

Study on the impacts of liberalisation in the postal sector:

Liberalisation of incoming and outgoing intra-Community cross-border mail

European Commission

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FOREWORD

PricewaterhouseCoopers was contracted by the EU Commission in May 1998 to undertake a study on the effects of liberalisation on intra-Community cross-border mail. The study was commissioned primarily to obtain information to help the Commission formulate and implement policy aimed at improving the economic and competitive position of the postal sector within the European Union.

We have undertaken the study in accordance with the terms of reference. During the course of the study we consulted widely with postal universal service providers and private postal operators, postal regulators, interest organisations, user organisations and postal experts. We have received a high level of co-operation from all parties in a very short time-frame, and we would like to formally express our gratitude to all those who contributed to the study.

In this report we record our findings and a number of conclusions concerning the effects of liberalisation of intra-Community cross-border mail, which we sincerely hope will contribute to the future development and success of the sector.

We would also like to take this opportunity to thank the EU Commission for giving us the opportunity to undertake this challenging and interesting study.

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TABLE OF DEFINITIONS

Cross-border mail	Intra-community mail which at some point towards its destination crosses a national border.
International mail	Intra-community mail and mail between an EU member country and a third country, which at some point towards its destination crosses a national border.
Inbound cross-border mail	Mail which at some point towards its destination from sender to receiver has crossed a national border.
Outbound cross-border mail	Mail which at some point towards its destination from sender to receiver will cross a national border.
Directive:	Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service.
De facto liberalisation:	Liberalisation existing in actual fact, whether legally or not.
De jure liberalisation:	Liberalisation existing in legal fact, according to current legislation.
Letters:	LC: Letters and cards, including priority items. AO: Other articles (originally: autre objects) or non priority items.
Letter items:	Letter items equals Letters-LC plus Letters-AO.
Direct mail:	A communication consisting solely of advertising, marketing or publicity material and comprising an identical message, except for the addressee's name, address and identifying number as well as other modifications which do not alter the nature of the message, which is sent to a significant number of addresses, to be conveyed and delivered at the address indicated by the sender on the item itself or on its wrapping.
Businesses:	Small/medium: Primarily national businesses, typically 0 - 50 employees. Large/national: Primarily national businesses, typically 51 – 400 employees. Multinational: Typically businesses with multinational presence, 400 + employees.
Individuals:	Private households.
Terminal dues:	The remuneration of universal service providers for the distribution of inbound cross-border mail comprising postal items from another EU country or from a third country.
N	N equals the number of respondents who have answered a specific question.

AT	Austria
BE	Belgium
DK	Denmark
FI	Finland

FR	France
DE	Germany
GR	Greece
IE	Ireland
IT	Italy
LU	Luxembourg
NL	The Netherlands
PT	Portugal
ES	Spain
SE	Sweden
UK	The United Kingdom

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Executive summary

This section presents a summary of the findings and conclusions resulting from the PricewaterhouseCoopers study on the impacts of liberalising intra-Community cross-border mail, which was conducted on behalf of the EU Commission from May to November 1998.

Objectives of the study

Following a competitive tender in 1997, the EU Commission contracted PricewaterhouseCoopers to undertake this study to analyse the impact of liberalising cross-border mail within the EU. The study was to:

- provide an understanding of the economic mechanisms underlying the development of competition within cross-border mail, focusing on the competitive, technological and regulatory environment;
- describe how the sector perceives the impact of any liberalisation, in particular in terms of employment;
- carry out a prospective analysis of the economic, social and technological environment of international cross-border mail, and in particular of intra-Community cross-border mail over the short term, but also the long term (ten-year prospects);
- provide a quantification of the development of intra-Community cross-border mail over five and, if possible, ten years;
- provide analysis of strategies to entry resulting from possible liberalisation of cross-border mail. This analysis will particularly emphasise the degree to which new entrants will apply various parts of the value chain, i.e. will it be end-to-end services, re-mailing etc.; and,
- focus on the technical and practical problems with which national regulators are faced as a result of the liberalisation of cross-border mail.

In order to highlight the above points, the report focuses on the following areas:

- a presentation of the intra-Community cross-border mail market;
- perceptions of and expectations to a liberalisation of cross-border mail; and,
- total impact of liberalisation of intra-Community cross-border mail.

Based upon these findings a final conclusion is presented.

The intra-Community cross-border mail market

In terms of the intra-Community cross-border mail market a sharp distinction has to be drawn between outbound and inbound cross-border mail. Outbound cross-border mail is de jure regulated in all, but 3 member states, yet this market, throughout the EU, is perceived as de facto liberalised. Quite the opposite is true for the inbound cross-border mail market, where only two countries are de jure liberalised and this market is considered both as de jure and de facto regulated. However infringements of the inbound cross-border mail market do take place.

Thus, it is reasonable to conclude, that a mismatch exists between the commercial reality of the market and the regulatory framework of the outbound cross-border mail market. Concerning inbound cross-border mail, the situation is quite different. This market is characterised by a match between the commercial and the regulatory world, in the sense that only a small part of the market is both de jure and de facto liberalised.

Of major importance to the cross-border mail market is the subject of terminal dues, or the remuneration between incumbent postal Universal Service Providers (USPs) of the delivery of inbound cross-border mail. Historically terminal dues used to be based on a principle of mail

reciprocity and thus no financial remuneration. However, as imbalances in the mail flows grew, typically between developed and developing nations, the UPU terminal dues system of remuneration was adopted. Today, the current use of terminal dues systems within the EU is in a transition phase, characterised by considerable uncertainty as to which multilateral terminal dues system is actually in use. Inherent in the market are both the CEPT systems as well as expectations to the use of the cost based multilateral terminal dues systems known as REIMS. On the other hand some USPs are engaging in bilateral terminal dues systems. The use of various terminal dues systems imply significant changes in terms of terminal dues payable.

Competition, especially in the outbound market, is intense, involving all players in the market: international integrators, large internationally focused USPs, smaller more nationally focused USPs and local private postal operators.

Two groups of USPs stand out in terms of their international cross-border mail activities: operators that are either pro-active or re-active. A last in-active group have chosen to focus solely on their own national markets and not to engage in international competition.

The first category is characterised by organisations that anticipate the changes in the market and meet these changes by either adopting new or different ways of approaching the market, or by changing their business vision or in fact business mission in advance or concurrent with the event of these changes. The second category is characterised by organisations which adopt a wait-and-see approach and simply either note the changes that are taking place and then decide whether or not it is appropriate to act. The final category is typically characterised by organisations that decide to focus solely on their current domestic core business.

Principally the pro-active, but also the re-active USPs engage in various collaborative agreements, not only with other USPs, but also with private operators and clients. These USPs have already established solid first mover advantages in the intra-Community cross-border mail markets and are well prepared for a liberalisation of this sector of the postal industry. Furthermore the in-active USPs are not preparing themselves for a future liberalised cross-border market, which leads us to conclude that the differences between the EU USPs are growing due to this present situation.

Postal customer buying behaviour is focused on price. However, quality and reliability is nearly as important. The major customers are both growing bigger and becoming increasingly global, suggesting a demand for increasingly global postal services. It is becoming more common to invite USPs to submit proposals for the handling of all mail to Europe by a single supplier. In the present situation it is rather complicated for the suppliers to meet this demand.

It is interesting to note, that some of the biggest USPs in the EU are able to supply high quality cross-border mail services at relatively low tariffs - essential requirements needed to bid for tenders of major international customers, especially in a future liberalised cross-border mail market.

On the basis of the above, it can be concluded, especially for outbound cross-border mail, that a "market-driven" liberalisation is in motion, to some degree anticipating a legal liberalisation.

This market driven liberalisation can be attributed to various factors: Terminal dues payments based on CEPT agreements have provided the financial incentive for this liberalisation, a process which can be characterised as an up-stream internationalisation of the cross-border mail market. Generally speaking, the impact of this liberalisation to the individual USPs is very limited, thus posing no financial threat. The market driven liberalisation of outbound cross-border mail is the vehicle for the pro-active USPs - and to some extent the re-active USPs - to prepare their businesses for a future liberalisation of cross-border mail, as well as an overall liberalisation of the postal sector.

Perceptions of and expectations to a liberalisation of cross-border mail

In general the attitudes to and perceptions of a liberalisation of cross-border mail are characterised by great diversity. Many USPs see liberalisation of cross-border mail as a threat to the financing of the Universal Service Obligation (USO) and thus the universal service provision. These USPs agree that the problem is not the liberalisation of cross-border mail per se, but rather the derived problems such as the loss of domestic market share due to an international re-routing of domestic mail in order to obtain less expensive postal tariffs, a phenomenon known as remail.

This is something which happens today, but primarily in the outbound cross-border mail market. Should cross-border mail be liberalised, the inbound cross-border mail markets are open for competition as is the possibility of so-called ABA remail. Domestic mail which is transported, physically or electronically, to another country with a lower international tariff than the original domestic tariff and then mailed back to the country of origin. For large senders of cross-border mail, this potentially presents considerable savings in terms of postage.

Thus, to these USPs, the cardinal point becomes one of accurately defining the extent of especially the Universal Service Obligation and provision and the domestic reservable areas, a process which potentially could be very time consuming.

On the other hand some USPs believe that cross-border mail is exactly the area to start with, as cross-border mail, on average, only represents a minor part of the overall mail business.

Both the inbound and outbound intra-Community cross-border mail markets are expected to grow in the range of three to 17 percent by 2006 for Letters-LC and Letters-AO . This expected positive development in the future cross-border mail market, which is not attributed solely to liberalisation, is determined by an underlying development which can be attributed to traditional macroeconomic indicators and the technological development. In general the expected market growth within cross-border mail volume is approximately one to two percent per year.

The USPs and national postal regulators do not believe that it will be possible to monitor and control if and how the domestic reserved area is circumvented by a liberalised inbound cross-border mail stream. Even if it were possible, it would be both too expensive and most likely counterproductive to a liberalisation. On this basis it is difficult to see how a liberalised cross-border mail stream and a regulated domestic mail stream is to be monitored and controlled at the same time.

Generally the European consumer organisations are in favour of a liberalisation of the postal sector and a liberalisation of cross-border mail. However, it is important that each and every consumer is guaranteed that the USO is maintained. Furthermore, the most important objective of the regulatory bodies, in their opinion, is to monitor and control that all consumers are treated equally. In practical terms this means ensuring at least a similar quality of postal services as a result of a liberalisation. It is also important to monitor if lower prices and transparent price policies are actual effects of the liberalisation. Finally, it is important that individuals maintain the possibility to complain about the operators and their services.

To the USPs and postal regulators liberalisation is thought to impact employment among USP negatively, but at the same time it is also recognised that inherent factors such as efficiency improvements, automation, organisational restructuring etc., are the true drivers of employment levels. As liberalisation is thought to increase the competitive pressure, these factors will thus become increasingly important. Liberalisation is thought to favour private postal operators, in terms of employment levels.

According to evidence gathered in a study on employment in the EU postal sector, employment levels among EU USPs are expected to decrease by 7,7 percent in the period 1996 to 2000 and in the same period private operator employment is estimated to increase by ten percent.

It is deemed that a future liberalised cross-border mail market will be defined by four types of postal operators: a few trans-European operators that are able to offer so-called end-to-end control, postal operators participating in some kind of regional alliance, strictly nationally oriented USPs delivering only their allotted inbound cross-border mail and finally a large number of local private postal operators which will help other major postal operators in establishing market coverage.

This market structure certainly implies market definitions based on commercial and logistical criteria and not, as is presently the case in the EU - on national borders. This market structure will match the trends on the demand side among the influential major postal customers - characterised by “shopping for the best and cheapest” postal service across EU. Price, quality of service and reliability will be the key success factors in the market.

Total impact of liberalisation of intra-Community cross-border mail

In the transition process from regulation to liberalisation of the cross-border mail market it is expected that the USPs will defend their core strategic asset of end-delivery. More than half would involve themselves in outbound cross-border mail market expansions and inbound cross-border mail market entries to various degrees. In a liberalised cross-border mail market international integrators would presumably play an important role as collaboration partners in these developments, whereas local – often new – private postal operators would “fill out gaps” in the value chain as sub-contractors.

Four cases on the impact to the different elements in a generic cross-border mail value chain are shown, revealing a loss of market share of up to 16 percent of cross-border mail. However, the loss will only be as significant in the specific cases where the international competitiveness of the postal operators is relatively poor. Thus, USPs that are dependent on cross-border mail may be more severely impacted. An important modifying factor to these potential losses will be the expected compensating growth in the postal markets.

The aforementioned threat of ABA remail has been estimated and it has been concluded that the potential for conversion of domestic to cross-border mail will be in the range of ten to 30 percent of the domestic mail market. However, this estimate must be corrected for the likelihood of an actual conversion and the likelihood of injection of the cross-border mail back to the incumbent USP, enabling the USP to receive terminal dues remunerations and thus lessening the effect of the mail conversion.

It has been concluded that the loss of market share in the domestic reserved area due to the conversion of domestic into cross-border mail is in the range of three to 16 percent. The loss of domestic market share is a natural outcome of a liberalisation of cross-border mail. USPs faced with a loss of market shares will have the opportunity to regain the lost business in the cross-border mail market. The chances of success are again ultimately related to the international competitiveness of the individual USP.

Evidence gathered in this survey clearly states that employment among USPs will decrease if cross-border mail is liberalised and employment among private operators will increase. Based on the same evidence we conclude that the change driver affecting employment in the postal sector is not liberalisation of cross-border mail per se, but other factors such as automation, organisational change, electronic substitution etc.

From a qualitative perspective the transition processes, following a liberalisation of cross-border mail, will be characterised by a better match between the needs and demands of the postal customers and the service offered by the postal operators. A wave of mergers and acquisitions will be seen, as will many non-equity bilateral agreements and strategic alliances between USPs and between USPs and private postal operators. A future four layer structure of competition - pan-European operators, regional strategic alliances, strictly national operators and local postal operators - is expected as a consequence of the above strategic actions by the USPs, international integrators and local operators.

In a liberalised cross-border mail market the simultaneous monitoring and control of both a liberalised cross-border mail stream and a regulated domestic mail stream will pose problems to the national postal regulators.

Conclusions

Outbound versus inbound cross-border mail

It can be concluded that a wide gap exists in the EU between the two individual markets that make up cross-border mail: outbound cross-border mail is de facto liberalised and inbound cross-border mail on the other hand is de facto non-liberalised. In effect this translates to a gap between the regulatory part of the industry and the commercial reality as outbound cross-border is de jure regulated in all but three member states.

It is evident that the de facto liberalisation of outbound cross-border mail is the result of an ongoing market driven liberalisation. Whereas this is the case for outbound cross-border mail, this is not true for the inbound cross-border mail market. Evidence in this report shows that only two member states report infringements of their inbound cross-border mail markets, but even if infringements were to happen in more than two member states, it would not amount to the same market driven liberalisation, as seen in the outbound cross-border mail markets.

Outbound cross-border mail can be de jure liberalised quickly. First of all, the outbound market is already de facto liberalised and it would be natural to establish a better match between the actual market environment and the regulatory environment, thus removing the current uncertainty in the market. Furthermore, no noteworthy negative effects can be seen when liberalising the outbound market. No major effects to domestic postal services can be identified and no major changes to the regulatory authorities are needed.

However, if inbound cross-border mail is liberalised it could pose a threat to specific USPs and the financial viability of their universal service provision through infringements on their reserved area by the conversion of domestic mail into cross-border mail, also known as ABA remail.

Remail

Remail, both ABA, ABB and ABC, is an established phenomenon in the cross-border mail market today. Formally remail is de jure prohibited in all but two member states, but especially through the de facto liberalisation of outbound cross-border mail, it has become a common occurrence. The technological development has only spurred this process through non-physical remail.

To the consultants it is clear that remail is a fact of life and remail will also be an important business for already active USPs and international integrators in the future. The REIMS multilateral terminal dues agreement only includes USPs and consequently limits the potential for remail only among those players. In a liberalised cross-border mail market opportunities will exist for USPs and international integrators to enter bilateral agreements in order to take advantage of already gained experiences, established networks, subsidiaries and affiliates and competitive positions.

Conversion of domestic mail

It is concluded that in many cases the impact to the domestic mail market, due to a conversion of domestic mail into cross-border mail, will be relatively modest. In a few cases the impact to the individual USP can be substantial - should this be the case, liberalisation is deemed not to be the main reason, but rather a relatively poor international competitiveness of the individual USP.

In a simplified context, mail volumes are transferred from a domestic sphere to an international - in total the postal services defined as domestic will decrease and cross-border mail services will increase. The case in point is if each USP will be able to compensate the domestic loss through revenue gains in the cross-border mail market.

In the long run it seems clear that the incumbent USPs will be able to survive by their most valuable asset – the end-delivery. Despite the potential loss of market share it must generally be foreseen that most of the European USPs will be able to maintain substantial market shares in the domestic mail market.

A liberalised cross-border mail market vis-a-vis domestic reserved areas

Liberalised cross-border mail streams will be difficult to monitor and control vis-à-vis domestic reserved areas. It is to be expected that a liberalisation of inbound cross-border mail will put increasing pressure on the independent national regulatory bodies, if they remain in their present shape. As a consequence of liberalisation new methods and more resources will be needed if the current regulatory authorities are to keep in line with the competitive development. This will result in an intensified pressure and focus on fair conditions in relation to the USO, in order to make sure that the USO is not threatened by illegal cross-border mail operations.

If inbound cross-border mail is to be liberalised it will be of major importance for the regulatory authorities to strike a balance between the support of a liberalised cross-border mail market and the use of regulatory measures that maintain rather than impede such a market.

During the research of the EU cross-border mail markets no regulatory measures of such a nature seem apparent to the consultants.

Reduced domestic market shares and a bigger total cross-border mail market

As a “natural” impact of the opening of a protected home market, most USPs must foresee to loose market shares in the domestic postal markets. As described the magnitude of the loss will depend on many factors among which the relative international competitiveness of an incumbent USP is the most important.

Competition

It can be concluded that USPs such as Dutch PTT, Deutsche Post AG and Royal Mail, international integrators such as DHL, UPS and TNT as well as a number of local private postal operators are well ahead of the game in terms of strategic positioning. These postal operators will stand to benefit the most by a liberalisation of cross-border mail as they are already prepared, both strategically and operationally for such a liberalisation. But also minor, pro-active USPs seem to have a chance in the international competition to come within cross-border mail.

Market structure

In a liberalised cross-border mail environment, supply and demand will help define the geographical scope of the cross-border mail market. It will thus be defined by operators who can service a particular geographical region. Instead of accurately defined market segments based on national borders, as is currently the case, the market is set to be defined by geographical regions more so than nations.

Depending on the type of postal organisation and market coverage, the operators will specialise in different elements of the value chain for cross-border mail - implying different strategic positions for individual operators from one-stop-shops to niche operators. This will result in a four-layer structure of competition: Transnational, regional, national and local players.

Big differences already exist among the USPs in EU. The ongoing market driven liberalisation of outbound cross-border mail is making these differences even bigger, and it is anticipated that a de jure liberalisation will speed up this process even more. Some of the most striking differences in relation to cross-border mail is if the USPs are actively preparing their businesses for a future liberalisation or not. A group of pro-active USPs are very active in building up financially strong positions in order to have a good platform for buying up other postal operators. Another first mover advantage will be established international branches and subsidiaries and/or non-equity strategic alliances. A group of re-active USPs are presently analysing and considering the possibilities for more active preparations, while a third group of USPs are doing little to prepare for a liberalisation of cross-border mail.

Those USPs characterised by a relatively good international competitiveness and a financially strong position would be in the best position for taking advantage of a liberalisation – i.e. compensate loss in the domestic market by gains in the cross-border market.

Employment

We can conclude that liberalisation is seen to impact employment among USPs negatively and employment among the private postal operators positively. However, it is also clear that it is not liberalisation per se which is driving this development.

As mentioned above, employment levels among EU USPs are expected to decrease by 7,7 percent in the period 1996 to 2000 and in the same period private operator employment is estimated to increase by ten percent.

Market growth

It is concluded that the intra-Community cross-border mail markets are expected to grow and that liberalisation will speed up this development slightly.

Prices

It can be concluded that an increase in the intra-Community international tariff is to be expected should the REIMS terminal dues system be fully implemented. This will especially include individual letters, whereas the price of commercial mail will stay unchanged. For the international integrators and other private operators these increases in prices will automatically raise the attractiveness of the cross-border mail markets.

It is our interpretation that price increases, due to the implementation of REIMS, will be the immediate reaction by the USPs. However, in the longer run, prices will decrease due to the intensified competition.

Buying criteria

Whether cross-border mail is liberalised or not, the cross-border mail market will still be a commodity market. Price is the most important factor when buying decisions are made. The major customers will press for price deductions and in a liberalised market it will be more common to tender out the total mail business, for the whole of Europe, to one postal operator. The conversion of domestic mail to cross-border mail will enforce this tendency.

Globalisation

Globalisation has not yet affected postal customers in terms of geographic concentration and relocation of various intra-company activities, nor has it then affected the development of cross-border mail.

However, as major postal customers become more global, they demand increasingly global services. They also demand more choice in order to serve increasingly globalised markets. The biggest and most pro-active USPs and international integrators are already positioning themselves to meet these demands. Thus, it is our opinion that globalisation will have a long-term impact on the cross-border mail markets.

There is a clearly defined demand for more choice in the postal sector. Customers are asking for choice - among competing operators, different quality/price ratios, value added services and different operational set ups.

A liberalisation of the cross-border mail market will result in a much more differentiated market place than what is known today matching the demands of choice from major postal customers. At the one extreme there will be a tough, head-on price competition in a market for standardised goods - commodities. At the other extreme there will be a market for tailor-made products and services, niche services and other high value added postal services.

1. Introduction

1.1. Background and context of the study

The European Parliament and Council Directive (97/67/EC): “On common rules for the development of the internal market of Community postal services and the improvement of quality of service” was published on December 15th 1997. The Directive defines the conditions required for the completion of an internal market for European Union (EU) postal services over the coming years. Chapter three, article seven, paragraph three states that the European Council shall decide not later than 1 January 2000 on the further gradual and controlled liberalisation of the postal market, in particular with a view to cross-border mail and direct mail, effective from 1 January 2003. The paragraph further states that such decisions shall be based on a proposal by the European Commission to be tabled before the end of 1998, following a review of the sector.

As a part of this review, four sector studies and a general modelling study were tendered out by the European Commission. PricewaterhouseCoopers was asked to conduct the study on the impact of liberalisation on cross-border mail. The other studies of the effects of liberalisation were: direct mail, weight and price thresholds and clearance, sorting and transportation (reservation of distribution only). The general study, a modelling study on the total impacts of the liberalisation of the postal sector in EU, is to be based on the results from the four sector studies.

1.2. Terms of reference for the report

The terms of reference spell out the intentions of the study in the following way:

A: The intentions of the specific study on the liberalisation of cross-border mail are:

1. To carry out a prospective analysis of the economic, social and technological environment of international cross-border mail, and in particular of intra-Community cross-border mail over the short term, but also the long term (ten-year prospects). In particular attention shall be paid to:
 - analysis of localisation strategies used by major senders of cross-border mail;
 - impact of globalisation and the single market on growth in mail volume;
 - analysis of attitudes, expectations and buying behaviour of cross-border mail users. This will distinguish between various categories of senders in terms of size as well as types of mail sent;
 - analysis of the current market situation taking into account the various types of players, e.g. global integrators and mail houses, and their respective strengths, weaknesses and value chains;
 - analysis of the impact of the de facto liberalisation of outgoing cross-border mail on the current market situation;
 - analysis of the effect of various applied models of the terminal dues calculation on the incoming and outgoing cross-border mail market. This analysis will emphasise the effect on profitability for universal service providers (USPs); and,
 - analysis of the expectations and attitudes of current operators and potential entrants to liberalisation of cross-border mail and its impact on the sector. This analysis will emphasise the effects on employment.
2. To make analyses based on the above mentioned elements:
 - quantification of the development of intra-Community cross-border mail over five and, if possible, ten years. The quantification will make use of scenario building; and,

- analysis of strategies to entry resulting from possible liberalisation of cross-border mail. This analysis will particularly emphasise the degree to which new entrants will apply various parts of the value chain, i.e. will it be end-to-end services, re-mailing etc.
- 3. To focus on the technical and practical problems with which national regulators are faced as a result of:
 - liberalisation of incoming mail;
 - monitoring and control of the operation of the market following liberalisation; and,
 - the de facto liberalisation of outgoing mail already in place.

B: As one of the four sectoral studies the study should also assist in:

- providing an understanding of the economic mechanisms underlying the development of competition in the postal sector. The emphasis will be on the specific features of two markets, direct mail and cross-border mail, focusing on their competitive, technological and regulatory environment. The studies of the other two markets will provide a reliable analysis of the problems and issues at stake;
- gathering data needed for the modelling study; and,
- describing how the sector perceives the impact of any liberalisation, in particular in terms of employment.

1.3. Scope of the study

The scope of this study has been specifically targeted towards the liberalisation of cross-border mail with the following implications:

Geographical scope

The study is limited to the 15 EU-member countries. When and if needed, trends in the international and global markets are included in the analyses. It has to be remembered that some of the EU USPs are active in the global postal market and/or in the global cross-border mail business.

Market definition

The study specifically addresses the lettermail market. This market is principally defined as: Letters-LC, Letters-AO and addressed direct mail. The price and weight limits of the reserved areas in the EU-countries form a supporting definition of the market. The EU reservable area limits are items of correspondence that weigh less than 350 grams and the price of which is less than five times the tariff of a letter in the first weight step of the fastest standard category. Certain countries have lowered these limits. In general the study addresses the issue of liberalising cross-border lettermail which falls under the domestic reserved areas.

It is a fact, that not all of Letters-AO, according to the definition used in this study, falls under the reserved areas. To give an indication of the approximate amount of cross-border mail. Which does fall under the reserved areas and consequently would be affected by a liberalisation, we have made the following assumptions:

- 100 percent of Letters-LC belong to the reserved areas; and
- 50 percent of Letters-AO belong to the reserved areas.

Types of postal operators

All types of postal operators within the cross-border mail business are principally included in the study, i.e. USPs, international integrators and other private operators.

Time frame

The time frame of this study is five to ten years. Based on historical trends and data, the base year of the study is 1996.

A traditional approach would be to ask respondents to assess what would happen in a future period where liberalisation of cross-border mail has not occurred versus when it has occurred.

This approach could be misleading compared to the actual timing of EU postal liberalisation. In order not to cause excessive confusion, the questionnaires were formulated as follows: Two specific years are analysed distinctively in the study – 2001 and 2006. In our questionnaires and in the qualitative interviews our data gathering have been based on the following assumptions:

- what are the likely developments from 1996 to 2001 – under the premise of a non-liberalised cross-border mail market; and,
- what are the likely developments from 2001 to 2006 – under the premise that cross-border mail, i.e. outbound and inbound cross-border mail is liberalised by 1 January 2003.

Many of the subjects dealt with in the report will evolve over the longer time period and the analyses in qualitative terms have not been limited to the mentioned ten years period.

”Stand alone study”

The study is based on the assumption of all other things being equal or *ceteris paribus*. It is assumed that all other conditions for the postal sector and the cross-border mail business are unchanged. It is understood that each of the four sector studies will analyse the specific issues in a partial setting and the modelling study will conclude on the results from the four studies.

Point of departure: Liberalisation of cross-border mail

The above assumption of *ceteris paribus* also means that our point of departure specifically is a liberalisation of cross-border mail, whereas no other liberalisation mentioned in the Directive is taken into consideration. This implies that we assume the maintenance of a Universal Service Obligation (USO) and universal service provision and, when relevant, a uniform tariff structure. Reserved areas in all of the EU countries are also assumed, apart from Sweden and Finland.

Competitive processes and estimation of impacts

It is essential to understand the competitive mechanisms of the cross-border mail business – in terms of customers, suppliers, services and products, prices, quality of service, entry strategies etc. Only through careful description of the competitive processes is it possible to estimate the potential impacts of liberalisation in more specific terms. The strategic analyses of present and future trends in qualitative terms provide good insights into these mechanisms.

The quantification of possible impacts has proven very difficult in particular due to the very limited information available. The respondents themselves have referred to the fact that in a transition period, where a certain amount of liberalisation takes place, no one is eager to provide information that could be of value to present and future competitors. Also the uncertainties of how the overall postal liberalisation is to be implemented adds to the limited information.

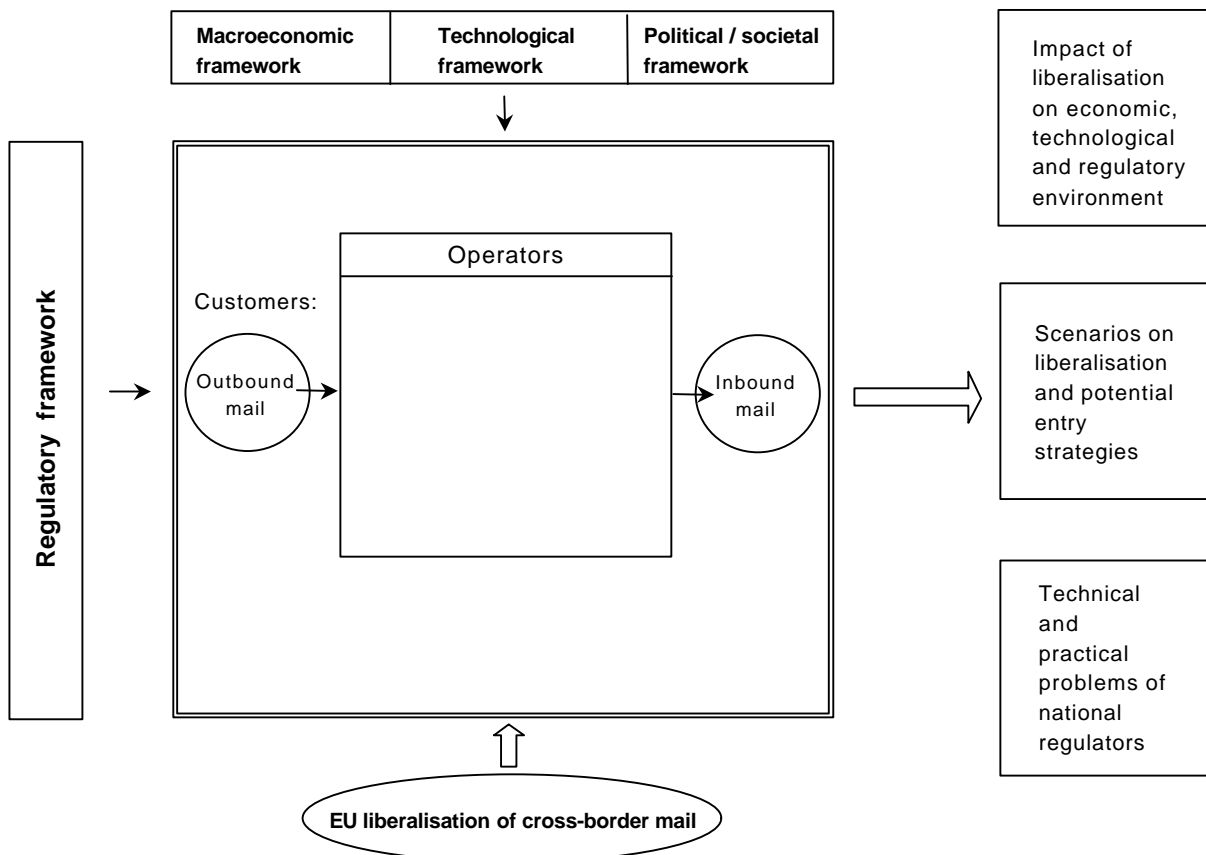
Additionally, many of the respondents have argued independently that the postal sector and indeed the cross-border mail business is characterised by a genuine lack of data. To overcome these barriers the

consultants have had to refer to existing studies where possible and make reasonable assumptions when needed.

1.4. Approach to the study

Our overall approach to analysing the impact of liberalisation of cross-border mail encompasses analyses of a variety of driving forces that are tightly inter-related. Our approach is illustrated below:

Figure 1.1 Approach.



(Source: PricewaterhouseCoopers, 1998)

Our approach is based on the principles of a traditional industry analysis. The general framework conditions for the industry in question, the cross-border mail industry, are made up by:

- a regulatory framework - international governmental regulation; such as the EU, the Universal Postal Union (UPU) and terminal dues systems; and national governmental regulation;
- macroeconomic conditions such as economic growth, growth in the international trade, the rise of international communication markets etc. all form the basic economic conditions for the development in the cross-border mail industry;
- the technological development – especially within the telecommunication and IT industries – sets significant framework conditions for the postal industry; and,
- societal or political framework conditions may have a significant impact on the development of the postal industry in general and on the cross-border mail industry in particular. To mention a few examples postal services have been used actively as a macroeconomic means in regional policies and employment policies.

These framework conditions are assumed constant and identical for the players in the cross-border mail industry, save for the basic question: How does liberalisation of cross-border mail, *ceteris paribus*, impact the cross-border mail industry?

As the framework conditions, to a large degree, are identical throughout the EU cross-border mail industry, the analyses of how a liberalisation may impact the internal forces within the industry are given the highest priority. Secondly, impacts of liberalisation on the above mentioned framework conditions will be included in the analyses.

The internal forces at play within the cross-border industry are:

- the development in demand among different types of customers to the postal operators. This perspective also emphasises that international companies are dependent on both outbound and inbound postal services;
- the competitive environment among postal operators. Presently three types of operators can be identified. The USPs, the international integrators and smaller, private postal operators; and,
- new future entrants in the industry.

The chosen approach reflects the contents of the terms of reference and hence our contract with the Commission, namely a broad analysis of a number of specific issues in the uncertain transition process that will be the result of a liberalisation of cross-border mail. Naturally, the prime implication of choosing such a multidisciplinary approach is a loss of targeted analyses and corresponding results. However, bearing the quality of industry specific data in mind, a more narrowly defined approach for instance an in-depth econometric analysis would necessarily run into substantial problems concerning availability and needed quality and reliability of data.

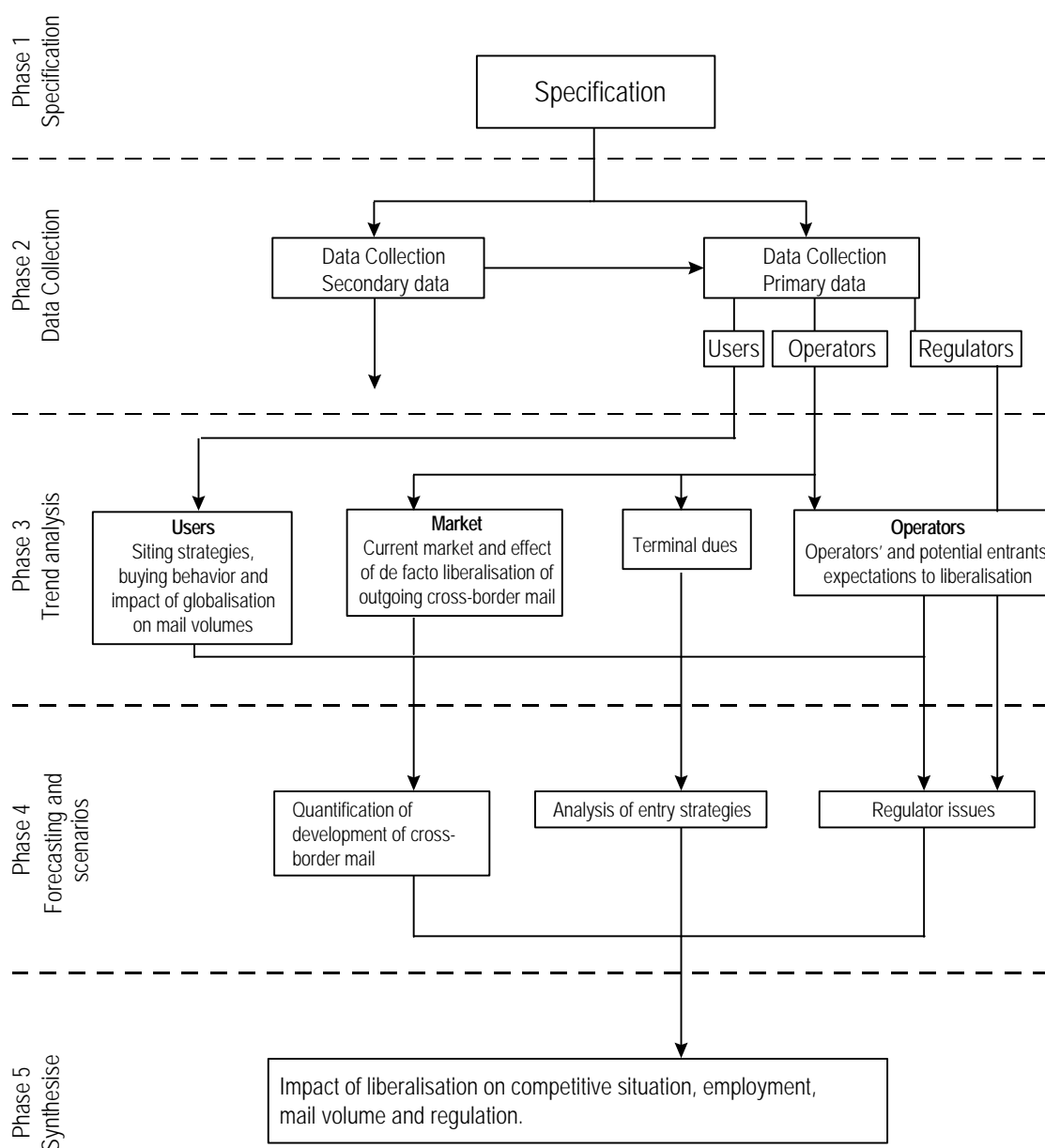
The chosen approach principally implies a combination of a variety of relevant data and information on the cross-border mail markets in contrast to an approach methodology based on a foundation, which is more narrowly defined. The present study is based on solid assessments of all important change drivers that will impact the cross-border mail industry whether the industry is liberalised or not. The study thus provides a total assessment of all impacts to the cross-border mail industry due to a liberalisation of cross-border mail.

The results of the study have relevance for all players in the industry, USPs, international integrators, local postal operators, postal regulators, and not least all kinds of postal customers.

1.5. Methodology

To describe and analyse the competitive processes and developments in the industry, an array of players and interest groups have been included in the data collection to assure a comprehensive understanding of the potential effects of liberalisation on cross-border mail.

In figure 1.2 below, the phases in our methodology are described. In phase 1, detailed planning of the study took place including talks to the EU Commission and several exploratory interviews with representatives of the different players in the cross-border mail industry. A detailed work plan for the study was made. In phase 2, desk research was conducted and questionnaires to USPs, postal regulators and private postal operators were sent out. Parallel to these activities a number of face-to-face interviews and telephone interviews were carried out. In phase 3, the collected information was synthesised in order to describe the present status of the competitive, regulatory and technological environments in the cross-border mail industry. In phase 4, the likely future developments were analysed and assessed including quantitative estimates of future developments and the making of two scenarios. In phase 5, the preliminary findings were presented at a meeting in Brussels and a Delphi survey was conducted. Supplementary qualitative interviews were conducted.

Figure 1.2 Project design

(Source: PricewaterhouseCoopers, 1998)

The data collection had to be done as quickly as possible in order not to be delayed by the July and August summer holidays throughout Europe. Most of the face-to-face interviews were conducted in June, July and September. The questionnaires were sent to the respondents in June. On the seventh of October we received the last questionnaire from the respondents.

The primary data collection has been focused on two main subjects. First, to gather as much quantitative information as possible and secondly to discuss the competitive status and likely transition processes in the cross-border mail markets due to a liberalisation. The table below summarises the data collection methods.

Table 1.1 Data collection methods

Target group	Secondary data	Written questionnaire	Face-to-face interview	Telephone interview	Case study	Delphi study
USPs						
USP Associations						
Postal regulators						
Private postal operators						
Interest organisations: Customers and users						

(Source: PricewaterhouseCoopers, 1998)

As can be seen from table 1.2 below, the response rates have generally been satisfactory for the USPs and the postal regulators. However, only two of five private postal operators have answered the questionnaire. During the interviews some of the private operators referred to quantitative statistics that are in the process of being produced for the international integrator community. Unfortunately this data was not delivered in time to be included in this report.

Table 1.2 Questionnaire response rates

Respondents	Response rate to the questionnaire N (%)	Response rate to the individual questions in the questionnaire: n > 50 %	Response rate to the individual questions in the questionnaire: 50 % > n > 10 %	Response rate to the individual questions in the questionnaire: n < 10 %
USPs	13 (86,6%)	11	1	1
Private postal operators	2 (40%)	1	1	0
Postal regulators	11 (73%)	9	1	0

(Source: PricewaterhouseCoopers, 1998)

Table 1.2 also indicates a fair coverage regarding the response rate for each specific question included in the questionnaires. However the questions that were left unanswered were typically on specific quantifications. Many of the questions concerning actual and expected absolute volumes and revenues of both outbound and inbound cross-border mail were mainly left unanswered or answered by very few. Questions on price elasticities of cross-border mail services were also typically left unanswered.

The fear of submitting confidential information to potential competitors – be it USPs, international integrators or other private postal operators - seems to be the main reason for missing answers on actual volumes and revenues. Even though complete confidentiality was guaranteed and in spite of a guarantee that all confidential information would be consolidated in order to make it impossible to identify individual respondents, it is evident that there is a genuine fear of providing information valuable to potential competitors.

Thus it has proven to be a challenge to predict and quantify future developments within the postal sector of cross-border mail, future patterns of competition and the demand and supply of services, as some respondents have chosen not to answer, when they were not able to substantiate a precise answer.

This implies that the quantitative issues in the questionnaire can not be analysed with the same degree of certainty as the more qualitative ones. Estimates are thus presented when the questionnaires, interviews and Delphi study did not provide us with specific data.

1.6. Structure of the report

Section 2 of the report presents an overview of the cross-border mail market, including a status of the regulatory environment, a description of the major postal operators in the EU and the mechanisms behind the ongoing de facto liberalisation of outbound cross-border mail. Quantitative facts concerning the present market are presented and the determinants of demand completed by an analysis of change drivers in the industry.

Section 3 presents postal industry attitudes to and perceptions of liberalisation of cross-border mail, with particular focus on the impact on regulation, postal operators and demand.

The overall impact of liberalisation on cross-border mail is assessed in section 4, followed by a quantification of the impact on cross-border mail and on the domestic reservable area. Two scenarios are presented, in order to show the possible developments in the market due to a liberalisation of cross-border mail.

Section 5 presents the final conclusions of the report. The section opens with our conclusions on the overall impact of liberalisation on cross-border mail, proceeds with specific conclusions on the supply of and demand for cross-border mail services and ends with a presentation of our concluding remarks.

2. Overview of the intra-Community cross-border mail market

2.1. Introduction

This section is an analytical description of the cross-border mail market within the EU. Section 2.2 describes the regulatory environment in the EU. In section 2.3 we describe the competition within the EU cross-border mail markets. The situation as far as a quantification of cross-border mail is highlighted in section 2.4. The development of demand for cross-border mail is analysed in section 2.5 and the change drivers in the industry are identified in section 2.6. Section 2.7 concludes on the overview of the present EU cross-border mail market.

2.2 Regulatory environment

In order to give a good overview of the regulation that governs the EU cross-border mail markets, this section is divided into two main parts:

- international regulation;
 - governmental regulation, i.e. EU and UPU regulation;
 - non-governmental regulation, i.e. terminal dues regulation; and,
- national regulation.

2.2.1 International regulation, governmental

Intra-Community cross-border mail is naturally covered by EU regulation, primarily in the form of the directive 97/67/EC, often referred to as the postal directive. EU postal regulation officially gathered momentum as of 1992 with the publication of the Green Paper. Listed below are the main events in EU postal regulation from 1992 to 1998.

- 1992:
 - Green Paper on the development of the Single Market for Postal Services is published
- 1993:
 - Guideline proposals for the development of community postal services
- 1995:
 - EU ministers fail to agree on draft resolution for new EU terminal dues system
 - EU parliament urges EU Commission to withdraw draft notice on postal competition
 - Draft notice on postal competition published
- 1996:
 - EU Commission rejects EU parliament's amendments to directive
 - EU ministers fail to agree on postal liberalisation
 - EU ministers to discuss French / German proposal on postal liberalisation.
 - EU ministers again fail to agree on postal liberalisation - French / German proposal discussed

- 1997:
- EU ministers reach common position on EU directive
 - EU ministers adopt final text of common position on liberalisation of postal sector
 - EU Council of Ministers formally adopts directive
- 1998:
- EU Commission to make proposal to the EU parliament by the end of the year on further liberalisation

The postal directive specifically covers intra-EU cross-border mail in the following areas:

- Article 1:
- the provision of a universal postal service within the Community
- Article 2:
- **cross-border mail** is mail between Member States or to and from third countries
 - terminal dues: the remuneration of USPs for the distribution of incoming **cross-border mail** comprising postal items from another Member State or from a third country
- Article 3:
- the universal service covers both national and **cross-border** services
- Article 7:
- to ensure the maintenance of universal service, **cross-border mail** is reservable within the price and weight limits (less than five times the public tariff for an item of correspondence in the first weight step of the fastest standard category, weighing less than 350 grams)
 - the European Parliament and the Council will decide no later than 1 January 2000 on the further gradual and controlled liberalisation of the postal market, with a view, among other things, to the liberalisation of **cross-border mail** with effect from 1 January 2003
- Article 13:
- member states shall encourage their USPs to follow these principles when arranging agreements on terminal dues:
 - terminal dues shall be cost related
 - terminal dues levels shall be tied to quality of service achieved
 - terminal dues levels shall be transparent and non-discriminatory
- Article 16
- intra EU **cross-border mail** quality of service standards are set by the European Parliament and Council at J+3 = 85% of items and J+5 = 97% of items, implying that 85% of all cross-border mail items are to be delivered within 3 days of induction to an EU USP and 97% of all items within 5 days of induction
- Articles 24 & 25
- member states are to comply with the directive no later than February 1999

Cross-border mail is thus, from an EU point of view, de jure regulated and falls under the reservable area specified by the price and weight limits. This may change, as evidenced by article seven, by 1 January 2003.

The brief run-down of EU postal regulatory events above proves that the area of EU postal regulation is very complex and changes in the regulatory framework often have wide-ranging series of consequences, thus making it a challenging and often time-consuming task to reach common ground.

Apart from EU regulation, intra-EU cross-border mail falls under the general agreements made by USPs under the UPU.

The UPU

The UPU officially came into being in 1874 through the so-called "Treaty of Berne". The purpose of the treaty was to reduce the then growing number of bilateral agreements and multiple international postal tariffs which, it was then felt, impeded international trade as well as to ensure the free passage of cross-border mail. The treaty reduced the number of possible rates for mail between the twenty-two countries which met in Berne from 1200 to a single rate for all. Within the single territory of the 22 countries, the principle of freedom of transit for letter-post items was also guaranteed by all parties.

The UPU convenes every five years through the so-called UPU congress, where all major projects and proposals are decided upon. Today the UPU, now a specialised agency of the United Nations, totals some 189 member countries represented by their USPs and the postal regulators. The current role of the UPU is defined as "the specialised agency of the United Nations that regulates this truly universal service", referring to the global network of postal services.

This regulation is stipulated primarily through the fundamental rules introduced by the 1874 treaty. The rules, as they still appear in the UPU Constitution concluded at Vienna in 1964 and in the 1994 Seoul Convention, are as follows:

1. the formation among all member countries of a single postal territory for the reciprocal exchange of letter-post items;
2. guaranteed freedom of transit within the territory of the Union;
3. standardisation of the charges to be collected by each country for letter-post items addressed to any part of the Union's territory;
4. in the case of letter-post items, the abolition of the sharing of charges between the country of origin and the country of destination, each administration retaining the entire amount of the charges which it collects, subject to remuneration, at the established rates, of intermediate administrations ensuring the transit of such items; since the 1969 Tokyo Congress, however, the UPU has allowed administrations of destination to demand a lump-sum remuneration from dispatching administrations as compensation for the amount of mail received in excess of the mail dispatched;
5. the institution of an arbitration procedure to settle disputes between administrations;
6. the creation of a central office, called the International Bureau, the cost of which is borne by all contracting countries; and,
7. periodical meetings of a Congress of plenipotentiaries of the member countries with a view to revising the basic Acts of the Union and discussing questions of common interest.

Especially the first four rules of the UPU are of importance when discussing the subject of cross-border mail as they ensure the free and uninterrupted flow of cross-border mail throughout the world.

2.2.2 International regulation, non-governmental

Terminal dues systems

Terminal dues systems are agreements that specify the remuneration of mandatory deliveries of inbound cross-border mail between USPs.

The issues related to terminal dues systems for remuneration of mandatory deliveries of cross-border mail between EU USPs are many and complex. In general the issues most often discussed are:

- the amount of remuneration to a USP for delivering inbound cross-border mail within its country;
- how to secure that these remunerations are being made in accordance with competitive principles, i.e. the principles set out by the EU treaty;

- how to secure that mailers and addressees are being treated equally across the EU in order to contribute to the Internal Market for all industries and sectors and secondly to secure an Internal Market for postal services themselves; and,
- additionally, the various EU USPs are operating under very different economic conditions and perform very differently in terms of cost efficiency and quality of service.

Through our research it is our impression that no uniform multilateral terminal dues system is presently in use by all USPs within the EU. Parts of multilateral systems are used and many individually negotiated bilateral agreements are at play. However, the multilateral agreements and their principles are used in the negotiations among the postal operators.

To introduce the terminal dues systems that are most relevant to the EU, a short recap of their historic evolution is given below:

The UPU system. Until 1969 no compensation was paid from a USP collecting mail in one country to a USP delivering the mail in another country. The volumes were negligible and being colleagues in their respective national monopolies meant no competition. However, the growth in international trade and the economic development in general meant rising imbalances between inbound and outbound cross-border mail in a number of countries. At the Tokyo conference of the UPU in 1969 a standard system for compensation based entirely on weight was put in place.

The CEPT system. In 1987 the European Conference of Posts and Telecommunications (CEPT) defined a compensation scheme based on weight and number of items. Generally speaking this is a better system of remuneration than the one put in place at the Tokyo conference because of the fact that it is based on the size of actual mail flows between countries. However, the CEPT principles do not cover the delivery costs for the postal operator that are to deliver inbound cross-border mail to the end receiver.

The REIMS system. By January 1996 the REIMS agreement (Remuneration of Exchanges of International Mail System) was to be implemented. The system differs from the other systems mentioned above in that REIMS is based on a principle of paying the USP that delivers inbound mail a percentage of the costs - in effect a percentage of the domestic tariff of the inbound country - of delivering the mail to the end receiver. Also the REIMS agreement includes quality of service aspects. Over a five year period the terminal dues to inbound mail handlers can be increased, if the quality of service in the receiving country is increased in accordance with targets set out in the REIMS agreement. The plan is that 80 percent of the domestic tariff could be paid by 2001, if all quality targets are met.

However, the first REIMS agreement was not signed by all EU USPs which, in the EU, mainly has resulted in a reversal to the CEPT based system of terminal dues.

Presently a new REIMS agreement, version II, is being evaluated by the European Commission DG IV and as of October 1998 most, but not all, of the EU countries are reported to have signed a modified agreement, taking into account some of the issues raised by DG IV.

As mentioned above it is our impression that many individually negotiated bilateral agreements are currently at play. To exemplify, a bilateral agreement between the Dutch and Swedish USPs recently came into being:

Case: A bilateral agreement between the Dutch and Swedish USPs – and other postal operators ? – concerning terminal dues

At the end of September 1998 the European Commission's Directorate-General for Competition Policy approved a bilateral agreement regulating the reimbursement of terminal dues for mail flows between Sweden and The Netherlands.

The agreement is seen as an alternative to the REIMS II terminal dues system regulating terminal dues payments between national postal services in Western Europe. The two postal operators have agreed mutual lower remuneration than set out in the REIMS II system.

In press releases the two USPs announced some of the reasons for entering a bilateral agreement. PTT Post, which has not signed the REIMS II agreement, states that their major motive behind a bilateral agreement is to be able to offer good international services to their customers. According to PTT Post the terminal dues will increase as a result of the European Postal Directive, since reimbursement has to be related to cost and quality and still many EU USPs operate at high costs and low levels of quality of service. Another argument – also mentioned by Sweden Post, which has signed REIMS II – is that confusion presently governs the remuneration between EU-member countries, as no REIMS principles are followed thus making it uncertain when these principles will be implemented.

The agreement is non-exclusive in the sense that each of the parties can individually enter other agreements.

Negotiations with five to six other USPs are presently taking place in order to enhance the agreement to include these countries.

(Source: Marketflash by IPC Unipost and press releases from the Dutch and Swedish USPs)

This agreement, and the stated motives behind it, is an example of the current development in terms of EU terminal dues systems. As no current multilateral terminal dues agreement can be agreed upon by all of the USPs, some USPs choose to negotiate alternative bilateral agreements.

As it makes a major difference, financially speaking, which terminal dues system is used when determining the size of the cross-border mail remuneration payment, we have included the example cited below.

The assumptions that were made for this example regarding the structure of cross border mail (in terms of average weight, etc.) in order to model the terminal dues implications of a net mail import of one million items under UPU, CEPT and REIMS II agreements respectively, are listed in exhibit 1. Table 2.1 below indicates the significance of the financial implications between the various terminal dues systems.

Table 2.1 Four cases on terminal dues

Net mail inflow: 1.000.000 items of correspondence	Case 1	Case 2	Case 3	Case 4
UPU terminal dues system (as of 1994)				
Total terminal dues payable (ECU)	234.291	234.291	233.566	233.566
CEPT terminal dues system (as of 1993)				
Total terminal dues payable (ECU)	275.394	275.394	275.394	275.394
REIMS II terminal dues system (1998: 55% of the domestic tariff)				
Domestic tariff (ECU)	0,210	0,560	0,210	0,560
Total terminal dues payable (ECU)	115.500	308.000	105.000	280.000
REIMS II terminal dues system (2001: 80% of the domestic tariff)				
Domestic tariff (ECU)	0,210	0,560	0,210	0,560
Total terminal dues payable (ECU)	168.000	448.000	151.200	403.200

(Source: PricewaterhouseCoopers, 1998)

In summary our calculations show that the terminal dues received by a net mail importer of one million items of correspondence would receive - case 1:

- 234.291 ECU under UPU
- 275.394 ECU under CEPT
- 115.500 ECU under REIMS II (1998: 55% of domestic tariff)
- 168.000 ECU under REIMS II (2001: 80% of domestic tariff)

However, the domestic tariff plays a very important role in determining the size of the terminal dues payable under the REIMS II terminal dues agreement. Case 2 proves this point as the terminal dues payable under REIMS II increase by 167 percent compared to case 1 due to a higher domestic tariff. As table 2.11 below highlights, there are significant differences in EU domestic tariffs, which consequently translates to significant differences in terminal dues payments under the REIMS II terminal dues system. The chosen domestic tariffs of 0,210 ECU and 0,560 ECU are currently the lowest and highest domestic tariffs within the EU, representing domestic tariffs from Spain and Germany respectively.

Although it is possible to give an example as shown in table 2.1, it has proven impossible to provide a specific picture of the actual use of the terminal dues systems within the EU – mainly due to the following reasons:

- 1) multilateral agreements are supplemented by bilateral agreements and these agreements are formed on the basis of varying motives and forces as seen in the Swedish/Dutch agreement: political and strategic considerations, negotiating power etc.;
- 2) whereas multilateral agreements obviously is the device in a world where national monopolies exchange mail, bilateral agreements logically is the mechanism chosen in a liberalised market or as now, an EU postal sector engaged in a market driven process towards liberalisation;
- 3) thus, with a reasonable amount of certainty, many postal operators are currently engaged in bilateral co-operative agreements – *"During the day we are all colleagues attending the meetings in the different associations of the postal operators, but in the evenings we meet with our very good real friends and colleagues in order to strengthen our competitiveness vis-à-vis the other postal competitors of Europe"* as it was stated in an interview;
- 4) on this basis terminal dues payments and arrangements are considered confidential information; and,

- 5) in the discussions and remarks to the REIMS agreements during our interviews it was argued that simplicity, clarity and transparency was lacking - due to a variety of built-in exemptions. It was also stated that the system is not based on the actual cost of inbound mail delivery, but rather on domestic tariffs.

Considering the potential financial differences in terminal dues indicated in table 2.1, it is of substantial consequence which terminal dues systems are used by whom throughout the EU. This affects the strategic behaviour of postal operators and consequently their partners, competitors and customers. This behaviour, in terms of seeking out what is perceived to be the best terminal dues agreement, would be even more pronounced in a liberalised cross-border mail market, where postal operators would be free to co-operate with USPs as well as private operators.

2.2.3 National regulation

Outbound cross-border mail

Below we have outlined the status for the de jure and de facto liberalisation in the EU member countries for outbound cross-border mail.

In 12 of 15 member countries outbound cross-border mail is de jure regulated. Although postal regulation is enforced by third party regulators throughout the EU, it is interesting to note that in 10 of the countries a de facto liberalisation is defined to be in place whereas only three countries have implemented a de jure liberalisation.

Table 2.2 Status of the liberalisation of outbound cross-border mail

Country	De jure	De facto
AT	NO	NO
BE	NO	YES
DE	NO	YES
DK	YES	YES
IE	NO	YES
ES	NO	NO
FI	YES	YES
FR	NO	YES
GR	NO	NO
IT	NO	NO
LU	NO	YES
NL	NO	YES
PT	NO	NO
SE	YES	YES
UK	NO	YES

(Source: PricewaterhouseCoopers survey, 1998)

The explanation for a de facto liberalisation of outbound cross-border mail - where the receiving country is actually collecting the mail from the originating country - is that up-stream integration can easily take place, as this does not require extensive geographic coverage. Market entry to cover inbound cross-border mail would entail delivery to the end receiver in a foreign country, which is costly, requires good geographic coverage and is thus very visible.

In short the internationalisation of the outbound cross-border mail is typically targeting the single biggest inbound customers to the domestic market of the postal operator. This entry strategy only

implies contact between the foreign postal operator and a limited number of domestic customers in the market in question - and no direct contact with the original outbound USP.

The consultants' conclusion to the actual situation concerning outbound cross-border mail is, that the majority of the USPs accept the market driven liberalisation in this field due to the facts that:

- it is practically impossible to safeguard this business even if it is de jure regulated; and,
- it represents a minor part of their overall business as evidenced further below.

This translates to the following approximate figures: seven percent of outbound cross-border mail is de jure liberalised and 69 percent is assessed as being de facto liberalised, which means that a total of up to 76 percent of all EU outbound cross-border mail is liberalised to some extent¹. In the rest of the report this fact is described as a de facto liberalisation of EU outbound cross-border mail.

Inbound cross-border mail

Inbound cross-border mail is neither de jure nor de facto liberalised in most of the EU member countries. The status of liberalisation of inbound cross-border mail is distinctly different from the status of liberalisation of outbound cross-border mail. The main reason being that inbound cross-border mail, which falls under the reservable area found in all EU-member countries apart from Sweden and Finland, is handled by the operator in charge of the USO. Infringements of this monopoly are taking place, and those that occur are typically not officially reported to the regulatory bodies. In some of the interviews it was stated that the international integrators infringe upon the monopoly. In table 2.3 below the status concerning the liberalisation of inbound cross-border mail is shown.

¹ UPU statistics on EU outbound cross-border mail 1990 - 1996. When actual data was missing or "not available", time series were extrapolated using basic linear regression.

Table 2.3 Status of liberalisation of inbound cross-border mail

Country	De jure	De facto
AT	NO	NO
BE	NO	YES
DE	NO	NO
DK	NO	NO
IE	NO	YES
ES	NO	NO
FI	YES	YES
FR	NO	NO
GR	NO	NO
IT	NO	NO
LU	NO	NO
NL	NO	NO
PT	NO	NO
SE	YES	YES
UK	NO	NO

(Source: PricewaterhouseCoopers survey, 1998)

Internationalisation of inbound cross-border mail, as opposed to outbound cross-border mail, implicates an integration of down-stream activities –implying the end-delivery of the inbound mail. This internationalisation will – per se – automatically mean contact to comparatively many more potential customers in the foreign country in question. The incumbent inbound postal operator will much easier see the expansion efforts of the foreign postal operator and is thus easily able to report this to the regulatory authorities. As a result of this only six percent of inbound cross-border mail is de jure liberalised and additionally ten percent perceived as de facto liberalised, which means that a total of up to 16 percent of all EU inbound cross-border mail is liberalised to some extent².

In the questionnaires and in the interviews the question whether a market driven liberalisation of cross-border mail is taking place was often commented. It is quite clear to the consultants, that a market driven liberalisation is actually taking place within outbound cross-border mail. It is equally clear that a market driven liberalisation is not taking place within inbound cross-border mail. Some infringement take place in the inbound cross-border mail markets, but these events can not and must not be presented as a market driven liberalisation.

2.3 Competition within the EU cross-border mail market

One of the most singular influential events in recent European postal history was the 1992 introduction of the European Commission's Green Paper on the Development of the Single Market for Postal Services. This document has prompted all of the European USPs and their respective governments to take a closer look at the postal industry, in particular the concepts of universal service provision and USPs in a competitive market place.

Combining the catalyst effect of the Green Paper with the fast-paced change in technology and the ever-increasing demands from customers, business as well as private, the postal industry has been faced with a different set of rules during the mid/late 1990s, rules that were to govern and change the organisational, operational and industrial environment. In short the postal industry is currently living through a paradigm shift where the rules of operation are changing and the need to prepare for, and act upon these changes is becoming increasingly pronounced.

² UPU statistics on EU inbound cross-border mail 1990 - 1996. When actual data was missing or "not available", time series were extrapolated using basic linear regression.

The various players in the industry are coming to terms with this new reality in different ways and to varying degrees. Every USP within the EU is active within the EU cross-border mail markets, as this is part of their obligation under the UPU regulatory framework.

As indicated above the outbound cross-border mail market within the EU is de facto liberalised. Through our survey we received answers on questions concerning competitors in the present outbound mail markets.

Table 2.4 Competition within the EU outbound cross-border mail market, N=11

Postal operator	Country										
	1	2	3	4	5	6	7	8	9	10	11
TPG total											
DHL total											
DHL											
TNT											
UPS											
Royal Mail											
Deutsche Post AG											
Dutch PTT											
TNT Mailfast											
FedEx											
La Poste FR											
DHL Worldmail											
La Poste BE											
ACS											
IRS											
ASG											
Swiss Post											
Globemail											
BTL											
Speedex											
Post Denmark											
Transnet											
SEUR											

(Source: PricewaterhouseCoopers survey, 1998)

Please note:

- data from five USPs is missing;
- TPG total includes Dutch PTT, TNT and TNT Mailfast; and,
- DHL total includes DHL and DHL Worldmail.

In table 2.4 the shaded boxes indicate the presence of a particular competitor within a country.

As can be seen from the table above, it is evident that private postal operators as well as certain USPs are active within the cross-border mail markets, especially as regards outbound cross-border mail. Furthermore it is evident that there are three levels of competitors:

- international integrators active across multiple countries;
- USPs active across multiple countries; and
- local operators active within one country.

Table 2.5 highlights the individual rankings on a European level. The operators are ranked primarily by number of times mentioned among top five competitors within national markets, indicating solid geographical coverage with the EU and secondly by average rank. The ranking scale goes from one which equals primary competitor to five which indicates the fifth most important competitor.

Table 2.5 Most important competitors in the EU cross-border mail market, totals. N=11

Competitor	USP	PrO	Average rank	Number of times mentioned
TPG total			2,4	12
DHL total			1,9	10
DHL			1,7	9
TNT			2,9	7
UPS			4,0	5
Royal Mail			3,2	5
Deutsche Post AG			1,5	3
Dutch PTT			3,3	3
TNT Mailfast			1,0	2
FedEx			3,5	2
La Poste FR			4,0	2
DHL Worldmail			2,0	1
La Poste BE			2,0	1
ACS			2,0	1
IRS			3,0	1
ASG			3,0	1
Swiss Post			4,0	1
Globemail			4,0	1
BTL			4,0	1
Speedex			4,0	1
Post Denmark			5,0	1
SEUR			5,0	1
Transnet			5,0	1

(Source: PricewaterhouseCoopers survey, 1998)

Please note:

- data from five USPs is missing;
- table is ranked primarily by number of times mentioned as a competitor, secondarily by average rank;
- TPG total includes Dutch PTT, TNT and TNT Mailfast; and,
- DHL total includes DHL and DHL Worldmail.

Based on tables 2.4 and 2.5 it is evident that the international integrators are active within the cross-border mail market and that they are thought of as primary competitors. With their core competence as operators in low volume, high margin markets compared to the USPs, it is interesting to note their presence in the cross-border mail markets throughout the EU. Other USPs do not cover the same geographical area as the integrators, but in the markets where they are present they are thought of as primary competitors.

Based on UPU statistics³ La Poste (France), Deutsche Post AG and Royal Mail handle approximately 2/3 of the total postal service in the EU.

Combined, the three operators' share of the total cross-border services in the EU amounts to more than 50 percent. However, not all countries have the same composition of: cross-border mail compared to

³ UPU Postal Statistics 1996

domestic mail. It is well known that relatively small countries have a relatively high propensity towards international trade. Therefore it is natural that the same picture can be found concerning cross-border mail. Some players are more strategically active than others in the area of cross-border mail. Evidence confirms that this is the case for Royal Mail, TPG, Deutsche Post AG, Belgium Post, Post Denmark and An Post. Up front, the postal market of the EU can actually be characterised as an oligopoly.

Thus, it is not surprising that the postal operators most active in the EU cross-border mail markets, are the international integrators and a number of large USPs - large both in terms of geographic coverage and cross-border mail volumes as evidenced below.

2.3.1 1996 USP Market shares

Another indicator of the level of competition is the market shares of the USPs in their outbound and inbound markets.

Outbound cross-border mail market shares in volumes 1996

The answers on outbound cross-border mail market shares from seven USPs differ markedly. The market shares for Letters-LC is:

- 100%;
- 95% (N=2);
- 90%,
- 88%; and,
- 80% (N=2);

Markets shares given by six USPs for Letters-AO are:

- 100%;
- 96%;
- 95%;
- 87%; and,
- 80% (N=2);

Although data is not provided by many USPs, it would seem that some are experiencing serious competition, although market shares of 80 percent would still be considered a de facto monopoly in most other industries.

Inbound cross-border mail market shares in volumes 1996

Seven USP responded to questions concerning the absolute volume market share in inbound cross-border mail for 1996. Concerning Letters-LC the operators gave the following answers:

- 100% (N=3);
- 99%;
- 98%; and,
- 95% (N=2).

Concerning Letters-AO the distributions of six answers were:

- 100% (N=3);
- 98%;
- 95%, and
- 90%.

Since inbound cross-border mail is neither de jure nor de facto liberalised in the countries that have answered this question it is quite surprising to note that infringements on the reserved area do take place. Furthermore the respondents that have answered this question, remark that inbound cross-border mail can not be characterised as de facto liberalised. Sporadic infringements are seen in most monopolies and this is also the case within inbound cross-border mail.

Summing up and paying attention to the limited amount of answers, it is none the less noteworthy that several of the USPs report market shares that are below 100 percent – in the reserved areas. Most striking are the Letters-LC market shares reported within inbound cross-border mail, as all of Letters-LC is reserved and inbound cross-border is defined as both de jure and de facto regulated. Only 50 percent of Letters-AO is assumed to be reserved, which thus opens up for some competition.

2.3.2 Cross-border business strategy

From a strategic point of view, although difficult to determine due to the sensitive nature of business strategy, we can group the USPs into three categories, as regards their cross-border mail business strategy:

- pro-active;
- re-active; and,
- in-active.

The first category is characterised by organisations that anticipate the changes in the market and meet these changes by either adopting new or different ways of approaching the market, or by changing their business mission in advance or concurrent with the event of these changes. The second category is characterised by organisations which adopt a wait-and-see approach and simply either note the changes that are taking place and then decide whether or not it is appropriate to act. The final category is typically characterised by organisations that decide to focus solely on their current domestic core business.

Mergers, acquisitions and alliances

Although cross-border mail still represents a relatively minor part of the total EU postal market, as evidenced below in section 2.4, the notion of a liberalised single postal market has prompted many activities related to cross-border activity, some of which are outlined below:

- the Dutch USP buys global courier company TNT to form TNT Post Group;
- the German USP buys a 25 percent share of global courier company DHL;
- the Danish, Swedish, Norwegian and Finnish USPs form an alliance called NordPack, focussing on the Nordic cross-border parcel market; and,
- the UK USP has established sales offices in the US and plans to develop its activities in continental Europe.

Further to the issue of business strategy, USP respondents were asked to what extent they were actively engaged in collaborative agreements and joint ventures. A summary of the answers are shown below.

Table 2.6 USP collaborative agreements and joint ventures.

Collaborative agreements, joint ventures etc	Yes	No
Involved in collaborative agreements, joint ventures etc with other public/national postal operators (N=10)	6	4
Involved in collaborative agreements, joint ventures etc with private postal operators (N=10)	6	4
Involved in collaborative agreements, joint ventures etc with other operators (N=10)	6	4
Involved in collaborative agreements, joint ventures etc with customers (N=8)	4	4

(Source: PricewaterhouseCoopers survey, 1998)

The distribution of answers is significant. Three of the USPs indicate a no to all four types of collaboration. On the other hand four out of the ten USPs indicate that they have already entered collaborative agreements in all four categories. A group of USPs have entered some, but not all, types of collaborations. The interpretation of the results has to be modified in the sense that some respondents undoubtedly have considered this kind of information as a business secret. However table 2.6 confirms that a majority of USPs are active in developing collaborative agreements. Another group are not engaged in any of the four types of co-operation.

Some of the comments from the respondents to this question indicates the contents of the collaborations:

- *"We are currently involved in several agreements with postal operators. These agreements aim at further marketing of products/services, better quality of service and have also to do with the terminal dues remuneration systems."*
- *"Trade agreements aiming at market dynamism."*
- *"Parcel business, hybrid mail and printing."*

On the basis of the above it is evident that the postal industry is changing in terms of collaboration and competition. No longer is there a clear dividing line between the public and private spheres of the postal industry and the USPs are no longer solely colleagues operating within their own national markets. The postal industry is becoming increasingly complex where two postal operators can collaborate in some markets and compete in others.

Market entry strategies

The postal operators are presently internationalising their outbound cross-border business through four main market entry strategies:

- **“Contractual entry or non-equity collaboration”**. These agreements typically mark a temporary phase where both parties gain their first experience of committed international co-operation. Typically based on bilateral agreements postal operators - be it USPs or private - collaborate with individually selected partners. Through exclusive contracts synergies are created and the collaborating partners gain experience in cross-border mail on a market based platform. The interviews conducted confirmed that many USPs are utilising arrangements such as these to cover different types of activities. As it has been seen in many other industries, the processes of internationalisation at this stage are typically "learning-by-doing".
- **“Sales branch or sales subsidiary”**. For some years many USPs have established internal organisational entities responsible for attracting outbound cross-border mail from certain countries. During the last years marketing and sales offices for outbound cross-border mail have been established by many postal operators in foreign markets. The objective is to handle mail volumes belonging to large international customers, which are to be delivered in the domestic market of the postal operator. In this way postal operators are contacting potential international customers directly and are offering a direct service without the intervention of the incumbent outbound postal operator. These arrangements are typically very focused towards the specific individual customer, since the collection and transport from the sending to the receiving country is individually arranged for each customer. If these foreign activities were to be compared to the internationalisation of other industries it would be correct to refer to them as sales subsidiaries.
- **“Production of cross-border mail to one country”**. Collecting and sorting facilities for outbound cross-border mail have been established in foreign markets⁴. The objective is to collect mail from many customers to be delivered in the domestic market of the investing postal operator. These facilities represent a more widespread initiative than the one described above. The focus is to establish bridgeheads that handle outbound cross-border mail from the country in question by establishing a complete "production" subsidiary. The objective of the investor is to exploit economies of scale in the collection, sorting and transportation of cross-border mail by pooling many customers' mail to the receiving country.
- **“Production of cross-border mail to multiple countries”**. Collecting and sorting facilities for outbound cross-border mail to several markets have been established by a few postal operators in specific foreign markets⁵. The main objective, compared to the above mentioned establishment, is the delivery of cross-border mail to more than one country, acting as an international mail broker. In this respect this internationalisation entry is truly transnational in scope. In the longer run these establishments shall take care of truly transnational mail service – AC mail, where mail no longer pass through the home base of the individual postal operator.

Furthermore many USPs have focused on the technological changes that are taking place. As a result the USPs of the US, Australia, France, Germany, Italy, Denmark, Sweden, Finland and Norway have joined in establishing International Data Post, a company which deals with the "distribute then print" concept of hybrid mail. In a liberalised cross-border mail market, hybrid mail opens up a whole range of new cross-border marketing opportunities. Further to the issue of technological change the UK USP has ventured into an alliance called RelayOne with the Microsoft corporation, whereby e-mails sent through the Microsoft Network MSN to receivers in the UK can be printed and sent using regular mail to end users, whether or not they have an e-mail address.

⁴ Marketing and sales functions are naturally also included in these establishments.

⁵ Marketing and sales functions are naturally also included in these establishments.

Although a significant part of the cross-border mail market is not liberalised at this moment, it would seem that many postal operators in the EU are gearing up in one way or another, to meet the new challenges ahead.

2.4 EU cross-border mail, a quantitative description

In absolute terms the 1996 EU USP cross-border mail market totals 5.5 billion letter items.⁶ This compared to the 1996 domestic EU USP mail market which totals just under 87 billion letter items⁷, indicating a cross-border mail share of 6,3 percent. It is our estimate that, on average, intra-Community cross-border mail represents 65% of all cross-border mail handled by the 15 EU USPs.

In terms of revenue, the intra-Community cross-border mail market for 1996 is estimated at 1 billion to 1,2 billion ECU. This estimate is based on the above mentioned UPU data for 1996 combined with the following assumptions:

- 65 percent of all cross-border mail is intra-Community cross-border mail;
- 70 percent of all cross-border mail belongs in the 0-20 gr. weightbreak;
- 30 percent of all cross-border mail is defined as +20 gr.;
- available intra-Community 0-20 gr. tariffs have been used, see table 2.11;
- the tariffs for the remaining 30 percent of intra-Community cross-border mail have been calculated as 0-20 gr. tariffs plus 85 percent.

The above figures represent Letter items, which in turn is a combination of Letters-LC and Letters-AO. It is a fact, that not all of Letters-AO, according to the definition used in this study, falls under the reserved area. To give an indication of the approximate amount of cross-border mail which does fall under the reserved area and consequently would be affected by a liberalisation, we refer to our market definition and the following assumptions:

- 70 percent of all Letter items are Letters-LC; and,
- 30 percent of all Letter items are Letters-AO.

This translates to an estimated reservable EU cross-border mail market in 1996 of approximately 4.7 billion letter items⁸. In terms of revenue, the 1996 reservable intra-Community cross-border mail market is estimated at approximately 850 million to 1,02 billion ECU⁸.

On a member state basis in 1996, the average reservable intra-Community cross-border mail revenues equalled approximately 62 million ECU⁸. On the basis of this estimation a small EU USP, in terms of cross-border mail revenue, such as Luxembourg Post is estimated to have received approximately 9 million ECU in 1996 reservable, intra-Community cross-border mail revenues. A large EU USP, in terms of cross-border mail revenues, such as Royal Mail is estimated to have received approximately 200 million ECU in 1996 reservable, intra-Community cross-border mail revenues.

Although this data does not include the outbound cross-border mail handled by private operators nor the outbound cross-border mail handled by non-EU USPs, it serves as an indication of the total size of the cross-border mail market in the EU. Finally, it should also be noted that not all countries define letter items in the same manner, thus adding further uncertainty to the data collected by the UPU.

In table 2.7 total cross-border mail (intra and extra EU) as a percentage of total postal services is illustrated for the 15 EU USPs. Unfortunately no data is available for Greece and The Netherlands.

⁶ UPU Postal Statistics 1996, Letter items equals Letters-LC plus Letters -AO.

⁷ Data excludes The Netherlands and Greece.

⁸ Data includes Sweden and Finland.

Table 2.7 1996 domestic, total cross-border, outbound and inbound cross-border mail volume as a percentage of total service.

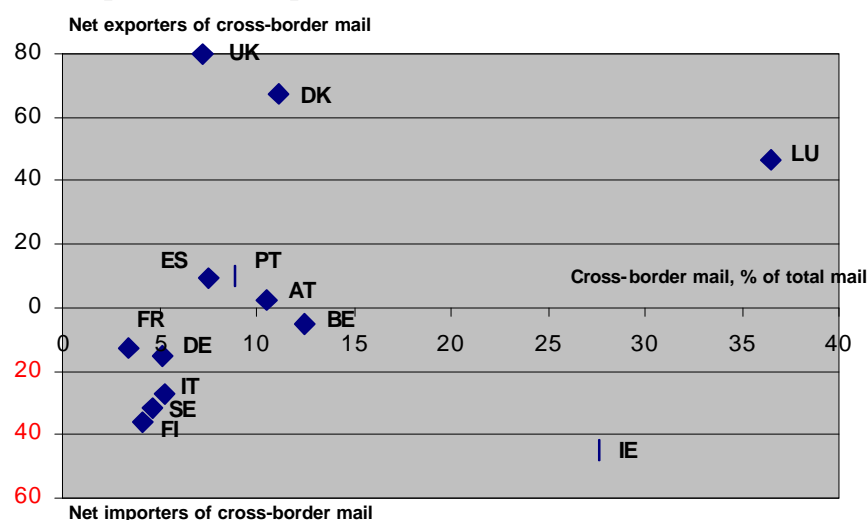
Country	Domestic mail	Total cross-border mail	Outbound mail	Inbound mail
LU	63,5%	36,5%	21,7%	14,8%
IE	72,4%	27,6%	9,8%	17,8%
BE	87,5%	12,5%	6,1%	6,4%
DK	88,9%	11,1%	6,9%	4,1%
AT	89,5%	10,5%	5,3%	5,2%
PT	91,1%	8,9%	4,6%	4,2%
ES	92,5%	7,5%	3,9%	3,6%
UK	92,8%	7,2%	4,6%	2,6%
IT	94,7%	5,3%	2,2%	3,0%
DE	94,9%	5,1%	2,4%	2,8%
SE	95,4%	4,6%	1,9%	2,7%
FI	95,9%	4,1%	1,6%	2,5%
FR	96,6%	3,4%	1,6%	1,8%
GR	ND	ND	ND	ND
NL	ND	ND	ND	ND

(Source: Universal Postal Union, 1996)

Typically cross-border mail volumes for USPs situated in smaller- and medium sized countries tend to have a larger share of their overall volumes. Analysing table 2.7 reveals that most of the USPs situated in small- and medium sized EU-countries have an inbound cross-border mail volume of five to 18 percent of their total service, compared to USPs in larger EU countries which only have an average inbound cross-border mail volume of about two to five percent of their total service.

Relatively speaking Luxembourg and Ireland have a large proportion of cross-border mail. Small countries such as Belgium, Denmark and Austria also have relatively large proportions of international mail. This relationship is highlighted by the figure below.

Figure 2.1 highlights the differences among the EU USPs. Luxembourg has the highest percentage of cross-border mail and France the lowest in relation to total mail services. Furthermore the countries located in the upper half of the figure can be considered net-exporters of cross-border mail, as they have a higher share of outbound cross-border mail. Conversely the countries situated in the lower half of the figure are net-importers of cross-border mail. As an example outbound cross-border mail volumes in the UK are 80% larger than inbound cross-border mail volumes and inbound cross-border mail volumes in Ireland are 44% larger than outbound cross-border mail volumes.

Figure 2.1 1996 net exporters and importers of cross-border mail, volume⁹

(Source: Universal Postal Union, 1996)

However, it is clear that the international postal services of larger countries such as Germany, France and the UK are quite dominating in absolute terms. Table 2.8 highlights this relationship.

The numbers shown in table 2.8 are the aggregated averages of EU bilateral cross-border mail streams between individual countries, annual mail volumes. Although the numbers are based on international first class mail, we assume the same relationship holds true for the remaining cross-border mail.

The numbers in table 2.8 represent averages of the following eight mail volume categories:

Category	Category volume range
•	0 - 500.000
•	500.000 - 1.500.000
•	1.500.000 - 5.000.000
•	5.000.000 - 10.000.000
•	10.000.000 - 20.000.000
•	20.000.000 - 35.000.000
•	35.000.000 - 50.000.000
•	50.000.000 - +

(Source: IPC Unipost, 1997)

The numbers in table 2.8 are averages, calculated on the basis of 14 bilateral mail streams for each EU country. Consequently there are individual bilateral mail streams that belong to each of the eight volume categories, as there are major and minor mail streams within the EU.

⁹ Data excludes The Netherlands and Greece

Table 2.8 1996 outbound and inbound intra EU cross-border mail volumes, first class mail, average per country

Country	Outbound mail Category average	Inbound mail category average	Average of outbound and inbound
UK	4,93	4,64	4,79
DE	4,21	5,36	4,79
FR	4,21	4,43	4,32
BE	3,43	3,00	3,21
NL	3,07	3,07	3,07
ES	2,93	2,57	2,75
IT	2,79	2,71	2,75
SE	2,64	2,57	2,61
DK	2,21	2,36	2,29
AT	2,14	2,07	2,11
PT	2,07	1,93	2,00
FI	1,79	1,86	1,82
LU	1,86	1,71	1,79
IE	1,64	1,64	1,64
GR	1,43	1,43	1,43

(Source: IPC Unipost, 1997)

On this basis the results for the UK can be interpreted as follows: in 1996 the UK had an annual average outbound mail flow of approximately 10.000.000 items to each EU country, as the category average of 4,93 roughly equals 10.000.000 items, according to category volume range five. The UK also received an average of approximately 8.000.000 items from each EU country.

As can be seen from table 2.8 the major EU USPs, in terms of cross-border mail volumes, are not surprisingly countries such as the UK, Germany and France. Although the numbers in tables 2.7 and 2.8 are based on USP first-class cross-border mail volumes only, it serves as a solid indication of the distribution of total cross-border mail volumes. This assumption is strengthened by the fact that the EU USPs still dominate the cross-border mail markets to a very large degree, as evidenced by the USP in- and outbound cross-border mail market shares indicated above.

2.4.1 Quality of service

In a liberalised cross-border mail market, quality of service will be one of the most important buying criteria for a postal customer as well as an important collaboration criteria for a would be cross-border mail business partner.

When discussing the international quality of service offered by the EU USPs, it is often stated that the quality varies between countries. As evidenced by the numbers in the table below, this statement holds true, not only on average for the USPs, but also on an individual country level. One USP may not provide the same quality of service from one country to another, simply because of differences in geography and operational infrastructure.

Table 2.9 1996 intra EU first class letter percentage on-time within J+3 standard, inbound and outbound cross-border mail

	AT	BE	DK	FI	FR	DE	GR	IE	IT	LU	NL	PT	ES	SE	UK	Outbound average
AT		85,5	93,7	70,4	80,4	93,9	26,9	47,2	30,0	90,4	93,1	63,6	62,5	81,4	84,2	71,7
BE	87,9		93,6	88,4	90,2	93,3	40,7	76,6	31,2	97,5	94,3	82,6	84,0	85,6	91,1	81,2
DK	95,0	89,9		96,5	88,7	94,1	41,8	80,9	17,5	93,8	97,8	78,4	73,8	98,0	88,3	81,0
FI	86,5	87,6	93,3		77,9	86,9	27,1	56,7	16,5	82,8	91,4	55,8	54,5	94,4	87,2	71,3
FR	83,7	90,1	92,3	83,3		91,5	29,6	71,0	42,2	91,8	91,9	85,5	82,6	84,9	88,2	79,2
DE	90,7	91,6	95,3	93,3	87,7		37,9	74,3	39,8	96,5	94,5	82,9	78,5	89,2	89,6	81,6
GR	49,9	54,8	51,1	48,1	47,8	46,9		33,7	14,5	53,7	56,2	36,8	38,8	40,0	56,8	44,9
IE	69,5	80,8	87,2	76,1	81,3	84,9	18,7		17,0	81,3	91,2	56,8	62,0	71,7	89,4	69,1
IT	69,6	66,8	73,0	56,2	65,8	61,1	25,0	41,2		64,1	69,9	57,8	55,0	59,3	66,3	59,4
LU	80,0	97,3	93,8	92,1	96,1	97,0	41,5	77,8	29,1		97,2	83,8	80,1	92,2	90,5	82,0
NL	91,9	95,6	96,0	96,3	87,9	94,9	43,6	78,4	38,2	94,9		82,5	82,3	89,7	90,8	83,1
PT	68,9	72,8	76,5	55,5	80,3	72,8	20,9	33,8	12,8	71,0	78,3		74,7	53,9	72,9	60,4
ES	71,3	84,0	86,1	73,9	82,2	78,8	34,5	61,5	25,2	78,7	87,5	83,6		76,2	63,9	70,5
SE	85,9	86,1	96,6	96,6	85,3	86,5	31,7	65,6	19,0	81,5	94,2	70,6	69,1		90,5	75,7
UK	80,1	87,1	92,7	90,7	85,5	88,0	35,6	86,2	33,3	87,0	91,1	78,4	74,6	84,9		78,2
Inbound average	79,4	83,6	87,2	79,8	81,2	83,6	32,5	63,2	26,2	83,2	87,8	71,4	69,5	78,7	82,1	72,6

(Source: IPC Unipost, 1997)

A combination of the main results from tables 2.8 and 2.9 reveals that the USPs with the largest cross-border mail volumes are also the ones offering a quality of service close to or above 80 percent on-time J+3. It is also worth noting that these USPs proved to be active in foreign cross-border mail markets as evidenced above.

Table 2.10 1996 intra EU outbound and inbound cross-border first class mail percentage on-time within J+3 standard and average first class mail volumes per country

Country	Average volumes	Average %
UK	4,8	80,2
DE	4,8	82,6
FR	4,3	80,2
BE	3,2	82,4
NL	3,1	85,4
IT	2,8	42,8
ES	2,8	70,0
SE	2,6	77,2
DK	2,3	84,1
AT	2,1	75,5
PT	2,0	65,9
FI	1,8	75,6
LU	1,8	82,6
IE	1,6	66,2
GR	1,4	38,7

(Source: IPC Unipost, 1997)

The ability to provide good quality of service for large volumes of cross-border mail, combined with wide geographic coverage, translates to a solid advantage and these postal operators would therefore have a clear advantage in a liberalised cross-border mail market.

2.4.2 Postal tariffs

It should be noted that there are great differences among EU USPs when considering cross-border mail tariffs. Sweden is the most expensive country and Luxembourg the least expensive in a strict tariff comparison. Spain and Portugal have the highest differences between domestic and EU tariffs and six countries have no difference between domestic and EU tariffs.

Table 2.11 Current domestic and intra EU cross-border mail tariffs in ECU, September 1998, items of correspondence up to 20 grams

Country	Intra EU tariff in ECU	Domestic tariff in ECU	Percentage difference between domestic tariff and intra-EU tariff
SE	0,759	0,542	40
DK	0,602	0,501	20
DE	0,560	0,560	0
FI	0,535	0,468	14
AT*	0,506	0,506	0
FR	0,455	0,455	0
NL	0,451	0,361	25
UK	0,433	0,376	15
GR	0,424	0,303	40
BE**	0,419	0,419	0
ES	0,419	0,210	100
IE	0,407	0,382	7
IT	0,406	0,406	0
PT	0,397	0,243	63
LU	0,395	0,395	0

(Source: www.swissonline.ch, PricewaterhouseCoopers, 1998)

Please note:

* Austria has two different tariffs for intra-EU mail (Eco. and Prior.), and in the above table we have chosen to use the Prior. tariff.

**Belgium has two different tariffs for intra-EU mail (Eco. and Prior.), and in the above table we have chosen to use the Prior. tariff.

Considering the above sections on cross-border mail volumes and cross-border mail quality of service, it is interesting to note that large senders of cross-border mail such as France, The Netherlands and the UK, all have comparatively low cross-border mail tariffs.

It seems logical that in a liberalised context relatively low tariffs and/or relatively high levels of quality constitute a very good platform for building a sustainable international competitiveness. These characteristics combined with good geographic coverage – as shall be elaborated upon below - actually form the basic conditions for a promising future for the individual USP.

2.5 Demand for cross-border mail

Having described the regulatory framework that governs EU cross-border mail and the postal operators that supply cross-border mail services, this section describes the determinants and processes that shape the demand for EU cross-border mail.

Demand for cross-border mail is generally shaped by two overall components:

- underlying independent factors and motives among postal customers; and,
- demand due to enhanced international marketing activities by typically pro-active postal operators.

The first component can also be described as factors that are out of reach from the postal operators' perspective, i.e. macroeconomic, societal and technological trends. The second component can be described as microeconomic factors controlled by both the postal customers and the operators themselves.

In this section we focus on the independent factors that shape the demand for cross-border mail:

- macroeconomic impacts;
- technological impacts;
- globalisation; and,
- buyer behaviour.

2.5.1 Macroeconomic impacts

The overall macroeconomic development has a recognised impact on the volume of cross-border mail. First of all it has been shown in several empirical studies that mail volumes are positively correlated to the changes in Gross Domestic Product (GDP). Eight out of ten postal operators confirm this correlation and respectively eight and nine of the operators forecast volume and revenues of inbound and outbound cross-border mail – mainly based on analysis and forecasts of future GDP levels and changes.

The following data is available on the expected future increase in EU GDP:

- 1998: 2,8%
- 1999: 3,0%

(Source: European Commission: European Economy, Supplement A, Economic Trends, No. 3/4 - March/April 1998)

In comparison, EU USP outbound cross-border mail volumes has had an average annual increase of 0,4 percent from 1980 through 1996 and average annual increase of two percent from 1990 through 1996¹⁰.

It is debated whether or not a solid positive correlation will remain between mail volumes and GDP. Other forces at play, such as the technological development, could easily disrupt this correlation.

2.5.2 Technological impacts

¹⁰ UPU statistics on EU outbound cross-border mail 1980 - 1996. When actual data was missing or "not available", time series were extrapolated using basic linear regression.

One of the topics most heavily debated in the postal community is the impact of technology on the postal business in general and on mail volumes in particular. New ways of communicating are gaining ground rapidly and are made available to all client segments, business as well as private. When discussing the technological impact on the postal business there are typically two major spheres of interest:

- the technological impact on postal operations; and,
- the technological impact on postal demand.

We have chosen to focus solely on the latter of the two, as the technological impact on postal demand is more relevant to this report. In general electronic mail, EDI, fax and other means of electronic communication can all either substitute or complement the traditional postal services. The recent surge of interest towards hybrid mail proves this last point. However, the impact of electronic substitution on mail volumes is most often discussed.

An increasing use of e-mail, data communication, EDI, electronic funds transfer and fax could mean a reduction in the total volume of mail and cross-border mail. On the other hand it is evident that mail volumes continue to grow, in many cases fuelled by the growth in direct mail. Recent surveys on the use of electronic communication show that the typical e-mail is of a very limited length, thus typically substituting a telephone call. Conclusions from these surveys point to the fact that communication overall is increasing and that e-mail, in many cases, is used for messages of a limited nature.

Below estimates of the two mechanisms are shown. In the table the growth of the market also includes the fact that increases in the use of new technologies may lead to increases in mail volumes.

Table 2.12 Electronic substitution of mail volumes and growth of market

Factors	Effect on volume - 1 year		Effect on volume – 10 years	
	Minimum	Maximum	Minimum	Maximum
Electronic substitution - High income countries	-0,61%	-3,33%	- 5,9%	-28,7%
Growth of market - High income countries	0,8%	1,0%	8,29%	10,46%
Electronic substitution – Low/medium income countries	-1,24%	-3,33%	-11,7%	-28,7%
Growth of market - Low/medium income countries	0,8%	1,0%	8,29%	10,46%

(Source: UPU Post 2005 Core Business Scenarios, 1997)

As evidenced in the table above the reduction in letter-post volume will range from six percent to 29 percent over a ten-year period as far as high income countries are concerned and for low- and medium income countries substitution will range from 12 percent to 29 percent.

In the table above the heading "Growth of market" refers to the complementary effect. As can be seen this positive effect is estimated at eight to ten percent for both groups of countries. In the UPU report, it is stated that this is a "modest estimate".

As evidenced in our survey the USPs (N=11) rank the importance of the technological alternatives to cross-border mail in the following way:

- e-mail;
- data communication;
- fax; and
- EDI.

No attempts were made to quantify these impacts in this report.

Due to the borderless world of electronic communication, this technological development quantified above, in itself implies a much more competitive environment for cross-border mail. Little doubt remains that this technology will have a dampening effect on cross-border mail, but there will also be positive effects.

2.5.3 Globalisation

Stated in a popular way globalisation means "operating globally - acting locally". In order to exploit economies of scale and economies of scope corporations are operating on a global level. Centralising various organisational functions in different locations around the world is typically the mechanism used.

- Examples have been: Establishment of one financial headquarter, establishment of world-wide R&D-functions in distinct areas of interest to the corporation, establishment of world-wide production facilities for a specific product range in one location from which global demands are met, rationalisation of administrative routines in a limited number of locations capable of taking care of all kinds of administrative activities etc.

In the questionnaires respondents were asked if these processes:

- are of significance to cross-border mail; and,
- if they would have any impact to postal operators.

In the questionnaire three specific functional activities are mentioned to exemplify globalisation:

- 1) production and storage;
- 2) administrative processes; and,
- 3) research and development.

The main hypothesis behind the question on globalisation was that a higher level of globalisation among postal customers could imply bigger volumes of cross-border mail to specific postal operators.

The answers from the postal operators are very diverse. The span of answers is the widest possible: The assessments of the globalisation range from insignificant to highly significant to cross-border mail – and the likely impact to postal operators from nothing to increased volume of cross-border mail. These answers are given for all of the three functional activities.

In the face-to-face interviews various arguments concerning globalisation and the potential impact on the volume of cross-border mail were given. Some of the respondents found that the present service level of cross-border mail operators actually is too low, implying a minor barrier for growth in the globalisation of customers to the postal operators. This argument was questioned by other respondents voicing that the real barrier for globalisation is to "act locally": In many local markets it is very important to perform effectively in the interaction with local customers, suppliers, authorities. Thus,

globalisation is not actually taking place as often as it is assumed and the impact on cross-border mail is thus modest.

The reason for the wide span of answers could also be due to the fact that the term “globalisation” is too imprecise and consequently perceived very differently by the respondents. One of the USPs wrote the following comments to the question concerning globalisation:

- *“These and other developments are as yet in the early stages but have longer term implications for the outward cross-border mail”*
- *“It is too early to be definite about such developments, but it is likely to require posts to manage customer relations outside their home territory”*

From the above we conclude that globalisation has not yet affected postal customers in the sense that the geographic concentration and relocation of various intra-company activities have taken place. It is our opinion that globalisation will not affect cross-border mail in the short to medium term, i.e. 1996 to 2006.

Global customers demand global services

Case on globalisation: Reader’s Digest

With a customer base of 27 million monthly subscribers in 48 countries around the world, Reader's Digest readily qualifies as a major user of postal services. In Scandinavia Reader's Digest is co-ordinated from Sweden and thus, originally, had to use the incumbent USPs in Sweden, Norway and Denmark respectively as suppliers of postal services in each country.

However, Reader's Digest acknowledge that they would prefer to use only one supplier of postal services in the region, as this would ease the administrative tasks and they would, more effectively, be able to co-ordinate the end-delivery of their product. Although price is of major importance, service and delivery reliability in particular are deemed as important to Reader's Digest.

Today Reader’s Digest distribute their mailings to Norway, Sweden and Denmark through two USPs, but the company is working on using one operator for the three countries.

(Source: Reader's Digest, 1998)

However, as major postal customers become more global, they demand increasingly global services. They also demand more choice in order to serve increasingly global markets. Big postal customers grow bigger through international market expansion among other things. Many USPs increasingly experience that these customers put out international tenders of mail delivery to whole regions and the EU is mentioned as an example. Simply stated when postal customers grow bigger and become more global the postal operators are asked to deliver regional, continental and global postal services.

2.5.4 Buyer behaviour

In the table below the most important buying decision criteria for four groups of customers are shown. In the questionnaire to the USPs the following possible buying criteria were suggested relative price, reliability, speed, convenience, revenue added services, loyalty, image in the market place, complete end-to-end service and "others".

Table 2.13 The most important buying criteria in four customer segments, 1996 and the expected changes in 2006, as seen by the USPs.

Customer segments	1996	2006
Small- and Medium sized companies (N=8)	Price, reliability, speed	Price, reliability, speed
Large and Nation-wide companies (N=8)	Price	Price
Multinational companies (N=8)	Price	Price
Individuals (N=8)	Speed	Reliability

(Source: PricewaterhouseCoopers survey, 1998)

The table shows that price is not the most important issue for individuals, i.e. consumers. Consumers have virtually no physical mail alternative to the national postal service and assuming a postal monopoly it is natural to decide mainly on non-price factors such as speed and reliability. However, price does matter also for consumers since price is rated as the second most important factor.

The USPs indicated that the three groups of companies would all perceive price as being very important. However, for the small and medium sized companies speed, reliability and price were emphasised as features together. Our interpretation of this observation is as follows:

- Small and medium sized companies only have their own subsidiaries or branches in but a few foreign markets. Consequently these companies have not invested seriously in electronic communication and have not implemented the full use of such facilities. This, however, is the case for the two other types of companies which can secure speed and reliability through the use of e-mail, EDI etc.
- Large nation-wide companies and multinational companies accordingly use the electronic alternatives whenever possible. On the other hand, when needed, these companies are prepared to pay the relatively high prices to international integrators for courier and express services.

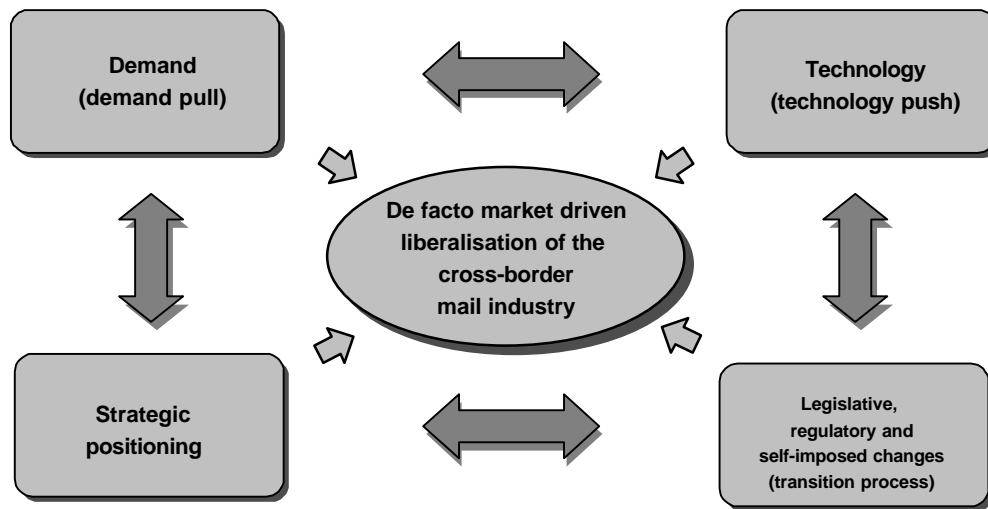
In summary of the independent factors that shape the demand for cross-border mail, price is presently the main determinant in the customers' buying decisions and will be in the future. Concentration among big postal customers also implies that these customers increasingly tender out postal services for regions such as the EU. Underlying macroeconomic determinants are still economic growth, which is positively related to the development of cross-border mail, and the technological development which, due to the substitution effect, increasingly is expected to impact the demand for cross-border mail negatively.

2.6 The current EU cross-border mail market - a market driven liberalisation

Based on the above analyses and according to the returned questionnaires and qualitative interviews, the most important change drivers in the cross-border mail markets are:

- the development in demand;
- the technological development;
- the actions taken by especially the USPs; and,
- the expectation of a de jure liberalisation of cross-border mail.

These four change drivers interactively constitute the driving force in the international cross-border mail industry: a market driven liberalisation.

Figure 2.2 De facto market driven liberalisation of the EU cross-border mail market

(Source: PricewaterhouseCoopers, 1998)

By market driven liberalisation we mean a development, which on the one hand is partly affected by formal legal changes and initiatives, but also – and undoubtedly to a greater degree – is affected by market forces that are moving towards a more liberalised environment.

Development of demand: "Demand Pull"

The overall macroeconomic development is still a very important factor to the development of the volume of cross-border mail. At the micro level other important changes are taking place. Since the postal customers generally are becoming bigger and bigger, so is their buying power. Many activities are being rationalised and centralised in these big companies. This goes for the truly global transnational companies, as well as for more moderately sized internationalised companies. The international markets are considered national markets to many of the postal customers.

In the very long term this trend towards customer globalisation may have considerable impact on the cross-border mail industry. It seems as if it is too early to say how, when and how big the impact of this type of globalisation will be. However, some of the respondents indicated an example of the increased buyer power – essentially due to the sheer size of the customers. The giant corporations may choose to use one operator to take care of all deliveries in Europe – as is the case in the United States.

There seems to be very little differentiation in buying criteria between the different segments of customers when choosing postal operators for cross-border mail.

The technological development: "Technology Push"

Today there is little doubt among postal operators that technology, especially in the form of electronic communication will help shape the future postal industry. Electronic communication, especially for cross-border mail, will play an influential role as parts of the operational value chain can be effectively moved cross-border by means of electronic media.

Electronic substitution may pose a threat to postal volumes in general, but to cross-border mail the continued market push by postal operators, both USPs and private operators, to use hybrid mail may prove to have a positive effect on cross-border mail volumes.

Initiatives and actions taken by the Postal operators: "Strategic Positioning"

Two main platforms in preparing for a liberalised cross-border mail market are: 1) A financially strong position and 2) experience within cross-border mail operations.

A third platform is the sheer size of the operators. In this area large differences exist between the USPs in the EU. Due to the size of their home markets the three giants in the postal sector within the EU are La Poste (France), Deutsche Post AG and Royal Mail.

This oligopoly however, is based on domestic conditions and the transition processes will imply the opening of these markets to foreign competitors. The relative strength of these three USPs will impact the outcome of a liberalisation of the postal sector as well as the liberalisation of cross-border mail.

It is evident, that international integrators and some USPs are already competing intensively in the outbound cross-border mail markets. Both parties are engaged in preparations towards the liberalisation of the postal sector in general and the cross-border mail in particular.

The USPs will have to balance losses in their domestic markets by gaining market shares in foreign markets. The strategic repositioning due to the liberalisation of cross-border mail must be assessed in this context.

Legislative, regulatory and self-imposed legal changes: "Transition processes"

No doubt the Green Paper on the Development of the Single Market for Postal Services from June 1992 started a development towards a liberalisation of the Postal Sector in general and the cross-border mail business in particular.

Many respondents have argued that the speed of transition in the strictly regulatory framework of the EU has been too slow. Some of these respondents also maintain that due to this modest speed the liberalisation has not made the progress needed, nor intended. Others among the respondents take exactly the opposite point of view.

However, changes are under way. It is easily seen with respect to outbound mail, where a de facto liberalisation is dominant among the European countries despite the fact that a de jure liberalisation has yet to take place in most of the countries.

In our opinion the legislative changes - the deregulation that has taken place and the self-imposed initiatives among the USP - are not the most important. The indirect impacts of the legislative changes have been far more important.

The mere expectation of a future liberalisation of cross-border mail have had more impact. The expectations vary among the USPs. Some believe in quick changes – others in much more long range processes. The expectations also depend on the strategic position of the individual USP.

Generally speaking however, most USPs have taken initiatives aimed at preparing themselves for a liberalised market place. In effect these moves and countermoves among the postal operators seem to have speeded up the de jure liberalisation on a national level.

2.7 Conclusion

Evidence shows that outbound cross-border mail is de facto liberalised despite the fact that the market is still de jure regulated in all but two EU-member countries.

This market driven liberalisation can be attributed to various factors: Terminal dues payments based on CEPT agreements have provided the financial incentive for this liberalisation, a process which can be characterised as an up-stream internationalisation of the cross-border mail market. Generally

speaking, the impact of this liberalisation to the individual USPs is very limited, thus posing no financial threat. The market driven liberalisation of outbound cross-border mail is the vehicle for the pro-active USPs - and to some extent the re-active USPs - to prepare their businesses for a future liberalisation of cross-border mail, as well as an overall liberalisation of the postal sector.

The gap between the de facto liberalisation and the de jure regulation is actually no impediment for the above mentioned development. However, it is fair to conclude that a mismatch exists between the commercial reality of the market and the regulatory framework of the outbound cross-border mail market. Furthermore the in-active USPs are not preparing themselves for a future liberalised cross-border market, which leads us to conclude that the differences between the EU USPs are growing due to this present situation.

Concerning inbound cross-border mail, the situation is quite different. This market is characterised by a match between the commercial and the regulatory world, in the sense that only a small part of the market is both de jure and de facto liberalised.

It is important to note, that where differences exist between the legal and the commercial world, these differences are characterised, by nearly all players in the market, as infringements of the reserved areas. Stated in another way, the inbound cross-border mail market is not characterised by any market driven liberalisation.

A market driven liberalisation of inbound cross-border mail, as seen within outbound cross-border mail, will never take place. First of all, practically all inbound mail is presently handled by the incumbent USPs, enabling them to effectively monitor any infringements on the mail flows. Furthermore, to most USPs, the impact of a market driven liberalisation is potentially much more severe compared to a market driven liberalisation of outbound cross-border mail.

However, the market driven liberalisation of outbound cross-border mail has impacted other developments in the present cross-border mail market.

Presently, confusion exists in the market concerning how and when a REIMS terminal dues agreement will be implemented. The market driven liberalisation is a driving force towards the further use of bilaterally based terminal dues agreements. The newly approved bilateral agreement between the Dutch and Swedish USPs exemplifies this development - in a cross-border mail market which is still de jure regulated. Although the REIMS principles initially eliminate the financial incentive for remail, it has to be remembered that agreements with postal operators other than USPs would not be governed by a REIMS terminal dues agreement, implying that other motivations for entering bilateral agreements will evolve.

Postal customer buying behaviour is focused on price. However, quality and reliability is nearly as important. The major customers are both growing bigger and becoming increasingly global, suggesting a demand for increasingly global postal services. It is becoming more common to invite USPs to submit proposals for the handling of all mail to Europe by a single supplier. In the present situation it is rather complicated for the suppliers to meet this demand.

The main competitors in the outbound cross-border markets are the international integrators, the pro-active USPs and smaller, local private postal operators. The competition is already characterised as intense.

In this respect it is interesting to note, that some of the biggest USPs in the EU are able to supply high quality cross-border mail services at relatively low tariffs - essential requirements needed to bid for tenders of major international customers, especially in a future liberalised cross-border mail market.

Apart from efforts to improve their relative effectiveness, the pro-active and re-active USPs in the EU are presently working to secure a first mover advantage, in order to have a good starting position when

the cross-border mail markets are liberalised. Initially, a financially strong position is a premise for engaging in mergers and/or acquisitions to secure such a position. In the present market the establishment of foreign international sales branches and subsidiaries, engagement in international bilateral agreements and non-equity strategic alliances are also used, as are foreign direct investments in joint ventures.

3. Perceptions of and expectations to a liberalisation of cross-border mail

3.1. Introduction

In this section we present the respondents' perceptions of and expectations to a liberalisation of cross-border mail. In section 4 these perceptions are included in the assessment of impacts of cross-border mail liberalisation.

In section 3.2 we present liberalisation as perceived by USPs and postal regulators, in section 3.3 the perceptions of major postal customers on the same issue and section 3.4 deals with the perceptions of the individual consumers. Section 3.5 identifies the perceived impact on the competitive environment. Sections 3.6 and 3.7 focus on the quantitative expectations to inbound and outbound cross-border mail in terms of volume and revenue. In section 3.8 we discuss the perceived impact to USP market shares and section 3.9 focuses on the impact on postal employment levels. Section 3.10 highlights the expected impact to the domestic reserved area and section 3.11 concludes.

3.2. Liberalisation perceived by USPs and national postal regulators

In the questionnaires the USPs were asked about the speed of liberalisation of cross-border mail. The ten answers to the question were evenly distributed:

- five USPs found the timing too hasty;
- two USPs found the timing reasonable; and,
- three USPs found it too slow.

As to the questions on whether or not the USPs assume liberalisation of cross-border mail as a fact and consequently treat liberalisation as a realistic future in their organisations and thus plans for this future, four of the USPs answered yes and five no. (N=9).

The USPs were asked to list advantages and disadvantages of a liberalisation of cross-border mail. A selection of typical answers is listed in table 3.1 below.

Table 3.1 Typical advantages and disadvantages of a liberalisation of EU cross-border mail, assessed by USPs

Advantages, N=8	Disadvantages, N=9
<ul style="list-style-type: none"> • <i>"Liberalisation of cross-border mail must be split into two assessments. Outbound is not that harmful as inbound and outbound has already been liberalised in our country."</i> • <i>"Larger markets within EU."</i> • <i>"Improve quality."</i> • <i>"Expand abroad – realisation of the internal market."</i> • <i>"Internationalisation of the company."</i> 	<ul style="list-style-type: none"> • <i>"The liberalisation of cross-border mail must be assessed separately for inbound and outbound mail. Inbound will open up for abuse from circumvention of the domestic reserved rights by other operators and users."</i> • <i>"Increase in remail from non-EU-countries."</i> • <i>"Postal operators without any established international sales- and service departments will loose more "outbound cross-border mail" than can be regained on the import side"</i> • <i>"Big local customers will be lost by the domestic operator – to private and foreign postal operators."</i> • <i>"Loss of jobs and negative impact of social/labour conflicts."</i> • <i>"Too much regulation of PPOs and no symmetric regulation of reserved areas."</i> • <i>"Through the loss in domestic volumes the price for domestic customers with a predominantly domestic need for postal services will rise."</i> • <i>"Terminal dues must be cost based on a sound level 3. We should have the right to decide them ourselves. –Free competition is a threat if this is not the case."</i>

(Source: PricewaterhouseCoopers survey, 1998)

The regulators were asked the same question and list of typical answers are listed in table 3.2.

Table 3.2 Typical advantages and disadvantages of a liberalisation of cross-border mail, assessed by postal regulators

Advantages (N = 8)	Disadvantages (N = 8)
<ul style="list-style-type: none"> • <i>"Intensified competition could lead to increased quality,"</i> • <i>"Wider consumer choice"</i> • <i>"More competition,"</i> • <i>"Better service,"</i> • <i>"Lower prices,"</i> • <i>"Bigger influence of international operators".</i> • <i>"Competitive markets and new entrants to the markets"</i> 	<ul style="list-style-type: none"> • <i>"Potential undermining of USO through circumvention of the monopolies in force",</i> • <i>"Strain on uniform tariff principle,"</i> • <i>"More complex redress procedures,"</i> • <i>"Increased problems with undeliverable items"</i> • <i>"Cream Skimming".</i> • <i>"Losses for incumbent operator"</i> • <i>"Increase in regulatory activities"</i> • <i>"Employment will go down"</i>

(Source: PricewaterhouseCoopers survey, 1998)

The above comments show significantly different reactions regarding the liberalisation of outbound versus the liberalisation of inbound cross-border mail.

Correspondingly the liberalisation of cross-border mail is assessed both as a threat and an opportunity by most of the responding USPs. Of ten answers three assess the liberalisation predominantly as a threat – another two predominantly perceive it as an opportunity. Five operators perceive their chances of success in a liberalised cross-border mail market as "good", two operators answer "bad" and two operators "very bad"

As was described in section 2 there are distinct differences among the EU USPs from a strategic point of view. It is clear that the answers cited above would depend on their current business vision as well as on their state of internationalisation.

The terminal dues systems

The postal regulators were asked if the present status of terminal dues system is compatible with the liberalisation of cross-border mail. All respondents (N=8) found that this is not the case. Some of the comments are cited below.

- *"As the "current level of terminal dues" is subject to uncertainty we are not able to make any comment."*
- *"It depends if the terminal dues rates are cost based or not. If the rates are higher, it will be easier for other companies to enter the market and deliver services at lower prices. If the rates are lower than the cost, it will be very hard for other companies to enter the market."*
- *"We are assuming that the current terminal dues system will have to be reviewed completely after the introduction of workable competition in the cross-border mail business."*

The universal service obligation and provision

There is a firm awareness among all postal operators concerning the potential dilemma of a liberalisation of inbound cross-border mail and the existing measures to prevent ABA remail.¹¹ Liberalising inbound cross-border mail could create what has been referred to as a "new class of remail" as domestic mail could, either as physical or non-physical remail, be converted into cross-border mail in order to benefit financially from tariff differences. The current volume of existing inbound cross-border mail in the EU is very modest compared to domestic volumes. But if a worst case scenario is realised, the mail volumes being converted could be substantial, which in turn would mean an increasing pressure on both the financing of the USO and the problems of infringements on the reserved areas.

The liberalisation of inbound cross-border mail can result in lost market shares in the domestic market. Through cream skinning the impact could be a further threat to the provision of the USO and the financial viability of the incumbent USP. As it was stated by one USP:

- *"As long as these issues (the monopoly obligations) are not clarified it is impossible to accept liberalisation of inbound mail. Safeguarding the universal service and the uniform rate is a precondition for liberalisation"*

Obviously all postal operators realise the possibility of a conversion of domestic mail into cross-border mail. However, two distinct opinions are found among the USPs:

- 1) Liberalisation of inbound cross-border mail is not the problem. The real problem is addressing the USO and the reservable area. The practical implications of these two concepts must be clarified

¹¹ Many of the respondents also underlined the importance of other global regulatory initiatives including UPU, WTO and others. Inconsistencies are to be avoided since liberalisation of cross-border mail is not only an issue in the EU. Some of the major postal operators are actively building up networks and alliances in other parts of the world as well.

and harmonised in order to give the USPs and new entrants to the industry a firm platform for business activities.

This argumentation is shared by a majority of the USPs. Basically, given the current definition of the USO, it seems logical to define the problem and its consequences in this manner. However, it has also been voiced that, defining the problem and its consequences in such a way, has prolonged the progression of the postal directive as well as the general efforts to further a liberalisation of the EU postal sector.

Critics to the point above maintain, that it will still take many years to follow this strategy of postal liberalisation. These USPs often hold the position quoted below:

- 2) Liberalisation of inbound cross-border mail is exactly the tool to start the process of liberalisation in the postal sector. The main advantage is that cross-border mail is typically only a minor share of the total turnover and therefore the potential threat to the incumbent USP is overly exaggerated. Through the liberalisation of inbound cross-border mail – following the de facto liberalisation of outbound cross-border mail - it is only logical as well as a good way for most USPs to prepare for a more widespread liberalisation of the postal sector.

Only a minority of EU USPs are of this opinion. However, it is interesting to note that liberalisation of inbound mail is defined by practically all respondents as being a modest problem compared to the two explicit issues at stake: the control of the reserved area due to domestic mail conversion, and thus the financing of the USO.

The national regulatory bodies raise the same considerations. Furthermore the regulatory bodies also see the monitoring of two separate mail streams as very difficult in case of a liberalisation of inbound cross-border mail. From a practical point of view it is nearly impossible to control both a regulated domestic mail stream and a liberalised cross-border mail stream.

Two basic opinions exist among the postal regulators:

- a pragmatic attitude stating that it is impossible to control both outbound and inbound cross-border mail, but if liberalisation is the objective one has to believe in the market forces and - if needed - consequently put new control measures into play; and,
- a conservative attitude saying that only if the basic problems – the financing of the USO and effective control of the reserved area – are solved, it makes sense to liberalise inbound cross-border mail.

In the interviews – both with operators and regulators – infringements on the reserved area were mentioned. When asked if claims had been raised against these infringements, the typical answer was no. The reasoning behind this was, that it is difficult to prove these infringements – and difficult to actually monitor the mail streams. Furthermore the USP will often be reluctant to solve such problems legally.

3.3. Liberalisation perceived by major postal customers

When discussing the attitudes among major postal customers and their interest organisations the attitudes are very similar. The most important expected outcome of a liberalisation of cross-border mail, is a much more widespread choice of different services supplied by the postal operators. The reason is attributed to two factors:

Firstly, all companies are demanding more differentiated products and services in order to serve their customers in the most efficient way. Different price/quality ratios are mentioned by many. The time it takes to deliver the mail will still be a very important quality measure, but timing or predictability of end-delivery is very often mentioned as is end-to-end control.

Presently the choice within the cross-border mail markets is too small. According to the companies the USPs can not meet this demand – due to the postal monopolies.

Secondly, it is the belief of most of the companies that when liberalising cross-border mail a natural evolution is a much more polarised supply of services, as the postal operators will strive towards differentiating their services from each other. At one extreme a large part of the cross-border mail market will be a commodity market, implying that price is the primary buying criteria – for the customers and the suppliers. At the other extreme highly differentiated services and even tailor made order production of postal services will be seen.

By liberalising the cross-border mail market the companies will also be able to choose among the different EU USPs. Actually, this is the philosophy of an internal market – the customers are allowed to “shop for the best and the cheapest” postal service suppliers across the EU. Linked to this mechanism is also the pressure on less efficient EU USPs to improve their performance in both prices and non-price related areas.

Among these respondents similar examples from the airline and telecom industries, of the above process, are often cited in order to illustrate the likely development of a liberalisation of the cross-border mail market.

3.4. Liberalisation perceived by individual consumers

Generally the European consumer organisations are in favour of a liberalisation of the postal sector and a liberalisation of cross-border mail. However, they are of the opinion that some guarantees of the expected benefits of liberalisation must be spelled out. The position of the consumer organisations - on behalf of the individual consumers as no specific analysis have been conducted among actual individual consumers - are based on sources from these interest organisations, interviews with BEUC and a national consumer organisation¹².

First of all, it is important that each and every consumer is guaranteed that the USO is maintained. To the consumer organisations the most important objective of the regulatory bodies is to monitor and control that all consumers are treated equally. In practical terms this means ensuring a similar - and presumably better - quality of postal services as a result of a liberalisation.

Secondly, it is also important to monitor if lower prices and transparent price policies are actual effects of the liberalisation. The consumer organisations will not accept cross-subsidies from small customers (i.e. individual consumers) to major customers through price reductions to the latter. In order to be able to monitor these price structures most European consumer organisations think that transparent

¹² “Liberalisation of public utilities and consumers’ problems in this context” by Peter Nedergaard, The Danish Consumer Council. The article is based on a survey among European consumer organisations.

markets are essential. Also for postal services this is a generic request, since transparency will allow the consumers to control:

- 1) whether price discrimination takes place through reductions of the same services; or,
- 2) whether quasi differentiation takes.

As a third point it is important for the European consumer organisations that individuals maintain the possibility to complain about the operators and their services. This is easily done when the operator is a part of the public sector - through the responsible minister. In a liberalised industry the establishment of an independent complaints board is seen to be the relevant measure.

3.5. Perceived impact on the competitive environment

3.5.1. Market Structure

Judging especially from the interviews with USPs, private operators, regulators and interest organisations, one particular view of a liberalised market for cross-border mail services seems to materialise.

The cross-border mail market which, until now, has been defined and structured by a combination of regulation and national borders is set to become a normal market in terms of price competition, product differentiation, tailor-made service and distribution networks defined by logistics.

In a liberalised environment, basic market-driven forces such as supply and demand will define the cross-border mail market. Thus it is conceivable that the structure of the market will be defined by the operators who can service a particular geographical region. Furthermore attractive user constellations, from a geographical point of view, would also warrant enough attention to become markets in their own right. Instead of accurately defined market divisions based on national borders, the market will be defined by geographical regions more so than nations.

In effect this is already taking place as proved in section two:

- certain USPs have joined forces to strengthen their regional logistical framework; and,
- certain national capitals warrant enough attention from foreign USPs to establish sales offices or indeed logistical operations.

When discussing future market structures, evidence from the survey indicates a market structure defined by the following four categories of suppliers:

- four or five trans-European operators;
- regional alliances;

- national operators; and,
- local operators.

Of the current USPs and private operators, it is conceivable that a handful have the capability and the ambition to offer services on a European scale. Indeed some have already made it clear what their ambitions are, and others are evidently preparing themselves for more than an improved domestic service.

A range of USPs may not have the apparent strength to offer a European service, but they have ambitions that go beyond their home markets. In order to strengthen their position and perhaps also as a defence against future take-overs, they will establish strategic alliances that cover geographical regions, specific products or even specific capabilities.

Another range of USPs and national operators may choose to focus on their domestic core competencies and their core domestic markets.

Finally the remaining group, and in terms of numbers the largest, includes all the local operators ranging from specialised delivery companies and couriers to national regional operators.

In summary, a liberalised cross-border mail market is perceived to be of a more complex nature than the current, by the engagement of more operators from the above mentioned four layer structure in practically speaking all elements of the cross-border mail value chain. The operators will cover the markets based on geographically and commercially defined regions more than on national borders.

The USPs were asked which competitors they were likely to face if cross-border liberalisation is implemented.

Among the USPs Dutch PTT, Royal Mail and Deutsche Post AG are mentioned. Among the private postal operators the USPs specially mention DHL and TNT followed by UPS and FedEx. However, smaller private competitors are also expected such as regional and national mailhouses, direct marketing organisations, distribution companies, courier companies etc.

Not surprisingly the perceived future competitors are nearly identical to the present pro-active competitors.

3.5.2. Key success factors in liberalised cross-border mail markets

The USPs were also asked which key success factors would be the most important in order to build sustainable competitiveness within the outbound and inbound cross-border mail markets. The answers varied somewhat, but three groups of factors were identified as the most important for the present and future cross-border business:

Table 3.3 Key success factors, outbound and inbound cross-border mail

Ranked groups of key success factors	Outbound cross-border mail	Inbound cross-border mail
First priority	Price, quality and reliability	Price, quality and reliability
Second priority	Speed, strategic alliances and image	Speed, local presence and effective production
Third priority	Labour cost, market communication, new concepts, local presence and effective production	Labour cost, strategic alliances and image

(Source: PricewaterhouseCoopers survey, 1998)

It is worth noting that the factors given as first and second ratings are all controllable by the operators themselves, i.e. firm specific.

The USPs were also asked how they perceive the likely developments in price and quality vis-à-vis their main competitors. This question was specifically related to outbound cross-border mail, as this already is a competitive market. It was striking to note that all respondent USPs (N=8) expect to offer outbound services at higher prices and at higher qualities than their main competitors.

Thus the traditional success factors of price, quality and reliability will remain the most important in a liberalised cross-border mail market.

3.5.3. Postal operator strategies

Closely linked to the above are the actual business strategies of the operators. In fact business strategy, market coverage and key success factors are so closely intertwined that they most often form the integral part of an overall business plan: how to compete? and where to compete? However, for the purpose of this report we have chosen to separate these simply because most postal markets are traditionally defined first by borders and regulation, then by coverage and supply.

Keeping the above four-layer overall market structure in mind, which covers the question of where to compete, we will focus on how to compete. The first general strategic distinction which can be drawn is that of:

- one-stop-shop; vs.
- niche player.

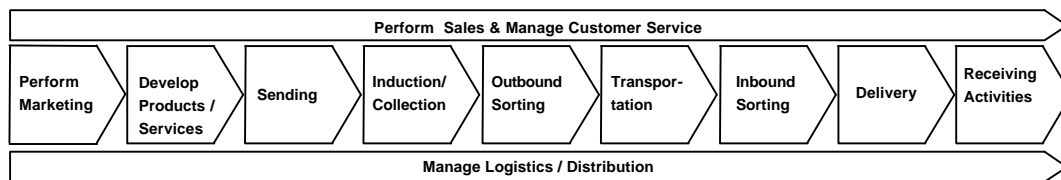
At first glance it seems obvious that the operators that will fall into the first of the two categories above, already have the capability to offer one-stop-shop services. These operators typically cover all three areas of traditional postal operations - letters, express and parcels - with a high degree of quality. In addition they typically have more specialised services such as logistics, consulting and electronic services.

The niche player will concentrate on selected few activities and/or selected few markets.

In terms of the postal value chain, it is not possible to give one answer as to where the postal operators will invest resources in a liberalised cross-border mail market, as the final decision is very much linked to the specific strategic and financial situation of the individual postal operator.

Thus, we will describe the main principles of postal operator market expansion strategies, followed by a description of the most likely market entry strategies in a liberalised cross-border mail market. To illustrate our arguments we shall refer to the below postal value chain:

Figure 3.1 Postal value chain process areas



(Source: PricewaterhouseCoopers, 1998)

USPs are typically concerned about four principal mechanisms when discussing liberalisation of cross-border mail:

- to quote a comment in the questionnaire: *"Delivery is the most important part of the generic postal value chain. This part is a strategic asset for the inbound handler of mail and for possible competitors"*;
- the main strategic issue of outbound cross-border mail is: To invest in the up-stream business opportunities through strategic moves starting from the process of Inbound Sorting;
- the main strategic issue of inbound cross-border mail is to get closer to the receiver. This includes down-stream business opportunities from Induction/Collection, Outbound Sorting and/or Transportation; and
- the final objective is to obtain internal end-to-end control. As this proves a challenge at a transnational level, even for the biggest postal operators, the task is then to focus strategic initiatives at process areas that are less controlled from an internal point of view.

These principles for strategic expansion are verified through answers to the question of where the most intense competition will emerge in a liberalised cross-border mail market. As for outbound cross-border mail a consensus exists around the following answers:

- sending;
- induction/collection;
- outbound sorting; and
- transportation.

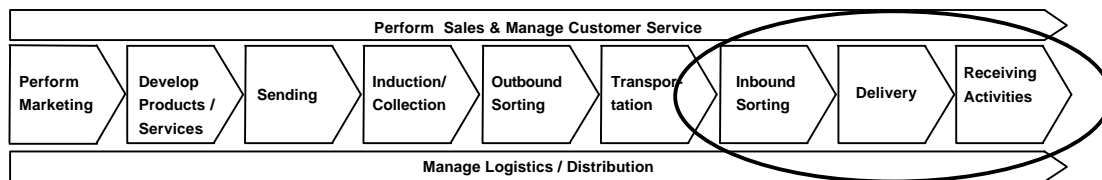
Some respondents indicate only one of the activities – others some of the activities together. As for inbound mail the answers to the same question were:

- delivery; and,
- inbound sorting.

When assessing possible competitor value chains five of seven USPs indicated the most likely individual USP value chain will be one of complete end-to-end control, i.e. all activities in the value chain.

The same respondents pointed out that other USPs and international integrators would strive at establishing a cross-border mail value chain configured by control of all activities until delivery to an inbound USP office of exchange.

Figure 3.2 Competitor value chains, no end-to-end control



(Source: PricewaterhouseCoopers survey, 1998)

Interpreting this information, it seems logic that only some of the USPs can establish complete end-to-end control of cross-border postal services in parts of Europe by gaining market shares in foreign outbound markets and managing the international transport into their domestic markets and/or other markets. The remainder of the cross-border outbound mail market will, as has traditionally been the case, be concentrated around two separate value chains.

The conclusion drawn from the above, considering the future market structure for cross-border mail described above, is that the operators in the first two categories (trans-European and regional) clearly possess advantages in a future liberalised cross-border mail market. A simple, but nonetheless extremely important fact is also, that some of the operators which are able to offer cross-border one-stop-shop solutions possess substantial financial strengths. Combining financial strength and the ability to offer cross-border one-stop-shop solutions, puts these operators in a position that enables them to take full advantage of a liberalised cross-border mail market.

On the other hand, the operators which accept a niche role, either by choice or by force, are already, strategically speaking, in a position where they are unable to compete effectively on a large geographical scale. Niche operators, in order to operate effectively in a liberalised cross-border mail market, must be able to compete, in fact be better, on price and quality as they remain the key success factors.

In summary, in a liberalised cross-border mail market, the first two groups of operators will compete on a European scale, as they are already in a position to do so. The current strategic and operational gap to the remaining two categories of operators is of such a magnitude that many may choose not to compete in the cross-border mail market and simply focus on their core business.

3.6. Expectations to inbound cross-border mail

3.6.1. Inbound cross-border mail volume

Although not all USPs answered these questions, there are an interesting amount of observations to be made on the expectations to cross-border mail volumes and revenue. Looking at the survey data one interesting observation is that smaller and medium sized EU-countries, measured by the size of the population and national income, tend to have higher expectations to the future (2001 and 2006) volumes of inbound cross-border mail relative to 1996. All of the numbers discussed in the following sections on in- and outbound cross-border mail, pertain solely to EU USPs. The indexed expectations are simple averages. Market coverage is calculated on the basis of EU inbound and outbound cross-border letter item mail volumes respectively¹³ and indicates the share of market which the number of answers (N) represent for each mail category.

When respondents were to consider the future estimates for 2001 and 2006 respectively, the following was stated in the questionnaire: "Please be aware that when attempting to estimate future developments for 2001 and 2006, you should answer as if the EU Commission's directive for the postal sector will come into action in its current state as proposed." This implies that the volume and revenue estimates for 2001 presumes a regulatory environment as found on the market today and volume and revenue estimates for 2006 assumes a full liberalisation of cross-border mail.

Table 3.4 Volume of inbound cross-border mail

Volume of inbound cross-border mail.	1996	2001	N	Market cov.	2006	N	Market cov.
Letters-LC	100	107	11	72%	111	9	47%
Letters-AO	100	103	8	58%	119	6	39%
Extra-EU	100	106	10	70%	111	8	45%
Intra-EU	100	106	10	70%	112	8	45%
To businesses	100	102	9	55%	101	8	45%
To individuals	100	104	9	55%	108	8	45%
Direct mail	100	111	9	55%	120	8	45%
Other mail	100	103	8	48%	102	7	39%

(Source: PricewaterhouseCoopers survey, 1998)

LC and AO mail

Analysing the data for Letters-LC the volume of inbound cross-border mail is expected to increase by seven percent from 1996 to 2001. The replies from the respondents lie in the range from index 90 to index 120. From 2001 to 2006 the expected increase amounts to four percent. The replies for 2006 lie in the range of index 105 to index 150.

For Letters-AO the volume is generally expected to increase by three percent from 1996 to 2001 and by 16 percent from 2001 to 2006. The replies range from index 98 to index 115 in 2001 and from

¹³ UPU statistics on EU cross-border mail 1990-1996. When actual data was missing or "not available", time series were extrapolated using basic linear regression.

index 98 to index 150 in 2006. The development in Letters-AO seems to be closely connected to an expected increase in home shopping and electronic commerce.

Other mail types

The above mentioned tendencies are also true for the other categories of inbound cross-border mail – with few exceptions. Concerning the relatively high expectations to direct mail the range of answers is very wide. To the consultants these different assessments of the future growth in direct mail also indicate the different present levels of use of direct mail among the EU member countries.

Despite the different estimates given by the respondents it is fair to conclude that the expectations concerning volume for the different mail types are based on fairly stable, positive growth expectations.

3.6.2 Inbound cross-border mail revenue

Specifically for the future revenue estimations of cross-border mail, only one third to one half of the respondents answered also mainly due to the current uncertainties of a future European terminal dues system. Of the seven that answered, three commented that they did so under the assumption that the REIMS II terminal dues system would be in place by 2001 and 2006.

Table 3.5 Revenue of inbound cross-border mail

Revenue of inbound cross-border mail.	1996	2001	N	Market cov.	2006	N	Market cov.
Letters-LC	100	134	7	52%	130	5	31%
Letters-AO	100	126	4	38%	130	4	30%
Extra-EU	100	119	7	52%	127	5	31%
Intra-EU	100	139	7	52%	132	5	31%
To businesses	100	126	6	36%	120	5	31%
To individuals	100	131	6	36%	122	5	31%
Direct mail	100	136	6	36%	124	5	31%
Other mail	100	128	6	36%	123	5	31%

(Source: PricewaterhouseCoopers survey, 1998)

LC and AO mail

The most important observation is that the revenue for both Letters-LC and Letters-AO is expected to increase substantially from 1996 to 2001, respectively by 34 and 26 percent. Looking at expectations for 2006 it is seen that the revenue of Letters-LC is expected to decrease by three percent and Letters-AO to increase by three percent. The range of answers concerning Letters-LC goes from index 100 to index 175 in 2001 and from index 90 to index 200 in 2006. The span of answers to the expected revenue of Letters-AO is found to be similar. The response pattern and the very different estimates clearly indicate considerable uncertainty of the likely development in the revenue of inbound cross-border mail.

Other mail types

The same overall picture is seen again with regards to the other categories of cross-border mail. A significant increase in revenue or turnover from 1996 to 2001 and an absolute decrease in revenue terms from 2001 to 2006 with few exceptions.

The span of answers is also substantial for answers to the other categories and it has to be underlined that the response rate, especially for 2006, is small.

Bearing this in mind, our interpretation of the data is that the implementation of REIMS principles is more or less taken as a fact by most of the respondents which automatically will increase their turnover in inbound cross-border mail in the first period. Our interpretation of the last period indicates an intensified price competition due to the liberalisation of cross-border mail.

Expected developments in volume and revenue

For Letters-LC and Letters-AO in particular and for the other mail categories in general it is striking that, whereas the growth in volume seems fairly steady, the price developments are not at all linked to the developments in volume. Apart from the indication of an intensified price competition as stated above, it has to be stressed that the data is not as reliable as ideally could have been the case.

3.6.3. Background for inbound cross-border mail estimates

The respondents were asked to specify the reasons for the estimates given. It was an open ended question and a selection of the answers that occurred most often are referred below.

Table 3.6 Reasoning behind future estimates of inbound cross-border mail

Inbound cross-border estimates	Reasoning behind estimate	Influential factors
2001	<ul style="list-style-type: none"> • <i>"Growth in letter volume"</i> (0.7, 1.0 and 2.0% per year are mentioned); • <i>"growth in remail"</i>; • <i>"growth in direct mail"</i>; • <i>"decrease in private mail"</i>; • <i>"economic growth"</i>; • <i>"growth in world trade"</i>; • <i>"effect of the EURO"</i>; • <i>"Negative effects of electronic mail"</i>; and, • <i>"More intense competition, prices etc."</i>. 	<ul style="list-style-type: none"> • <i>"REIMS II"</i>; • <i>"liberalisation"</i>; • <i>"less barriers to trade"</i>; • <i>"market globalisation"</i>; • <i>"growth in communications"</i>; and, • <i>"growth in electronic communication"</i>.

(Source: PricewaterhouseCoopers survey, 1998)

As can be seen, the reasons behind the estimates for inbound cross-border mail are based on traditional macroeconomic indicators such as economic growth and overall growth in trade as well as specific postal indicators such as the growth of various mail types. Postal regulation is also mentioned as an influential factor. No specific reasons or influential factors were mentioned for 2006.

3.7. Expectations to outbound cross-border mail

3.7.1. Outbound cross-border mail volume

Expectations to outbound cross-border mail among USPs are shown in the table below.

Table 3.7 Volume of outbound cross-border mail

Volume of outbound Cross-border mail	1996	2001	N	Market cov.	2006	N	Market cov.
Letters-LC	100	108	12	81%	115	10	51%
Letters-AO	100	106	10	74%	124	8	44%
Extra-EU	100	105	9	75%	110	7	46%
Intra-EU	100	105	9	75%	114	7	46%
From businesses							
Small/Medium	100	110	6	45%	127	5	38%
Large/National	100	107	6	45%	124	5	38%
Multinational	100	102	6	45%	119	5	38%
From individuals	100	105	7	46%	109	6	39%
Direct mail	100	111	8	53%	116	7	46%
Other mail	100	107	7	46%	102	6	39%

(Source: PricewaterhouseCoopers survey 1998)

LC and AO mail

The expectations to developments in volume from 1996 to 2001 amount to eight and six percent for Letters-LC and Letters-AO respectively. The span of answers ranges from index 80 to index 120 concerning Letters-LC and from index 65 to index 120 indicating fairly different assessments among the USPs. In the second period the expected increases are six percent Letters-LC and 17 percent Letters-AO. The range of answers is somewhat wider for this period.

Other mail types

The expected developments in the other mail categories are similar. Of special interest are the expectations to the business segment. The growth from the business segment is expected to be higher than the growth of mail from individuals. Within the segment the differences between the three categories of companies are small, however a slightly higher growth from the small and medium sized companies is indicated. The span of answers is typically wider for most of the other categories than for Letters-LC and Letters-AO.

Generally speaking the volume expectations for inbound and outbound cross-border mail are similar. It is still safe to conclude that also for outbound mail a steady state growth is expected which, to the consultants, indicate that the underlying factors behind the mail volumes are rather stable.

3.7.2. Outbound cross-border mail revenue

Expected revenues in outbound cross-border mail volumes are shown in the table below.

Table 3.8 Revenue of outbound cross-border mail

Revenue of outbound Cross-border mail	1996	2001	N	Market cov.	2006	N	Market cov.
Letters-LC	100	116	9	64%	122	7	40%
Letters-AO	100	120	8	63%	139	6	39%
Extra-EU	100	105	6	39%	103	5	38%
Intra-EU	100	109	6	39%	105	5	38%
From businesses							
Small/Medium	100	112	4	32%	114	3	30%
Large/National	100	112	4	32%	114	3	30%
Multinational	100	109	4	32%	107	3	30%
From individuals	100	101	5	32%	89	4	31%
Direct mail	100	114	6	39%	100	5	38%
Other mail	100	106	5	21%	95	4	31%

(Source: PricewaterhouseCoopers survey, 1998)

LC and AO mail

The revenue of outbound Letters-LC is expected to increase by 16 percent from 1996 to 2001 and by five percent from 2001 to 2006. Again big differences between the countries are found, as their answers range from index 90 to as much as index 212. The expectation to outbound Letters-AO is an increase of 20 percent from 1996 to 2001 and one of 16 percent from 2001 to 2006 with a range of answers similar to the one cited above.

Other mail types

It is striking that the expected developments for the other mail types are not as positive. Increases are expected in most cases – especially in the first period, but at a lower level than for Letters-LC and Letters-AO. Again it must be stressed that the data is not as reliable as it ideally could have been the case.

Apart from the uncertainty linked to the data, it seems clear that the respondents have had difficulties in assessing the likely developments ten years from now in a liberalised context for cross-border mail.

Expected developments in volume and revenue

Also for outbound cross-border mail the link between developments in volume and revenue are not that clear. It seems as if the expected development in volumes and revenues is characterised by nearly the same average growth rate. This was not the case when analysing the expectations concerning inbound cross-border mail which was characterised by a higher average growth rate for revenue compared to volume.

To the consultants it is worth noting that it has been relatively easy to predict the development in volume – despite uncertainties linked to electronic substitution. It has been far more difficult for the respondents to estimate revenue developments, as this has included estimates of unit prices in a liberalised context and – in most cases – based on an implementation of the REIMS principles.

3.7.3. Background for outbound cross-border mail estimates

The table below shows the rationales of the respondents to the expected growth.

Table 3.9 Reasoning behind future estimates of outbound cross-border mail

Outbound cross-border estimate	Reasoning behind estimate	Influential factors
2001	<ul style="list-style-type: none"> • "letter volume rises 2% per year"; • "letter volume rise"; • "demand for letter mail services constant"; • "growth in world trade and in specific trade relations"; and, • "global economic activity increasing". 	<ul style="list-style-type: none"> • "economic growth"; • "growth in foreign trade"; • "growth in sectors using postal services"; • "growth in communication"; • "electronic substitution"; • "technological development"; • "growth in direct mail"; • "liberalisation"; • "market globalisation"; • "competition"; and, • "development in prices".
2006	<ul style="list-style-type: none"> • "letter volume rises – but less than 2% per year, letter volume rises 0.7 per year; • "deregulation"; and, • "globalisation of postal activities". 	<ul style="list-style-type: none"> • "tougher competition"; • "competition among PPOs in ABB and ABC remail"; • "liberalisation of outbound international markets"; and, • "substitution".

(Source: PricewaterhouseCoopers survey, 1998)

As evidenced above the reasoning behind the future outbound cross-border mail estimates are based on macroeconomic indicators such as trade growth and general economic activity, postal indicators such as growth in mail volumes as well as postal regulation.

3.7.4. Expectations to cross-border mail - in a non-liberalised and a liberalised context

A summary of the expected developments of cross-border mail concerning Letters-LC and Letters-AO from tables 3.4, 3.5, 3.7 and 3.8 is shown in the table below.

Table 3.10 Expected developments in cross-border mail 1996-2001 and 2001-2006, percent.

Period	Mail category	Volume	Revenue
1996-2001	Inbound:		
	Letters – LC	7	34
	Letters – AO	3	26
	Outbound:		
	Letters – LC	8	16
2001-2006	Letters – AO	6	20
	Inbound:		
	Letters – LC	4	-3
	Letters – AO	16	3
	Outbound:		
	Letters – LC	6	5
	Letters – AO	17	16

(Source: PricewaterhouseCoopers survey, 1998)

1996 to 2001 – in a non-liberalised context

Summing up for the period 1996-2001 – assuming that liberalisation of cross-border mail is not implemented – it seems clear that a moderate volume growth is accompanied by a significant increase in revenue terms. This is seen for both inbound and outbound cross-border mail.

For many of the respondents it is natural to expect a higher payment for the handling of inbound cross-border mail – due to an implementation of the principles in the REIMS agreements. Based on our qualitative interviews the expected increase in outbound cross-border revenue is linked to an increase in the international tariff in some of the countries – specifically to enable the senders of cross-border mail to pay a higher share of the recipient country's domestic tariff.

In short, the significant increases in revenue are due to:

- expected higher payments to the end-deliverer; and,
- an expected increase in the international tariff in many countries.

2001 to 2006 – in a liberalised context

Summing up for the period 2001 to 2006 – assuming that liberalisation of cross-border mail is implemented - the volume increases for Letters-LC are moderate, whereas the increases for Letters-AO are significant. The reason seems to be an increase in the conversion of domestic to cross-border mail – especially bulk mail.

Looking at the expected developments in revenue terms inbound cross-border mail will not contribute to growth in income. The interpretation is an intensified competition in the area of inbound cross-border mail. To the consultants this means – at least in some countries - alternative end-deliverers to the incumbent USP. But also an intensified competition on the remuneration rates. As seen in the bilateral agreement between the Dutch and the Swedish USPs remuneration rates may be declining due to such new agreements. Expectations to revenue in outbound cross-border mail indicates a development where volume growth and revenue growth are linked together.

In short:

- a significant increase in the volume of Letters-AO is expected in inbound and outbound – presumably due to the conversion of domestic to cross-border mail;
- revenues in inbound cross-border mail are expected to stagnate; and,
- outbound cross-border mail revenues seems to be based on a nearly constant price level.

3.8. Perceived impact on market shares

3.8.1 Inbound cross-border mail

Overall the USPs expect to loose a three percent market share in volumes on Letters-LC, as well as a 10 percent market share loss of Letters-AO in 2001. In 2006 relative to 1996 the EU postal operators on average expect to have lost an 11 percent market share in volumes of Letters-LC, and a 14 percent market share in Letters-AO volumes.

The picture for the USPs market share of inbound cross-border mail revenue in 2001 and 2006 relative to 1996, is exactly the same as for the volumes, only more pronounced because the market share of the revenues is expected to fall more than the market share of volumes. It is generally expected that the market shares will decrease by six percent for Letters-LC and 15 percent for Letters-AO in 2001 relative to 1996. Furthermore it is expected that the revenues of the market shares of Letters-LC will by decrease 20 percent and by 21 percent for Letters-AO in 2006 relative to 1996.

Table 3.11 Inbound cross-border mail market shares

Inbound cross-border mail market shares	1996		2001				2006			
	Volume	Revenue	Volume	N	Revenue	N	Volume	N	Revenue	N
Letters-LC	100	100	97	9	94	4	89	8	80	4
Letters-AO	100	100	90	7	85	3	86	6	79	3

(Source: PricewaterhouseCoopers survey, 1998)

As mentioned in section one the question concerning loss of market shares has only been answered by a few respondents, which naturally impacts the reliability of the data shown.

3.8.2 Outbound cross-border mail

Although only five respondents chose to answer the question regarding the revenue of total outbound cross-border mail market shares we observed the following, as evidenced below in table 3.12. Focussing on the expected outbound cross-border Letters-LC mail volume market shares, a three percent loss is expected from 1996 to 2001, and a further a loss of 21 percent in 2006 relative to 1996. Concerning Letters-AO mail volume the expectations are losses of 11 percent from 1996 to 2001, and 22 percent from 1996 to 2006.

Examining the respondent's expectations to their market shares of the revenue of outbound cross-border mail in 2001 and 2006 relative to 1996 gives the general indication of an expected decrease in their market shares. On average the respondent USPs expect a decrease in the market share revenue of outbound Letters-LC cross-border mail of eight percent in 2001 and 19 percent in 2006. For Letters-AO there is expected to be a decrease of 16 percent from 1996 to 2001 and a decrease of 22 percent in 2006 relative to 1996. Again the revenues are expected to decrease more than the volumes from 1996 to 2001, but from 2001 to 2006 the decrease in both revenue and volume is more equalised.

Table 3.12 Outbound cross-border mail market shares

Outbound cross-border mail market shares	1996		2001				2006			
	Volume	Revenue	Volume	N	Revenue	N	Volume	N	Revenue	N
Letters-LC	100	100	97	7	92	5	79	5	81	5
Letters-AO	100	100	89	6	84	4	78	4	78	4

(Source: PricewaterhouseCoopers survey, 1998)

In summary it seems obvious that the USPs are expecting a decrease in their market shares as a result of liberalisation.

3.8.3 Lost market shares within cross-border mail seen in an overall context

Obviously a loss of market share is serious. However, even if the loss of market shares in inbound and outbound cross-border market is significant, this loss must be seen in relation to the total activity of the individual USP and the expected growth in the total market. Below three examples are shown.

Table 3.13 Indicative calculations: Impact of loss of market shares in outbound cross-border mail markets on total revenue and/or volumes of a USP

Loss of market share in the outbound cross-border mail market	10%	20%	30%
Country A: Outbound cross-border mail market as a percentage of total postal services: 2%	99,8%	99,6%	99,4%
Country B: Outbound cross-border mail market as a percentage of total postal services: 6%	99,4%	98,8%	98,2%
Country C: Outbound cross-border mail market as a percentage of total postal services: 18%	98,2%	96,4%	94,6%

(Source: PricewaterhouseCoopers, 1998)

As evidenced in the table even significant changes in the outbound cross-border mail markets have only marginal impacts on the overall activity of the USP. In countries like France and Finland outbound cross-border mail is less than two percent of the total mail activities. In countries like Belgium and Denmark outbound mail amounts to approximately six percent of total mail activities. The worst impact will be in a country where 18 percent of total turnover stems from outbound cross-border mail, as is the situation in Luxembourg. If 30 percent of this market is lost, it will mean a decline in total turnover of five percent.

3.9. Perceived impact on employment

The respondents were asked for the impact of a liberalisation of cross-border mail on employment. The table below shows the results based on replies from USPs and postal regulators.

Table 3.14 Effects on employment as the result of a total liberalisation of cross-border mail, ceteris paribus?

Potential effects	Operators, N=8		Regulators, N=6	
	Yes	No	Yes	No
Less employees in Public Postal Operators	6	2	4	1
More employees in Public Postal Operators	1	6	0	5
Less employees in Private Postal Operators	1	7	0	5
More employees in Private Postal Operators	6	1	4	1

(Source: PricewaterhouseCoopers survey, 1998)

The expectations correspond when comparing postal operators and postal regulators. There is also agreement among the respondents, as the answers appear virtually unanimous.

Thus, it is obvious that liberalisation is seen to impact employment among USPs negatively and employment among the private postal operators positively. However, it is also clear that it is not liberalisation per se which is driving this development.

According to evidence gathered in this study, it is not liberalisation of cross-border mail per se that will drive the above mentioned changes - other change drivers such as operational efforts to improve international competitiveness, increase quality of service, increase the rate of automation in the postal value chain, etc., are far stronger driving forces behind employment changes in the postal sector – be it in the reserved or non-reserved areas. Employment levels among EU USPs are deemed to decrease by 7,7 percent in the period 1996 to 2000 and in the same period private operator employment is estimated to increase by ten percent¹⁴.

Whether or not a liberalisation of cross-border mail is implemented, employment is closely linked to the international competitiveness of the USPs and to that of other postal operators in a long term perspective.

3.10. Perceived impact on the domestic reserved area

The most important impact of a liberalisation of cross-border mail – specifically inbound cross-border mail – is the conversion of domestic mail into cross-border mail. Two mechanisms are expected to arise.

A new class of remail

The most important of these two mechanisms has been called “a brand new class of remail”. In a liberalised cross-border mail market, should some customers find the tariffs of the incumbent USP too high, the possibility exists of a tender to the foreign postal operators able to offer lower tariffs. The foreign postal operator collects and stamps the mail and sends it back to be delivered in the country of origin. This kind of remail activity is presently illegal according to the UPU¹⁵. However it is presently being questioned whether ABA remail will remain illegal.

In a liberalised postal market where terminal dues are governed by the CEPT agreement, this kind of remail will rapidly evolve as the low payment to the end-deliverer means a large financial incentive to any foreign postal operator offering such a service. In a postal market governed by the REIMS

¹⁴ “Employment Trends in the European Postal Sector”. A report prepared for the European Commission by Price Waterhouse, May 1997.

¹⁵ UPU article 25

agreement, this financial incentive is substantially reduced should all cross-border mail be delivered by the incumbent USPs.

However, in some cases, it is likely that ABA remail will evolve in spite of a REIMS terminal dues agreement.

If an operator other than a USP handles the end-delivery, the REIMS agreement does not apply. Essentially this means that foreign USPs either establish end-delivery systems in the country of origin or they contract with a local private postal operator that can handle the delivery of the inbound cross-border mail. This also applies to foreign private operators that are able to offer lower cross-border postal tariffs.

This could sound unrealistic as there is no financial reason why a USP should accept lower payments than the ones anticipated under a multilateral REIMS agreement. In a dynamic perspective however, the following arguments should be considered:

- the incumbent USP may choose to accept a lower cross-border remuneration in order to prevent a competitor to establish an alternative end-delivery network; and,
- also, by accepting a lower remuneration, the incumbent USP's loss of income is only reduced – and not lost totally – in the specific inbound activities.

The same mechanisms can be foreseen if major postal customers are not satisfied with the quality of service of the incumbent USP. By giving their orders to another public or private postal operator which establishes an alternate end-delivery with a high quality of service in the originating country, the result will be a conversion of domestic mail into cross-border mail.

Illegal transport and delivery of domestic mail by cross-border postal operators

The other potential impact to the reserved domestic area is more direct and involves the illegal transport and delivery of domestic mail by cross-border postal operators. An established operator handling inbound cross-border mail may look for more volumes in order to exploit economies of scale. The threat is then that domestic customers may insert domestic mail directly to this operator. Thus the mail may never leave the country, but is handled by a cross-border operator. Should this happen, the reserved domestic area and, as a consequence, the financial foundation of the USO is threatened.

ABA remail is currently illegal – but for how long?

As described above ABA remail is currently considered illegal. It remains an interesting question if this position is maintained. It is not logic to liberalise the EU cross-border mail market on the one hand and maintain that ABA remail is illegal as this would prevent the benefits of an internal market to be exploited. Recently a decision taken by the EU Court of First Instance ruled that USPs can not prevent ABA remail by private sector express mailing services.¹⁶

Liberalisation of cross-border mail will open up for the conversion of domestic mail into cross-border mail. Even if the REIMS principles for terminal dues are implemented, ABA remail is foreseen typically due to dynamic competitive market forces including further bilateral agreements between the postal operators.

In short, under the assumption that ABA remail is allowed, the threat to the domestic markets will hinge on the international competitiveness of the incumbent USP and its ability to adapt to liberalisation.

¹⁶ Market Flash, International Post Corporation, no. 144, October 5 1998, p. 2

3.11. Conclusion

The dominant issue, when assessing the perceived impact of a liberalisation of cross-border mail, is beyond doubt the impact of the liberalisation on the domestic reserved area. The most influential force will be an anticipated conversion of domestic mail into cross-border mail due to lower tariffs abroad and/or better quality of service. The perceptions of and expectations to a liberalisation of cross-border mail, in terms of the regulatory and competitive aspects, can be summarised as follows:

The regulatory aspects are perhaps best illustrated by one of the quotes from a USP:

- *"As long as these issues (the monopoly obligations) are not clarified it is impossible to accept liberalisation of inbound mail. Safeguarding the universal service and the uniform rate is a precondition for liberalisation"*

The word "safeguarding" is important. All postal operators agree that a liberalisation of cross-border mail will inevitably mean a conversion of domestic into cross-border mail. In effect, this is one of the mechanisms of an internal market - that customers can buy services where these are available according to price, quality and other features valued by the customer, without paying attention to national borders.

But the combination of a liberalisation of cross-border mail, the USO and a reservable area will most likely have the following effect:

First of all, the conversion will be based on lower tariffs and/or better quality of service. Especially the quality aspect is of interest - if a foreign operator is to deliver a better service it will most likely happen through an alternate end-deliverer in the country in question. The implication is that the incumbent USP must face a decrease in the domestic market - both in terms of volume and revenue. Also, as expected by most USPs, the potential alternate end-deliverer will start delivering mail in the most profitable areas - implying cream skimming. Consequently a liberalisation of cross-border mail will put pressure on the profitability of the incumbent USP according to most of the USPs.

Secondly, the USPs and national postal regulators do not believe that it will be possible to monitor and control if and how the domestic reserved area is circumvented by a liberalised inbound cross-border mail stream. Even if it were possible, it would be both too expensive and most likely counterproductive to a liberalisation. On this basis it is difficult to see how a liberalised cross-border mail stream and a regulated domestic mail stream is to be monitored and controlled at the same time.

These arguments divide the USPs into two groups concerning attitudes to the liberalisation of cross-border mail. The majority of USPs insist that if no "safeguards" are granted concerning the threat to the reserved area and the financing of the USO - then liberalisation of cross-border mail is unacceptable. Only if these "technical and practical" problems are solved, is it possible to proceed with the liberalisation of cross-border mail. A minority of USPs believe that this way of approaching the liberalisation is far too slow - it has already taken too many years to prepare for the liberalisation of the postal sector. A minority believe that the impact of a cross-border mail liberalisation is very limited, thus making this approach the right tool to start the transition processes towards an overall liberalisation of the postal sector.

Liberalisation is thought to impact employment among USP negatively, but at the same time it is also recognised that inherent factors such as efficiency improvements, automation, organisational restructuring etc., are the true drivers of employment levels. As liberalisation is thought to increase the competitive pressure, these factors will thus become increasingly important. Liberalisation is thought to favour private postal operators, in terms of employment levels.

The expectations concerning the likely competitive structures in a liberalised cross-border mail market are rather straight forward. Nearly all the factors that are presently characterising the current competitive structure in the market are thought to be the same in a liberalised context. The competition will naturally be more intense and the same operators will dominate - especially major USPs and international integrators.

A four-layer market structure will evolve. The postal operators will consist of transnational operators delivering global postal services within their own operational channels as well as in collaboration with other operators. Regional operators will be operating in the same way as the transnational ones - only in smaller geographic markets - across national borders. National postal operators will operate only in their home market, as defined by their national borders. Small local postal operators will “fill out gaps” in the postal value chain as sub-contractors to the larger postal operators.

This market structure certainly implies market definitions based on commercial and logistical criteria and not, as is presently the case in the EU - on national borders. This market structure will match the trends on the demand side among the influential major postal customers - characterised by “shopping for the best and cheapest” postal service across EU.

4. Impact of a liberalisation of intra-Community cross-border mail

4.1. Introduction

Section 4 presents an overall, total assessment of the impact of liberalisation of intra-Community cross-border mail. Section 4.2 introduces the conditions and assumptions made on the basis of section two and three, which make up the framework for this assessment. Section 4.3 goes on to present the expected process of change linked to a liberalisation of cross-border mail. In section 4.4 the expected processes of change are elaborated in two scenarios. Section 4.5 presents a quantification of the impact of liberalisation and in section 4.6 assessments of the impact on the domestic reservable area are found. In section 4.7 impacts on employment are assessed. Section 4.8 summarises the findings of section 4.

4.2. Assumptions made

Overall factors affecting the cross-border mail market

The three general framework conditions shaping the competition among the postal operators in the international cross-border mail market:

- macroeconomic;
- technological; and,
- political developments

will, according to the evidence gathered in this study, only be marginally influenced by a liberalisation of the cross-border mail market.

Due to a liberalisation it is expected that the growth in the sector will be marginally higher. The demand for postal services will increase due to increased focus on the sector, more intensified marketing towards the customers, new service concepts developed, more investments made in new technologies and decreasing reservations from political and societal forces.

The Universal Service Obligation

It is assumed that the USO will be maintained in all EU member countries. The definition of the USO varies between countries, but the obligation to collect and deliver mail to all citizens at an affordable price will be maintained. Various alterations to the USO will most likely be the result of a liberalisation of cross-border mail – for instance in terms of differentiated service levels.

The reservable area

It is also assumed that the reservable areas will be maintained in most of the EU member countries. Varying definitions of the reservable area already exist today throughout the EU. Although the Directive sets 350 gr. as the upper weight limit for the reservable area, some countries have set the reservable area in terms of weight at and below 100 grams. However, in our experience, the critical mass of the reservable area, in terms of the weight of first class letters, is below 50 grams, thus making the weight limit stipulated in the Directive comparatively high.

Cross-border mail remuneration

As described in the sections above, the obvious arbitrage opportunities inherent in the CEPT terminal dues systems activated many USPs within the remail business, while still living up to the multilateral terminal dues payment obligations.

As of October 1998 most EU countries have signed the REIMS II agreement which limits the remail arbitrage opportunities to a large degree, as remuneration for inbound delivery of cross-border mail can equal up to 80 percent of the inbound tariff per item - please refer to table 2.1 for remuneration differences between the UPU, CEPT and REIMS terminal dues systems.

The assumption is that, at first, the use of a REIMS based multilateral terminal dues system will limit the market for cross-border remail.

4.3. The expected transition processes

However, as the REIMS II agreement only covers interactions between USPs, a range of new business opportunities in the cross-border mail markets is opened, when considering the potential collaboration between USPs and private postal operators.

In a true market economy bilateral agreements are often chosen over multilateral. When multilateral agreements are preferred – as it is presently the case in the telecommunications sector – these agreements are typically different than the multilateral agreements known in the postal industry. Typically between two and five dominant players set up an agreement and the rest of the players in the industry have to follow these rules and procedures.

Also a liberalisation of cross-border mail will increase the incentives to make market entries in different countries through conscious price policies. It is foreseen that entering an interesting market – not by acquisition, but by organic market expansion – will result in different prices offered to the incumbent end-deliverer of inbound mail compared to the prices offered when using a terminal dues system. This seems logic in order to build up a bridgehead in the foreign market and in order to have some kind of exclusivity vis-à-vis the inbound operator. More likely perhaps, is subcontracting with a local deliverer for the distribution of inbound cross-border mail in the most densely populated areas. In terms of price this will make lower rates possible as opposed to the delivery of the same mail by a USP operating under the REIMS II agreement. This could mean that terminal dues systems have a smaller role to play within the EU after a liberalisation of cross-border mail.

In summary, it is our understanding that liberalisation of cross-border mail will mean a much more widespread use of bilateral agreements. Today, the use of bilateral agreements seems more common than is ordinarily assumed. In a liberalised cross-border mail market, contracts between private operators and USPs will grow significantly and by implication the use of bilateral agreements. Consequently this will imply a different price structure compared to the current. It is important to add that USPs might partly or wholly own private entities, enabling the USPs to arrange for internal transfer pricing.

A liberalisation of cross-border mail will start a process of actions and reactions in the market. To quote one of the respondents from the qualitative interviews:

- *"If cross-border mail is liberalised as presumed in the Directive much stronger forces than the liberalisation in itself shall impact the future development in the postal sector in Europe. Some of these forces are: The technological development, pro-active universal service providers exploitation of already established channels and agreements and international integrators taking advantage of the situation."*

- *"Universal service providers in Northern Europe have already – liberalised or not – set up international agreements with existing public and private operators, they are researching the markets, considering strategic moves etc. Competition in the postal sector will be very much focused on these first mover advantages."*
- *"Some of the European postal operators will not succeed in improving quality, service, finance, productivity etc. On the other hand effective players will grow even better and more competitive. In some countries the universal service operations will be sold to foreign operators – like in Argentina."*

Through PR- and marketing activities The USPs will inform the market that new possibilities exist due to a liberalisation of cross-border mail. We believe that the first round of marketing activities will emphasise the reliability and the high quality of the postal service supplier to the domestic customers in order to strengthen their brand image. The motive is to keep the market share in the domestic market. Some of the most pro-active, efficient and experienced USPs will start selling their services to major foreign customers. The efficient and/or price competitive USP – located in country B – will promote services such as

- ABB-remail (i.e. expanding the internationalisation on outbound mail markets);
- ABA-remail (i.e. the so-called "new class of remail" converting domestic mail in country A to cross-border mail); and,
- ABC- and AC-remail (i.e. the handling of cross-border mail in third party international markets).

Independently and inspired by the efforts of the postal operators the major letter mail customers will react promptly to the legalisation of a free cross-border mail market. For years major customers have sought cheap and/or tailor-made solutions capable of handling mail to the whole of Europe or parts of Europe through one postal operator. Until now these customers have had to use the incumbent USPs as their main suppliers of cross-border mail services. Now, in a liberalised market, these customers will want to be serviced by the best and the cheapest postal operator, one that is able to handle most or all of their cross-border mail. As evidenced by comparing the various EU first class mail tariffs, considerable amounts of money can be served.

This optimisation by major customers is one of the basic ideas behind the creation of a single European market – EU companies and citizens shall have the possibility to choose among different European suppliers. And if the major customers themselves are not able to see the cost saving opportunities, they will undoubtedly be prompted especially by pro-active suppliers of cross-border mail services.

It is the belief of the consultants that two market strategies will be discussed by the boards of USPs in a liberalised cross-border mail market:

1) Defending the core strategic asset: The end-delivery

The issue is to keep the core "business unit" – i.e. the domestic services since this is of major importance for all business aspects: revenue, profitability, employment, commercial platform etc. Defending the core domestic area will be of crucial importance to all of the EU USPs.

2) Internationalisation: Establishing commercial links in the cross-border mail market

In short, internationalisation of cross-border postal services is characterised by up- and down-stream integration through the postal value chain of cross-border mail. The ways and means will differ among USPs, depending on their business strategy as already described - through strategic alliances, establishments of international marketing- and sales outlets and establishments of transport and sorting facilities abroad.

For pro-active USPs two different market entry strategies will dominate:

Outbound market expansion. The cross-border mail transactions by major customers will be concentrated around both physical and non-physical mail. Due to experiences already gained by many of the pro-active postal operators, these suppliers will be capable of up-scaling their foreign marketing and sales activities.

Inbound market entry. As inbound cross-border mail is no longer reserved, USPs may start end-delivery activities in foreign inbound markets. It is most likely that this will start by contracting with local operators and/or the acquisition of local operators. Through the already established outbound business activities, the pro-active USPs will be able to promote their new inbound services.

Private postal operators

The above mainly refers to USPs, as it is our belief, supported by our qualitative interviews, that competition will be most intense among these operators. But how will private operators try to position themselves in a liberalised cross-border mail market?

The race to establish market positions will call for many sub-suppliers, that are capable of handling a range of activities in the cross-border mail value chain. As an example it seems clear that the international physical transport of a larger volume of cross-border mail will call for assistance by private postal operators. As for the handling of non-physical cross-border remail or hybrid mail, it is expected that postal operators will co-operate with sub-suppliers such as IT and telecommunication companies. Concerning inbound mail it is likely that private postal operators or private delivery networks will handle some of the inbound cross-border mail.

The international integrators will have the chance to expand their business within international cross-border hauling of mail – one of their important strategic assets in a liberalised international letter mail market. The links between Deutsche Post AG and DHL and the merger between KPN and TNT also indicate exploitable synergies from strong positions both within the handling of domestic mail services (i.e. end-delivery) and the handling of cross-border mail (i.e. the collection and transportation of cross-border mail).

Some argue that it will be years before the international integrators will focus on domestic mail service expansion, as this is essentially a high volume, low margin business as opposed to their business of low volume, high margin. It is maintained though, that the international integrators will strengthen their positions within international logistics. However as evidenced in tables 2.4 and 2.5 the international integrators are active in the cross-border mail market and thus they will be able to maintain a distinct profile through their well-known brands and build up new brands within the high volume, low price letter mail market through subsidiaries.

New entrants

New entrants in the cross-border mail market will be local sub-contractors. We believe that most of these will take care of partial activities within the cross-border mail value chain. The new entrants will typically have relatively small market horizons – active in local markets, handling collection and end-delivery in collaboration with established postal operators – be it USPs or larger private operators.

4.4. Two scenarios

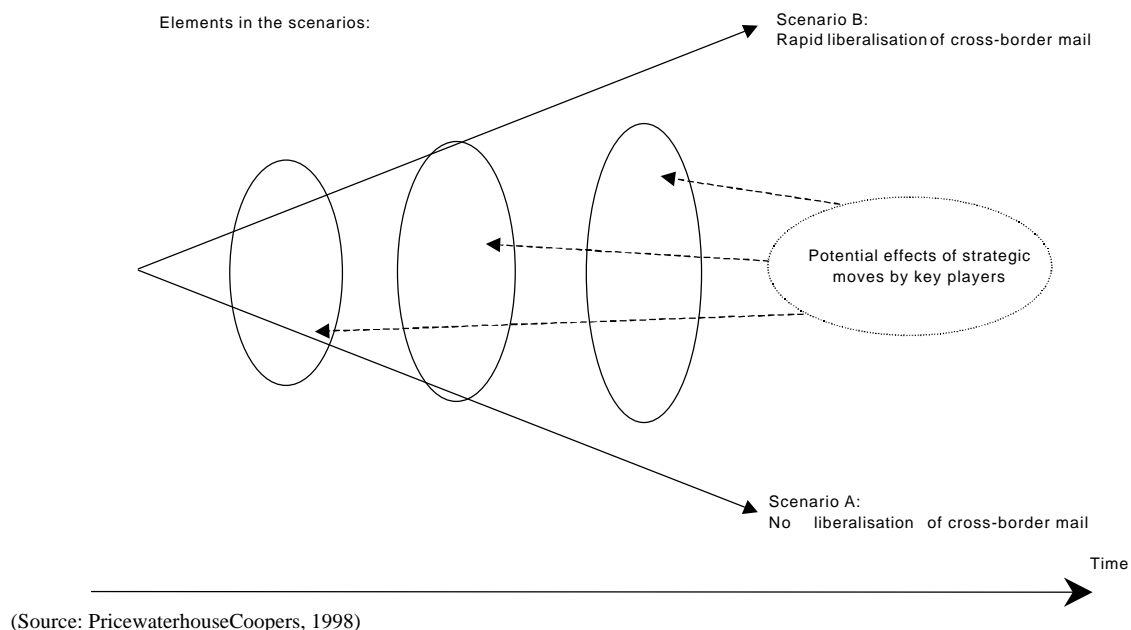
In order to deduct potential developments due to a liberalisation of cross-border mail, two scenarios have been made. The purpose of the scenarios is to describe the competitive processes in two different market situations. The scenarios are:

- scenario A – “No liberalisation of cross-border mail” – elaborates on the likely development of the markets for cross-border mail on the basis of the present situation characterised by a market driven liberalisation of the outbound cross-border mail markets; and,
- scenario B – “A rapid liberalisation of cross-border mail” – elaborates on the likely development of the markets for cross-border mail when liberalisation is implemented “over night”.

In the non-liberalised scenario cross-border mail has still not been liberalised. In the other scenario the presumption is that cross-border mail is liberalised, whereas all other issues concerning the liberalisation of the postal sector have not been changed.

Both scenarios, representing two regulatory extremes, may be questioned as to their realism. Neither of the scenarios are realistic on their own, but in order to understand, discuss and assess the range of possible developments for cross-border mail due to a liberalisation of cross-border mail both scenarios represent good points of departure.

Figure 4.1 Two scenarios for cross-border mail liberalisation



In the construction of the scenarios, it has been intended to describe each chain of events in the most likely sequence. Some issues are bound to develop very differently in each of the scenarios. Conversely some issues will prevail – whether cross-border mail is liberalised or not. In the table below a resume of the scenarios is shown. The full scenarios are shown in exhibit 2.

4.4.1. Characteristics of the two scenarios

Table 4.1 Characteristics of the two Scenarios.

	No liberalisation of cross-border mail	Rapid liberalisation of cross-border mail
Liberalisation:	Status quo. A market driven liberalisation of outbound cross-border mail takes place	Cross-border has been liberalised. Remaining areas in the directive have not been liberalised
General framework conditions: Economic	No threat to the domestic services Growth – at a moderate level	Conversion of domestic mail to cross-border mail means threat to domestic services Growth is stimulated marginally by the liberalisation, but not as fast as seen in IT and telecommunication
Technological	Highly focused investments in electronic alternatives – among other things due to restricted investments opportunities in traditional postal services	Still vast opportunities for the implementation of new technologies in postal services. For decision takers it is a challenge to allocate investments to traditional postal services versus new technologies
Societal	Still reluctance to accept liberalisation of cross-border mail	Open attitude to liberalisation
Demand: Globalisation	No impact	Due to liberalisation it is much more common for postal customers to shop for the best and cheapest postal services among European operators
Concentration among customers	Growing tendency: Tenders for supplying all postal services in Europe	Very significant tendency: Tenders for the whole of Europe. A new class of remail – ABA – will emerge due to the liberalisation. Although now illegal this will be changed, since non-physical ABA remail cannot be monitored and controlled
Buying criteria	<ul style="list-style-type: none"> – More emphasis on price/quality ratios – More choice (– but how to meet this demand?) – Speed and quality – Predictability – Strongest market growth: Small and medium sized companies – Demand for direct mail is growing significantly 	<ul style="list-style-type: none"> – Price, reliability, speed even more important – Very differentiated buying patterns will emerge from commodity markets to tailor made project markets – Predictability – Demand for direct mail is growing significantly
Summing up, demand:	A growing mismatch between buyer needs and demands and the capabilities of postal operators to meet these demands	The cross-border mail market is characterised by a number of segments: a commodity market, revenue added products and services, suppliers of tailor-made services etc
Supply: Initiatives and investments	Up-stream investments in the cross-border mail value chain	Liberalisation of cross-border mail will start a race of positioning among the postal operators. Up-stream and down-stream investments and integration
Collaborative agreements	Many collaborative agreements: USP and USP, USP and private operators and private operators and private operators	A significant amount of collaborative agreements. Even more significant – a wave of mergers and acquisitions is started
Speed of internationalisation	Learning-by-doing: Moderate internationalisation	Very rapid internationalisation: Operators will feel the need to choose the best option among partners, markets, entry modes, services etc.

Market entry strategies	Non-equity strategic alliances, foreign sales branches and sales offices, joint ventures and small foreign direct investments – in this ranking	Equity based establishments in most promising market places and non-equity strategic alliances and collaborations in the rest of the market
Transfer of technology to public operators	Technical assistance to less effective public postal operators at arms length	Transfer of technology through acquisitions
Outbound and inbound markets	Modest activities in inbound cross-border mail markets - but very important “spill over” effects from the internationalisation of outbound cross-border mail to potential future liberalisation of inbound cross-border mail	Highest priority is given to inbound markets, although activities will also be seen in outbound cross-border mail
International integrators	International integrators relatively passive in the development	International integrators very active – especially in inbound markets. International integrators will enter the mail markets through subsidiaries
Local private operators	Relatively modest market opportunities	Significant increase in demand for “filling out gaps” in the cross-border mail value chain
Remuneration of cross-border mail	Tendency to accept REIMS II principles, but the increasing importance of bilateral agreements means less reliance on multilateral agreements	The significant increase in merges and acquisitions, strategic alliances etc. means a shift from multilateral to bilateral based remuneration agreements among postal operators in Europe
Summing up, supply:	Moderate internationalisation of the industry based on outbound cross-border mail. However most initiatives and investments will also have potential effects when liberalisation of inbound cross-border mail is implemented	A wave of mergers and acquisitions. Very rapid internationalisation and intensified competition
Regulatory issues:		Increase in the need for applying general competition law in the postal sector
USO	Lots of efforts and resources are being used to plan a step-by-step liberalisation. No pressing problems but the real barrier behind the discussions of liberalisation of cross-border mail is: How to safeguard the financing of the USD etc.	Hard pressures on national governments and the EU Commission for fair and transparent definitions of and mechanisms for the universal service obligation since the different national conditions create significant uncertainty and, by implication, barriers to the development
Summing up, in total:	USPs are becoming increasingly competitive and less collegial.	“Over night” some USP will turn into private postal operators – independently or through merges and acquisitions
First mover advantages	Are being established: Financially strong position and international networks to customers and partners	Are now being used: Financially strong USPs and USPs having gained experience from the internationalisation of outbound will have good chances for success in the race
Political uncertainty and risk	Latent political uncertainty and risk. The uncertainty concerning when, how and at which speed the liberalisation of cross-border mail (and the rest of the postal sector) is liberalised poses a significant political risk to all players in the cross-border mail industry: USPs in their home markets, USPs in their internationalisation of outbound cross-border, mail international integrators and local, typically smaller postal operators	Acute political uncertainty and risk. Tough decisions must be taken by all postal operators. On one hand the cross-border mail liberalisation presents opportunities – on the other hand the real issue at stake: how to define and finance the USO poses a real problem. The economic environment is characterised by a relatively high political risk
Implications to the competitive environment	The cross-border mail industry grows more polarised – at a moderate speed. The spans widens up: <ul style="list-style-type: none"> Between the USPs; Between the contradictory role of each USP: To be a colleague and a competitor; between the level of international activities among the USPs; and between the “real” world and the regulatory authorities. 	The cross-border mail industry undergoes significant changes: <ul style="list-style-type: none"> a limited numbers of USPs and international integrators grow to cover the whole of Europe; alliances of postal operators cover parts of Europe; some USPs stick to the original home market; and a large number of new – small – private postal operators enter local markets.

4.4.2. Concluding remarks to the two scenarios

The scenarios describe two different developments. However, the overall framework and market conditions for the cross-border mail market are not significantly different within the scenarios, in terms of demand, technological developments and the motives of the postal operators to position themselves in the market. The main difference is to what extent the legal status of the cross-border mail allow these change drivers to develop as summarised below.

	Non-liberalised:	Liberalised:
Domestic services:	No threat.	Threat through conversion of domestic to cross-border mail.
Demand end supply:	Increasingly a wider gap between needs and demands of the customers end offers from suppliers.	Better fit between needs and demands of customers and offers from suppliers.
Competitive environment:	Operators prepare for an expected future liberalisation – but to varying degrees.	A transition period implying lost domestic services can be regained in the EU cross-border mail markets.

An underlying uncertainty in the domestic and cross-border mail markets

The liberalisation of cross-border mail in itself is not the main problem. The main uncertainty – or political risk as seen by the postal operators – related to cross-border mail liberalisation in both scenarios, is how to finance the USO. And how is the boundary between the domestic reservable area and liberalised cross-border mail monitored and controlled?

As long as no mechanisms or rules for the safeguarding of the USO exist, this uncertainty will prevail. The discussions of impacts of the liberalisation of cross-border mail will be tied to these questions.

In relation to the definition of a boundary between reservable and liberalised areas, it is interesting to note that this issue is becoming increasingly blurred through the use of bilateral agreements among USPs, by private operators' agreements with USPs and by USPs competing in the cross-border mail markets as private entities. This underlying uncertainty is a major factor shaping both scenarios.

4.5. Quantification of the impact – cross-border mail

In order to highlight the possible influence that a liberalisation of cross-border mail could have on postal operator market shares, we have constructed the table outlined below. It describes four cases, each of which have different points of departure as far as regulation is concerned:

- case 1 describes a postal market where cross-border mail is fully regulated;
- case 2 highlights a partial liberalisation of cross-border mail, in that outbound cross border mail is de facto liberalised;
- case 3 describes a partially liberalised market, where outbound cross border mail is de jure liberalised; and,
- case 4 outlines a total liberalisation of outbound and inbound cross border mail.

Each case estimates the market shares on intra-community cross border mail of the incumbent USP, foreign USPs, international private operators and local private operators. Each case is split in five major parts by way of a simplified cross-border postal value chain. The market shares in each individual part of the value chain sum up to a total of 100, thus treating each operational process area of the value chain as a separate market. This in order to effectively depict the flow of cross-border mail among postal operators through the value chain. Case 1 acts as a point of reference for the remaining cases when comparing market shares.

The depicted market shares represent an evaluation and are not based on specific empirical evidence. However, they are based on a combination of primary information from questionnaires and interviews highlighting expected market shares, competitors and the future market situation. Thus the table describes the potential development of postal operator market shares as influenced by changes in regulation and, as a consequence, the market shares should be interpreted as a means to effectively describe a changing market place.

Please pay attention to the fact that the descriptions are based on a static assumption; i.e. in the estimates no growth in the total market is included.

Table 4.2 Intra community cross-border market shares for A → B mail volumes, four cases

Case	Liberalisation/ Regulation	Postal operators	Induction/ collection	Outbound sorting	Transportation	Inbound sorting	Delivery
1	Outbound reg. Inbound reg.	USP – Incumbent	100	100	100	100	100
		USP – Foreign	0	0	0	0	0
		PrO – International	0	0	0	0	0
		PrO – Local	0	0	0	0	0
2	Outbound de facto lib. Inbound reg.	USP – Incumbent	93	93	94	99	99
		USP – Foreign	2	2	2	0	0
		PrO – International	3	3	3	0	0
		PrO – Local	2	2	1	1	1
3	Outbound lib. Inbound reg.	USP – Incumbent	90	90	90	97	97
		USP – Foreign	3	3	3	0	0
		PrO – International	5	5	6	0	0
		PrO – Local	2	2	1	3	3
4	Outbound lib. Inbound lib.	USP – Incumbent	80	80	80	82	86
		USP – Foreign	5	5	5	5	3
		PrO – International	10	10	13	12	10
		PrO – Local	5	5	2	1	1

(Source: PricewaterhouseCoopers, 1998)

Please note:

- USO, reserved area and uniform tariffs are assumed in all four cases;
- all four cases describe regular A → B cross-border mail flows, excluding ABB, ABC and AC remail;
- all four cases describe regular A → B cross-border mail flows, excluding the effects of possible infringements on the reserved domestic area;
- multilateral terminal dues agreements are assumed in all four cases; and,
- it is assumed that a total liberalisation - case four - enables postal operators to make bilateral agreements on cross-border mail that circumvent any multilateral terminal dues agreements arranged between incumbent USPs.

Case 1: This case describes the original market situation of a fully regulated cross-border mail market. The incumbent USPs handle all cross-border mail without infringements in the outbound or inbound cross-border mail markets.

Case 2: This case describes the present day situation of outbound de facto liberalisation and inbound regulation. Realising that cross-border mail is only a minor part of the total mail

market, and that the incumbent USPs are not financially threatened by competition in the areas of outbound cross-border mail clearance, sortation and cross-border transport, competition is allowed in spite of the legal status of regulation. The main competition stems from international and local private operators that collect, sort and transport outbound cross-border mail as well as from progressive USPs that wish to compete on the international market either by themselves or through third party private associates. These new competitors to the incumbent USP will focus on the business market segments, specialising in outbound cross-border bulk mail. Their geographic market coverage is typically limited to major urban areas. In terms of cross-border transportation the international private operators transport most of the mail which is handled by the private operators. The incumbent USPs still service the inbound cross-border market, with the occasional occurrence of minor infringements.

- Case 3: This case describes a full de jure liberalisation of outbound cross-border mail, while still keeping inbound cross-border mail de jure regulated. The legal liberalisation of outbound cross-border mail reinforces the situation described in case two. The incumbent USPs loose a larger share of outbound cross-border mail to progressive USPs as well as to the private operators. While the inbound cross-border market is still regulated and dominated by the incumbent USPs, more infringements will occur as a result of the transportation infrastructure which is being implemented by other postal operators.
- Case 4: Case four describes a cross-border mail market which is fully liberalised. The incumbent USPs will loose further market shares to both foreign USPs and to private operators. While the incumbent USPs may loose a substantial part of their outbound cross-border mail markets, they will retain a proportionally higher share of their inbound cross-border mail markets in terms of volume. However it is likely that this, in effect, will represent what is known as "cream-skimming" in that the foreign USPs and private operators hand over to the incumbent USP the mail that is too costly to distribute. As they themselves only cover major urban areas, it will not be financially attractive to distribute inbound cross-border mail to rural areas.

While the above four cases strictly focus on A → B cross-border mail, there are two remaining issues, which could reinforce the loss of market shares to the incumbent USPs. These are:

- remail, specifically ABB, ABC and AC remail; and,
- the de facto liberalisation of the domestic reservable area through the liberalisation of both outbound and inbound cross-border mail.

Remail, or the transmission of cross-border mail by a postal operator other than the incumbent USP from the country of mail origin to a second country where the postal tariffs are lower compared to the cross-border tariffs in the country of mail origin, is today widely used throughout the EU due to both differences in postal tariffs and favourable terminal dues. Should a terminal dues system be implemented which better reflects costs of delivery, thus increasing terminal dues, while at the same time keeping inbound cross-border mail regulated, the financial remail incentive will likely be lowered considerably, as described above. Liberalising cross-border mail is however likely to keep the financial incentive for remail, as it is then possible to circumvent any multilateral terminal dues agreements between USPs by using private operators either end-to-end or in parts of the value chain. Thus the above description in the four cases of market share loss to the incumbent USPs stand to be reinforced by remail activities by foreign USPs and private operators.

The impacts of cross-border mail liberalisation may be moderated by an overall expected inbound and outbound cross-border mail market growth. This fact does not eliminate a relative loss of market share, but it may have the implication that the individual USP will be able to maintain the cross-border mail levels of activity, in spite a loss of market share.

In summary of the above, in terms of allocation of cross-border mail volumes between postal operators, it can be concluded that a liberalisation of cross-border mail is likely to result in a loss of cross-border market share for the incumbent USP. Furthermore the use of remail is most likely to further the loss of USP cross-border market share. Market share losses may be compensated by a general growth in the market.

4.6. Quantification of the impact – domestic reservable area

Liberalising inbound cross-border mail may result in a beginning de facto liberalisation of the domestic reservable area. Before we expand on this point, we have included a description of the Swedish postal liberalisation process with particular emphasis on cross-border mail.

In the process of liberalisation of the postal sector Sweden Post experienced a loss of market share within domestic mail – although a modest market share loss. Conversely the losses could be lessened by the fact that the same USP could gain market share in foreign cross-border markets.

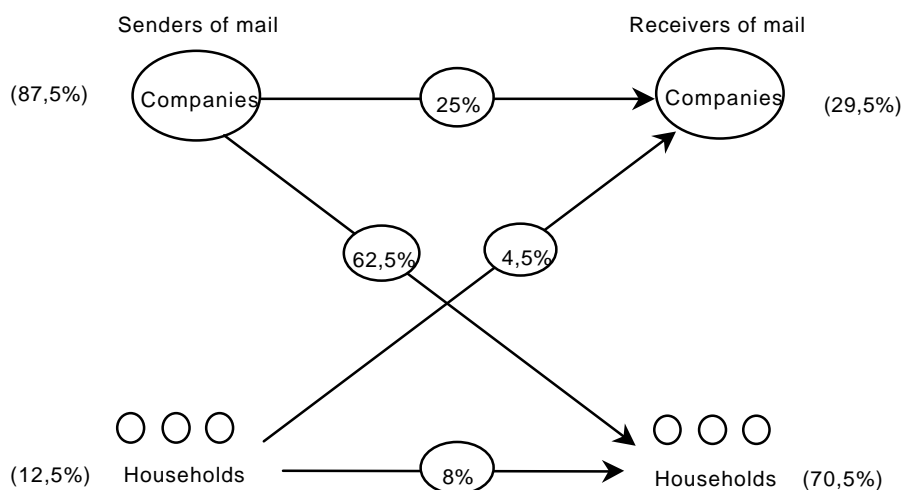
4.6.1. Cross-border mail in a liberalised market: The case of Sweden

Background

By 1 January 1993 the Swedish postal markets were completely liberalised.

Sweden Post supported the liberalisation of the market. One of the arguments was that the entry of and competition by a private operator - CityMail operating in the market of low rate, computer generated mail - could not be met by Sweden Post under the postal monopoly. Another argument emphasised the fact that the major part of the total mail flow actually is "non-reserved", in the sense that businesses sending mail - either to other businesses or households - increasingly can choose other technological ways to communicate. In figure 4.2 below this mail type accounts for 87,5% of the total domestic mail.

Figure 4.2 Relative distribution of addressed mail between business and households



(Source: Sweden Post Annual Report 1996)

The legal foundation for the liberalisation was implemented through the Postal Service Act of 1994. In the same year Sweden Post was transformed into a corporation, the shares of which is owned by the Government.

The liberalisation of the postal markets in Sweden did not include the establishment of reserved areas. However, each operator in the Swedish postal markets must be able to deliver services in accordance with the USO as specified in the law.

General experiences

Sweden Post, by far, is the dominating player in the market. In 1997 it was estimated that Sweden Post held a market share of approximately 97 percent. (PTS, 1998-02-27). Within the two major segments of letter mail, the market shares of Sweden Post amount to approximately 93 percent of industrial mail and more than 99 percent of individual mail. The main competitor is CityMail delivering mail to Stockholm, Göteborg and Malmö. Nearly 30 percent of the addressees in Sweden are located in these major urban areas. Additionally, approximately 100 local postal operators distribute mail, mostly in a very small scale as an add-on to other services.

In the autumn of 1998 CityMail expanded its financial foundation through an initial public offering on the Stockholm Stock Exchange.

Cross-border mail

Cross-border mail has been liberalised in Sweden through the general national liberalisation of the postal sector. In this way no problems have arisen due to the monitoring of inbound cross-border mail and possible reserved national areas.

Partially, the business of cross-border mail is too small to be reckoned as a separate business unit by the operators. On the other hand the market for cross-border mail is carefully monitored and definitely considered an important additional business both by Sweden Post and CityMail. Royal Mail is among the biggest customers of the latter and CityMail has agreements with other foreign USPs and private operators. Naturally, Royal Mail also collaborates with Sweden Post.

According to the respondents in our qualitative interviews in Sweden, the market driven liberalisation of cross-border mail is much more important than the legal liberalisation of cross-border mail. Some driving forces were mentioned:

- important customers demand a more differentiated supply of services with respect to quality, speed, predictability and price;
- bilateral agreements - capitalising on the financial incentive for cross-border mail arbitrage - are actively used; and,
- pro-active foreign USPs are active in the market, building up expertise and alliances, having already established bilateral agreements.

Strategic initiatives by the Swedish postal operators

The internationalisation of Sweden Post is quickly developing. As it is stated on the web site of Sweden Post: "Another factor is that Swedish Post needs to have subsidiaries abroad since it is important to follow your customers outside the borders of Sweden". Postal operators do co-operate but their focus is naturally the home markets. Often the quality is unsatisfactory and no "end-to-end control" exists."

In order to expand within outbound cross-border mail Sweden Post has already established a subsidiary in UK. Within the last couple of years Sweden Post has followed a "... prudent strategy of international expansion through establishments in the Baltic states, in Poland and St. Petersburg", as it is stated in the 1997 annual report. Strategically it is natural to Sweden Post to establish good relations and infrastructural systems around the Baltic Sea, as one of the means to strengthen international competitiveness.

CityMail sees its business as linked to the Swedish domestic market. However the company is very active in seeking customers in the rest of Scandinavia and building strategic alliances with postal operators in other countries as well. As it was stated by one of the managers in an interview: "*After all both public and private operators taking care of delivery of cross-border mail are acting as sub-contractors, and we want to strengthen our capacity and capabilities to stay competitive in this specific activity. If we succeed we shall also be an attractive sub-contractor for other players taking care of other parts of the value chain for cross-border mail.*"

".. being liberalised in a still regulated cross-border mail market"

The Swedish postal operators are in favour of a total liberalisation of the postal markets in the other European countries. "*Since the Swedish market has now been opened, it would be fair to have open markets in the other countries*", as it was stated.

From the Swedish postal operators' point of view, the liberalisation of the postal markets should be complete, leaving no room for reserved areas. "*Such artificial barriers just give motivation for a lot of arbitrage trading. Among businessmen bilateral agreements is the best way to do business. What is needed is a market place with more players in order to choose the right contract.*"

The interpretation of the facts derived from the Swedish case, is first of all that the domestic market position of the incumbent USP has not been harmed in any significant way, as Sweden Post has been able to maintain its dominance of this market. This is mainly caused by the facts that:

- Sweden Post is an efficient postal operator where a general process of rationalisation has reduced costs dramatically during recent years;
- the postal quality of service is very high;
- Sweden Post has a strong image in the market, one that is strengthened by the fact that Sweden Post is one of the frontrunners in the EU concerning the development of new IT based services; and,
- especially through its logistic delivery infrastructure Sweden Post possesses a high entry barrier.

However it should be considered that:

- Sweden is a relatively small cross-border mail market compared to the opportunities present in other parts of the world;
- should CityMail have financial success in the future – which has not been the case until now – then the attractiveness of the Swedish inbound cross-border mail market and the domestic market will increase; and,
- after the initial public offering CityMail is better equipped to compete with Sweden Post – in part due to the background and expertise of the new owners – among which is Royal Mail. Thus, it is argued, true competition in the Swedish market has only just begun.

It is evident that it has taken a long time for the new entrant to gain a minor part of the domestic mail market, including the end-delivery of inbound cross-border mail. It seems as if market penetration, by way of organic growth, is lengthy in a de facto monopoly, especially one which is characterised by high entry barriers. This also considering the fact that CityMail has chosen to market its services specifically to the business community in major urban areas.

4.6.2. Indicative levels of impact to the domestic service due to liberalisation of cross-border mail

What will the result of a de facto liberalisation of the domestic reserved area be, in terms of market share loss to the incumbent USP? In order to illustrate the mechanisms at play, three cases below illustrate a range of impacts to the domestic service due to the conversion of domestic mail into cross-border mail.

Before assessing how big the potential impact of a "new class of remail" – ABA remail – may be on the domestic mail services, the magnitude of the whole question has to be precisely defined. Our point of departure is, that only a part of the domestic mail service potentially can be converted. Five qualitative assumptions shall be introduced and discussed below:

- business mail is more likely converted than household mail;
- larger bulks are more likely converted than smaller bulks;
- time-critical mail is not likely to be converted, as the lead-time on remail is longer than regular mail;
- mail dispatched on a regular basis is more likely converted than ad hoc mail; and,
- smaller letters are more likely converted than large letters and packages.

Business-mail is more likely converted than household mail

Letter mail from households and minor, private organisations, societies, unions, associations, clubs etc. is not likely to be converted into remail. Data indicate that approximately 15 percent of total domestic mail stems from households in Western Europe and North America¹⁷.

The business segment accounts for 85 percent of the total domestic letter mail. Business-business accounted for 34,6 percent and business-households for 50,8 percent on average in Western Europe and North America¹⁸.

Thus, no more than the 85 percent of the total mail volume (which is dispatched by businesses) is at a very maximum likely to be converted into cross-border mail.

In the business-to-business segment, we believe that primarily direct mail (marketing material) but also regularly sent mail such as bank statements, invoices, bills etc. could be converted. Whilst for instance mail to clients and between vendors and business relations would not be (this could be proposals, invoices, material from lawyers and accountants etc). A substantial part of the business-mail will not be convertible according to this reasoning.

¹⁷ Universal Postal Union (UPU): "Post 2005. Core Business Scenarios". Berne 1997, p. 74. In 1995 the household to business segment accounted for 6,4 percent of total domestic letter post – in 2005 the estimate is 6,2 percent. The household to household segment accounted for 8,2 percent in 1995 (expectedly 7,0 percent in 2005)

¹⁸ Ibid. The corresponding figures for 2005 are 32,7 percent (business-business) and 54,1 percent (business-households)

Larger bulks are more likely converted than smaller bulks

The basic cost of collection and processing of physical remail is rather high, since each customer is invoiced individually, based upon weighing or counting of his particular items. Thus, volumes must be of a certain size to be potentially remailed – also to make the deductions attractive to the postal customers.

Time-critical mail is not likely to be converted, as lead-time on remail is longer than regular mail

Physical remail (in terms of A-B-A, A-B-B and A-B-C remail) includes one extra process and thus extra process and transportation time. There are to our knowledge no empirical data on the importance of lead-time to mail dispatchers, but it is not likely that all dispatchers will accept such a delay of their mail. It is however important to distinguish between time-critical and timing-critical mail. The first type of mail is dependent on traditional time limits for delivery – meaning a smaller potential for conversion of domestic mail into cross-border mail. The latter type is based on the concept of predictability – meaning a specific period of time where the mail has to be delivered. This type can more easily be handled using cross-border mail.

Mail dispatched on a regular basis is more likely converted than ad hoc mail

A remail arrangement calls for an agreement between the dispatching client and the postal operator. Therefore, mail dispatches sent out on an ad-hoc basis are not likely to be transformed into remail. Economies of scale are a prerequisite in order to make a postal customer use cross-border mail.

Smaller letters are more likely converted than large letters and packages

The cost of aircraft transportation or trucking is a rather high portion of the cost of cross-border mail. Thus, large letters and packages are relatively more expensive to remail than letters in C6 format. Therefore, we do not expect AO-mail to be remailed as much as LC mail.

The part of domestic mail that can potentially converted into cross-border mail

The business segment of 85 percent of domestic mail must consequently be reduced by the above mentioned factors. The percentage that potentially can be converted naturally differs from country to country but our best estimate is a range of ten to 30 percent.

Below a range from ten to 30 percent is anticipated. The next assessment to make is how big a share that actually will be converted. The third line in table 4.3 shows three different situations concerning terminal dues payment and end-delivery. Case 1 where the terminal dues rate is 80 percent of the domestic tariff and an alternative end-deliverer to an incumbent USP exists. Case 2 where 60 percent is the terminal dues payment and no alternative end-deliverer. Case 3 is different from case 2 in the sense that an alternative end-deliverer exists.

The impact to the incumbent USPs income is calculated based on the above assumptions. As shown in the table, four cases with respect to the injection to the incumbent USP are calculated: Full injection and injections of 80 percent, 60 percent and 40 percent to the incumbent USP.

Table 4.3 Indicative calculations: Potential loss of market share in the domestic lettermail market due to conversion of domestic mail into cross-border mail, index 100 = before ABA remail

Potentially convertible mail as a percentage of domestic mail:	10%			30%					
Loss of market share due to conversion to cross-border mail:	70%			30%			70%		
Terminal dues payment, percentage of domestic tariff:	*) 80%	60%	*) 60%	*) 80%	60%	*) 60%	*) 80%	60%	*) 60%
Revenue: Full injection of cross-border mail:		97,2			96,4			91,6	
Revenue: 80% injected, 20% alternative end-deliverer	97,5		96,4	96,4		95,3	92,4		89,1
Revenue: 60% injected, 40% to alternative end-deliverer:	96,4		95,5	95,3		94,2	89,1		86,6
Revenue: 40% injected, 60% to alternative end-deliverer:	95,2		94,7	93,9		93,2	85,7		84,0

(Source: PricewaterhouseCoopers, 1998)

*) An alternative end-deliverer to the incumbent USP exists.

From table 4.3 it is seen that in the worst cases where an alternative end-deliverer is competing against the incumbent USP the revenue loss may be severe. This is indeed true, if a big proportion of the potentially convertible mail is actually converted. We shall not elaborate on the likelihood of the establishment of competitors to the incumbent USP. But from the table it is clear that an important element in the assessments of impacts to the domestic reserved area is closely related to the proportion that is injected back to the incumbent USP. We shall also underline the basic reasoning behind the indicative calculations:

- **Loss of market share.** The size of the market share loss first of all depends on the international competitiveness of the incumbent USP. If the international competitiveness of the USP is relatively poor – i.e. relatively high tariffs, relatively bad performance with respect to quality of service, relatively bad image in the domestic market etc. – the market share loss may be high. On the contrary – if factual reasons for choosing a competitor to the national USP are non-existent or minor – the market share loss will be small.
- **Terminal dues payment.** According to the adjusted REIMS II agreement 80 percent payment based on the domestic tariff is a maximum payment. Lower payments will be used either if the quality of service is lower or if bilateral agreements have been made. These bilateral agreements may be entered between USPs themselves or between USPs and private operators.
- **The extent to which cross-border mail is injected to the incumbent USP.** What will happen in reality is basically linked to the international competitiveness of the USP as an end-deliverer in the

market in question. Apart from specific conditions as geography it all hinges on the ability of the incumbent USP to deliver a competitive service – in terms of price, quality, etc.

- The impact in table 4.3 is measured in relation to the mail business and not the total activities of the USP.
- **Growth in the postal markets.** In a growing market - as the cross-border mail market and the total mail markets are characterised by the respondents - loss of market shares is not as threatening as in a stagnant or declining market. This implies that the potential loss of domestic market share may be compensated by this growth. Although a loss of market share usually represents a threat, this growth may enable the individual USP to maintain or even increase turnover. In the table the development is definitely too pessimistic since the expected growth is not included in the calculations.

Two of the USPs specifically commented the loss of domestic market share in our interviews.

One of these USP assessed that from four to 16 percent of the domestic mail can be lost due to the conversion. However, this assessment was given under the specific assumption that a system of non-cost based terminal dues is still in function. Assuming that the principles of REIMS will be implemented – as it is done in this report – the loss will be smaller.

Another of the major EU USPs states that it expects no significant reduction in the domestic market share.

Three distinct factors are of importance when discussing the actual impacts on the domestic reserved areas due to the conversion of domestic mail into cross-border mail: The international competitiveness of the incumbent USP, the remuneration used and how much the relative market share loss may be replaced by overall growth in the postal markets and the cross-border mail markets.

4.6.3. Countermoves to the threat to domestic services

Today many of the EU USPs have established cross-border mail networks and are party to collaborative agreements that can be used to lessen the immediate impacts of a liberalisation, in terms of potential market share loss.

If a USP in country A has established foreign marketing- and sales subsidiaries/affiliates in country B and the USP in country B is engaged in ABA remail threatening the USO in country A, it would be a logical reaction by the USP in country A to persuade its domestic customers not to use the foreign USP, but rather make use of its subsidiary in country B for the ABA transactions. This naturally means a reduction in revenue, but some of the business is thus maintained and not lost to the competitor.

Correspondingly other competitive reactions would include an increased focus on market share gains in foreign outbound mail markets.

How quickly and to what extent these competitive reactions could compensate for the immediate loss described above is difficult to estimate. The point is, that these possibilities exist for the USPs that have established cross-border mail networks over the past three to five years.

In summary some incumbent USPs stand to lose market share, but the extent of the loss may be limited and depends on their ability to reverse the mail back into their own mail delivery networks. Additionally the USPs may try to regain some of the lost domestic mail business in the cross-border mail market. At the end of the day it will first and foremost be a question of the international competitiveness of the incumbent USP:

1) Competitive USPs will most likely lose very small parts of their overall activities whereas less competitive USPs may be more severely hit by the conversion of domestic to cross-border mail. 2) It seems plausible that pro-active postal operators with established cross-border mail networks are better prepared to gain market shares in the cross-border mail markets, which will also lessen the impact of ABA remail.

4.7. Impacts on employment

Two recent studies have estimated the employment in the postal sector in Europe. In a study on the employment trends in the European Postal sector it was concluded:¹⁹

- *"The expected effect on employment of a partial or gradual liberalisation (such as the one supported by the EU Directive) will be limited in most countries, although a number of PPOs expect large losses of revenue. The effect will be limited in the most liberalised nations, and can even be positive (from a total sector viewpoint) if accompanied by greater commercial freedom."*
- *"The effect of other change drivers (such as automation, organisational change and electronic substitution) is more important than liberalisation. In addition, liberalisation measures taken by the member states will have an effect even if the EU Directive does not come into force."*

In another study analysing the employment impact of liberalising direct mail and cross-border postal services in UK and France the conclusions were:²⁰

- *"After five years, in total, an net additional 11,368 jobs would be created in the UK, while 1,033 would be lost in France. Elsewhere in the EU, an additional 349 jobs would be created as a result of liberalisation of postal services in the UK and France. As stated earlier these figures are likely to understate the employment gains."*
- *"The main reasons for the different impacts in the UK and France are firstly that there is more scope for efficiency gains and associated employment losses at La Poste and secondly because employment in upstream and downstream industries in France responds less to changes in output (revenue added) than it does in the UK."*

In a study on the liberalisation of inbound cross-border mail for the European Commission the overall conclusion to the size of the threat to the USP is said not to be that big – generally speaking of the EU-member countries. The conclusion is²¹:

- *"Our view is that the threat posed to the provision of universal service by such liberalisation in most of the countries, which have been studied, has been exaggerated. (The exception, because of the high proportion of inward mail and the special demographic situation of Dublin, is Ireland). Postal administrations will certainly face increased competition, but the scale of this competition will be limited by the likely volumes of traffic, by the nature of delivery costs to different types of address, and by the advantages which well-run postal administrations have because of their existing volumes of traffic, their economies of experience, and the preference of mailers in many circumstances to use a single universal-service provider."*

As evidenced in table 3.14, employment among USPs is expected to go down and employment among private postal operators is expected to increase as an effect of cross-border mail liberalisation. However these are expectations made under a ceteris paribus assumption and there is general agreement among respondents in the qualitative interviews and in the Delphi survey that liberalisation

¹⁹ "Employment Trends in the European Postal Sector", A report prepared for the European Commission by Price Waterhouse, May 1997.

²⁰ "The Employment Impact of Liberalising Direct Mail and Cross-border Postal Services". A report prepared for UPS by Nera, London, November 1996.

²¹ "Study on the impact of liberalisation of inward cross-border mail on the provision of the universal postal service and the options for progressive liberalisation." European Commission, 1995.

of cross-border mail will not be the direct cause of any changes in postal employment. Other, and more direct, factors such as:

- automation;
- electronic substitution; and,
- privatisation

will effect employment among postal operators. Overall factors such as general efficiency gains and increased competition are also mentioned. It is expected, as supported by the above conclusions from other studies, that postal employment overall will decrease and that the most inefficient postal operators will be most at risk.

4.8. Conclusions

The impact of a liberalisation of cross-border mail is based on the following assumptions:

- the overall factors affecting the cross-border mail market, i.e. macroeconomic, technological and political/societal factors will only be marginally influenced by a liberalisation;
- the universal service obligation and provision is maintained, as are reservable areas in most of the EU countries; and,
- on the one hand cross-border mail remuneration will be influenced by the REIMS principles and on the other hand by the establishment of many bilaterally based agreements resulting in a declining importance of the multilateral remuneration agreements among EU USPs.

Four cases on the impact to the different elements in a generic cross-border mail value chain are shown, revealing a loss of market share of up to 16 percent of cross-border mail. However, the loss will only be as significant in the specific cases where the international competitiveness of the postal operators is relatively poor. Thus, USPs that are dependent on cross-border mail may be more severely impacted. An important modifying factor to these potential losses will be the expected compensating growth in the postal markets.

In order to give an approximation of the impact of liberalisation on the domestic reserved areas, it is estimated that ten to 30 percent of the domestic mail is potentially convertible to cross-border mail. Depending on the amount which is then converted, the impact on the domestic reserved area is in the range of three to 16 percent, which is characterised as a modest impact to most of the USPs.

The loss of domestic market share is a natural outcome of a liberalisation of cross-border mail. USPs faced with a loss of market shares will have the opportunity to regain the lost business in the cross-border mail market. The chances of success are ultimately related to the international competitiveness of the individual USP.

All other things being equal, a USP characterised by some or all of the below characteristics:

- relatively low tariffs;
- relatively good levels of quality;
- a financially strong position; and,
- experience from and established market position in the outbound cross-border mail market

stands the best chance of regaining lost domestic business in the cross-border mail markets.

Evidence gathered in this survey clearly states that employment among USPs will decrease if cross-border mail is liberalised and employment among private operators will increase. Based on the same evidence we conclude that the change drivers affecting employment in the postal sector is not

liberalisation of cross-border mail per se, but other factors such as automation, organisational change, electronic substitution etc.

The specific impact to individual USPs naturally differs according to their specific conditions. It is argued that all USPs will allocate substantial resources in order to defend their core strategic asset – the end-delivery. More than half of the EU USPs would involve themselves in outbound cross-border mail market expansions and inbound cross-border mail market entries to various degrees. In a liberalised cross-border mail market international integrators are set to play an important role as collaboration partners in these developments, whereas local – often new – private postal operators would “fill out gaps” in the cross-border mail value chain as sub-contractors.

From a qualitative perspective the transition processes, following a liberalisation of cross-border mail, will be characterised by a better match between the needs and demands of the postal customers and the service offered by the postal operators. A wave of mergers and acquisitions will be seen, as will many non-equity bilateral agreements and strategic alliances between USPs and between USPs and private postal operators. A future four layer structure of competition - pan-European operators, regional strategic alliances, strictly national operators and local postal operators - is expected as a consequence of the above strategic actions by the USPs, international integrators and local operators.

In a liberalised cross-border mail market the simultaneous monitoring and control of both a liberalised cross-border mail stream and a regulated domestic mail stream will pose problems to the national postal regulators.

5. Conclusions

In section 5.1 we present our conclusions on the overall impact of liberalisation on intra-Community cross-border mail. In section 5.2 we conclude on the specific impact the supply and demand of intra-Community cross-border mail services. In section 5.3, which closes the report, we present our concluding remarks on the liberalisation of intra-Community cross-border mail.

5.1. The impact of liberalisation of cross-border mail - an overview

5.1.1. Outbound versus inbound cross-border mail

It can be concluded that a wide gap exists in the EU between the two individual markets that make up cross-border mail: outbound cross-border mail is de facto liberalised and inbound cross-border mail on the other hand is de facto regulated. In effect this translates to a gap between the regulatory part of the industry and the commercial reality as outbound cross-border is de jure regulated in all but three member states.

It is evident that the de facto liberalisation of outbound cross-border mail is the result of an ongoing market driven liberalisation. Whereas this is the case for outbound cross-border mail, this is not true for the inbound cross-border mail market. Evidence in this report shows that only two member states report infringements of their inbound cross-border mail markets, but even if infringements were to happen in more than two member states, it would not amount to the same market driven liberalisation, as seen in the outbound cross-border mail markets.

Outbound cross-border mail can be de jure liberalised quickly. First of all, the outbound market is already de facto liberalised and it would be natural to establish a better match between the actual market environment and the regulatory environment, thus removing the current uncertainty in the market. Furthermore, no noteworthy negative effects can be seen when liberalising the outbound market. No major effects to domestic postal services can be identified and no major changes to the regulatory authorities are needed.

However, if inbound cross-border mail is liberalised it could pose a threat to specific USPs by the conversion of domestic mail into cross-border mail.

5.1.2. Remail

Remail, both ABA, ABB and ABC, is an established phenomenon in the cross-border mail market today. Formally remail is de jure prohibited in all but two member states, but especially through the de facto liberalisation of outbound cross-border mail, it has become a common occurrence. The technological development has only spurred this process through non-physical remail.

Historically arbitrage has been the incentive that started the remail business. The ability to avoid terminal dues arrangements in combination with the gain of market share in the outbound cross-border mail market has induced many postal operators into the remail business. Whereas the arbitrage opportunity has existed for a long time, the efforts to internationalise postal services and postal competence are relatively new.

To the consultants it is clear that remail is a fact of life and remail will also be an important business for already active USPs and international integrators in the future. The REIMS multilateral terminal dues agreement only includes USPs and consequently limits the potential for remail only among those players. In a liberalised cross-border mail market opportunities will exist for USPs and international

integrators to enter bilateral agreements in order to take advantage of already gained experiences, established networks, subsidiaries and affiliates and competitive positions.

5.1.3. Conversion of domestic mail

It is concluded that in many cases the impact to the domestic mail market, due to a conversion of domestic mail into cross-border mail, will be relatively modest. In a few cases the impact to the individual USP can be substantial.

It is assessed that ten to 30 percent of the domestic mail market can potentially be converted into cross-border mail. How much of this share of domestic mail will then actually be converted depends upon the international competitiveness of the incumbent USP. If the incumbent USP is characterised by relatively high tariffs, a relatively poor quality of service, a relatively weak brand image etc. the loss may be considerable. The loss could be reduced if some of the lost mail is injected back to the incumbent USP for end-delivery - a sign of a relatively good international competitiveness - reducing the loss compared to a situation where no mail is injected back to the incumbent USP.

In the long run it seems clear that the incumbent USPs will be able to survive by their most valuable asset – the end-delivery. Despite the potential loss of market share it must generally be foreseen that most of the European USPs will be able to maintain substantial market shares in the market for domestic postal services.

Depending on the amount of domestic mail converted into cross-border mail, the amount of mail injected back to the USP and the amount of terminal dues paid, we estimate that the actual loss will range from approximately three percent to 16 percent as a proportion of USP domestic mail revenues. The main determinant of the size of that loss, will be the international competitiveness of the USP in question.

5.1.4. A liberalised cross-border mail market vis-à-vis domestic reserved areas

Liberalised cross-border mail streams will be difficult to monitor and control vis-à-vis domestic reserved areas. It is to be expected that a liberalisation of inbound cross-border mail will put increasing pressure on the independent national regulatory bodies, if they remain in their present shape. As a consequence of liberalisation new methods and more resources will be needed if the current regulatory authorities are to keep in line with the competitive development. This will result in an intensified pressure and focus on fair conditions in relation to the USO, in order to make sure that the financing of the USO is not threatened by illegal cross-border mail operations.

If inbound cross-border mail is to be liberalised it will be of major importance for the regulatory authorities to strike a balance between the support of a liberalised cross-border mail market and the use of regulatory measures that maintain rather than impede such a market.

During the research of the EU cross-border mail markets no regulatory measures of such a nature seem apparent to the consultants.

5.1.5. Reduced domestic market shares and a bigger total cross-border mail market

As a “natural” outcome of the opening of a protected home market, most USPs must foresee a loss of market share in the domestic mail markets. As described the magnitude of the loss will depend on many factors among which the relative international competitiveness of the USP is the most important.

Basically mail volumes are transferred from the domestic sphere to an international one – in total the mail services defined as domestic will decrease and cross-border mail services will increase. The case in point is if each USP will be able to compensate the domestic loss through revenue gains in the cross-border mail market. Below it is assessed if and how USPs shall succeed in the cross-border mail market.

5.2. The impact of liberalisation of cross-border mail - the market

5.2.1. Supply of cross-border mail services

Competition

It can be concluded that USPs such as Dutch PTT, Deutsche Post AG and Royal Mail, international integrators such as DHL, UPS and TNT as well as a number of local private postal operators are well ahead of the game in terms of strategic positioning. These postal operators will stand to benefit the most by a liberalisation of cross-border mail as they are already prepared, both strategically and operationally for such a liberalisation. Smaller pro-active and re-active USPs will also be able to compete in such a market.

Through a legalisation of the market driven liberalisation of outbound cross-border mail, the ongoing race for competitive positioning among USPs, international integrators and other private postal operators - especially within inbound cross-border mail - will be intensified. In order to establish superior competitive positions a range of market expansion and market entry strategies will be seen, including mergers and acquisitions, international marketing and sales establishments as well as a number of strategic alliances.

Co-operation between USPs and private postal operators will be much more visible in order to manage cross-border mail involving more than one postal operator. These alliances will typically apply in some countries and in others the co-operating parties will be direct competitors, adding to the complexity of the marketplace. Bilateral agreements will increase in numbers as individual operators strengthen their capabilities within cross-border mail.

Market structure

In a liberalised cross-border mail environment, supply and demand will define the geographical scope of the cross-border mail market. It will thus be defined by operators who can service a particular geographical region. Instead of accurately defined market segments based on national borders, as is currently the case, the market is set to be defined by geographical regions more so than nations.

Depending on the type of postal organisation and market coverage, the operators will specialise in different elements of the cross-border mail value chain - implying different strategic positions for individual operators from one-stop-shops to niche operators. This will result in a four-layer structure of competition: Transnational, regional, national and local players.

Big differences already exist among the USPs in EU. The ongoing market driven liberalisation of outbound cross-border mail is making these differences even bigger, and it is anticipated that a de jure liberalisation will speed up this process even more. One of the most striking differences in relation to cross-border mail is, if the USPs is actively preparing their businesses for a future liberalisation or not. A group of pro-active USPs is very active in building up financially strong positions in order to have a good platform for buying up other postal operators. Another first mover advantage will be established international branches and subsidiaries and/or non-equity strategic alliances. A group of re-active

USPs are presently analysing and considering the possibilities for more active preparations, while a third group of USPs are doing little to prepare for a liberalisation of cross-border mail.

Those USPs characterised by a relatively good international competitiveness and a financially strong position would be in the best position for taking advantage of a liberalisation – i.e. compensate a loss in the domestic market by gains in the cross-border mail market.

Market shares

Liberalisation of cross-border mail will result in a loss of market shares to the USPs in both the outbound and the inbound cross-border mail markets. As a result of the market driven liberalisation of outbound cross-border mail, their market shares are already declining in this market.

On average it is expected that the USPs, in terms of volume and revenue, will have an outbound market share of approximately 80 percent by 2006, for Letters-LC and Letters-AO. The inbound market share, for the same mail categories in terms of volume, is estimated at 85 to 90 percent and 80 percent in terms of revenue by 2006.

Calculations on the isolated impact of the loss of market share in the outbound cross-border mail markets have been made. It is concluded that, even in countries where outbound activities amount to a substantial part of the overall mail business, the loss in the outbound markets results in a modest impact to the total mail business of the USP.

Employment

We can conclude that liberalisation is seen to impact employment among USPs negatively and employment among the private postal operators positively. However, it is also clear that it is not liberalisation per se which is driving this development.

According to evidence gathered in this study, it is not liberalisation of cross-border mail per se that will drive the above mentioned changes. Other change drivers such as operational efforts to improve international competitiveness, increase quality of service, increase the rate of automation in the postal value chain, etc., are far stronger driving forces behind employment changes in the postal sector – be it in the reserved or non-reserved areas.

According to evidence gathered in a study on employment in the EU postal sector, employment levels among EU USPs are expected to decrease by 7,7 percent in the period 1996 to 2000 and in the same period private operator employment is estimated to increase by ten percent.

5.2.2. Demand for cross-border mail services

Market growth

The inbound intra-Community cross-border mail markets are expected to grow by four percent for Letters-LC and by 16 percent for Letters-AO in terms of volume by 2006. In terms of inbound cross-border mail revenue the Letters-LC market is expected to decrease by three percent and increase by three percent for Letters-AO in the same period.

The outbound intra-Community cross-border mail markets are expected to grow by six percent for Letters-LC and by 17 percent for Letters-AO in terms of volume by 2006. In terms of outbound cross-border mail revenue, the Letters-LC market is expected to grow by five percent and by 16 percent for Letters-AO in the same period.

This expected positive development in the future cross-border mail market, which is not attributed solely to liberalisation, is determined by an underlying development which can be attributed to traditional macroeconomic indicators and the technological development. In general the expected market growth within cross-border mail volume is approximately one to two percent per year.

It can thus be concluded that the intra-Community cross-border mail markets are expected to grow and that liberalisation will slightly speed up this development.

Prices

As is concluded above, in terms of revenues, the growth rates from 2001 to 2006 are expected to be smaller than the volume growth rates for the same period - implying price competition as a result of liberalisation in both inbound and outbound cross-border mail markets.

It can be concluded that an increase in the intra-Community international tariff is to be expected should the REIMS terminal dues system be fully implemented. This will especially include individual letters, whereas the price of commercial mail will stay unchanged. For the international integrators and other private operators these increases in prices will automatically raise the attractiveness of the cross-border mail markets.

Thus it is our interpretation that prices will fluctuate at first, but - in the longer run - prices will decrease due to the intensified competition.

Buying criteria

Whether cross-border mail is liberalised or not, the cross-border mail market will still be a commodity market. Price is the most important factor when buying decisions are made. The major customers will press for price deductions and in a liberalised market it will be more common to tender out the total mail business, for the whole of Europe, to one postal operator. The conversion of domestic mail to cross-border mail will enforce this tendency.

The quality/price ratio on the other hand will become even more important in the years to come and this development will be speeded up by a liberalisation of cross-border mail. Reliability, speed and especially predictability will be very important supplementary features of cross-border mail services, when the choice of postal operator is made by the major customers.

Globalisation

Globalisation has not yet affected postal customers in terms of geographic concentration and relocation of various intra-company activities, nor has it then affected the development of cross-border mail.

However, as major postal customers become more global, they demand increasingly global services. They also demand more choice in order to serve increasingly globalised markets. The biggest and most pro-active USPs and international integrators are already positioning themselves to meet these demands. Thus, it is our opinion that globalisation will have a long-term impact on the cross-border mail markets.

In summary, there is clearly a need and demand for more choice in the postal sector. Customers are asking for choice - among competing operators, different quality/price ratios, value added services and different operational set ups.

A liberalisation of the cross-border mail market will result in a much more differentiated market place than what is known today matching the demands of choice from major postal customers. At the one extreme there will be a tough, head-on price competition in a market for standardised goods -

commodities. At the other extreme there will be a market for tailor-made products and services, niche services and other high value added postal services.

5.3. Concluding remarks

The regulatory conditions for postal operators in the EU are presently very diverse. Among the postal operators this diversity creates uncertainty, when discussing future developments of the EU cross-border mail market.

This uncertainty is acknowledged by all postal operators: incumbent USPs in their home markets, the USPs engaged in cross-border mail activities, international integrators and smaller local operators. It has been voiced to us, during the completion of this study, that no indications show that this diversity and uncertainty will be reduced in the coming years.

Common rules, mechanisms or guidelines are needed in order to reduce this genuine uncertainty. Should agreement on such issues be impossible to reach, some indications to follow in the future which could reduce this uncertainty, as perceived by the postal operators, are outlined below.

It is our recommendation that the decision, on whether or not to liberalise cross-border mail, is based on the evidence presented in this report:

- A. It is clear, that the liberalisation of cross-border mail is not the issue per se. The real issue at stake in most of the EU-member countries, is the impact it will have on the domestic reserved area and thus the financing of the universal service provision. The liberalisation of the postal sector and cross-border mail will be hampered by the different definitions of the regulatory framework for the incumbent USPs – and for that sake potential entrants: inbound vis-à-vis outbound cross-border mail, definition of the reserved area, the universal service provision, etc.

Consequently, a harmonisation of these conditions across the EU-member countries would ease the liberalisation of cross-border mail since existing and potential players in the cross-border mail market would then be aware of the basic market conditions and thus eliminate any uncertainties about the market. The new directive from the EU Commission would definitely be a step in this direction.

- B. In the report it is evident, that a market driven liberalisation of outbound cross-border mail is currently in process. This market driven liberalisation will go on - whether a de jure liberalisation of cross-border is initiated or not by the year 2003. Evidence also shows that the technological development is actually impacting cross-border mail, as if it was a liberalisation of cross-border mail. Infringements of the reserved areas also take place in the inbound cross-border mail markets.

In summary, a liberalisation is actually taking place these years despite the fact that neither outbound nor inbound cross-border mail is de jure liberalised.

- C. Evidence suggests that liberalisation of cross-border mail in the present situation - i.e. by 2003 - on average would only have modest negative impacts on the domestic reserved areas.

Consequently, few incumbent USPs would face severe difficulties. Only a few countries, where cross-border mail represents a high share of overall mail volumes, will experience a negative impact. Only a few USPs may loose up to 16 percent of their revenue in the domestic mail market – not due to a liberalisation of cross-border mail in itself, but due to their relatively poor international competitiveness.

- D. Assuming that liberalisation of cross-border mail takes place alongside no harmonisation of the reserved areas, a pressure on national and EU postal regulators will rapidly emerge in order to establish harmonised, transparent and clear market conditions for the postal operators in the EU.

Given the average minor impacts, but individually significant impacts to the domestic services, both incumbent and entrant players will demand more transparency.

Consequently, if the real barrier - defining transparent conditions for the reserved areas, the universal service provision etc. across the EU - is not overcome, the liberalisation of cross-border mail may be a tool to speed up these needed harmonisations.

Exhibit I: Four cases on terminal dues**Assumptions for four case on different terminal dues systems.****Case 1:**

- high terminal dues scenario
- low domestic tariff
- net mail inflow: 1.000.000 items of correspondance
- exchange rate SDR to ECU: 1,18
- UPU: 3,427 SDR per kg, no per-item rate
- CEPT: 1,492 SDR per kg, 0,147 per item
- REIMS II (1998): 0,12 ECU per item
- REIMS II (2001): 0,17 ECU per item

Case 2:

- high terminal dues scenario
- high domestic tariff
- net mail inflow: 1.000.000 items of correspondance
- exchange rate SDR to ECU: 1,18
- UPU: 3,427 SDR per kg, no per-item rate
- CEPT: 1,492 SDR per kg, 0,147 per item
- REIMS II (1998): 0,31 ECU per item
- REIMS II (2001): 0,45 ECU per item

Case 3:

- low terminal dues scenario
- low domestic tariff
- net mail inflow: 1.000.000 items of correspondance
- exchange rate SDR to ECU: 1,18
- UPU: 1 SDR per kg, 0,14 SDR per item
- CEPT: 1,492 SDR per kg, 0,147 per item
- REIMS II (1998): 0,11 ECU per item
- REIMS II (2001): 0,15 ECU per item

Case 4:

- low terminal dues scenario
- high domestic tariff
- net mail inflow: 1.000.000 items of correspondance
- exchange rate SDR to ECU: 1,18
- UPU: 1 SDR per kg, 0,14 SDR per item
- CEPT: 1,492 SDR per kg, 0,147 per item
- REIMS II (1998): 0,28 ECU per item
- REIMS II (2001): 0,40 ECU per item

	Case 1	Case 2	Case 3	Case 4
Net mail inflow	1.000.000	1.000.000	1.000.000	1.000.000
Terminal dues	higher rate	higher rate	Lower rate	lower rate
Number of mail items per kg (according to Art. 49 UPU)	17,26	17,26	17,26	17,26
Weight of international mail (kg)	57.937	57.937	57.937	57.937
UPU terminal dues system (as of 1994)				
Rate per kg (SDR)	3,427	3,427	1	1
Exchange rate SDR to ECU	1,18	1,18	1,18	1,18
Rate per kg (ECU)	4,04	4,04	1,18	1,18
Rate per item (SDR)	0	0	0,14	0,14
Exchange rate SDR to ECU	1,18	1,18	1,18	1,18
Rate per item (ECU)	0,00	0,00	0,17	0,17
Terminal dues based on weight (ECU)	234.290,85	234.290,85	68.366,16	68.366,16
Terminal dues based on item (ECU)	0,00	0,00	165.200,00	165.200,00
<i>Total terminal dues payable (ECU)</i>	234.290,85	234.290,85	233.566,16	233.566,16
CEPT terminal dues system (as of 1993)				
Rate per kg (SDR)	1,491	1,491	1,491	1,491
Exchange rate SDR to ECU	1,18	1,18	1,18	1,18
Rate per kg (ECU)	1,76	1,76	1,76	1,76
Rate per item (SDR)	0,147	0,147	0,147	0,147
Exchange rate SDR to ECU	1,18	1,18	1,18	1,18
Rate per item (ECU)	0,17	0,17	0,17	0,17
Terminal dues based on weight (ECU)	101.933,95	101.933,95	101.933,95	101.933,95
Terminal dues based on item (ECU)	173.460,00	173.460,00	173.460,00	173.460,00
<i>Total terminal dues payable (ECU)</i>	275.393,95	275.393,95	275.393,95	275.393,95
REIMS II terminal dues system (1998: 55%)				
Domestic Tariff (ECU)	0,210	0,560	0,210	0,560
Percentage for priority mails respectively non-priority mails	55%	55%	50%	50%
Rate per item (ECU)	0,12	0,31	0,11	0,28
Terminal dues based on item (ECU)	115.500,00	308.000,00	105.000,00	280.000,00
<i>Total terminal dues payable (ECU)</i>	115.500,00	308.000,00	105.000,00	280.000,00
REIMS II terminal dues system (2001: 80%)				
Domestic Tariff (ECU)	0,210	0,560	0,210	0,560
Percentage for priority mails respectively non-priority mails	80%	80%	72%	72%
Rate per item (ECU)	0,17	0,45	0,15	0,40
Terminal dues based on item (ECU)	168.000,00	448.000,00	151.200,00	403.200,00
<i>Total terminal dues payable (ECU)</i>	168.000,00	448.000,00	151.200,00	403.200,00

(Source: PricewaterhouseCoopers, 1998)

Exhibit II: Two scenarios for the EU cross-border mail market

Scenario A: No liberalisation of cross-border mail

Background:	No liberalisation of cross-border mail. Market driven liberalisation of cross-border mail continues.
Macroeconomic trends, societal and technological impacts:	<p>Linked to the overall economic development positive mail growth rates are expected. The market driven liberalisation of outbound cross-border mail will only marginally contribute to the growth. The communication markets are expected to grow and potential declines due to substitution are by and large offset by the supplementary effect. Overall this results in a positive growth in the cross-border mail market.</p> <p>The societal attitudes among labour unions, politicians and management in USPs will be in favour of a controlled approach to liberalisation of the cross-border mail business. A good part of these opinion leaders will however also know that it will be important to prepare for the liberalisation to come at some point. The political discussions and decisions will not get easier in this scenario.</p> <p>Faced with relatively few alternatives to develop their business within the core activities of postal services, pro-active postal operators will be highly motivated and allocate relatively large resources to invest in new alternative technologies.</p>
Demand trends: Minor impacts of globalisation and location of customers to postal service operators Tenders for delivery of mail in Europe Intensified use of alternative communication systems in stead of postal services - price/quality - more choice demanded - speed, - predictability, - quality of service The growth rates for small and medium sized companies are expected to be bigger than for multinational companies. Direct mail will contribute the most to the growth Mismatch between needs and demand and the actual offers to postal customers	<p>The globalisation tendency has until now not been very significant and the impacts on cross-border mail modest. A number of reasons are typically mentioned. The potential of globalisation, in order to exploit economies of scale, is definitely identified. On the other hand, problems with the adaptation to local market conditions seem to have been underestimated. The implication is that the expectations of a widespread globalisation have not been fulfilled. Thirdly, the reluctance to centralise different functional units in different locations around the world is actually delayed – although to a minor degree – by a poor postal service quality.</p> <p>In the scenario this situation will not be markedly changed. Additionally, it will be much easier and less expensive to make use of the internet, E-mail etc. Globalisation among postal customers will only have modest impacts on the volume and revenue of cross-border mail.</p> <p>Major, global customers will increasingly put out tenders inviting operators to handle all of their postal services in Europe. These customers are tired of dealing with 15 different USPs and the American companies can not understand why it has to be that difficult in Europe compared to the US.</p> <p>Since the slow liberalisation process is only improving the situation marginally, some of the clients will actively invest in alternative communication systems. In the long run this could result in considerable losses to the cross-border mail industry.</p> <p>The buying behaviour among big, medium and small companies will be more focused on the price/quality ratio than in the past. A main problem is that the customers will face difficulties obtaining comparable offers from foreign postal operators' sales offices.</p> <p>The customers will increasingly demand much more choice – different service concepts and products at different prices. Postal operators will only marginally be able to meet this demand due to the restraints in a non-liberalised cross-border mail market.</p> <p>Speed and quality of service is still important, but predictability – to know when the addressee will receive exactly the mail – is becoming very important to major senders of mail.</p> <p>In the outbound cross-border mail market the growth in volumes will be higher for businesses than for private customers. It is most likely that the growth will be highest among small and medium sized business customers. Concerning inbound mail growth this will be somewhat lower and nearly the same development is expected for end-deliveries to businesses and private households.</p> <p>Direct mail is anticipated to show the highest growth in terms of volume.</p> <p>Overall the scenario shows a situation where the needs and demands are not satisfied due to the still monopolised situation. On the one hand a gap exists between the demand of big customers and what is technically possible and on the other hand the constraints that national postal operators are facing when trying to meet the customers. This gap will grow in the scenario opening up for new entrants to the postal sector – be it private postal operators or suppliers of substitutes to mail services. The development will still be highly characterised by the uncertainty concerning the implementation of liberalisation of cross-border mail. Consequently, these will hamper the developmental potential in the sector.</p>

Supply trends:	As already stated the disagreement concerning if, how and when to liberalise cross-border mail is the major deciding factor in this scenario. This uncertainty could be characterised as genuine political risk. It is well-known from the internationalisation of other industries that political risk is hampering the internationalisation processes. Consequently the typical request to authorities from suppliers in these industries is to reduce or at best eliminate the sources of the political risk.
High political risk	
The de facto liberalisation of outbound cross-border mail	The de facto liberalisation of outbound cross-border mail is considered a very interesting business opportunity. Pro-active USPs are engaged in remail business and investing specifically in the outbound cross-border mail market. International integrators are involved in the business through their international logistics networks, as are other (local) private postal operators that take part in the expansion as sub-contractors. Another part of the USPs – the re-active USPs – are analysing, discussing and assessing the possibilities. In-active USPs will rely on a relatively long adoption period and are awaiting the conditions of a liberalised cross-border mail market to be specified.
Up-stream activities:	The present activities mainly concentrated on strengthening the capabilities of the postal operators in up-stream activities include investments in a variety of entry modes.
Establish customer relations in foreign markets	Establishments of transport, sorting and mailhouse facilities in subsidiaries in order to gain market shares from the domestic postal operator in outbound mail have already been seen. This tendency will grow much stronger in this scenario.
foreign direct investments in transport and sorting facilities,	The most important alternative to this development are collaborative agreements – between USPs and between USPs and private postal operators. It is expected that a pattern of collaboration agreements will emerge in order to establish customer relations on foreign markets. As it is seen in the airline industry these strategic alliances are often non-equity co-operations that strengthen the competitiveness of the individual operator in a global or regional perspective while the operator simultaneously and individually strives to strengthen its market position in a local, national or regional perspective. A number of strategic alliances and other types of non-equity co-operations are expected in this scenario.
strategic (non-equity) alliances between USPs and with private postal operators	The tendency to establish marketing and sales offices in foreign markets will be more outspoken. Like in all other industries the establishment of a sales branch or a sales subsidiary is often the first step in a gradually evolving internationalisation process. The scenario stipulates an increase in the establishment of sales offices – either as the very first step in a potentially interesting market or in a smaller volume market. The sales offices have the primary objective to attract foreign mailers to use the USP in the country where the mail is to be picked up.
sales offices and subsidiaries	The de facto outbound mail liberalisation is speeding up the conflict among former colleagues – as they are increasingly becoming competitors. On the other hand the speed of transition is still moderate.
more competition among USPs but still colleagues	It is worth emphasising that the efforts to handle cross-border mail directly from the senders' location will take place interdependently, i.e. the USP in country A will make a market entry in country B and the USP in the latter will establish business in country A. In this scenario the developments within the field of outbound cross-border mail are considered as important "learning-by-doing" mechanisms in the overall internationalisation processes of the postal sector. Since the relative magnitude of outbound cross-border mail is still rather modest, it constitutes a good "laboratory" for most USPs to prepare for a more liberalised postal sector.
loss of market shares in the outbound cross-border mail markets which, for some of the operators, will be replaced by bigger market shares in foreign outbound markets	The implications are that on the one hand all postal operators will lose market shares in their home market for outbound cross-border mail. On the other hand the most successful of the operators will be able to replace these losses by gaining market shares in the home markets of their formerly fellow USPs. The net losers in outbound cross-border mail will be the "late starters". The USPs that start late will not only have to compete with the domestic USP, but also with several foreign USPs' and international integrators' establishments on the market in question. A first mover advantage exists in the outbound cross-border mail market in this scenario. The advantage is based on professional skills within international marketing and sales and enhanced international systems to handle inbound mail from the individual foreign customer to the end-delivery in the home market.
first mover advantage: skills in outbound mail handling in foreign markets	The potential activities in the inbound cross-border mail market are modest. The main reason is, that most of the USPs hold good positions to monitor and control inbound mail since nearly all letter mail is going through these operators' facilities. Only in countries such as Sweden and Finland, where the postal services are fully liberalised, is it expected that foreign operators may enter the markets in order to gain market share in down-stream activities.
very little international involvement in inbound cross-border mail markets	The activities to prepare for more liberalised cross-border mail markets will consequently be very focused on setting up internal systems and building up expertise in the USP organisations. These efforts will only be articulated at market level when dealing with outbound cross-border mail in foreign markets. The efforts will involve acquisitions and mergers of different operators in the generic value chain of cross-border mail. The most active USPs will undoubtedly buy up the best operators in foreign markets in order to prepare for the liberalisation of inbound cross-border mail. The investments will typically be modest and will be characterised by a very long time horizon and finally a prerequisite is a very strong financial position.

<p>but some long range, strategic investments</p> <p>Transfer of technologies and know-how will constitute another type of international collaboration</p> <p>International integrators: Some may target the letter mail market – through subsidiaries and only on a small scale</p> <p>regional and local operators will become more important</p> <p>Bilateral agreements will be common, as they are in accordance with the strategic positioning ongoing</p>	<p>which some of the USPs actually already have, whereas others will build up these positions in the years to come.</p> <p>Apart from the above another entry mode implies technical assistance. Foreign postal operators that are in the process of transforming non-competitive organisations into slimmer and more effective organisations will receive technical assistance from leading European USPs that see this activity as a first step to more committed collaborations and/or mergers at a later stage.</p> <p>Some infringements of the reserved areas already take place and these infringements will be seen more often in this scenario. These infringements will only have a modest impact, and it will be too costly to build up end-delivery systems even in urban areas, when inbound mail is still not liberalised. The international integrators are operating in the low volume, high revenue added and high price segments of the cross-border mail market compared to the reservable cross-border mail markets characterised by high volumes and low prices. Considerable investments in logistics are needed. If international integrators enter the markets their most valuable market asset – the prompt delivery and the end-to-end control will be put under pressure. Our assessment is that the international integrators will not be more active in the letter mail market than what has been seen in the past. It seems likely that one or two of the international integrators actually will target the cross-border mail market. This will be done through other subsidiaries in order to maintain the differentiation to the express and courier services.</p> <p>Regional postal operators operating across three to five countries will develop slowly in this scenario. Local postal operators will have good opportunities as sub-contractors to assist foreign postal operators in their expansion in the outbound cross-border mail markets.</p> <p>Still a lot of efforts will be devoted to improve the CEPT and REIMS agreements. However, the assessment is that an increasing amount of agreements between the USPs will be bilaterally based. The main reason is that bilateral agreements best fit into the process of change that has started. When the different entry modes are being used by the USPs it is natural to include – or perhaps even a basis for collaboration – specific agreements.</p> <p>On these grounds the real commitment to the REIMS agreement will be reduced. On the other hand it is foreseen that the formal logic will be maintained and it will still be important to refer to the REIMS set-up when negotiating and entering bilateral agreements.</p>
<p>Regulatory issues:</p>	<p>The "old regime" of regulation of the postal sector is by and large maintained. As argued above the operators are preparing for liberalisation to come at some point. And many of these preparations imply agreements and logic assumptions that are not in line with the regulatory world – neither in writing nor by the gist of the legislation etc.</p> <p>Many efforts will be devoted to improving the quality of service. As it is known the levels are however very different from country to country and it will take considerable amounts of time to obtain more equal levels of quality across the EU.</p> <p>The discussions in "the regulatory world of the postal sector" will be concentrated on planning the timing of the different elements of a liberalisation of the postal sector.</p> <p>How to safeguard the USO and the reserved area will turn out to be the most important issues, whereas the liberalisation of cross-border mail in itself is not as important.</p>
<p>Quantitative estimates:</p>	<p>In the scenario the volumes of both outbound and inbound will be "normal", i.e. one-two percent per year.</p> <p>The corresponding expectations to the development in revenue terms are strikingly higher. With respect to inbound this is consistent with expectedly higher payments to the end-deliverer.</p> <p>The USPs market shares in domestic markets for outbound cross-border mail will decline and correspondingly the pro-active USPs will gain market shares in foreign markets for outbound mail.</p> <p>No severe threats to the domestic mail services will be seen in this scenario, but more infringement of the reserved area will likely be reported.</p>

<p>Some important implications:</p>	<p>To the consultants one implication seems very certain: The spans or differences between the postal operators – the USPs – will grow, practically speaking for every aspect of interest of the postal sector. The threats and opportunities for the different players in the postal sector will be bigger than today.</p> <p>The most active USPs, as far as preparations of their mail business is concerned, will grow even more prepared compared to the least active European USPs lagging behind in the international markets in the scenario, when compared to the present situation.</p> <p>Some countries will proceed by deregulating their domestic and international postal services – in other countries nothing will happen. Also in this respect the span will continue to widen.</p> <p>More mergers and acquisitions like the PTT/TNT and the DEUTSCHE POST AG/DHL cases will be seen, whereas other postal operators will stick to business as usual. The strategically motivated build-up of networks and international platforms will go on and on this front the span will widen as well.</p> <p>Some operators have very solid financial positions, while others due to their close relationships to their governments, have not accumulated economic resources of significance when/if the cross-border mail is liberalised. The span between the economically well off USPs and the opposite will widen.</p> <p>The former loyal culture and co-operative spirit among the USPs will be seriously threatened by the increasing competition, meaning more bilateral agreements among the USPs.</p> <p>Summing up, in this scenario the widening spans will make it much more difficult to negotiate the compromises needed to agree on a liberalisation of cross-border mail – or other elements in the liberalisation of the postal sector.</p>
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Scenario B: A rapid liberalisation of cross-border mail

Background:	The liberalisation of cross-border mail has been implemented. The remaining areas of liberalisation, suggested in the postal directive, have not been implemented.
Macroeconomic trends, societal and technological impacts: Liberalisation will stimulate economic growth Balancing resources to core business activities and new technologies	<p>Given that the economic growth in Europe is maintained the liberalisation of cross-border mail – i.e. liberalisation of a service industry supplying communication – implies a stimulus to the economic growth as it has been seen in two other communication industries: Telecommunications and IT. Through the opening of the market for cross-border mail (communication) an economic stimulus to international trade, internationalisation and globalisation is seen. This will have positive implications to the economic growth. However, the liberalisation of postal services is not expected to contribute to the economic growth to the same extent as the two industries mentioned above – primarily since the postal sector does not have the technological potentials as the other two industries.</p> <p>The growth in cross-border mail volumes will increase due to these impacts as well as an expected increase in remail due to the conversion of domestic mail into cross-border mail.</p> <p>The technological alternatives to mail will become even still more advanced. However, in the first years after the liberalisation of cross-border mail, it is expected that the USPs will allocate most of the resources available to activities in their core business – mail services – due to the race of obtaining the best market positions. It will be a delicate balance to allocate resources to gain positions in the core business without losing momentum in the emerging markets for communication through new technologies.</p> <p>The societal attitudes to liberalisation will first of all be a problem with those postal operators that are forced to rationalise their operations in order to stay competitive.</p>
Demand trends: “Shopping for the best and cheapest postal services” Major global customers will increasingly ask postal operators to handle mail to regions and continents A new class of remail will emerge: Domestic mail will be converted into cross-border mail Some customers will demand low prices, others will demand specific tailor-made services In the long run consumers will choose among competing postal operators Better conditions for the globalisation of	<p>Impacts of globalisation are modest due to arguments mentioned in scenario A. However, as already described the liberalisation of cross-border mail implies that the world is “growing smaller”. The main stimulating factor to demand is the possibility of all customers “to shop for the best and the cheapest postal service”. The choice will be made in accordance with the customers’ needs and with no national restrictions with respect to choice of postal operator. The liberalisation of cross-border mail will introduce the mechanisms of the international division of labour to the postal sector.</p> <p>The liberalisation will pave the way for the handling of major customers’ demand for total services at a regional and, in the long run, a transnational level. Today global companies enter contracts with each national postal operator. When liberalising cross-border mail these customers will naturally ask one or very few operators to handle all mail on a global basis.</p> <p>If the international postal service quality is improved the incentive for major customers to invest in communication alternatives is smaller compared to a situation where cross-border mail is not liberalised. Naturally, the technological alternatives will still be relevant and very important to the major customers.</p> <p>The focus on price/quality among customers operating internationally will definitely mean a significantly larger demand for cross-border mail. A new class of remail will evolve – ABA – as a result of liberalisation of inbound cross-border mail. Domestic mail will be transformed into cross-border mail. Customers will look for cheap tariffs, but also reliable quality. USPs characterised neither by relatively low tariffs nor by effective handling of cross-border mail will be the losers in the competition to come.</p> <p>On the other hand the demand pressure for the development of new – and even tailor made – services will increase at the same time. Especially major customers will put specific mail tasks out to tender to postal operators asking for both the technically best as well as the cheapest way to deliver the mail.</p> <p>The market place will undoubtedly develop in the same way as the telecommunications and IT markets. Especially for non-experts the market may look non-transparent just as the markets for PCs, mobile telephones etc. All kinds of features will be linked to the postal services in order to create preferences and/or develop concepts to match the needs and demands. At the same time the price factor will still play a very important role.</p> <p>In this scenario it seems obvious that even small international companies will examine the opportunities of minimising costs through cross-border mail compared to national mail.</p> <p>Even consumers may show an increasing interest in choosing different postal operators for different purposes in the long run. As it has been stated the ordinary consumer have no alternatives to the USP, but either by themselves or through PR- and marketing activities of the postal operators it is likely that consumers also will choose among different operators of private-to-private and private-to-business mail.</p> <p>In this scenario the growth rates in volumes are higher than in scenario A – due to the liberalisation and the conversion of domestic mail into cross-border mail. In revenue terms the expected growth is smaller – indicating price competition.</p> <p>Direct mail will contribute the most to the growth in cross-border mail.</p> <p>Liberalisation of cross-border mail is expected to result in better quality, greater choice, better predictability etc. And above all more choice of production as well as choice between different operators. Summing up: The international postal services will present better conditions for globalisation.</p>

major customers'	
<p>Supply trends:</p> <p>A "race" to establish platforms for doing inbound mail business</p> <p>A strong position in the home market strengthens the competitive position in international markets and vice versa</p> <p>Quick positioning: Mergers and acquisitions</p> <p>A financially strong position is the most important first-mover advantage</p> <p>Positioning: Non-equity collaborations or strategic alliances will be used to a large degree</p> <p>Still a number of arms length agreements will be seen</p> <p>Compared to the strategic actions within inbound cross-border mail the actions within outbound cross-border mail will be smaller</p> <p>Another important first mover advantage: Already established international networks and relationships</p> <p>The transition towards a four layer market structure of transnational, regional, national and local postal operators will be speeded up</p> <p>Most of the international integrators will take part in the transition through subsidiaries</p>	<p>The rapid liberalisation of inbound cross-border mail will literally start a race among EU USPs, international integrators and other postal operators. Few new entrants with no experience from the postal sector will take part in the race.</p> <p>The overall motivation for these competitors – which will be the former public postal operators – is to position themselves in the competitive market places.</p> <p>The competitive market position is characterised by two things. First of all the service to the home market must be of the right quality and price compared to international standards. Through this basis the postal operator will have the chance on the one hand to maintain a solid market share of domestic services. On the other hand a strong home basis also implies that the postal operator can either expand internationally by internal resources and/or position itself as an attractive co-operation partner to other postal operators in the international market. In short, the strategic issue is to combine strengths and improve weaknesses on the domestic market and the cross-border market, since these positions are interdependently related in the new liberalised context of cross-border mail.</p> <p>The natural way to build the market positions will be through mergers and acquisitions. As in most other service industries organic growth will be much too slow to keep in line with the competitors and this will also be the case for the postal operators. Quicker growth is achieved by buying up USPs and private operators thus acquiring markets and established customer relations.</p> <p>Consequently the first prerequisite in order to establish strategic market positions is a strong financial position and/or the ability to finance mergers and acquisitions. Postal operators with this background will be the frontrunners and likely winners in the race. A strong financial position is the first mover advantage per se in this scenario.</p> <p>In smaller markets and/or for smaller postal operators not capable of financing mergers and acquisitions, non-equity collaborations will be relevant expansion/entry modes. There will a potential for operators granting each other preferential treatment. Cross-management contracts or cross-licensing contracts between USPs may give some of the same advantages as the acquisition of operators or foreign operator shares. Also big postal operators will use strategic alliances in many smaller markets.</p> <p>These arrangements can be compared to the establishments of strategic alliances that are currently often seen in the airline industry.</p> <p>Mergers and acquisitions and some of the other entry modes will only partly replace the overall postal need of international collaboration among independent USPs and private postal operators with a corporate internal structure. Still many country-to-country connections will be established between independent operators. To a higher degree than it is seen today the international markets will consist of players, that will be severe competitors in some cross-border mail markets and at the same time co-operation partners in other markets.</p> <p>The "race" will be focused on the establishment of positions and bridgeheads concerning inbound operations or down-stream activities. Establishing positions in the outbound cross-border mail business will also attract some attention, but not as significant as expected in scenario A.</p> <p>In the long run the deciding factor will be to exploit the economies of scale and establish sound business units. Static financial positions of the postal operators mentioned above must be supplemented by their operational excellence – both domestically and internationally. This first mover advantage will be held by some of the EU operators that have rationalised their organisations and entered the cross-border mail business in different ways over the last three to five years.</p> <p>The perspectives of different players in the postal sector naturally differ. Most of what has been said makes sense to international, regional and even national postal operators. The opportunities will be different, but local operators will also be on the move to establish new platforms for inbound and outbound cross-border mail business according to their positions in the overall postal value chain. It is expected that the liberalisation of cross-border mail will speed up the transition of the market place into a four layer structure where transnational, regional, national and local operators compete and co-operate on different activities all of relevance to cross-border mail</p> <p>Concerning the international integrators it is expected that most of these will be heavily engaged in the transition. Most likely it will happen through subsidiaries dealing with letter mail in order to keep the differentiation to the high price and small volume international business of express and courier services.</p> <p>The activities to gain market shares in the inbound mail markets will be concentrated on the business-to-business and the business-to-private mail markets. The cream skimming process will make foreign operators most focused on geographical areas with a high density of mail intensive receivers/users.</p> <p>The suppliers will devote substantial resources to the development of new services, products and concepts. Most of the operators will try to differentiate their offers. On the other hand the market for standard services will still be characterised by big volumes and relatively low prices. The letter mail market will remain a commodity market, that efficient production processes are still very important.</p> <p>Another strategic dimension will become more important for all cross-border mail operators – transnational,</p>

<p>The letter mail market will still be a commodity market, but Different product market strategies are available to the postal operators</p> <p>One-stop-shops and niche strategies</p>	<p>regional, national and local. Some of the players will try to establish positions as one-stop-shops or as niche players. Again the main criteria will be price/quality and effective links to the cross-border mail business through their own companies, joint ventures or strategic alliances.</p>
<p>Regulatory issues:</p> <p>The transition period will mean a shift towards a further use of bilateral agreements.</p> <p>If the multilateral agreements are not applicable other mechanism must be found</p>	<p>Generally speaking the need for the application of general competition policy in the postal sector will increase.</p> <p>The scenario describes a transition from the handling of cross-border mail on a multilateral democratically and politically determined basis to the handling of cross-border mail based on market economics.</p> <p>Bilateral agreements will increasingly be used since many of the USPs will deliberately enter bilateral contracts as private postal operators – either in the form of independent subsidiaries or through joint venture partnerships with private postal operators. It is foreseen that quite a number of general problems due to this fact will emerge and these will call for quick solutions since the market is evolving very rapidly. On the other hand it will be of the utmost importance for the evolving players in the liberalised cross-border mail markets that these problems are solved, since if customers are dissatisfied they will choose other postal operators.</p> <p>Specifically, the postal regulatory authorities in countries with a USO and a reserved area will face new challenges to monitor and control a now liberalised inbound and outbound cross-border mail market and at the same time safeguard the USO by monitoring and controlling the reserved area.</p> <p>As in the other scenario the main problems are related to the USO and the reserved area – and not the liberalisation of cross-border mail in itself. Hard pressures on national and EU regulatory authorities will evolve with respect to the establishment of clear, transparent and harmonised definitions of the USO and the universal service provision.</p> <p>The terminal dues systems among the (public) postal operators may face severe difficulties due to the increasing use of bilateral agreements.</p>
<p>Quantitative estimates:</p>	<p>Volumes of inbound and outbound mail will grow more than seen in scenario A. The income in revenue terms is expected to decline in both businesses. Consequently prices of cross-border mail will decrease – supposedly due to the intensified competition.</p> <p>Statements from market experts seem to point in the direction of a rise in the retail prices for individual cross-border mail – this increase will be initiated by the expected switch from CEPT based to REIMS based terminal dues system. Prices of remail may very well decline due to the fact that a finance room for negotiation is created when switching from CEPT to REIMS. Through the use of more bilateral agreements it is expected that some mailers will press deliverers of cross-border mail to accept lower payments than the highest possible price – 80 percent of the domestic tariff.</p> <p>Whereas it is expected that the market driven liberalisation of outbound cross-border mail will continue, the most significant change will be with respect to inbound mail. The conversion of domestic mail to cross-border mail – ABA remails – may have a significant impact to the domestic reserved area in some EU-member countries. The reason for the loss of market share will however be a relatively poor international competitiveness of the individual USP. Not the liberalisation of cross-border mails per se.</p>
<p>Some important implications:</p>	<p>When liberalisation of cross-border mail is implemented rapidly, the present financial situation of the operators will have an impact on how the competition will evolve. Secondly, the already established relations and the investments already made by the pro-active USPs will have an impact.</p> <p>A wave of mergers and acquisitions will be seen. Many strategic alliances– between all postal operators. More choice for the customers: different operators, prices, qualities, services etc. A better fit between the demand and supply.</p> <p>The regulatory authorities face big challenges to make transparent rules concerning safeguarding the reserved areas and thus the financing of the USO.</p>

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