

3rd European Postal Directive

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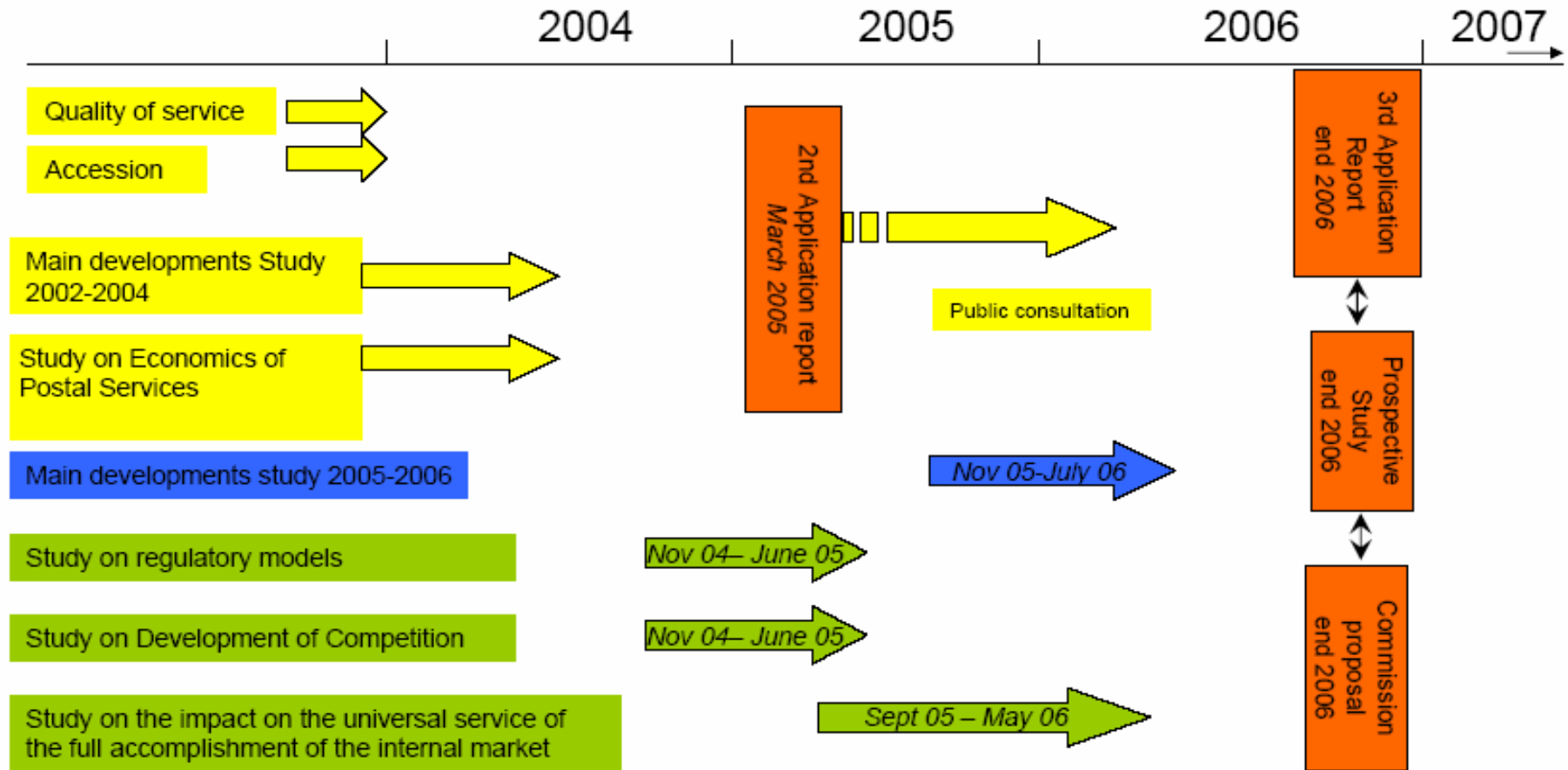
Unlocking the Market

- In 1997 the EU created a broad framework of obligations and regulations under the 1st and 2nd Postal Directives.
- The 2nd Directive *will* expire by Jan 2009, the EC were required to submit new proposals by the end of 2006 for subsequent scrutiny by the Euro Parliament and Council of Ministers for completion by 2009.

The Regulatory timetable for EU postal reform

- 1997: 1st Postal Directive (97/67/EC)
- 1999: *1st reduction of reserved area*
- 2002: 2nd postal Directive (2002/39/EC)
 - 1st Application Report (COM(2002) 632)
- 2003: *2nd reduction of reserved area*
- 2004/5: 2nd Application Report (COM(2005) 102)
- 2006:
 - *3rd reduction of reserved area*
 - The Prospective study
 - 3rd Application Report
 - Commission Proposal published
- 2009: Target date to accomplish the Internal Market

The Groundwork for the 3rd postal Directive - path followed by EU Commission



The 'final Directive'

To set out the shape, scope and the regulatory landscape for postal services for the longer term.

It will have the force of law and is intended to provide the EU's postal market with the dynamism and innovation it needs to facilitate the aims of the single market initiative and achieve the goals of the "Lisbon Agenda" i.e. to make the EU "*the most competitive and dynamic knowledge-driven economy by 2010*".



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The Commission's package

On 18th Oct 06, the College of Commissioners adopted the following texts :

- *A proposal for a third postal directive*
- *The impact assessment of this directive*
- *The prospective study (art. 7.3 postal directive)*
- *Third application report*

http://ec.europa.eu/internal_market/post/news_en.htm



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What are the issues for the Directive?

A complex & divergent picture at national level...



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Significant differences exist in...

- Infrastructure
- Geographical and societal characteristics
- Speed of market opening
- Scope and quality of universal service
- Ambitions and commercial status (Government or private)
- Status of regulatory regimes



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Objective of the proposal of the European Commission (18th Oct 06)

“ To achieve an internal market for postal services through the removal of exclusive and special rights in the postal sector, safeguard a common level of universal services for all users in all EU countries and set harmonised principles for the regulation of postal services in an open market environment, with the aim of reducing other obstacles to the functioning of the internal market”

Final step of the gradual controlled market opening combined with a durable guarantee of the universal service (twin objective)

Existing proposals retained from previous Postal Directives

- **Minimum quality of universal service: this must be at least 1 delivery and 5 collections per week.**
- **The obligation to ensure affordability of postal services.**
- **Requirement to ensure transparent and non-discriminatory pricing by operators.**
- **Quality of service targets for cross-border mail.**
- **Sunset clause that would lead the existing Directive to lapse at the end of 2008 if no agreement is reached on future reform.**

New proposals in the Directive

- **Confirmation of final market opening across the EU by 2009 as a realistic deadline for all Member States.**
- **Flexibility for Member States in deciding how to fund the USO.**
 - **state aid (subject to EU state aid rules)**
 - **cross-subsidies or other mechanisms**
 - **as long as competition is safeguarded**
- **‘Pay or play’ or ‘pay and play’?!**
 - **competitor could be required to participate in the universal service at the same time as contributing to covering its costs**
- **Bulk mailing no longer subjected to a uniform tariff.**
 - **Member States may allow a uniform tariff to be maintained for consumer post in order to ensure social cohesion**

New proposals in the Directive

- Full separation between postal regulatory and operational functions
 - independence of postal regulators clarity in the roles of postal regulatory bodies enhanced co-operation between NRAs
- New mandatory complaints procedures
- Transparency in the awarding of USO postal licences
- Member States may offer subsidised or free postal service to blind consumers.

Postal Directive – Indicative Timeline

Indicative timeline of political decision making process

Indicative timeline

2006

12 December
Council meeting

2007

Jan

1st reading
European Parliament

Apr

1st reading
Council (DE)

Jul

Recess

Sep

2nd reading
European Parliament

Nov

2nd reading
Council (Pt)

Dec

2008

Jan

2nd reading
Council (SI)

Mar

Conciliation
Committee

Apr

1st Reading

- 80% of the Directive is shaped
- First half of 2007 will be critical

2nd Reading

- Possibility to table amendments is limited
- Limited in time (3 months)

Vote

Vote can be expected between Q4 2007 and Q2 2008



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Positions are polarised...



- **PRESS RELEASE**

- Brussels,

- 10th October 2006

- **10 postal operators express their concern**

- **The postal operators of Belgium, Cyprus, France, Greece, Italy, Hungary, Luxembourg, Malta, Poland, and Spain, which together serve more than 50% of the population of the European Union, have expressed their concern about the absence of concrete answers of the European Commission regarding the future financing of the universal postal service.**



Positions are polarised...



PRESS RELEASE

MOMENTUM GROWS FOR MAJOR POSTAL OPERATORS BACKING EU LIBERALISATION PLAN

Brussels, 17th October 2006. For the first time, the Chief Executive Officers of five major postal operators representing 60 percent of postal mail volume in Europe gather in Brussels to demonstrate that postal market liberalisation is already working in their countries and that they are ready for full market opening in 2009.

On the eve of the debate over postal opening, Deutsche Post (Germany), Posten AB (Sweden), Suomen Posti Oyj (Finland), TNT (The Netherlands) and Royal Mail (UK) are joined by Charlie McCreevy, Commissioner for Internal Market and Services, Jürgen R. Thumann, President of the Federation of German Industries (BDI), and Paul R. Kleindorfer, Professor at INSEAD and the Wharton School of the University of Pennsylvania.



Royal Mail's view...the context

- **Dynamic UK domestic market fuelled by competition and early liberalisation**
- **Downstream Access volumes 1bn and growing**
- **Significant competitor investment into the UK market**

DPAG / DHL: 5 mail centres

TNT: 5 mail centres

UK Mail and others

Bypass operations in clear view



Royal Mail

We have already made much progress but face more challenges...

Royal Mail has turned itself from a loss-making to a profitable business while facing up to the challenges that come from its market being opened to competition

Adam Crozier, CEO of Royal Mail, said: "We now face even greater challenges as we must transform what we do by modernizing and increasing our efficiency. Competition can act as a spur and help us achieve our very stretching goals - but only if we are allowed to align our prices with our costs, and if we have a fair regulatory regime which allows us the freedom needed to compete in a fully open market."



...Building on our strengths...

- **Trusted, strong brand**
- **Deliver to every door, every day creating critical volumes (USO)**
- **Strong existing customer relations**
- **Size and realising economies of scale**
- **Successful European cross-border parcels business in GLS**
- **Financial turnaround**

...and already competing successfully in an open Market

- Embrace the liberalised market
- Stimulus for greater efficiency, innovation, customer focus
- Delivering market-driven levels of quality and price
- Executing plans to deliver
 - better products and services to meet customer needs**
 - lower costs and higher levels of quality**
 - Improved rewards and motivation to our people**

Now Europe must follow suit...

- To provide improved choice for customers and suppliers, a fully open postal market must be accomplished by 2009, as a firm target for all and key markets should open earlier
- There is no other plausible solution
 - 20g reserved area is not serious as most of the volume is below this threshold
 - ‘Doing nothing leads to increased substitution, less innovation and a weaker focus on customer needs’ (McCreevy)
- Royal Mail’s transformation has set the height of the bar for others (the process will have taken 17 years so no-one can say there was insufficient time to prepare)

...*but* the Directive needs strengthened in some important areas

- The 'universal service' should be a 'safety-net' for consumer products allowing competition in business mail *and not* an excuse to implement 'pay or play' barriers to entry
- Non-discriminatory (downstream) access is a key tool in developing the open market (providing upstream competition where it is needed and delivery volume to maintain the universal service)

Multiplicity of E2E networks efficient or environmentally desirable?

Threat to the USO by volume dilution

...and Regulatory Disparity *must* be tackled

- Regulation will be pivotal to the application of the directive and stabilisation of the market
 - Maintenance of the USO**
 - Introducing competition without distorting the market**
 - Ensuring access, cost coverage, quality standards**
 - Transparent and efficient licensing**
- Regulatory 'level playing-field' is necessary for a single market
- 'Light touch' is desirable for a vibrant competitive market
- NRAs will need to focus together on delivering the single market and produce legal certainty

The final analysis-

- Option 1

Euro-states and Posts respond positively to the spirit of the Directive and make preparations to become competitive?

Result = Workable open market from 2009

- Option 2

Or they use the flexibility in the Directive to put up barriers to entry (whilst probably exploiting other open markets)?

Result = Uncertainty and conflict for several years after 2009 as competitors fight to open the market through the courts and competition authorities

Which is more desirable? Which is more likely?!



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Questions



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http://ec.europa.eu/internal_market/post/news_en.htm



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