use the reserved service network in this way. Firstly, it increases the use of

the network and gains returns to scale; this should bring benefits either in terms of having a smaller reserved area or having lower prices for reserved services. Secondly, such parallel usage almost certainly increases the availability of non-reserved services. Indeed, in several Member States, it has enabled the postal administration to provide universal service for its express product.

4.2.2 SERVICE STANDARDS

The regulatory bodies of some Member States consider that service performance is a matter between the postal administration and its customers.

However, if the regulator considers a satisfactory quality of service (however defined) to be a fundamental obligation of the exclusive rights granted to the postal administration, he would need to agree the service targets and then oversee the performance monitoring system (including agreeing which system should be used).

Less than half of the Community's postal administrations are achieving their quality of service targets (if the results of the mostly internal measures are taken on trust), and virtually none achieve their service targets for cross-border mail. For the regulator the question is how to stimulate the improvements necessary.

4.2.3 TARIFFS

Regulatory bodies approve, or are at least consulted about, tariff revisions. In order to carry out this function fully, it will be necessary for the regulator to have access to detailed cost information. It is not always clear that the necessary information is available, even to the postal administration itself.

At the same time, there does not always appear to be an appropriate balance between the standard tariffs and the discounted tariffs available to some users.

5. 1992 IMPACT

The Single Market will have a very significant effect on the postal sector. The achievement of the Single Market in postal services will also have positive effects on all other sectors, particularly those heavily reliant on postal services. In short, the aims of the Single Market cannot be achieved except with a communications infrastructure that functions efficiently, and postal services form part of that infrastructure.

Besides the growth in postal volumes that may result from increases in the Community's economy arising from the achievement of the Single Market, certain segments of the postal sector could benefit particularly. Mail order, direct mail and financial services sent through the mail are all likely to expand.

In general, the postal sector will need to react to the changing demands made on it by customers. The most important factor would seem to be customer location. Location policy is likely to be affected by the dynamics of distribution and of communication. More emphasis will be placed on cross-border mail (which anyway will grow as the companies begin to exploit the greater potential outside their own domestic markets).

The importance of this should not be under-estimated. This relative increase in cross-border mail and relative decline in domestic traffic would lead to changes in emphasis and priorities for the postal operators. They could also severely aggravate tensions which already exist - in particular for the compensation systems between postal administrations for cross-border mail.

In resolving these problems, those involved will need to ensure that they are helping the Single Market to be achieved (or at least not hindering it from being achieved) in other sectors some of which are significant users of postal services. These sectors include printing/publishing, advertising, financial services and telecommunications.

There will be other more specific effects on the postal sector as a result of the development of policy in certain key areas. These include air transport, customs and VAT, competition policy, technical norms and data protection.

6. WHAT HAPPENS IF NOTHING IS DONE?

Essentially, the problems identified remain. Two particular results should be noted:

- the degree of the problems will increase. Without Community impetus, divergences (for instance, in terms of the scope of reserved services or the service performance achieved) will become larger;
- there will be opportunity costs, particular in terms of the Single Market objectives summarised above.

There could therefore be a danger of "two-speed" Europe as far as postal services are concerned. This would be unacceptable. Postal services play an important part in the

EC's communications infrastructure. Poor postal services can contribute to the marginalising of certain regions.

Large companies would be less likely to establish themselves in a particular area if it is known that postal services from that area are poor. Small and medium enterprises would be less likely to flourish.

Similarly, companies from elsewhere would be less likely to market their goods through postal services to areas where those services were poor. Further, mail order companies would be less likely to deliver their goods there.

The Single Market will create new opportunities in the postal sector. With the existing divergences in posting conditions, service performance and tariff structures, it seems quite possible that the ability to take advantage of the opportunities may not be evenly distributed.

To some extent, this is only natural. However, the situation must be avoided where the different abilities to react to the opportunities in the single postal market begin to have secondary effects on the economies served by those postal services.

In sum, the danger is of having a two-speed Europe in postal services. This must be prevented at all costs.

Action is therefore needed to prevent further divergences, and, indeed, to draw together the different elements (but without sacrificing quality standards).

7. THE COMMUNITY'S PERSPECTIVE

Within the context of the Single Market, the Community would want to ensure that the postal sector is sufficiently harmonised to meet the needs of the EC's citizens and organisations. The aim is to ensure that the Community's reserved area is as small as possible, consistent with the objective of ensuring universal service.

Secondly, it appears necessary that there should be some Community-wide standards for the reserved service providers' obligations. These would concern access, tariffs and, in particular, service performance.

In representing these interests, the Community will have some regulatory role to play. In some matters (particularly operational), it will act more as a conduit of information and ideas.

7.1 REGULATORY/OPERATIONAL SPLIT

Although not all Member States yet have their regulatory function separated from any operational responsibility, this is very much the trend, as the recent postal laws passed in several Member States have shown. However, it is not clear that all Member States have the same idea for the role of their regulatory bodies.

A particular case in point is the relationship with the UPU, where it seems essential that the regulator signs any agreements on behalf of his country's government. This also raises the question of the compatibility of postal law (including that of the UPU) with Community law and policy.

7.2 DEFINITION OF UNIVERSAL SERVICE

The level of universal service required is not well-defined in certain Member States. Although it is evident that reserved services have to be provided universally, it is not always clear what services must be provided universally beyond the scope of the reserved services. Most importantly, there is no Community-wide definition of the universal service to be provided throughout the Community.

7.3 SCOPE OF RESERVED AREA

The Community's desire is to seek the least restrictive set of reserved services consistent with maintaining a Community-wide universal service of satisfactory quality.

There are very significant differences between Member States in the definitions of the reserved area. This suggests firstly that it is necessary to reduce such divergences in the context of the Single Market. Secondly, it suggests that either some postal legislation may be unnecessarily restrictive or perhaps even that other legislation may be too "loose" (with the effect that it could not safeguard with confidence the universal service). The different criteria used by different Member States to define their reserved areas has contributed to this diversity.

Any Community perspective is clouded by the lack of a common definition of the basic letter. The reasons for the existing limits defined for the reserved area in each Member State are not always clear. In most cases they were established some time in the past, and would anyway need to be reviewed in the light of changing circumstances.

In order to provide stability to the regulatory terrain, it is necessary also to take a stance on new services that may evolve (but which are not yet known).

7.4 APPLICATION OF RESERVED SERVICES RIGHTS

In addition to the divergences in the legislative scope of reserved services as noted above, there are also some variations in the application of the exclusive rights. The clearest example of this concerns international mail (including cross-border mail within the Community).

Almost all Member States state that such mail should be in the reserved area. This is because covering intra-Community mail under exclusive rights is seen as an extension of the principles of universal service applying to national traffic. However, in most of these Member States, such exclusive rights are not rigorously enforced.

7.5 ACCESS CONDITIONS

There are not equal access conditions covering the whole Community. Some postal administrations permit private operators to act as mail preparers, others do not.

The detailed posting rules can also vary significantly. This makes it that much more difficult for customers with mail delivery needs in several or all of the Member States to fulfil those needs except through the "international" mail system (that is, posting through the international mail services of one postal administration for delivery by another). This may not be the most effective way of despatching the mail.

7.6 SERVICE PERFORMANCE

It is difficult to compare service performance because of the different measurement systems used. There are also different targets used. Some postal

administrations measure against a target of next working day delivery, and others the second working day.

Most postal administrations only publish performance figures for their faster standard letter service (LC or first class) even though some administrations register higher volumes for the slower services (AO or second class).

There are presently very significant divergences in service performance, ranging from 15% to 99% for national services.

These average figures probably obscure some regions where the performance may be even worse. The concern is that certain regions, which may already feel themselves remote from the mainstream (either economically or culturally) may become further marginalised through being badly served by poor postal services.

The Community should also take a close interest in intra-Community letter services. As a priority it would need a uniform, reliable measuring system. The results recorded should be published. It will need to be decided what form this oversight by the Community of the quality of the universal service should take.

However, it is known that the existing results are far from re-assuring. Against the D+3 target, only 40% of mail is delivered within the target time. Performance on some other routes (linking the Community with non-Community countries) has also been measured - again with results that are not encouraging.

7.7 TARIFFS

There are differences in the pricing principles that are applied by the different Member States. This is partly because of different accounting conventions, but mostly because of different tariff policies.

Tariffs are often not related to costs. There are several instances of hidden cross-subsidies. In other cases, there are specific political decisions to support the tariffs of certain postal items (usually press publications). These lead to wide differences in tariffs for the same item. There are also instances where central government decisions are taken to support losses made by the postal administration.

The UPU general terminal due system will continue to lead to distortions. Until compensation payments are based on the actual delivery costs incurred, there will not be a sound financial basis for the future.

From the Community's perspective, the concern is to ascertain whether the consumers of the different Member States are obtaining value for money. For this, it would be necessary to remove from the analysis those external factors which make costs greater or lesser. Then the core cost structure can be compared with the service performance achieved.

7.8 HARMONISATION

The Community may need to take a more active role in recommending what harmonisation measures may be appropriate in order to help make services function more effectively throughout the Community. Naturally, such a role would need to pay due attention to the principle of subsidiarity - that decisions that should properly be taken at Member State level should indeed be taken at that level.

7.9 COHESION

It should be recognised that good postal services are an important cohesive factor, both socially and economically. But, as previously noted, postal services do not always perform satisfactorily. It is therefore necessary to promote this cohesive factor, and this will require an assessment of the extent of the problems which would need to be overcome if a satisfactory level of cohesion is to be achieved.

7.10 LONGER-TERM ISSUES

The issues identified above are essentially those that relate to the existing situation or to a future situation that can be predicted to evolve out of the present.

It is also appropriate to consider more radical issues - which could be considered as potential solutions to the problems identified or as potential objectives in themselves.

Such issues would include the question of whether a single postal administration should be established to cover the whole of the Community; whether the aim should be to have a common tariff applicable throughout the Community; and whether there should be a common stamp.

The possible solutions to the issues raised in this chapter are discussed in the next chapter.

CHAPTER 8: DISCUSSION OF POSSIBLE SOLUTIONS

1. INTRODUCTION

The previous chapter summarised the problems and challenges to be found in the Community's postal sector. This chapter discusses the possible solutions to the problems identified (and the policies needed to meet the challenges).

2. WHY SHOULD THE COMMUNITY BE INVOLVED?

The analysis of the existing situation identifies several problems that would seem to justify action at Community level. Many of these problems concern the variability of the quality of universal services. Resolution of such quality related problems is paramount.

Broadly, there are five areas of concern for the Community.

2.1 Present lack of harmonisation

The operations providing universal service in each Member State have evolved independently, with the effect that there are now many operational differences between them. This can lead to significant problems for mail passing between Member States; it can also have opportunity costs. Most obviously, the universal service is defined differently in different Member States with the effect that customers cannot confidently post similar items in different Member States. But problems of inter-operability are to be found at every level. At a more detailed level, for example, problems are encountered because of lack of harmonised norms for envelopes.

2.2 Single market implications

Service performance for universal service varies greatly between different postal administrations. There are some Member States where next day delivery performance reaches the generally accepted target of 90%; in others, performance is 15%/16%; in others, performance is between the two (but tending more towards the former). The generally accepted, but not very demanding, service target for cross border mail is delivery within three working days; performance is

currently measured at an average of only about 40%, and with large variations between different postal administrations.

Such variations have particular implications for the parts of the Community's commercial and social life that are heavily reliant on postal services. Large senders of mail include the key sectors of publishing, financial services, mail order and advertising. For such sectors variability in performance of universal services can lead to market distortions. For example, it would be much easier to sell insurance services to an individual household in a Member State where the performance is 90% rather than in another Member State where it is 16%. It would be more difficult for a company to market its products by post in another Member State than for a company that was based in that Member State.

For example, it does not appear co-incidental that one of the Member States with very poor service has a mail order sector only one fifth the size of that of other Member States of comparable economic size. This harms the mail order companies' prospects. Significantly, it also reduces the choice of the individual consumer. Those who live in regions disadvantaged by poor postal services - and there are many - are therefore isolated not just from the personal contact that can be achieved through mail, but also from the services that can be provided through the mail.

Such disruptions of the Single Market affect not only senders but also receivers of mail. If a particular region of the Community is thought to have an unreliable universal service, companies (such as mail order) would be less interested in trying to market their products there. The consumers (as potential recipients) would therefore have a reduced choice.

2.3 Cross-border service performance

In terms of number of days taken from collection to delivery, a domestic item takes an average of 1.5 to 2.0 working days, whereas a cross-border item within the Community takes an average of 4.0 days. A small part of the gap is explained by operational practicalities. But the larger part of the gap cannot be explained in this way. This quality gap effectively creates a "frontier effect". Expressed in terms of achievement against target, service performance for postal administrations' cross-border letter services within the Community has been measured at an average of 40%. Behind this average lie significant variations.

This level of service probably falls short of user expectations. Indeed, it should be mentioned that expectations are likely to become more demanding as cross-border communication increases. Relative to user demand, static performance would be perceived as worsening. In fact, there appear to have been some improvements, stimulated particularly by the introduction of competition (partly in breach of exclusive rights which were unenforced). However, there is still a large gap between the targets which postal administrations set themselves (either on the basis of customer requirements or operational practicalities) and the reality.

Since effective cross-border communications are essential for the commercial and social life of the Community, it is a matter of concern to the Community that service performance for cross-border services is so unreliable.

2.4 Divergences

One of the objectives of the Community is to ensure its own cohesion. Clearly, the wide divergences to be found in the postal sector do not help the achievement of this objective. Postal services provide one way in which messages can be communicated and goods delivered. Any regions having unreliable postal services would therefore be disadvantaged in terms of their communications and goods delivery requirements. Both individuals and businesses in such regions could feel cut off.

This situation of being disadvantaged would not be only by reference to their requirements. It would also be relative to the conditions enjoyed in other parts of the Community where the performance of the universal service was more reliable.

2.5 Market distortions

In the comments on the single market implications, it was noted that divergences in the service levels of universal services in different regions can contribute to market distortions in other sectors which are reliant on postal services. However, it should be noted that there are potential market distortions within the postal sector itself. These could be caused in the case of the scope of the exclusive rights being larger than was needed to ensure the universal service. In order to prevent such distortions, Member States therefore need to apply the proportionality principle. An example of its application is the transferring by some Member States of direct mail to the non-reserved area.

3. COMMUNITY OBJECTIVES

In order to discuss postal policy, it is necessary first to discuss what are the Community's objectives for its postal sector.

3.1. BASIC PRINCIPLES

It is a basic social requirement that all the citizens, businesses and organisations of the Community should have access to means of communication, of which postal services form a part. All citizens, businesses and organisations of the Community therefore have an acquired right to a universal postal service at affordable tariffs. At the same time, there should be maximum freedom of choice, provided that the universal service is safeguarded.

Universal service provides access for all into the postal system through collection facilities which can be readily used. It also provides access for the postal system to all through the provision of deliveries to all addresses in the Community. Accessibility for all also implies low, affordable tariffs.

Universal provision could be required of different types of service (or different uses made of services). These different types of service will naturally have an order of priority in terms of the importance of ensuring that they are safeguarded. In this regard, the fundamental imperative is that universal service must be ensured for postal communication items of a personal or individualised nature (defined in more detail at Paragraph 9.1.2 below).

The description of the universal service also needs to include certain service standards such as the frequency of access to collection and delivery points. It also needs to cover standards for speed and reliability as well as for liabilities (including the investigation and answering of complaints), in order to meet the reasonable customer expectations of a standard letter service. The universal service requirement is therefore based on user needs, which may vary over time.

3.2 IMPLEMENTATION

Universal service causes network costs because of the need to balance out differences in costs of providing services in different areas. Such universal networks have significant costs that do not change with volume - particularly for collections and deliveries.

In order to ensure the viable continued provision of the universal service network, protection is needed to ensure that these network "fixed" costs are spread over a sufficiently large number of units that the resulting unit prices are affordable to all. This protection can be given in the form of reserved services, granting special and exclusive rights to a service provider or providers.

It would be very costly if more than one service provider established parallel networks for standard services. (There might also be some diminution of service if service standards were reduced in an effort to save costs.) It should further be noted that operators other than postal administrations do not seem interested in providing a universal service through an independent network. On the other hand, if costs are shared through joint use of a single universal network, for instance by the postal administration providing both reserved and non-reserved services through its one universal network, a smaller reserved area is made possible.

One of the benefits of the granting of exclusive rights is that it can enable the reserved service provider to continue to offer a single unitary tariff (*péréquation tarifaire*). However, this is not itself a justification for establishing a set of reserved services.

It is by no means the case that all items which are distributed through the universal network should be reserved. There will be some items which, although they should mandatorily be provided universally, do not need to have the protection of being reserved.

Further, there are other, more specialised services which, although they may use the universal network, do not provide a justification for it. Such services (such as express services, or certain postal financial services such as *mandats de poste*), all provided in competition, would help to share the costs of the network, and could therefore help to reduce the scope needed for reserved services.

Where different services, reserved and non-reserved, share the same network, proper accountancy controls and systems will be needed. Exactly what such controls would comprise would need to be agreed.

4. DETERMINING THE RESERVED AREA

The objective is to seek the least restrictive solution that will safeguard the standard service network that provides universal service to all the citizens and organisations of the Community.

The general principle is that there should be Community-defined limits for the scope of the reserved area. However, the reserved area in a Member State could vary from the Community limits in one of two ways.

Firstly, the regulator and/or the national government of each Member State is obliged (by the Treaty of Rome and, generally, by the national legislation) to define a reserved area directly proportional to the objectives which justified the establishing of reserved services. (This principle of proportionality effectively calls for the greatest level of competition consistent with the achievement of the objectives set.) For some Member States, the application of this principle of proportionality could well indicate that a reserved area smaller than that defined at Community level was appropriate.

Secondly, other Member States, where the application of Community law would obstruct the universal service objective, might benefit from an exception to the application of Community law to the extent provided by Article 90.2.

Standard service refers to the universal service of basic postal items. These include both communications (letters, postcards and printed papers) and goods-bearing items (packets and parcels).

The phases of the standard service can be approximately described as the collection, sorting, transporting and delivery to the addressee (or handing over to another administration for delivery to the addressee). These phases are operationally distinct. The economics of the different phases also vary. Reserved services are justified economically in order to provide sufficient volume over which the fixed cost elements of the network can be spread, in order to achieve low unit costs and thus prices affordable to all. The major fixed cost element of the letter post operation is delivery. Collection from road-side posting boxes also incurs significant fixed costs.

Service levels vary, but service performance is not normally guaranteed (unlike in the case of many express services). For letters, standard service also includes the possibility of registration and of delivery to a *poste restante* address.

Regulators should ensure that such standard service continues to be provided universally up to a certain weight. Part of this service (for instance, for parcels and heavier-weight letters or packets) will be provided in the non-reserved sector. (Such mandatory non-reserved services are discussed in more detail at Paragraph 7 below.)

Although a Community definition of what universal service should be provided obligatorily has not yet been drawn up, it should be emphasised that the scope of the universal services will almost certainly be larger than that of the reserved services. Further, it seems clear that the reserved services should be centred on those items for which universal provision is absolutely essential - that is, on the postal communication items of a personal or individualised nature. (This description requires further clarification - see below at Paragraph 9.1.2.)

The criteria (including those of weight and price) for defining what part of standard postal communication items of a personal or individualised nature should be reserved are discussed in detail below in Paragraph 10. Any kind of service not falling within this definition falls outside the reserved area; if necessary, however, restrictive conditions could apply for these services in justified cases.

The reserved area therefore concerns addressed, standard items not containing printed papers or goods. Although the list below is not comprehensive, the following items are not in the reserved area:

- newspapers, magazines or books (because they are printed papers);
- parcels (because they contain goods);
- express items (because they receive a non-standard service);
- unaddressed items (because they are not addressed).

In order to elucidate the general propositions outlined here, it would be useful to expand upon the principle of posting or delivery by the customer himself (in Paragraph 5), on the concept of mandatory services (in Paragraph 6) and on the regulatory position of new services (Paragraph 7). It is then appropriate to ask whether some cross-border services should be in the reserved area (Paragraph 8). At that point, the definition of the reserved area can then be discussed in more detail.

5. DELIVERY AND POSTING BY SELF

Customers delivering their own mail have rights which prevail over those of the operators. Customers also have certain special rights when posting on their own behalf.

5.1 DELIVERY BY SELF

Mailers ought to be able to deliver their own mail, whether in their own country or in another Member State. The application within the Community of the principle of self-delivery becomes somewhat more complicated in the case of subsidiaries of companies. Again, the application is less clear in the case of sister companies in other countries delivering mail on each other's behalf.

Another interesting case concerns document exchanges. These are buildings where exchange members may hire boxes into which fellow members may deliver their mail directly and from which the mail may be collected. (Of course, it would be relatively simple - at least in terms of the extra skills needed if not the extra accommodation - for postal administrations to extend their post office box or "*poste restante*" facilities to offer similar services in competition with private exchanges.)

Member States should therefore permit the functioning of document exchanges as described above. Further, in order to enhance flexibility available to customers, each Member State should permit document exchanges to transfer mail between each other, unless it was convinced that such a step would harm the universal service provision of the postal administration. However, where the items would otherwise meet the criteria of reservation, items may not either be collected from the poster's premises or delivered to the addressee's premises by anyone other than the reserved service provider (presumably the postal administration) or the customer who originated the letter.

5.2 POSTING BY SELF

Regarding the rights of potential users to post their mail, some clarification is needed, in terms of where they may post their mail and for what destinations. It should be emphasised that the discussion here refers to posting (with a postal administration) by the customer himself, with no intermediate operator involved in the country of the customer.

Each Member State accepts that a customer based in its territory can post a reserved item wherever he likes in the national territory, if the item is for delivery within that territory. Each postal administration applies this principle subject, if necessary, to contract conditions. (Contracts normally stipulate the agreed office of posting.)

Regarding mail taken by customers across a border for posting with the postal administration for domestic delivery in that administration's territory, the view taken by Member States and postal administrations has been somewhat inconsistent in the past. As a receiving (or "inward") administration, each postal administration has, in practice, accepted such a practice. However, the administrations in the "outward" country have sometimes considered this practice to be in breach of the monopoly. Now, the practice appears to be accepted by all postal administrations.

In addition, it will be seen that the Green Paper discusses the possibility of placing cross-border services in the non-reserved area (see below at Paragraph 8). The customer would therefore also have the option of giving his cross-border mail to a private operator, rather than posting it himself in another country. Certainly, the regime for a customer posting on his own behalf should not be more restrictive than that for a third party operator providing services in the country of the customer.

For domestic mail for delivery in the same territory in which a customer is based, the customer might wish to have the option of taking the mail to another country and posting it there for delivery back in his own country. It is important that any exclusive rights awarded to the reserved service provider do not impinge on the customer's ability to exercise this option and thereby benefit from the principle of the freedom to provide services.

However, measures must be taken to ensure that such a practice on the part of the customer did not undermine the universal service objective in the customer's country. It must therefore be ensured that the postal administration in the delivery country actually delivers such mail (if it would otherwise meet the criteria for being reserved). Secondly, the tariff paid to the delivery administration for the work that it carries out must properly compensate the delivery administration for its delivery costs.

As stated, this discussion concerning mail posted in a second country for delivery back in the customer's country refers to the rights of the customer posting on his own behalf. Third party operators are in a different juridical position, and this is discussed in more detail below at Paragraph 8.3.

6. MANDATORY SERVICES

If a service is obliged to be provided, this can be called a mandatory service. In the postal sector, this concept is usually linked with an obligation of universal service, so that a mandatory service is usually a service which one operator (or several operators together) must provide across the territory.

As discussed at Paragraph 3 above, the fundamental reason for establishing a set of reserved services is the need to provide universal service throughout the territory. From this it follows that all reserved services must be provided universally. Such services are therefore mandatory reserved services.

There are likely to be other services that are mandatory, but non-reserved. Such obligations may be needed in order to meet Community and/or national service objectives. These are discussed separately below. Because such services will operate in the competitive (non-reserved) area, some discussion of their financing is also appropriate.

Reserved services are mandatory, and will imply certain obligations for the reserved service provider. The possible such obligations are discussed below in Paragraphs 13-15. Consideration would need to be given to how much these obligations would also be appropriate for mandatory services. The decision might be dependent on whether the services are mandatory at the Community level or at the national level.

6.1 MANDATORY SERVICES AT COMMUNITY LEVEL

A Community-wide definition of the reserved area will be made. This will be made by reference to a weight limit applying throughout and to a price limit that will be established in each Member State. (This is discussed in more detail below at Paragraph 10.)

Each Member State will have the right to define for its territory a reserved area that is smaller than that defined at Community level. However, it must still ensure

that universal service in its territory is provided at least up to the limits that the Community defines.

The full set of reserved services as defined at the Community level therefore forms part of the mandatory services. While Member States can decide to make some of these services non-reserved, they will remain mandatory.

6.2 MANDATORY SERVICES AT NATIONAL LEVEL

A Member State may wish to have universal service ensured beyond the Community limits. Again, this obligation could be placed on a single operator (usually the postal administration) or several operators working collectively to provide universal service.

In deciding whether to have such mandatory non-reserved services, Member States will naturally need to investigate what their national requirements are. They will also need to take account of obligations imposed by the UPU convention. In this regard, Article 20 of the Convention (previously Article 19) appears to oblige all member postal administrations to provide universal service up to 2 kg, and up to 5 kg for certain printed papers. The Community weight limit for its reserved area will be set clearly below both these weights.

6.3 FINANCING

It is important to consider the financial implications of these obligations. These implications will depend largely on the profitability of the services. The profitability will be affected by, among other things, the tariffs and the proportion of traffic gained.

Correctly priced, there is no reason why non-reserved mandatory services should not be profitable. They will become a financial burden only if the price levels are set below cost as a preferential rate and/or when the potential traffic is cream-skimmed where the price offered is on the basis of a *péréquation tarifaire*.

In respect of the second of these possibilities, since these services operate in the non-reserved sector, it does not seem unreasonable to offer volume posters either a differential rate by region or a single country-wide rate but with an enforceable exclusivity clause.

If, despite these points, the non-reserved mandatory services are still not profitable, it will be necessary as a last resort to consider financing from other sources. This would take the form either of an external subsidy (preferably from the body that imposed the obligation) or of a cross-subsidy.

In both cases, it will be necessary to identify where the mandatory services are in loss (rather than simply describing the services as being in overall loss). It should be possible to localise the losses to particular geographical regions and to quantify the revenue and costs associated with the provision of mandatory non-reserved services in those regions. (These would tend to be the regions where the operators not obliged to provide universal service were less interested in competing.) Any subsidy or cross-subsidy could and should therefore be made transparent. (See also at Paragraph 15.2 below.)

7. NEW SERVICES

The overall objective of achieving universal service at affordable prices has led to the view that some reserved services will provide the protection needed to ensure sufficiently low unit costs. This revenue/volume level should be achieved by present and foreseeable volumes.

It therefore seems to follow that new services which add incremental volume to the postal sector should be outside the reserved area. However, in some cases it may not be clear that the volume is incremental - rather that part of the volume of the new service could be volume that had been attracted away from the "traditional" service.

The juridical view will need to be well defined. It will not be sufficient for a new service to be slightly different from the reserved activity. (It should be noted that some of the mail preparation activities described at Paragraph 9.4 below could meet such a limited criterion.)

It would be necessary instead for a new service to be significantly different before it could be decided that it should be in the non-reserved area. In this way, a document exchange service appears appropriate to be placed in the non-reserved area, but an ordinary letter for national delivery which involved collection from customers' premises rather than from street boxes would remain reserved.

The regulatory body of each Member State (and possibly the Community) will need to decide the meaning of the word "significantly" on a case-by-case basis. Naturally, any

such decisions would need to be taken in accordance obligations under the Treaty of Rome, in particular the principle of freedom to provide services and the competition rules of the Community.

If a new service becomes a necessary element in the achievement of the universal service, it is possible to envisage its integration into the reserved area in line with the criteria established at Paragraph 4 above.

8. CROSS-BORDER MAIL

It is necessary to ask whether the reserved area ought to comprehend domestic and cross-border services alike, or whether a distinction ought to be made between them. In the discussion here, intra-Community and international cross-border services are considered separately.

8.1 INTRA-COMMUNITY MAIL

The fundamental reason for establishing a set of reserved services is social - to ensure universal service. This implies an economic reason - protection by exclusive rights to safeguard the universal service network. This economic reason is based on the economic realities of "fixed cost" networks. Significant reductions in volume would increase unit costs, thereby making use of the system less affordable and ultimately putting the network in danger of becoming unviable.

For intra-Community mail, the economics are different because of the high proportion of variable costs. The fixed network elements involved (the road-side collections in the outward country and the deliveries in the inward country) are protected. In terms of economics, the only reason to prevent liberalisation appears to be that the delivery administration may not be properly compensated for its costs (although this problem already occurs under the UPU system). However, the postal administrations have already taken some steps to remedy this, and this paper proposes further reforms.

There do not seem to be significant economic reasons for including intra-Community services in the reserved area, and there are service reasons for not doing so.

The reality in terms of operational performance is that the level of service provided by the postal administrations for cross-border services is less satisfactory than that provided for domestic services. The Community objective is to close this gap (and therefore diminish the "frontier effect"). The regulatory régime chosen must meet this objective. This points to a liberalisation of the market as a means to stimulating service improvements.

There could be certain regulatory concerns about such a liberalisation. In particular, there might be a danger of ordinary domestic mail, to the extent that it meets the criteria for being reserved, being passed off as cross-border mail in order to circumvent the reserved services. Clearly such circumventing of policy could endanger the economics on which the provision of the universal services is based, and must be prevented.

In summary, the arguments for giving customers the possibility of better service through wider choice are compelling. The placing of intra-Community mail in the non-reserved area would therefore be envisaged. If a Member State is concerned that such a measure might jeopardise its universal service, it might benefit from an exception to the application of Community law to the extent provided by Article 90.2. The concern about regulatory control is recognised, and adequate control systems will be established. The Commission, with Member States' help, will propose the systems needed.

It is accepted that, if it is not presently non-reserved, certain Member States may need an adaptation period to implement the change. The length of the adaptation period would need to be defined in each case.

Although the orientation of the Green Paper is towards placing intra-Community cross-border mail in the non-reserved area, there would still be a universal service obligation for such mail. The postal administration in the outward country would have the obligation to provide universal service in the form of collection facilities for cross-border mail that customers chose to post there. The postal administration in the inward country would still need to provide universal delivery services for mail originating from another Community country if this was required by the customer or the operator or the outward postal administration.

This discussion concerning whether or not intra-Community mail should be placed in the reserved area is expanded upon in Annex 15.

8.2 INTERNATIONAL MAIL

International mail is mail that either originates in the EC for delivery in a country outside the EC or originates outside the EC for delivery in a Member State (respectively "outward" and "inward" international mail). In both cases, it would be envisaged to place these mail flows in the non-reserved area. A Member State that was concerned that placing this mail in the non-reserved area might prejudice its universal service might benefit from an exception to the application of Community law to the extent provided by Article 90.2. The liberalisation of inward international mail could raise similar concerns about regulatory control as might also apply to the liberalisation of intra-Community cross-border mail. Adequate control systems will therefore also need to be established for such mail.

For certain Member States, if this mail is presently reserved, it is possible that some adaptation period may be needed. However, it should be noted that there would probably be less need for such adaptation periods for international mail than for intra-Community cross-border mail.

8.2.1 OUTWARD

For outward international mail, the economics are almost the same as for intra-community mail, with two exceptions. Firstly, the transport costs are likely to be greater (owing to the higher proportion transported by air, and the greater distances involved); it should be noted that these costs are almost all variable.

Secondly, outward international mail tends to be very profitable, although part of the profits is used by postal administrations to fund the losses incurred on inward cross-border traffic the delivery cost of which tends not to be properly compensated by terminal dues. Of course, the fact of existing cross-subsidies is not a justification for adopting a specific future regulatory position.

While the economics of international mail are similar to those of intra-Community mail, the political position is different. For intra-Community mail, it could be argued that Paris-Marseilles mail should be treated the same as that for Paris-Brussels. However, no such argument can be used for international mail.

It should be added that the argument concerning expertise in air transport (shown at Annex 15, Paragraph 2.3) may be stronger in the case of international mail. Because of the higher proportion transported by air and the potential

greater complexity of routing, it is quite possible that private operators, many of whom tend to be specialists in air transport, could achieve a (perhaps significantly) better quality of service than certain postal administrations.

Should the option of using a private operator for international mail be denied to the Community's consumers? Alternatively, it may be the case that some postal administrations have more effective transport arrangements for cross-border mail than others: again, it would seem helpful if potential customers had access to the organisations which had demonstrated superior expertise and service.

In summary, there is a particularly strong argument for outward international mail being placed in the non-reserved area. It would therefore be envisaged to place such mail in the non-reserved area.

8.2.2 *INWARD*

The issue of inward international mail also needs to be addressed. Here, large mailers based outside the Community may wish to concentrate their mailings for the EC on one distribution centre within the EC. As with other cross-border mail flows, the placing of this mail in the non-reserved area would be envisaged. However, as discussed for intra-Community traffic, adequate regulatory controls should be established to prevent domestic reserved mail being sent through the international mail system in order to circumvent the reserved service provider's exclusive rights.

It should be noted that, from the perspective of the Member State of final destination, this mail could have the appearance of being intra-Community mail. However, the time scale that is appropriate for outward international mail should also apply to inward international mail.

8.2.3 *GATS*

The implementation of the tariff proposals described at Paragraph 15 below may create an artificial problem whereby, in order to undercut the intra-EC terminal dues to which all the EC postal administrations could be committed, intra-Community mail could be transported out of the EC for remailing back in at UPU rates. (For certain items the UPU rates would be lower than the rates paid between EC postal administrations.)

Such a practice, which added no value but was intended solely to circumvent Community policy, would be unacceptable.

The disciplines and obligations currently envisaged for the GATS would not oblige the Community to allow circumvention of its policy. Possible solutions should be discussed with trading partners if this situation were to change in the future. This tariff/terminal dues issue aside, Member States will need to make whatever adjustments are necessary to meet GATS commitments, especially concerning access to reserved services.

8.3 OTHER ISSUES

In general, of course, there should be freedom to provide services. This general principle also applies in the case of the practice of transporting mail by third party operators out of a country and mailing it in a second country for delivery back in the first country (often called A-B-A remail), particularly if some extra service is provided in the second country that adds substantial value to the whole service.

However, if the items thus transported would otherwise have met the criteria for being reserved items of domestic mail in the first country (Country A), such an activity would infringe the special and exclusive rights of the reserved service provider in that country. This would be because a private operator collecting such mail in Country A would be competing with the postal administration of that country in the reserved area.

This statement refers specifically to the physical movement of such mail items. The situation is different in the case where the first part of the chain (transporting out of the country A) is not physical. Here the transport is "metaphorical": copy is generated in country A and then sent to country B. The material is then converted into direct mail (or into a publication for mailing) through printing and enveloping. The material may then be posted in the country where the printing was carried out for delivery in the country where the original copy was generated.

However, in postal terms, the mail should be treated as items originating in the country of printing. Not to treat the mail in this fashion would be to permit decisions by some postal managers to affect the Community's trade in printing.

A similar point can be made about text, data or images that are transmitted electronically across a border for conversion into hard copy which may then be sent back as a letter to the first country. Here, postal rules must not be allowed to influence trade in information or in telecommunications. (Assessing flows of information can be an important factor in the location strategy of companies.)

Of course, it may be the case that part of the price package that influenced the placing of the print order was the postage price in the country of printing. This possibility re-enforces the point that terminal dues must be closely related to actual delivery costs.

9. SCOPE OF RESERVED SERVICES - PARTICULAR ISSUES

Certain potentially problematic details concerning the scope of the reserved area are discussed below.

9.1 PROBLEMS OF DEFINITION

It was stated above that letters could be possible reserved services, but that parcels and express services should not be. However, in practice, it may not be so simple to distinguish between them. Customers and laymen refer to several items as "letters"; for them it is a general description of a communication that can be sent by different means (including ordinary mail, express or fax). Here, the term "letter" is employed as used by operators - that is, meaning a communication item sent by ordinary mail.

However, this description requires further elucidation.

Postal communication items comprise letters and post cards, but not publications or goods-bearing items. They can be used for personal or business (including organisational) correspondence. A postal item is not sent by telecommunications. However, a communication originally sent by telecommunications can be converted into a postal item by being printed, enveloped and despatched for delivery (see discussion of "electronic transmission" below at Paragraph 9.3).

For legislative purposes, a more precise definition will be required. However, the intention here is not to seek the ultimate definition of a letter or a postal communication item. The definition given above is intended to be more general in nature, in order to indicate the general approach required. In addition, the

analysis below highlights certain specific problems met in defining the limits of letters. The discussion emphasises particularly services which are not ordinary letters.

9.1.1 *LETTERS/EXPRESS*

In what way can an express item be easily distinguished from a letter? Its dimension, weight and contents may be the same. Even the speed of delivery may be similar.

The essential difference lies in the value (whatever form it takes) added by express service providers and perceived by customers. The most effective way of determining the extra value perceived is to consider the extra price that customers are prepared to pay.

9.1.2 *INDIVIDUALISED COMMUNICATION*

Since the criterion of the individuality of an item is so important from a regulatory point of view, it is necessary to define here what is meant by an "individualised communication". The essential point is that the text in the communication should relate to the business or personal affairs of the addressee (either an individual, an organisation or a position within an organisation) with sufficient individuality that it is clear that the text (excluding the address and any appellation) refers specifically to the addressee.

Direct mail is becoming increasingly "personalised". However, since the same or a similar message is being sent to other addressees, it is clear that it would not pass the test of referring specifically to the affairs of the addressee. However, this trend of personalising direct mail entails that the traditional criterion of determining whether or not the text was identical is probably no longer sufficient.

Invoices and statements have text (the figures used in each item) that vary from copy to copy. It seems to follow that they are usually individualised, according to the definition used above. However, it may be remarked that in some Member States such mail is considered as printed papers, and may be therefore be treated as being non-reserved.

In assessing whether an item is individualised or not, the important criterion is that of the contents, not of the means of production. If an advertiser chooses to send a number of hand-written items with identical text, they cannot be regarded

as individualised. Conversely, an invoice containing a number of details specific to the addressee appears to be individualised, whether the figures it contains are printed out by computer or hand-written.

9.1.3 "PRINTED PAPERS"

Proposals for the regulatory position of printed papers should be formulated by reference to the basic principles of the universal service provision. The absolutely fundamental policy imperative is that postal communications of a personal or individualised nature should be collected and delivered universally. Such mail would include all items where the text is not identical, and would therefore include all personal correspondence and individualised business correspondence (see above at Paragraph 9.1.2). It seems appropriate that the set of reserved services that would be established to safeguard the universal service should be based on such items of an individualised nature.

A priori, this would exclude all printed papers from the set of possible reserved services. Such a position should certainly not pose problems for publications. The regulatory position for publications (magazines, newspapers and books) in most Member States is that their distribution should be placed in the non-reserved area. The probable *de facto* position in the few Member States whose postal legislation places such publications in the reserved area is that their distribution is no longer carried out exclusively by the postal administration.

In addition, there is a general will to assist the plurality of the press. However, the high discounts often awarded by postal administrations to publications can create a *de facto* monopoly for the administrations over home delivery of publications of certain types or to certain areas. At first sight, such discounts can appear to encourage the widening of readerships.

However, over a longer period, they can serve to discourage other operators from providing services in what is, in most Member States, a non-reserved market. They can therefore have the strategic effect of reducing the options for publishers, and may actually limit readership. In summary, such discounts not only are unhelpful for the economics of the universal network, but also can make a non-reserved service effectively a monopoly, to the possible ultimate detriment of all.

By comparison with publications, the position of direct mail in relation to the economics of the universal service network could be rather different. Direct mail

often attracts printed paper discounts - but of a much lower level than those associated with publications. It constitutes an estimated 18.5% of the volume of the Community's postal administrations' domestic mail. If the placing of this category of mail in the non-reserved area were to cause a significant proportion of volume to be lost from the universal service network, it might jeopardise the economics of the network, and put at risk the central objective of achieving an affordable price for the universal service.

In summary, there are strong arguments for placing direct mail in the non-reserved sector. However, it should be recognised that there could be difficulties. Firstly, the increasingly personalised nature of direct mail gives rise to growing difficulty in distinguishing direct mail from ordinary letters. Secondly, direct mail presently generates a significant, and rapidly growing, proportion of postal administrations' total business, and its economic relevance to the universal service obligation should be analysed in detail.

These issues need to be analysed in order to assess whether the problems noted above - regulatory or economic - would actually occur in practice. In the light of this analysis, the Commission will, with the help of Member States, need to propose specific measures, for example with regard to adequate control mechanisms for preventing ordinary mail being passed off as direct mail. Moreover, if a Member State was concerned that such a measure might jeopardise its universal service, it might benefit from an exception to the application of Community law to the extent provided by Article 90.2.

9.1.4 *SMALL PACKETS/PARCELS*

A different problem is posed with parcels. Many definitions of letters in their broadest sense suggest that they range up to 2 kg. Within this definition of a letter falls the "small packet".

What is the distinction between a small packet and a parcel? (In practice, it is made not so much by reference to regulatory criteria, but rather is decided by the customer himself usually on the basis of price.)

The criterion of contents should be applied: if a packet contains goods rather than a communication, it should be treated as non-reserved just as a parcel (because the customer has a choice how to send it). This distinction should be

reinforced by the use of a weight limit. (In fact, a low weight limit would reduce the significance of this problem.)

9.2 SLOWER POSTAL STREAMS

A word of clarification is needed concerning what could be included within the reserved services. They include not only the quicker standard streams (LC in some Member States, first class in others), but also streams that are slower.

The latter include printed papers and second class letters (depending on which countries offer a LC/AO split and which a first class/second class split), as well as rebate (a bulk service with a longer delivery standard) and deferred postings.

These are all intentionally slower streams, with advertised slower standards. (The question of poor performance against service standards is therefore entirely separate, and is discussed below at Paragraph 14.3.)

9.3 ELECTRONIC COMMUNICATION

Communications made by electronic means are outside the postal sector. Where they are combined with some form of service provided by postal operators, such communications are usually called postal electronic mail.

One such service provides facilities to the public to send a message from a fax machine provided by an operator, and for the fax to be collected from a distant fax machine by the intended receiver of the faxed message. Such an operation does not involve any mail service, and should clearly be considered non-reserved.

Another form of electronic mail combines electronic mail with mail services. Ordinary electronic mail (facsimile transmission or distance printing of individual or bulk messages) is non-reserved. However, if the hard copy then needs to be delivered to a third party as a separate distribution process, this extra element is arguably a letter delivery service. The letter delivery element might therefore be considered reserved (provided that it met all the other criteria for reservation), while the electronic transmission would be non-reserved.

9.4 MAIL PREPARATION

Certain postal administrations permit "consolidators" to act as intermediaries between the original mailer and themselves. These consolidators act primarily as mail preparers, but also offer other facilities such as credit.

The consolidators compete with each other, although they have certain special rights since it is necessary for them either to be approved by the regulatory body or to enter into a contract with the postal administration. The activities of the consolidators before the mail is actually posted with the postal administration do not make the mail non-reserved. However, it is interesting to note that the permitting by the postal administrations of such activities under contract implies their acceptance that the postal operation is not a seamless process which cannot be viewed in terms of its component parts.

The activities of such "intermediaries can add flexibility for the customer who originates the mail. They may also save the postal administrations costs, savings which could be reflected in discounts that would benefit both the original customer and the intermediary.

Intermediaries do not compete with the two high fixed cost activities of the postal administrations - either with collections from public posting boxes and post office counters or with deliveries. Their operations are therefore compatible with the objective of maintaining universal service.

There is no reason for this facility not to be available to all users, and all postal administrations therefore ought to make contractual facilities available to all such operators. In view of the similarity between the operations of the different postal administrations (and therefore of the cost saving work that intermediaries might be able to carry out), there seems scope for establishing a Community minimum set of contract facilities that should be made available. (See below at Paragraph 17.)

It should be emphasised that the postal processes carried out by such intermediary operators are mostly substitutes for similar processes carried out by postal administrations. They do not add value in a way that is significant from a regulatory point of view. Mail preparation services therefore do not usually constitute "new services", as described at Paragraph 7 above.

If the mail handled by such intermediary operators would meet the criteria for being reserved, it would remain reserved in the sense that, following the processes undertaken by the intermediary, the mail would then have to be posted with the postal administration for whatever postal processes remained (including final delivery). Such items therefore could not be transported out of the country

by a third party operator for mailing back under an A-B-A remail system (see above at Paragraph 8.3).

10. PROPOSED CRITERIA

As stated above (at Paragraph 4), some items cannot be reserved. These include heavier parcels, heavier publications, express items and all unaddressed mail. Some items for which there may be a universal service requirement also cannot be reserved - for example, lighter weight parcels and printed papers.

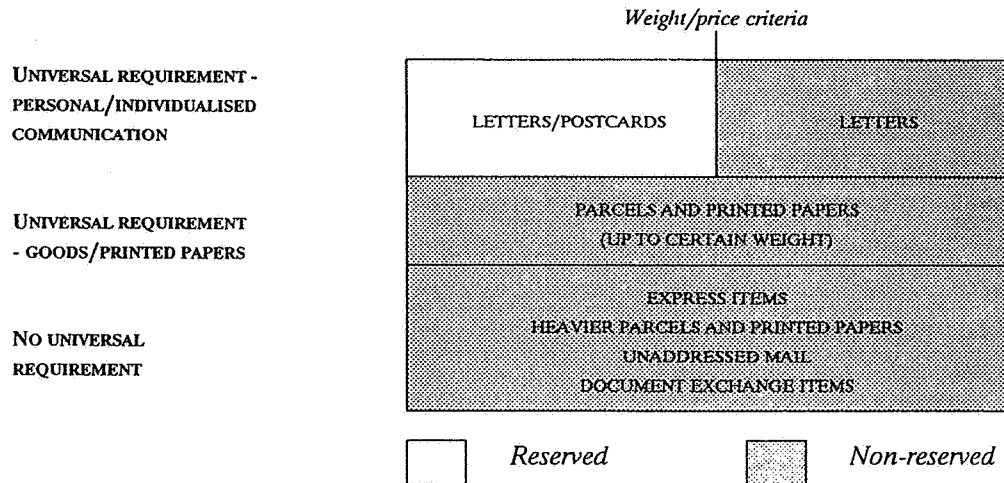
The possible reserved area is therefore restricted to individual communication items (see Paragraph 9.1). These comprise letters and post cards. In order to exclude goods and publications from the reserved area, it is necessary first to apply a contents criterion.

Having identified specifically the communication items of a personal or individualised nature, the scope of the reserved area within these items needs to be defined by using other criteria. The efficacy of the other criteria to be used is discussed in detail in Annex 16. In summary, only the criteria of weight and price will be effective in defining which of the individual communication items that could be reserved should be reserved. Indeed, they need to be applied in combination, with some link between the weight limit (which should be a single upper limit applied across the Community) and the price limit (which would be determined separately in each country by reference to the tariff at the weight limit).

The application first of the contents criterion, and then of the price and weight criteria, is shown diagrammatically in Figure 1 below. Three regulatory categories, based on whether or not there was a universal service obligation, are shown. As noted at Paragraph 9.1.3 above, the placing of addressed direct mail in the non-reserved area would, *a priori*, be envisaged. The issues need to be analysed in order to assess whether this measure would threaten the universal service, either through weakening its financial viability or through the possible abuse of such a liberalising measure if proper regulatory controls were not in place. On the assumption that the status of direct mail as non-reserved was confirmed, it would be included on the second line in the figure.

It should be noted that the intention of the price limit is not simply to ensure that express services are placed in the non-reserved sector. This would be to view the future market only in terms of the products that are available today. Rather, it is intended to set the price limit at a level that is sufficient to embrace only those services that need to be protected.

Figure 1: *Definition of reserved area - application of contents, weight and price criteria.*



In this way, other services that may not yet exist but would be priced in mid-range (above the price of the "basic" service, but below the prices associated with express) would definitely be placed in the non-reserved sector. This would make their position clearer rather than through a debate about whether such services were or were not "significantly" different (see Paragraph 7 above). Put graphically, the approach to the price criterion should not be "top-down" (working down from the perspective of express items), but "bottom-up" (working up from the perspective of basic letters).

The proposals here perhaps refer more to the medium term. For the longer term, further liberalisation may well be possible. For the shorter term, work would need to be undertaken to achieve the medium term aim of having a Community-established set of reserved services.

While Community medium and longer term proposals are being developed, the Community's competition rules, based on the principles of free provision of services and of undistorted competition, will continue to be applied throughout to services as they are actually provided. As noted at Paragraph 4 above, each Member State is obliged to seek the least restrictive solution appropriate to its postal sector, and this may imply a reserved area with a smaller scope than that defined by the Community-set limits. (In the other direction, if a Member State considered that application of the Community limits would jeopardise the universal service in its territory, it might benefit from an exception to the application of Community law to the extent provided by Article 90.2.)

Once the criteria to be used have been chosen, detailed studies of the economics of the universal service network will be necessary in order to develop the actual limits to be applied to delineate the reserved area.

10.1 MEDIUM TERM

A contents criterion should be used to exclude all goods-containing items. Then, a weight criterion should be used, allied to a price criterion. The weight limit should be set Community-wide. The regulatory bodies in individual Member States should set the price limits. In any event, the price should not exceed the standard letter (that is, LC or first class) public tariff equivalent of whatever weight limit is set.

10.2 SHORTER TERM

In the shorter term, there may need to be a transitional period in order to achieve the objective described above. Activities that may be necessary in relation to formulating and implementing Community weight and price limits are described below:

10.2.1 WEIGHT LIMIT

The Community-wide weight limit would almost certainly be below the existing monopoly weight limits of some Member States. Implementation of such a weight limit should therefore not necessarily be immediate, but after a period to permit time for the administrations concerned to make adjustments (particularly in the tariffs for items which presently fall within the monopoly limits, but would come above the Community limits, and would therefore be non-reserved.

In practice, this may not prove to be too great a problem. Most of these items - heavier-weight packets - could presently be sent as parcels. To the extent that the customer has the choice of how to send such items, they are already outside the monopoly. This point also indicates that the weight limit for the reserved area should almost certainly be less than 500g.

10.2.2 PRICE LIMIT

The price limit indicated by taking the price equivalent of the weight limit may be a significant reduction on the price limits that are presently in force. Of course, this refers only to those countries that already have such limits: the majority of

Member States permit the existence of competitive courier/express services but without a quantitative definition of such services.

It might therefore be difficult to introduce this price limit immediately. In the interim period, the price limit could be set as a maximum at, for example, 1.5 times or even twice the price equivalent of the weight limit. Thus, for example, if the Community weight limit was x grams and the letter price at that weight was y ECUs, the interim price threshold for non-reserved services would be set at up to 1.5y ECUs or 2y ECUs.

In the longer term, progress towards monetary union may enable a common price limit to be set in ECUs.

10.3 LONGER TERM

In the longer term, Member States would be expected to experiment with introducing more competition, with the objective of gradually reducing the scope of the reserved services. In several years' time, the Community should assess the balance struck between universal service requirements and the need to open up the postal sector to greater competition. This assessment would need to be made in the light of the market or service developments as they occur.

11. COMPATIBILITY OF POSTAL LEGISLATION WITH COMMUNITY TREATIES AND POLICIES

All Member States' postal legislation and the Community's policy for its postal sector must be fully compatible with the Treaty of Rome. Where this has not been the case in the past, the Commission has found necessary to take appropriate measures, particularly with regard to express services.

However, in addition to national postal legislation, Member States have other obligations under Treaties that have been signed. Notably, all Member States are signatories to the UPU Convention through their membership of the United Nations. The UPU Convention long pre-dates the Treaty of Rome or the General Agreement on Trades and Tariffs. However, it is reviewed by the UPU Congress every five years. Each Convention provides that its articles should remain in force until the activation of the next Convention after the succeeding Congress. This has potential implications in terms of Article 234 of the Treaty of Rome.

From the point of view of competition law, the main concerns in relation to the UPU Convention are the level of terminal dues agreed each five years and, in particular, the use of Article 25 (using the enumeration of the 1989 UPU convention). The use of Article 25 can only be sanctioned if it is in protection of the reserved services of the Member State whose regulatory body is applying the sanction.

(It is said that Article 25 is used in order to gain the correct compensation for the delivery administration. This, however, does not seem correct for two reasons. Firstly, Article 25 long predates terminal dues in the UPU rules. Secondly, Article 25 has been applied in the past even when the compensation received by the delivery administration would have been the same, regardless of whether the mail came directly from the administration in the country of origin or indirectly through another administration.)

In terms of competition rules, it seems inappropriate for one postal administration to turn back mail posted by a private operator who is competing with another postal administration, whether the exclusive rights of the latter are being infringed or not. If the exclusive rights of the outward administration are infringed, it is for the regulatory body in that country to take legal action - not to seek assistance from another administration whose exclusive rights are not infringed. The use of Article 25.4 (which refers to A-B-C remail) therefore seems clearly inappropriate.

The intention of Article 25.1 is that it should protect the legitimate domestic monopoly of member countries. However, in terms of compatibility with Community policy and law, there are three problems associated with its use.

Firstly, as Paragraph 12 below makes clear, it is for the regulatory body to take the appropriate final actions against infractions of the special rights. If the postal administration receives mail which it suspects is A-B-A remail, it can choose to provide evidence to the regulatory body. The latter may then authorise the postal administration (that is, of Country A) to return the mail to the administration with which the items were posted (in Country B). In returning the mail in this way, the postal administration may state that it is doing so under Article 25.1.

It is possible that, on one interpretation of Article 25.1, its application would follow the procedure described above. The clause refers to "a member country" not being bound to forward or deliver such mail, and this could be taken to refer to a decision taken by the regulatory body. However, in the past, Article 25 has been applied by postal administrations often without reference to the national regulatory body (if it exists).

The second problem associated with Article 25.1 is that its scope appears to permit a member country to turn back mail items (such as heavier publications) even if these items did not fall within the postal administration's exclusive rights. However, provided that the national regulator is properly involved in any decision on action to be taken to protect special rights, the apparently wider than necessary scope of the Article would be unlikely to be misused.

Thirdly, Article 25.1 would restrict the ability of a customer himself to transport his mail into another country and post it there for delivery back in his own country. As discussed at Paragraph 5.2 above, customers ought to be permitted to do this, provided that the administration in the delivery country received the mail (if the mail met the criteria for being reserved in the customer's country) and was properly compensated for its delivery costs. The use of Article 25.1 should therefore be confined, at most, to A-B-A remail - that is, mail transported out by a third party operator for mailing back - if this mail would normally be covered by the exclusive rights of the postal administration in Country A.

Certainly, if any action were to be taken to turn back mail, such action must be capable of justification under the Community's competition rules. The regulator should also ensure that no mail is turned back if it was printed in the country in which it was mailed, even if the content was in some way formulated before printing in the territory covered by the regulator.

The Community and the regulatory bodies will need to ensure that the GATS is properly applied. At the same time, it may wish to put in place rules that forbid any unfair exploitation of the Community's policy on tariff principles (a possibility discussed at Paragraph 8.2.3). If problems arise, this issue needs to be addressed within the context of the GATS. It is clear that it should also be discussed in a wider context - certainly in the framework of the UPU, but probably also the CEPT.

A key question to be answered concerns whether mail, which originated in a Community country and was then remailed through a non-Community administration for mailing back to another Community country for delivery there, should be considered "A-B-A-like" remail.

In this context, it should be noted that postal charges can be an important determinant in the location strategy for certain types of operators (such as in mail order, bill processing, printing or direct mail). There could be a danger that the application of the principle of prices related to cost put posters in the Community at a disadvantage in comparison with

those posting outside the Community if the price of the latter was lower simply because they were based on traditional terminal dues set at below delivery costs. This could have the effect of encouraging certain industries that were heavily reliant on postal services to relocate outside the Community, simply to take advantages of the prices that did not reflect the costs of the total operation. This would clearly not be in the Community's interest.

12. THE ROLE OF THE REGULATORY BODY

The postal sector presently comprises both a reserved area and a non-reserved, competitive area. In the future, there will continue to be the two areas, although their scope will probably be different from that at present.

A regulatory body has roles to fulfil in both areas:

- in the reserved area, it will want to ensure that the exclusive rights have the smallest possible scope consistent with the objective of ensuring universal service at an affordable price (in other words, the application of the principle of "proportionality"); it will also need to ensure that the reserved service provider meets its obligations;
- in the non-reserved area, it will need to ensure that the line between reserved and non-reserved areas is clearly identified; it will need to ensure that the reserved service provider does not gain an unfair competitive advantage in the non-reserved area through cross-subsidising from the first to the second.

After ensuring that the dividing line between the two areas is clearly identified, the key role of the regulatory body would be to ensure that the reserved service provider meets its obligations. These obligations are discussed in detail below at Paragraphs 13, 14 and 15.

In order to achieve this impartiality, it is essential that the regulatory body be separated from any operational function. It would seem preferable if the regulatory body was a completely separate institution from the reserved service provider (so that, for example, it was not common for individuals' careers to move frequently from one to the other). However, the more important point is that all concerned (the consumers, the reserved service provider(s) and the private operators) are all convinced of the regulatory body's impartiality. If this is achieved, even if the reserved service operator and the regulatory body both appear to come under the umbrella of a single organisation, there should be few complaints.

Enforcement of special and exclusive rights is also a significant function. It is important that the responsibilities of the regulator and reserved service operator in this regard are clearly defined. The reserved service operator may initiate action, in terms of investigating (within limits defined by national law) possible infractions of its special rights, assembling the evidence and then providing the evidence to the regulator. It is then for the regulator actually to take the appropriate action against the operator that breached the special rights.

It is not thought that there is a problem concerning the protection of the privacy of mail. However, since this privacy is a basic right of the Community's citizens, it seems desirable that the regulator seeks appropriate undertakings as to its safeguarding by the universal service operator.

13. UNIVERSAL SERVICE OBLIGATIONS - ACCESS

There are three basic principles for access to reserved services. Firstly, access conditions should be the same for all, assuming the potential users present their mail in the same way. Secondly, potential users ought to know exactly what they are buying - not just in terms of the posting conditions they must meet and the prices they must pay but also in terms of the service that they will receive. Thirdly, access conditions should try to optimise flexibility for the customer (while ensuring that the reserved services are protected). These principles can be translated into more detailed proposals for access as shown further below.

For mandatory non-reserved services, it appears that the access conditions should be similar to those for reserved services.

13.1 PUBLICATION OF POSTING CONDITIONS

Each administration should publish the conditions of posting into its reserved service network. The conditions should be as simple as possible. Most importantly, they must not unfairly discourage (either by tariffs or other means) potential customers from using the network.

These potential customers may well include private operators, with whom the postal administration (the provider of the reserved service) may be competing in the non-reserved sector. The rule should be that no conditions for access to the reserved services should be set specifically that would disfavour the private operator in the non-reserved sector.

13.2 CONTRACT CONDITIONS FOR LARGE CUSTOMERS

All postal administrations should have contract services available for large customers. There is significant scope for making the main contract conditions (dealing, in particular, with what preparation work needs to be carried out by the customer in order to earn discounts) similar between the different postal administrations. (See below at Paragraph 17.1.)

13.3 MAIL PREPARATION

Several postal administrations already permit private operators to act as intermediaries between the customer who originates the mail and the postal administration who carries out the latter part of the mail process (including delivery).

The availability of such mail preparing services is to be welcomed. It gives greater flexibility and choice to customers, even when the mail is eventually channelled into a reserved service (on the assumption that the mail meets the criteria for being placed in the reserved area). Since the delivery element (the key fixed cost phase of the postal process) is still protected and therefore the volume going through this phase is maintained, the activity of such mail preparation is entirely consistent with the universal service objective. (See also the longer discussion at Paragraph 9.4 above.)

In the light of these benefits to potential customers, Member States should be expected to authorise such intermediate operators, unless there are compelling reasons to the contrary. To ensure the quality of service provided by such intermediaries before the mail is posted with the postal administration, the latter could licence authorised intermediaries. (Of course, the intermediaries would be in competition with each other.) The rules for obtaining such licences ought to be clearly laid down, to avoid the claim of abuse of dominant position if the postal administration grants a licence to one operator but not to another.

13.4 ACCESS FOR PRIVATE OPERATORS

If a potential user wishes to use the reserved services and can meet the conditions for doing so, then he should be permitted access. This entails that if a private operator chooses to use the reserved service and then add some value to it in order to compete in the non-reserved sector, he should be allowed to do so.

13.5 ACCESS FOR OTHER POSTAL ADMINISTRATIONS

For the ordinary international mail operation involving two postal administrations, it is accepted that there is some element of the relationship between the administrations involved that is different from the ordinary commercial relationship between a postal administration and a large customer. It therefore follows that, for such an operation, postal administrations should continue to have access into each others' delivery operations on special conditions (including the compensation arrangements - see below at Paragraph 15.3).

At the same time, however, outward postal administrations should be able to have access, should they choose, on similar conditions as those on which other large users gain access. In this way, as an example, the expeditors originating the mail in the outward country can have access to the preferential tariffs for delivery in the inward country (if such tariffs are available).

14. UNIVERSAL SERVICE OBLIGATIONS - SERVICE STANDARDS

It is insufficient simply to state that universal service must be provided. The quality of the universal service must also be stipulated, using whatever criteria of quality are appropriate. Below are discussed the quality standards that need to be set for the reserved services, the system for monitoring performance against those standards, and the control mechanisms that would be needed in the event of performance falling short of the standards set.

Consideration will need to be given as to how far this quality control system also ought to apply to mandatory non-reserved services. Clearly, such services that were obliged because they were part of the set of reserved services defined at the Community level should have the same service obligations as the reserved services. These obligations would include having the same standards as the reserved services.

Those non-reserved services that were determined by a Member State to be mandatory would also carry the obligation to tell the customer what service standards were applied to them. However, in the latter case, it is accepted that the standards set would not necessarily be the same as for the reserved services.

Intra-Community mail is a special case. The discussion above (at Paragraph 8.1) concludes that the placing of this mail in the non-reserved area would be envisaged (while at the same time it will be necessary to establish certain safeguards). However,

there would be a universal service obligation (placed on the two postal administrations involved) for such mail up to the weight limit used in the Community's definition of the set of reserved services. This universal service obligation implies the same quality of service disciplines as for the domestic services that the Community determines have to be provided mandatorily. Of course, as discussed below, the standards would be different from those set for domestic mail.

14.1 STANDARDS SETTING

All Member States agree that the granting of reserved service rights implies an obligation to perform well. However, uniform standards for good performance have not yet been defined.

There should be minimum Community service standards to be applied within each Member State. (There might be scope for regional flexibility within Member States, reflecting variations between urban concentrations or rural areas.) It should be emphasised that these standards would be the threshold levels for acceptable performance only. For the faster standard services (that is, either LC or first class), the appropriate threshold standard could be 90% delivery by the first working day after posting (known as D+1).

There should also be standards for cross-border items within the Community. In the interim, these could be calculated by aggregating the service standards for the outward (expedition), transport and delivery elements. The interim standard would therefore be 81% delivery by the third working day after posting (known as D+3, and calculated by allowing a 90% achievement of an outward despatch by the day after posting, and 90% delivery in the inward country within two working days of receipt).

Further, there should also be standards for dealing with complaints - both in terms of the maximum time that should be taken to deal with a complaint and in terms of a policy for possible remedies that a customer may claim. (The UPU itself has suggested standards.) The time requirement for dealing with complaints implies time standards for administrations to reply to each other in the case of complaints concerning intra-Community mail. Regulatory bodies must ensure that there are clear procedures laid down for the resolution of disputes.

14.2 PERFORMANCE MONITORING

It is clear that the monitoring system needs to produce results that reflect as closely as possible the customer's experience.

Systems for measuring "operational" performance do not paint the whole picture. These are samples carried out within the operational span (usually from receipt in the outward office to some point before the item is taken out by the delivery postman).

The customer's experience of the postal service is "door-to-door" (or "end-to-end") - that is, from being put in a posting box (or collected from the customer's premises) to being delivered at the destination address. The only effective measuring system which accurately will reflect the consumer's experience is one that also measures end-to-end.

Further, for the sake of impartiality, this should be a system monitored by an outside organisation. Such a system has been adopted by some EC postal administrations, and is being seriously considered by others for introduction. The CEPT has accepted that this system should be used for measuring cross-border quality of service.

It seems clear that some body will be needed to monitor service across the Community. Because this would be for regulatory more than operational reasons, it does not, at first sight, seem appropriate to delegate such a task to the CEPT, which is an operators' group. However, provided that the CEPT employs an impartial independent agency to monitor performance and is willing to publish the results, it seems acceptable to continue with the CEPT system on an experimental basis.

Availability of service performance information to actual or potential customers is essential: it is part of the access obligation that the universal service provider must meet, so that customers know what they are buying. Postal administrations therefore ought to be able readily to provide information on service targets and actual performance for national, intra-Community and international mail.

To make the information as relevant as possible to the requirements of different customers, performance averages should be supplemented by further details - for instance, giving local and regional results for national mail, and information by the main destination countries for cross-border mail.

Further, the regulatory body should guard against using average transit times or percentages as the sole indicator of the effectiveness of the universal service. It therefore seems desirable that each regulatory body should establish a group comprising representatives of users (from the individual consumer to large users) to give the regulator a more "rounded" picture of the service. In addition, the regulatory body of each Member State must ensure that there are clear procedures for claims and compensation, for instance in the case of loss.

14.3 CONTROL

Following the principle of "subsidiarity", control functions should primarily be the responsibility of the national regulatory bodies. The emphasis here should be on encouraging improvements where they are necessary. If the performance indicates a significant shortfall, the regulatory body would probably want to agree with the postal administration a phasing period for improving service, with intermediate targets to be achieved at each phase.

However, what should happen in the case of persistent failure to meet service targets? The ultimate sanction would be for the national regulatory body, perhaps under pressure from the Community, to seek tenders from different operators (both the postal administration and interested private operators) for the provision of the service. In this event, tenders would be invited for provision of the service where performance was particularly poor. However, in the case of absolute network break-down, tenders could be invited for the national service.

It must be stressed that this is a pessimistic scenario. However, it should always be remembered that the privilege of exclusive rights carries obligations of service. Service to the customer is paramount.

15. UNIVERSAL SERVICE OBLIGATIONS - TARIFFS (INCLUDING TERMINAL DUES)

For mandatory non-reserved services prices will be determined by market forces. These forces might lead towards regionalised pricing. However, the postal administrations, or other operators upon which are placed the universal service obligation for these items, may choose to take the marketing decision to offer these services at a single unitary tariff covering the whole of the territory. Alternatively, the regulatory body or the government may take the political decision that there should be a "*péréquation tarifaire*" for such items.

Even if they (the postal administrations and any other operators with a universal obligation) had the choice and decided not to offer a "*péréquation tarifaire*", they would still want to have a uncomplicated tariff structure in order to aid comprehension on the part of potential customers. At the same time, they would want to guard against the danger of being used simply as the distributor of last resort by organisations that required universal service of parcels up to a certain weight.

It should be mentioned here in parenthesis that postal administrations should be encouraged to use the ECU as much as possible in their activities. Early discussion of the use of the ECU to clear terminal due accounts seems appropriate.

In addition to the discussion below, tariff issues are studied in detail in Annex 14.

15.1 RELATIONSHIP TO COSTS

All Member States agree that tariffs should be based on costs. More detailed analysis is needed to ensure a common understanding of what different costs there are, and to which of them this tariff principle should be applied. The general rule should be that tariffs ought to be based on average costs; tariffs for any service must cover at least the marginal costs associated with that service.

If the standard (public) tariff is to be related to costs, it follows that contract prices should also be thus related. It also follows that discounts should relate to cost savings.

15.2 SUBSIDIES

A view will need to be taken of how subsidies should be paid. At first sight, the preference could be for central subsidies paid to administrations directly related to the volume in the streams to be subsidised. An example of such use would be for preferential tariffs.

The general rule should be that cross-subsidies should be reduced to a minimum. The main exception would be the "natural" geographic cross-subsidies permitted by a unitary tariff structure. As discussed at Paragraph 7 above, it may, in certain limited circumstances, also be necessary to permit cross-subsidies from the reserved sector to enable mandatory non-reserved services, that have to be available universally, to be provided in loss-making operations in certain localised areas. Such cross-subsidies would need to be the subject of vigorously transparent treatment.

Of course, profits gained in the non-reserved sector can be used to cross-subsidise the reserved services. However, cross-subsidies from the reserved to the non-reserved areas that are for other purposes than to ensure universal services should be phased out, unless they are compatible with competition rules. At any event, such cross-subsidies that enable predatory pricing in the non-reserved area are illegal.

The minimising of cross-subsidies will become even more important if, as is proposed below, terminal dues are based on inland tariffs.

15.3 TERMINAL DUES

The case for using inland tariffs as a basis for compensatory systems for mail exchanged between postal administrations rests on two principles: firstly the principle of having tariffs related to costs, and secondly the principle of taking action to avoid distortions of competition.

Whether Community mail is considered reserved or not, it will continue to be very difficult to control the international mail activities of private operators (assuming that such control was desirable). Further, it is becoming increasingly difficult to define the border between what are genuine international items and those items (A-B-A remail) which contravene inland monopolies.

Inland tariff based terminal dues would remove most of the financial ill-effects of this lack of distinction.

There should be two objectives. Firstly, cost distortions should be removed. However, genuine competitive differences should not be affected by regulation. Secondly, the operational partner not involved in the competition in the market place in the country where the mail originated - that is, the reserved service provider in the country of delivery - should be taken out of the competitive terrain by having his costs properly compensated. (However, if the delivery reserved service provider chooses to offer preferential tariffs, these should be available to the outward administration using these delivery services.)

There are some arguments against such a system. It would involve an increase in costs for some countries which have a certain profile of traffic and lower tariffs. It would take some time before each administration properly understood each others' charging systems. The greatest long-term problem could be that of costs

differing greatly between different destinations, thus making zonal pricing for the whole of the Community more difficult.

For the longer term, the benefits of using inland tariffs as the basis for terminal dues outweigh the problems. The key tariff principle is that of relating tariffs to costs.

There is no reason why this principle should not be applied to cross-border Community mail. The problems noted above argue for a phasing-in period rather than rejecting the principle of using inland tariffs. This phasing-in period would also allow for the time that will be needed for the transition towards a proper cost basis for inland tariffs. It would also permit time for preparation of the appropriate mechanisms to prevent unfair under-cutting of intra-Community postal prices by remailing through a non-Community country at terminal dues set below the true costs of delivery (see above at Paragraph 11).

16. NON-RESERVED SERVICES

Mandatory non-reserved services will carry certain obligations for the operators to whom the universal service commitment is entrusted for such services. These obligations were discussed in Paragraphs 13-15.

For non-mandatory services, the policy is simpler. The over-riding principle should be that the laws of the free market should be left to act themselves. It therefore seems unnecessary to introduce licensing in order to guarantee minimum levels of service. If it were to be introduced, administrative systems would need to be established to measure service given.

Licensing therefore does not seem appropriate in the non-reserved sector. Licensing should only be used in the reserved sector if it was decided to introduce more than one operator.

However, a certain level of regulation may be necessary. Below is a short discussion of regulation that could be thought to be appropriate in the non-reserved sector.

16.1 PRICE

If a price limit is used to define the limit of reserved services, it will determine the minimum price that can be charged in the non-reserved sector.

Price is often a reflection of service (however perceived by the customer). A price threshold for non-reserved services should make any service standards unnecessary.

There will need to be a special regulatory interest where the reserved service provider uses its universal network to provide non-reserved services. The regulatory body must insist on sufficient transparency to prevent any cross-subsidies from the reserved to the non-reserved area that permit predatory pricing in the latter.

16.2 OTHER

Naturally, providers of non-reserved services, like all postal operators, must observe Community and national legislation on data protection. Beyond this, there seems no need to impose obligations of privacy on non-reserved service providers. If any operator developed a reputation for not respecting the privacy of contents, he would rapidly lose business.

In addition to this, the providers of non-reserved services operating their own transport services will also have to respect all existing and future Community and national legislation directly related to the provision of transport services.

17. POSSIBLE AREAS FOR HARMONISATION

Harmonisation could take place on different levels, between customers and operators or among operators. The important areas to be discussed with reference to possible harmonisation relate particularly to universal services. These are discussed below.

17.1 ACCESS CONDITIONS/CONTRACT TERMS

It has been stated above that moves ought to be made to harmonise access conditions in the Community. This implies that it should be possible to make some movement towards harmonisation of contract terms.

Of course, some contract terms relate to the specific postal operation which will differ in each country. However, in general, postal operations are similar; in principle, therefore, there should be significant scope to harmonise terms.

This would imply that there ought to be some harmonisation of definitions. This would anyway seem desirable from a regulatory perspective.

17.2 QUALITY OF SERVICE

The most important harmonisation actions for quality of service are the setting of Community standards and the implementation of a single Community measuring system (as discussed at Paragraph 14).

There may also be scope for having some shared operational standards in order to improve service. An example here would be the volume of mail that justifies mail being sent directly from an outward office to the delivery office. If the quantities of mail sent to intermediary offices either for additional sorting or transiting was reduced significantly, this could have a dramatic effect to improve quality.

17.3 TARIFF STRUCTURES

Connected with the development of more uniform access conditions, it would be beneficial to analyse the scope for making tariff structures more uniform also. This would become more practical when the proposals for common tariff procedures (as discussed at Paragraph 10.2.2 above) are implemented.

17.4 CUSTOMER INTERFACE

Many innovations relating to the customer "interface" are most easily introduced in co-operation with large customers. By its nature, harmonisation is much more all-embracing - hence making introduction more difficult and results possibly more tenuous.

Examples of such possible forms of harmonisation could be where all 12 Member States:

- have a standard tiering system, using either an LC/AO split or a first/second class split (not some one, some the other);
- have the same standards for envelope sizes;
- have a uniform post code system.

There would have to be significant consumer benefits foreseeable (in either the shorter or longer term) before it would be worth pursuing such possible harmonisations. Any harmonisation of this sort would be difficult to implement. In terms of developing a more integrated Community postal policy, the most

valuable of these examples of harmonisation measures could be that of introducing a standard tiering system.

Analysis of possible benefits would need to include the effects of new developments. For example, a uniform post code might seem to have some operational attractions in the short term. However, benefits from its introduction would be significantly reduced in the medium term by the advent of the next generation of optical character reader (OCR) sorting machines, which can read whole addresses, rather than just post codes.

17.5 OPERATIONAL

In general, the Community ought to have less to say about what happens away from the customer interface. Normally, it is for the operators to try to agree operational standards - for instance for mechanisation equipment, where such standards could bring the operators some savings in research and development expenditure.

However, where the standards used may directly affect users beneficially, there is more of a case for a Community role in encouraging harmonisation. Two pertinent examples here are the possible introduction of uniform routing bar-codes (which would allow different operators to be involved in the transmission of a single item) and the X-400 standard for electronic mail (which would facilitate international transmission of postal electronic mail).

Uniform routing codes could be part of a strategy for creating inter-operability between operators. More than one operator is involved in cross-border letter mail services. Increasingly, intermediaries are being used for domestic mail (see Paragraph 9.4). The achievement of the Community's objectives on quality of service will therefore be partly reliant on the ability of the systems (whether computer-based or not) of the two different operators involved in each operational relationship to be able to share relevant information.

17.6 EMPLOYMENT

The evolution of the Community's social policy will have effects on the postal sector. This will probably be the greatest stimulus towards making employment and other working conditions more uniform.

The possible need for operational harmonisation mentioned above may make a certain level of co-operation in training necessary. An example could be the need for shared training between two operators (such as postal administrations that exchange large volumes of mail) who decide to co-operate in an operational management information system covering such exchanges.

18. COMMUNITY COHESION

The provision of a reserved service network providing universal service implies the setting of service standards. This necessitates maintenance and improvement of the network, as well as the development of new services.

The present situation varies widely between Member States. The basic infrastructure varies because of external factors such as population density, geographic constraints and economic differences as well as more internal factors such as past investment policy.

One indication of this is the different level of mechanisation in the different Member States. This may suggest that it would be unlikely that the investment required would be made in certain areas. However, it should be noted that there is not necessarily a direct link between investment in mechanised plant and quality of service. Improvements can be achieved through better management systems and the implementation of suitable quality control systems.

If improvements in quality of service generally were not made in such areas, the gap between them and more favoured areas could widen, not only in terms of the quality of postal services, but also in terms of general business activity which good postal services help to stimulate. Therefore, the lack of a postal service up to modern standards in these areas would have an adverse effect, particularly on small and medium enterprises located there.

It should also not be forgotten that there are, in addition, potentially significant social implications. The trends in the postal sector are likely to create some imbalances between its existing and future demand for staff, in terms of both their geographical distribution and their skills.

The consequences of failure to meet the universal service targets in these regions should therefore be considered during the development of the Community's postal policy.

19. POLICY IMPLEMENTATION

The Green Paper is intended to discuss policy issues and make proposals for the future of the Community's postal sector. It therefore seems inappropriate here to discuss in more than general terms the possible legal instruments that could be used to implement Community policy as it develops following publication of the Green Paper and after appropriate consultation.

The proposals could be developed into draft directives to be submitted to the Council as harmonisation measures under Article 100 (for unanimous approval) or Article 100a (for approval by qualified majority for measures relating to the achievement of the Single Market). The proposals concerning aspects related to competition or the establishing of the common market could be developed into draft directives to be issued under Article 90.3.

Because of the varying nature of the different actions involved, a combination of these procedures seems most likely.

20. POSTAL FINANCIAL SERVICES

The sale of services at the counters of postal administrations is, in almost every instance, offered in competition with the sale of the same or similar services elsewhere.

The network of post office counters has different dynamics to the postal network that provides mail services. In the case of the latter, the different parts of the network are completely inter-dependent: a letter collected at one point in the network needs to be delivered in another.

In the case of counter services, the same is not true: another location can be added to, or subtracted from, the network without the same need to re-arrange the management of the network. As with mail services, there can be a problem in identifying who are the customers. In the case of counter services, is the customer the service provider whose services are provided through the counter, or is it the users of those services who visit the counters to gain access to those services?

Both networks (mail and counters) have high fixed costs (even where some of the work is sub-contracted). The counters networks are a resource that is important to the whole Community, especially in rural areas. It is therefore in the interest of the Community that the counters network is as financially viable as possible. Here, a comparison of the

different services offered by the different postal administrations at their counters shows a remarkable diversity.

Because postal financial services operate in the non-reserved area, there is less need to develop regulatory proposals for them. However, while not being the subject of formal proposals, there are some areas in which the introduction of a greater degree of uniformity may be helpful.

Subject to certain restrictions (such as national law on the sale of lotteries), it seems desirable that postal administrations should be as free as possible to provide the broadest range of services at their counters. (But this statement does not imply the creation of a postbank if it does not already exist.) There seems no reason why the service sold at counters should be restricted, as it is in certain Member States, to services transacted on behalf of public sector organisations. These services would normally be provided in competition, and such a diversity, providing that there was no distortion of competition, would help to ensure the financial viability of the network of counters.

There is also some scope for making some services more flexible cross-border. For example, Post-cheques issued in some countries are accepted for encashment in some, but not all, other Member States. Greater flexibility in this respect could provide useful competition to the banks' cross-border encashment facilities. The latter tend to be somewhat expensive, particularly for low values.

In summary, postal financial services are important financially to postal administrations. However, since they operate almost always in competition with the same or similar services available through other means, there is less of a regulatory question to discuss.

For the reader requiring a more detailed discussion of the Community's financial sector, it should be mentioned that the Commission published in September 1990 a discussion paper on "Making Payments in the Internal Market" (reference COM(90)447). Following this discussion paper, the Commission has presented a work programme for improving cross-border payments in the Community (reference SEC(92)621).

21. OTHER ISSUES

The views as expressed in a Green Paper are necessarily influenced by the current environment. However, the environment will change, for instance as a result of monetary union or political union. It is therefore difficult to forecast what would be the

implications of such changes in the environment. Below are discussed subjects which of necessity are of a more speculative nature.

21.1 SINGLE POSTAL ADMINISTRATION

It is appropriate to discuss the question of a single postal administration covering the whole of the Community, since the subject has been mentioned by some of the actors in the debate on the present postal sector. Naturally, the discussion here will be somewhat "*a priori*".

The first task in this discussion is to define in more detail the objectives and structure of such a single postal administration. There would appear to be two possibilities - one more short-term (and therefore more "tactical"), and the other more long-term (and more "strategic").

The more tactical version is that of the present postal administrations continuing, with a supplementary body at Community level being used to address operational issues that could not be handled by individual postal administrations acting on their own or in limited cooperation with other administrations. The more strategic version would have a more integrated structure, with a unified central management at Community level.

If a single postal administration were to come about, it would probably at that time be considered to be closely linked to full political union. The second - the more strategic - of the possibilities therefore would seem the more appropriate structure to meet these requirements, and most of the discussion below relates to that version. Before that, however, the format and possible benefits of the more tactical version are discussed.

The tactical version, as described above, would have limited, mostly operational, objectives. It should be noted that such a supplementary body (which would not limit involuntarily the freedom of action of individual postal administrations) could be established now if there was an operational need (and without requiring any political approval on the part of national governments).

To a certain extent, the Unipost company (established by certain CEPT members to provide some central operational management for some cross-border mail services) could be an indicator of how such an organisation could work. Of course, it would be essential that the establishment of such an operational organisation did not cause the regulatory position to change in order to accommodate it.

Such an organisation would be appropriate if the objectives were limited, and of an operational nature only. The more important analysis here seems to concern the more strategic version of a single postal administration.

The first question to be asked is what would be the benefits such a single postal administration. It is not clear how the establishing of a single postal administration would improve quality of service more than could be achieved through the best practice being involved by the existing (or future) operators in the postal sector.

This best practice on the one side takes the form of improved cooperation - for instance between a postal administration and the users of its services (including other postal administrations). On the other side, it takes the form of trying to establish competitive advantage, either through adopting measures used successfully in other organisations (competitors or not) or through innovation.

It is also not clear that a single postal administration would significantly add to a Community spirit within the EC. As discussed below, it would not be possible to introduce a single tariff (even if it was desirable to do so) because of the massive cross-subsidies and accountancy problems that would be involved. In effect, a single postal administration would have to be a supra-national body which would still need to delegate significantly to the national public operators (which presumably would remain very similar to the present postal administrations).

It also seems improbable that the establishing of a single postal administration would lead to savings of costs. Theoretically an integrated single postal administration would be able to make streamlining savings - for instance in avoiding the duplication of administrative functions in the different postal administrations. In practise, it is difficult to see this happening: for example, personnel administration would still need to be carried out in each of the national operators, even though there would be a supplementary personnel department in the central body of the single postal administration.

In effect, therefore, the establishing of a single postal administration would lead to the super-imposing of another layer of administration without apparent cost savings below to compensate. There would be the cost of establishing a single headquarters, the necessary communication links, the changes of the national systems to conform with a single model and the sheer management cost of imposing uniformity. In addition, there would also be the cost to consumers if an

attempt to apply a highly uniform Community service led to national operators being less responsive to the requirements of the customers in their territory.

Of course, in any consideration of a single postal administration, it would still be essential to continue to seek the least restrictive option. The concept of a single postal administration therefore definitely does not imply the establishing of a large set of reserved services covering all cross-border movements of letters and printed papers. As stated above, the single postal administration would need to delegate substantially to each national public operator. In recognition of the different conditions, the national regulatory bodies would still have the option of defining a smaller reserved area than the Community norm.

In summary, the benefits of a single postal administration do not, *a priori*, seem substantial, but the costs to be passed on to customers or tax-payers could be significant.

If a single public postal operator does not seem a feasible option, some Community body to monitor service could still be necessary.

21.2 COMMON TARIFFS

Setting a common tarification in all Member States for some or all classes of mail would meet many problems. These are, frankly, insuperable, at least for the foreseeable future.

Firstly, it would have to overcome the different accounting practices which underlie the existing tariffs set by each postal administration.

Secondly, a common tariff could only be achieved by cross-subsidies on a massive scale. These would be far larger than any cross-subsidies presently made to achieve *péréquation* made within national territories. This would go against one of the main themes running through the Green paper - the need for tariffs to be related closely to costs.

Thirdly, the establishing of common tariffs would have to be preceded by harmonised product classifications and contract conditions. Even if the hope was to have a common tariff only at the first weight step, there would have to be some harmonisation of the service tiering principles used. This is not an argument against (see above at Paragraph 17.3), but rather an indication of the work that would need to come first.

Lastly, and most importantly, the effect on customers would be substantial. It would be extremely difficult to explain to customers in several Member States that their tariffs would have to rise from their traditionally low levels (which might be based on lower costs - for instance of labour), in order to conform with a standard Community price. The alternative to taking an average would be to harmonise on a lower tariff - but this would involve direct subsidies of simply unthinkable proportions.

Common tariffs should only start to be discussed if there was some clear probability of establishing a single postal administration. However, even then, establishing the latter would not imply the former.

21.3 COMMON STAMPS

The introduction of stamps usable in all the countries of the Community seems something that could be realised in the nearer future. As soon as the ECU is used for every day transactions (as it increasingly will, as full monetary union approaches), stamps of national administrations could be sold in ECUs. These would be stamps of the value indicated in national currency, paid at the prevailing ECU exchange rate.

A practical problem here is to ensure that the revenue gained is matched with the costs incurred for the services bought. In fact, there would not appear to be too great a problem since there would be no financial incentives to buy stamps (in ECUs) in one Member State for use in another. It would still be necessary to pay the postal tariff in the country of posting. If, despite the arguments against, there was a common Community tariff, there would still be no incentive to buy stamps in another Member State.

Operational problems would probably also relate to revenue protection. There would be a need to train sorting office staff in the checking of values in ECUs. This should not be an insuperable problem, certainly within the Community. However, there could be greater difficulty in persuading postal administrations outside the Community to accept stamps with denominations only in ECUs.

In summary, there might be some small displacement between revenue and costs. However, it is possible that there is a market need for such stamps - this would need to be investigated by market research. If there was such a need, the practicality of such common stamps should be examined in more detail. In this regard, the telecard/phonecard, which will be able to be used in different Member

States (despite there being a greater possibility of a revenue/cost displacement) could be an instructive example.

CHAPTER 9: POLICY OPTIONS

INTRODUCTION

All the citizens and organisations of the Community should have access to good, reliable postal services. Implementation of these policy options will achieve this. They will create the conditions for the Community's postal sector to satisfy fully and effectively the postal needs of the Community's citizens and organisations. When implemented, they will meet the Community's objectives while giving the user the widest freedom of choice consistent with these objectives.

The cornerstone of the Community's policy for the postal sector should be the universal service. The universal service required throughout the Community needs to be defined. The main concrete meaning of this universal service requirement is that there should continue to be a postal service available throughout the Community, both for national services within a Member State and for cross-border services linking two Member States. This universality implies certain more specific requirements: that the prices for the services should be affordable to all, that the service should be of good quality and it should be readily accessible to all.

It is concluded that this universal service objective can justify the establishment of a set of reserved services (subject to the decision of each Member State individually that this was necessary), which would help to ensure the financial viability of the universal service network. The scope of these reserved services, which could confer some special and exclusive rights on the universal service providers, should be directly proportional to the objective. In this way, the universal service objective would be secured, and there would be as much freedom as possible for potential users.

General Options

There are certain general options as means to achieving these broad objectives. (Naturally, the implications of taking no action should also be considered.) In broad terms, there are two paths - that of liberalisation and that of harmonisation.

The sector is already significantly liberalised - about 50% of the revenue generated in the sector relates to non-reserved services. The present position results from a longer-term trend to open the market, and the Green Paper options seek further ways to ease restrictions. By contrast, levels of harmonisation (by reference to possible Community

objectives) are rather low. As a result, the Community has a postal sector with many divergences - not only regulatory, but also in terms of such important customer aspects as access, service provided and tariffs.

Possibilities for reform can be approached by first considering the extreme options of complete liberalisation and of complete harmonisation. These two options are effectively at opposite ends of a spectrum of different possible scenarios. The option of taking no action at all should also be examined. The last option to be discussed is that which seeks an equilibrium combining the benefits of both progressive opening of the market and selective harmonisation. Within this option many variants exist, some of which are discussed below.

Complete liberalisation

The normal market condition is that of the free market. However, complete liberalisation of the postal sector would lead to the loss of the universal service, certainly at prices affordable to all. At the same time, no private operators seem interested in providing a standard letter service to all parts of any national territory.

Complete harmonisation

If it was intended to have a postal sector that was completely harmonised, it would be necessary to have a single operational body that ensured that such harmonisation was implemented. Such an operator - effectively a single postal administration covering all the Community - would have overall responsibility for all aspects of what was considered to be the public administration part of the Community's postal sector.

Total harmonisation would imply the same tariff being applied throughout the Community, as well as the same access conditions and the same levels of service. A single tariff with the same price being applied in all Member States (for which there appears to be no demand) would cause overwhelming problems. It would also be impractical, demanding cross-subsidies of massive proportions. (Tariffs presently vary by as much as a factor of three.) Central co-ordination of policies relating to areas such as marketing or personnel would be likely to lead to an over-rigidity which could not respond to local conditions. Further, the implementing body, the single postal administration, would be a costly additional overhead.

In summary, complete harmonisation would lead to many restrictions, but few benefits. Further, it should be emphasised that nobody is now asking for the single operational body that would be needed to implement harmonisation at this level.

Status quo

If this theoretical option were to be exercised, the result would be a widening of the gap between already very divergent positions, and make more difficult the proper functioning of the Single Market.. This would lead to a "two-speed" Europe in postal services. In short, the Single Market in postal services would not be achieved, with significant indirect effects on other sectors particularly served by postal services. It would also probably not be the appropriate response to the implications of political and economic union.

Equilibrium: further opening of market/strengthening of universal service

This option accepts that in order to ensure the universal service it is necessary to have some restriction of the free market. This would be in the form of the establishment of a set of reserved services that confer some special and exclusive rights on national postal administrations. However, the scope of the reserved area must be strictly proportional to the universal service objective. At the same time, the regulatory control of part of the market (reserved services granted to ensure universal service) would make possible certain harmonisation measures to ensure that the universal service operates effectively in all twelve Member States.

Each Member State already reserves certain services in order to achieve a universal service objective; but the scope of such reserved services is usually larger - sometimes significantly - than is necessary to meet the objective. Further, the actual objective (including service performance) must be achieved in practice. In addition, there are gains to be obtained from simply clarifying what is reserved and what is not.

It is proposed that there should be a Community definition of the universal service that should be provided throughout the Community. This definition has not yet been drawn up. However, it is possible to indicate how the market should, under this option, be partially liberalised without threatening the universal service objective.

Under this option of seeking equilibrium, certain services should be removed from the reserved area (if, indeed, they presently form part). These are express services and publications. (Parcel services are already liberalised in all twelve Member States.) Based on the analysis that has been made to date, the liberalisation of cross-border letters and, *a priori*, of direct mail would also be envisaged. In both cases, it will be necessary to ensure that the appropriate regulatory control systems are in place to prevent such liberalising measures leading to circumvention of legitimate exclusive

rights of reserved service providers. Particularly in the case of direct mail, it will be necessary fully to analyse the economic implications for the universal service of such a liberalisation measure.

The liberalisation process ought to be implemented in a gradual manner. It should take into account the necessary phases for adaptation in order to maintain the economic and financial balance needed for the provision of the universal services.

For the services which remain as potentially reserved - which would broadly cover personal and business correspondence - it would be possible to establish clear limits that indicated the precise scope of the reserved area. These limits would be defined in terms of weight and price.

It should be emphasised that if any Member State were concerned that specific proposals might harm its universal service objective, it could consider applying a more restrictive solution, provided that it was still proportional to the objective and conformed to Community law.

Turning to the harmonisation measures to be implemented in parallel with these liberalisations, they must spring from the fundamental Community objective that there should be a universal service of sufficient quality and at affordable prices. As mentioned above, there is not yet a Community definition of the universal service required across the Community. It seems clear that such a definition is needed and that, when drawing it up, potential users - including consumer representatives - should be consulted. However, certain harmonisation requirements are already clear.

Universality implies easy access, and this is currently often not the case even where in the Community. Given the present divergences in service performance, some harmonisation would be needed in this respect also. Tariffs appear to be generally affordable; in certain cases, the tariffs do not reflect the costs, and such tariff-setting, as applied by the postal administrations, could, in the long term, jeopardise the economic viability of the universal service network. Further, it is right that the postal administration should be able to use the universal service network to provide non-mandatory services, but at present there are no common rules for this.

These present and future problems indicate that harmonisation measures for universal services are appropriate in the following areas:

- access:* rules should be the same for all users meeting the same conditions; for the access needs of other service providers (either other postal administrations or private operators), there may need to be specific technical measures to ensure inter-operability;
- service:* standards should be set for all universal services; performance should be measured by a common system that accurately reflects users' experience of the service; results should be published;
- tariffs:* prices for each service should be related to the average costs of that service; present differences in tariff structures should be reduced in order to diminish present market distortions.

These harmonisation measures could be implemented, considering that basic customer requirements would be likely to be very similar in each Member State.

Proposed scenario

The last option is the preferred scenario since it finds the appropriate balance. It combines gradual opening of the market with the implementation of harmonisation measures to meet Community objectives. It will therefore ensure the universal service under proper conditions, whilst providing optimum freedom of choice for users. It will be noted that there is no single solution, but rather a set of measures which provide the common structure needed. Each proposal is therefore part of a coherent whole; at the same time individual proposals do respond to certain specific problems.

It should be mentioned that some advance comments have been received on recent drafts of the options. On the basis of these comments, it seems that there could be a consensus on the general orientations. However, there appear to be certain points that cause concern to some interested parties. These points seem to relate to the need for adaptation periods and also to certain liberalisation proposals - such as for direct mail (at Proposal 2.7 below), intra-Community cross-border mail (Proposal 2.13) and international mail (Proposal 2.14). The debate during the consultation period that will follow the publication of the Green Paper may well concentrate on such points. However, the balance of the whole set of policy options presented should be considered.

It should be emphasised that this broad option of further market opening combined with strengthening the universal service could itself be implemented in a number of ways. The

intention is that the main remaining choices will be made in the light of the debate that will follow the publication of the Green Paper. More detailed work will thus be needed before implementation. Much of this will involve discussions with user groups in order to identify their requirements in more detail, particularly with regard to the ways in which they may need greater freedom of choice. As mentioned, a Community definition of the universal service is required. Further analysis is also required before the weight and price limits for the reserved area can be defined. Service thresholds for the universal services need to be agreed. More detailed work is also required to implement the principle that tariffs should be related to average costs.

However, even though this more detailed work remains to be undertaken, the set of policy options is presented in the confidence that the common structure proposed, by linking liberalisation and harmonisation, would ensure the universal service and give optimum freedom of choice.

The main objectives for the Community's postal sector are shown in Table 1:

Table 1: *Main objectives for postal sector*

<ol style="list-style-type: none">1. TO ESTABLISH A COMMUNITY DEFINITION OF THE UNIVERSAL POSTAL SERVICE REQUIRED; THEN TO ENSURE ITS PROVISION THROUGHOUT THE COMMUNITY AT PRICES AFFORDABLE TO ALL THROUGH THE ESTABLISHING (INASMUCH AS IT WAS NEEDED IN MEMBER STATES INDIVIDUALLY) OF A SET OF RESERVED SERVICES WHICH WOULD CONFER SOME SPECIAL AND EXCLUSIVE RIGHTS, IN ORDER TO MAINTAIN THE RESOURCES NECESSARY FOR THE UNDERTAKING OF THE PUBLIC SERVICE MISSION IN SOUND CONDITIONS; AT THE SAME TIME, CONSISTENT WITH THIS OBJECTIVE, TO HAVE THE LARGEST POSSIBLE PART OF THE SECTOR OPERATING IN FREE COMPETITION2. TO HAVE COMMON OBLIGATIONS FOR THE UNIVERSAL SERVICE OPERATORS OF THE COMMUNITY IN RESPECT OF THE SPECIAL AND EXCLUSIVE RIGHTS GRANTED TO THEM BY THE RESERVED SERVICES IN ORDER TO PROVIDE UNIVERSAL SERVICES, IN PARTICULAR WITH REGARD TO THE QUALITY OF SERVICE PROVIDED.3. TO MAKE ANY NECESSARY EFFORTS TOWARDS COMMUNITY COHESION THROUGH APPROPRIATE HARMONISATION MEASURES.
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These main policy objectives therefore treat general regulatory issues, the obligations of the reserved service provider and, thirdly, the subjects of harmonisation and cohesion. Under these three headings, the main policy options break down into the detailed options shown in Table 2 below.

Table 2: *Detailed options***PART I: GENERAL REGULATORY ISSUES**

1. ESTABLISH AND ENSURE THE COMMUNITY SET OF UNIVERSAL SERVICES
 2. DEVELOP THE DEFINITION OF UNIVERSAL AND RESERVED SERVICES
 3. ENSURE COMPATIBILITY OF OTHER MEMBER STATE COMMITMENTS WITH COMMUNITY LEGISLATION AND POLICIES
 4. SEPARATE REGULATORY AND OPERATIONAL FUNCTIONS
-

PART II: OBLIGATIONS OF UNIVERSAL SERVICE PROVIDER

5. ACCESS CONDITIONS TO UNIVERSAL SERVICES TO BE SAME FOR ALL
 6. TARIFFS OF UNIVERSAL SERVICES TO BE RELATED TO COSTS
 7. INTER-ADMINISTRATION COMPENSATION TO REFLECT DELIVERY COSTS
 8. SERVICE STANDARDS FOR UNIVERSAL SERVICES TO BE SET AND PERFORMANCE MONITORED
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PART III: HARMONISATION AND COHESION

9. HARMONISATION APPROPRIATE WHERE BENEFICIAL TO CUSTOMERS
10. COHESION ASPECTS TO BE TAKEN INTO ACCOUNT

These detailed options can, in turn, be translated into implementation proposals, and these are shown in the succeeding pages.

PART I: GENERAL REGULATORY ISSUES**1. ESTABLISH A SET OF UNIVERSAL SERVICES**

The key social requirement for postal services is the maintenance of the universal service. Universal service without any conditions about price can be provided in the competitive (non-reserved) sector. But, in order for the service to be at a price affordable to all, it is necessary to have sufficient economic returns to scale. These can only be achieved through the granting of some special and exclusive rights - hence the need for reserved services. (Although it is possible for there to be more than one reserved service provider in each Member State, this is unlikely; for the sake of simplicity, all the proposals refer to only one reserved service provider - assumed to be the postal administration - in each Member State.)

- 1.1 A reference definition should be decided for the universal service to be applied throughout the Community. This definition will need to take into account the Community's social and economic requirements, as well as other commitments, notably to the Universal Postal Union (UPU). A Member State would still be able to extend the definition to be applied in its own territory, in line with its legitimate public interests.**
- 1.2 In order to ensure universal service at a price affordable to all, a set of reserved services must be established. The list of services that could be included in this set of reserved services should be established at Community level.**
- 1.3 In accordance with the principle of proportionality, the size of this set of reserved services should be no larger than is needed to secure the universal service objective.**
- 1.4 Outside the reserved area, all services will be provided in free competition. The postal administrations could also provide non-reserved services.**

2. DEVELOP THE DEFINITION OF UNIVERSAL AND RESERVED SERVICES

The reserved services must be defined clearly in order to distinguish plainly between what is in the reserved area and what in the non-reserved area. This definition of the set of reserved services requires much more work which should be undertaken in the light of the competition rules as laid out in the Treaty of Rome.

Throughout this analysis, the objective will be to seek the least restrictive solution. Conditions in some Member States may permit the scope of the reserved services there to be less than the set defined at a Community level, but always consistent with the objective of universal service provision, thus ensuring that the public service mission is carried out in sound economic and financial conditions. Conversely, other Member States might possibly find that the Community set of reserved services might not be sufficient to guarantee the universal service; in such a case, the Member State concerned may then consider applying a more restrictive solution that will still be compatible with Community law.

The universal services defined at Community level will have to be provided obligatorily in all Member States. The regulatory body of each Member State, taking account of all commitments, may well decide that universal service should be provided obligatorily beyond the scope of the reserved area. Thus, in addition to reserved universal services which have to be provided mandatorily, there are likely to be some mandatory non-reserved services for which universal service is also required, this obligation being delegated by the regulatory authority to one or more operators.

Some other operators may decide for commercial reasons also to provide universal service. The important distinction is the obligation underlying the provision of the universal service. Throughout these proposals mention of the universal service provider refers to the operator who is obliged to provide the universal service.

Each postal administration will therefore be obliged to provide universal service, as it will be defined at national and Community levels. This obligation should not impose an unfair financial burden on the postal administrations. Proper tariff-setting systems are therefore important (see below at Paragraphs 7 and 8).

Self-delivery and self-posting (delivery and posting of one's own mail by oneself)

- 2.1 Any individual or organisation has the right to deliver his/its own mail himself/itself anywhere in the Community, or to transport it himself/itself for posting directly with the postal administration in the country of delivery.
- 2.2 Any individual or any organisation also has the right to post his/its mail with a postal administration of another country for delivery in a third country or back in his/its own country. In the latter case, if the item would otherwise have met the criteria for being reserved in the individual's/organisation's country, the mail must be given to the postal administration for delivery, and its delivery costs must be properly compensated.
- 2.3 To aid the interpretation of the proposals at Paragraphs 2.1-2 above, the Community will need to develop rules regarding the delivery or posting of mail by sister or subsidiary organisations in the same or another Member State.

Non-reserved area

- 2.4 When new services (such as electronic mail) are evolved that are significantly different from the existing reserved standard services, such new services need to be considered as being in the non-reserved sector. However, this may need to be reviewed for particular cases. During the consultation that will follow publication of the Green Paper, the economic and financial effects of this will be analysed.
- 2.5 If a new service subsequently becomes a necessary element in the achievement of the universal service, it is possible to envisage its integration into the reserved area in line with the criteria mentioned at Paragraph 2.16-17 below.
- 2.6 Any service that is not within the reserved area is therefore non-reserved, and should be provided in free competition.

The reserved area

- 2.7 The Community must complete the development of the definition of the set of services that could be considered reserved. The set will cover some standard postal communication items (including letters and postcards) up to certain

limits described below. It will not include, for example, publications, goods-bearing items or express (courier) items. The placing of addressed direct mail in the non-reserved area would, a priori, be envisaged. The economic implications for the universal service of the liberalisation of direct mail should be analysed (see below at Paragraph 2.9); it will also be necessary to establish appropriate regulatory control systems to prevent possible abuse.

- 2.8 Since the establishment of a set of reserved services is justified by the need to ensure universal service at affordable prices, the definition of the scope of the universal service required across the Community needs to be finalised. (The universal service requirement will be defined in terms of user needs, which may vary over time.) Both the scope of the universal services and that of the reserved area will need to be subject to regular review.
- 2.9 The Commission, with the help of the Senior Officials' Group on Posts, will establish a working group to analyse in detail: the economics of universal service provision in the Community; the size necessary for the reserved area; and the set of controls needed to protect the reserved area. The working group will also analyse the economic implications for the universal service of each liberalisation measure. The working group should complete its work within one year of the publication of the Green Paper. Its analysis will also lead to orientations concerning the limits of the reserved area defined at Community level. (Proposals for defining these limits are shown below at Paragraphs 2.16 - 2.17.)
- 2.10 The regulatory body of each Member State will wish to define the universal service that must be provided obligatorily in its territory. In doing so, it will need to take account of the universal service obligations defined at Community level.
- 2.11 Member States can decide to have a reserved area smaller than the Community limits, but will still have to ensure universal service up to the Community limits for the universal services.

Reserved services - additional issues

- 2.12 National (domestic) mail that would come within the scope of the reserved services of a Member State must not be transported out of the Member State by a third party operator for mailing back into the Member State. However, mail that is physically generated in a particular country (for example, through the handling of data or the printing of the contents there), or is in some way subject there to a process that adds substantial value, should be treated as mail originating in that country.**
- 2.13 The placing of intra-Community cross-border mail (mail crossing from one Member State to another) in the non reserved area would be envisaged. If a Member State was convinced that such a liberalisation might prejudice the universal service, it could apply a more restrictive solution provided that it was proportional to the objective and compatible with Community law. It will be necessary to establish appropriate regulatory control systems to ensure that domestic mail that would otherwise have been reserved is not fed into the cross-border system through third party operators (see Paragraph 2.12 above). It is accepted that certain Member States may need a certain adaptation period to implement this measure; the need for such an adaptation period and its length (which may vary from Member State to Member State) should be discussed during the consultation period following the publication of the Green Paper.**
- 2.14 The placing of international mail (either mail originating in a Member State with a destination outside the Community or originating outside the Community for delivery in a Member State) in the non-reserved area would be envisaged. If a Member State was convinced that such a liberalisation might prejudice the universal service, it could apply a more restrictive solution provided that it was proportional to the objective and compatible with Community law. It will be necessary to establish appropriate regulatory control systems to ensure that domestic mail that would otherwise have been reserved is not fed into the cross-border system through third party operators (see Paragraph 2.12 above). Certain Member States may need a certain adaptation period to implement this measure; the need for such an adaptation period and its length (which may vary from Member State to Member State)**

should be discussed during the consultation period following the publication of the Green Paper.

- 2.15 The fact that a service is part of the set of reserved services as defined at Community level does not automatically imply that a Member State should integrate the service into its reserved area.

Criteria for definition of limits

- 2.16 Only services with a universal obligation could be considered reserved. However, services providing delivery of goods-bearing items and printed papers (under the reserve of the orientations on direct mail at Paragraph 2.7 above) should not be reserved, even if these services are provided under a universal service obligation. A contents criterion will be needed to ensure that goods-bearing items and printed papers are placed in the non-reserved area.
- 2.17 The items that will remain as items that possibly could be reserved are standard postal communication items. Within these, the criteria to be used for defining the scope of the reserved services will be both weight and price. There will be a link between the two criteria; this link needs to be quantified. (In the medium/longer term, price limits alone may well be sufficient.)

3. ENSURE COMPATIBILITY OF OTHER MEMBER STATE COMMITMENTS WITH COMMUNITY LEGISLATION AND POLICIES

Naturally, all postal operators (both private and public) providing services in the Community must comply with Community legislation. Of particular importance to the postal sector are (or will be) directives on data protection, indirect taxation and customs procedures. As with all sectors, efforts need to be made to reduce the possible tensions between, on the one hand, Community law and policies and, on the other, potential obligations arising from other conventions or treaties that Member States may have signed.

To this end, the Community should be involved in the development of legislation and rules that may affect its postal sector. It should therefore apply to both the UPU and the CEPT to gain observer status. The UPU is an agency of the United Nations, and the Community has observer status at the UN.

- 3.1 The Community should be actively involved in future congresses of the UPU, to help to ensure that there are no tensions between congress decisions and obligations under the Treaty of Rome, other Community legislation or the Community's postal policy.
- 3.2 In particular, use of Article 25 of the UPU Convention is not appropriate for use within the Community. It seems necessary to replace it with a less restrictive measure that still makes clear that the physical transport by a third party operator of mail out of a Member State for mailing back into it is forbidden if the exclusive rights of the postal administration in that Member State are thereby infringed (as stated above at 2.12).
- 3.3 The Community should seek to acquire observer status at the Universal Postal Union (UPU).
- 3.4 The Community will investigate and then propose how to prevent mail being taken out of the Community for mailing back in with the sole intention of circumventing the Community's policies on tariffs and terminal dues (see proposals below at Paragraphs 6 and 7).

4. SEPARATE REGULATORY AND OPERATIONAL FUNCTIONS

In order to ensure that the user's interests are best served through the impartial treatment of all operators, it is essential that regulatory and operational functions should be separated. The independence of the regulatory function will better enable it to achieve the best balance between public and private operators, and between reserved and non-reserved service providers. It will monitor the effectiveness of the reserved services, in terms of the service provider both maintaining a good universal service and meeting its other obligations shown below at Proposals 5, 6 and 8. (It will also need to oversee the obligation of privacy.) If the situation arises, it will need to consider what action may be necessary in the case of performance falling short of the obligations.

- 4.1 Each Member State must have a regulatory body that is separated from any operational function.
- 4.2 Regulatory bodies are responsible for the national application of Community policy on postal services, particularly the principle that the reserved service

area must be proportional to the universal service objective (as stated at Paragraph 1.2 above).

- 4.3 The regulatory body of each Member State will be responsible for ensuring that national legislation states clearly what services are reserved domestically within the Community set of possible reserved services. All other services should be considered non-reserved.
- 4.4 The regulatory body will ensure that other operators respect the exclusive rights that are defined for the reserved service provider.
- 4.5 The regulatory body will need to ensure that the reserved service provider meets its service obligations, including providing equality of treatment.
- 4.6 The regulatory body should seek firm undertakings from the universal service provider(s) with regard to the privacy of mail.
- 4.7 The regulatory body will need to agree with the universal service provider(s) what commitment the latter must give concerning the quality of service that it will provide. The regulatory body needs to be able to underwrite the reliability of any service performance results that are published.
- 4.8 Appropriate levels of transparency need to be determined, both for access to the network and for the costs underlying the prices for access.
- 4.9 If the reserved service provider is competing in the non-reserved sector, it can, for economic and commercial reasons, provide these services through the universal service network that is also used for the reserved services. The regulatory body must ensure that there is no cross-subsidy from the reserved area to the non-reserved area.
- 4.10 The regulatory body must ensure that private operators (who may be competing with the postal administration in the non-reserved area) have access to reserved services insofar as private operators need such access to provide the non-reserved services that they offer. (See also Paragraph 5.3 below.)
- 4.11 The appropriate authorities, whether at national or Community level, need to ensure that application of general legislation to the postal sector's non-reserved services does not unfairly advantage or disadvantage any operators competing in the non-reserved area.

PART II: OBLIGATIONS OF UNIVERSAL SERVICE PROVIDER**5. ACCESS CONDITIONS TO UNIVERSAL SERVICES TO BE SAME FOR ALL**

The rule must be equality of treatment of users (customers) of universal services. Within this rule, it is recognised that customers have varying requirements and can co-operate with universal service providers to varying extents. This is partly a function of size, but particularly of the ability to prepare mail in ways that are beneficial to the postal operation of the universal service provider, thus allowing the latter to offer discounts.

- 5.1** Where customers meet the same posting conditions, access conditions for universal services ought to be the same for all.
- 5.2** Each universal service provider should make available contract facilities for large customers. (See also Paragraph 9.3 below.)
- 5.3** Universal service providers must offer these services equally to all potential customers, even if these customers may be their competitors in the non-reserved sector.
- 5.4** For ordinary cross-border exchanges between postal administrations through the international mail system, it is accepted that there is some element in this relationship that is not purely commercial, so that access conditions for one postal administration posting into another could need to be different from the normal commercial conditions. However, the outward postal administration should also be able to have access as a customer to the domestic universal services of the inward postal administration. This access will be on the same terms as for other similar users.
- 5.5** Posting conditions, tariffs (including standard discounts) and service targets for universal services must all be published.

6. TARIFFS OF UNIVERSAL SERVICES TO BE RELATED TO AVERAGE COSTS

The guiding principle should be that tariffs should be related to average costs. The consistent application of this principle is the best guarantee of the financial soundness of the postal services. In order to ensure fair treatment for all, cross-subsidies, whether from

one service to another or, because of discounts, from one group of customers to another, should be minimised and phased out. (However, geographical cross-subsidies continue to be permissible.) Policy on discounts is particularly important: in general, they should be linked to cost savings (which may include reductions in unit costs brought about by increases in volume).

- 6.1 Tariffs for universal services ought to be related closely to costs. The objective is for tariffs for each service to be based on average costs for that service. Preferential tariffs need to cover at least marginal costs.
- 6.2 If subsidies are considered necessary, their objectives, their value and their scope should be transparent.
- 6.3 Preferential tariffs, if justified, must be made available in a transparent manner to all users that qualify for them, regardless of the country in which they are located.
- 6.4 Cross-subsidies which are made from reserved services to non-reserved services are, in general, unacceptable. However, cross-subsidies can be permitted across geographic areas in order to allow the péréquation tarifaire (see below at Paragraph 6.5) and from the non-reserved area to the reserved area. There could also be cross-subsidies from the reserved to the non-reserved area if they were necessary to assure the universal service and if they were compatible with competition rules (see below at Paragraph 6.6).
- 6.5 Geographic cross-subsidies are permissible if needed to achieve a single unitary tariff for a specific service where that is considered desirable.
- 6.6 It is possible that some mandatory non-reserved services can only be provided at a loss in certain geographic areas. In this case, the losses should be isolated to specific areas, and could be funded either by subsidy from outside or by cross-subsidy. Such funding needs to be completely transparent in order to prevent any unfair pricing by the provider of the mandatory non-reserved service.
- 6.7 In the reserved (non-competitive) sector, discounts provided to large customers (usually on account of the mail preparation that they can undertake) must, in general, be related to cost savings which the service provider will derive. Postal administrations must avoid giving customers of universal services discounts

which are not related to savings in costs. They must avoid contractual linkage between conditions for using universal services and those for using non-reserved non-mandatory services.

- 6.8 Tariffs set at very preferential or free rates as a result of government decisions (such as for delivery of press material and books, electoral mail and blind persons' mail) need to be the subject of transparent treatment.

7. INTER-ADMINISTRATION COMPENSATION TO REFLECT DELIVERY COSTS

Revenue for mail posted is paid to the operator who collects the mail. In the case of cross-border mail collected by one postal administration and delivered by another, it is the outward administration that receives the revenue from the customer. However, a substantial part of the costs involved are incurred by the inward administration in delivering the mail. Some charging system is therefore necessary to provide financial compensation to the delivery administration for its delivery costs.

The existing systems of charging between postal administrations (called terminal dues) is not cost based, leading to significant distortions between remuneration and actual delivery costs incurred. The same principle of basing tariffs on costs should apply to the financial compensation system between postal administrations.

- 7.1 The compensation charges between postal administrations for delivering each other's mail (terminal dues) ought to reflect actual inward costs.
- 7.2 Since inland tariffs will be related to costs, the compensation charges between postal administrations ought to be based on the delivery proportion of the inland tariff, with some supplement for the extra handling necessary and for profit.
- 7.3 A working group should be established to prepare the basis for a revised compensation scheme to be applied within the Community. The group should present its proposals within twelve months of being established.
- 7.4 Efforts should be made to extend the Community's principle of basing inter-administration compensation arrangements on costs to other administrations with whom mail is exchanged. These efforts could be made within the

framework of the UPU and the Conference of European Postal and Telecommunications authorities (CEPT).

8. SERVICE STANDARDS FOR UNIVERSAL SERVICES TO BE SET AND PERFORMANCE MONITORED

The justification for establishing a set of reserved services is based on the social requirement for universal service. The actual service performance is therefore crucial in ensuring that the social requirements are met. Standards therefore need to be set, performance monitored and control systems put in place. It is important to note that such standards are only thresholds - universal service providers should still try to have a performance higher than the standards.

- 8.1 Community service standards need to be set for services for which there is a universal service obligation defined at the Community level. Performance, of both national and intra-Community mail, must be monitored and the results published.
- 8.2 Member States will need to decide whether there should be national standards for mail for which there is a universal service obligation defined at the national level (and beyond the Community definition). If required, any standards established at national level that are different from those established at the Community level should collectively be more exacting than the Community standards.
- 8.3 In order to establish the Community standards, the Commission should set up a working group with Member State representation. The group would need contributions from regulators, reserved service providers, contract users and consumers.
- 8.4 The service performance standards should be stretching, but achievable. They will be based on the Community definition of universal service. This requires collection from all posting boxes and counters at least once in each working day, and delivery coverage of all addresses at least once each working day. Exceptions, if any, to this general requirement should only result from extreme cases, and should be scrutinised very carefully.

- 8.5 **The Community must have a single system for monitoring delivery service performance. This system needs to measure "end-to-end" performance because this is the only system that accurately measures customers' experience of the service.**
- 8.6 **Where existing service falls significantly short of the desired standard, those regulatory bodies responsible for ensuring that the operators meet their obligations will need to set intermediate targets that progress towards the standard.**
- 8.7 **Each national regulatory body should be assisted by a committee representing users. The committee membership should be drawn from a representative cross-section of users, including consumer representatives.**
- 8.8 **Community-wide standards are also needed for customer care, in particular the maximum acceptable period for dealing with enquiries or complaints. Different standards may be necessary for national and intra-Community mail.**

PART III: HARMONISATION AND COHESION

9. HARMONISATION APPROPRIATE WHERE BENEFICIAL TO CUSTOMERS

The more tangible the benefit for the consumer, the stronger the case for harmonisation. The clearest benefits would seem to be gained from some harmonisation of access conditions and from harmonisation of service standards and performance monitoring (described above at Proposal 8). In the reserved area, if the benefits of harmonisation were sufficiently great, implementation might even have a mandatory force; in the non-reserved area, it could only have the force of a recommendation.

- 9.1 **The Community must encourage the appropriate level of harmonisation which will improve service and help the potential customer.**
- 9.2 **Access conditions for using the universal services of the Community's postal administrations should be made as similar as possible.**
- 9.3 **All the Community's postal administrations should offer contracts for access to universal services by larger users. There should be a minimum set, common to**

all the postal administrations, of contract conditions available to possible contractual users. This would include discounts for pre-sorting. The scale of the discounts would vary between postal administrations.

- 9.4 Tariff structures need to be investigated with a view to making them more similar.
- 9.5 The Community will investigate whether it would be beneficial to make the service tiering system used more uniform. (At present, some administrations operate a contents-based product split between letters and printed papers, others a speed-based split between first and second class.)
- 9.6 Desirable operational harmonisation relates to the demand for essential interoperability. Agreement on certain technical standards (for instance for postal electronic mail or operational bar-coding systems) is needed in order to improve service.
- 9.7 A working group should be established to analyse what potential harmonisation measures are either necessary or desirable. The working group will need contributions from representatives of users (including those of consumers), private operators and postal administrations.

10. COHESION ASPECTS TO BE TAKEN INTO ACCOUNT

It is important always to keep in mind the need to ensure that the Community throughout has an effective postal sector that properly meets the postal needs of the whole of the Community. Most of the improvements necessary can be gained through better management. However, some capital investment could be needed, which, particularly in less favoured regions, could entail a significant financial burden.

- 10.1 Further work will determine the exact scale of the economic and financial consequences of the orientations indicated, in terms of reinforcing economic and social cohesion.