

Association for Postal Commerce
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The Evolution of Postal Regulation in Europe: Possible Lessons for the U.S.

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Topics

- I. Overview of Markets
- II. Universal Service
- III. Postal Monopoly
- IV. Regulation
- V. Evolution of National Post Office
- VI. Postal Reform Process
- VII. Lessons, etc.

I. Overview of Markets

European Union

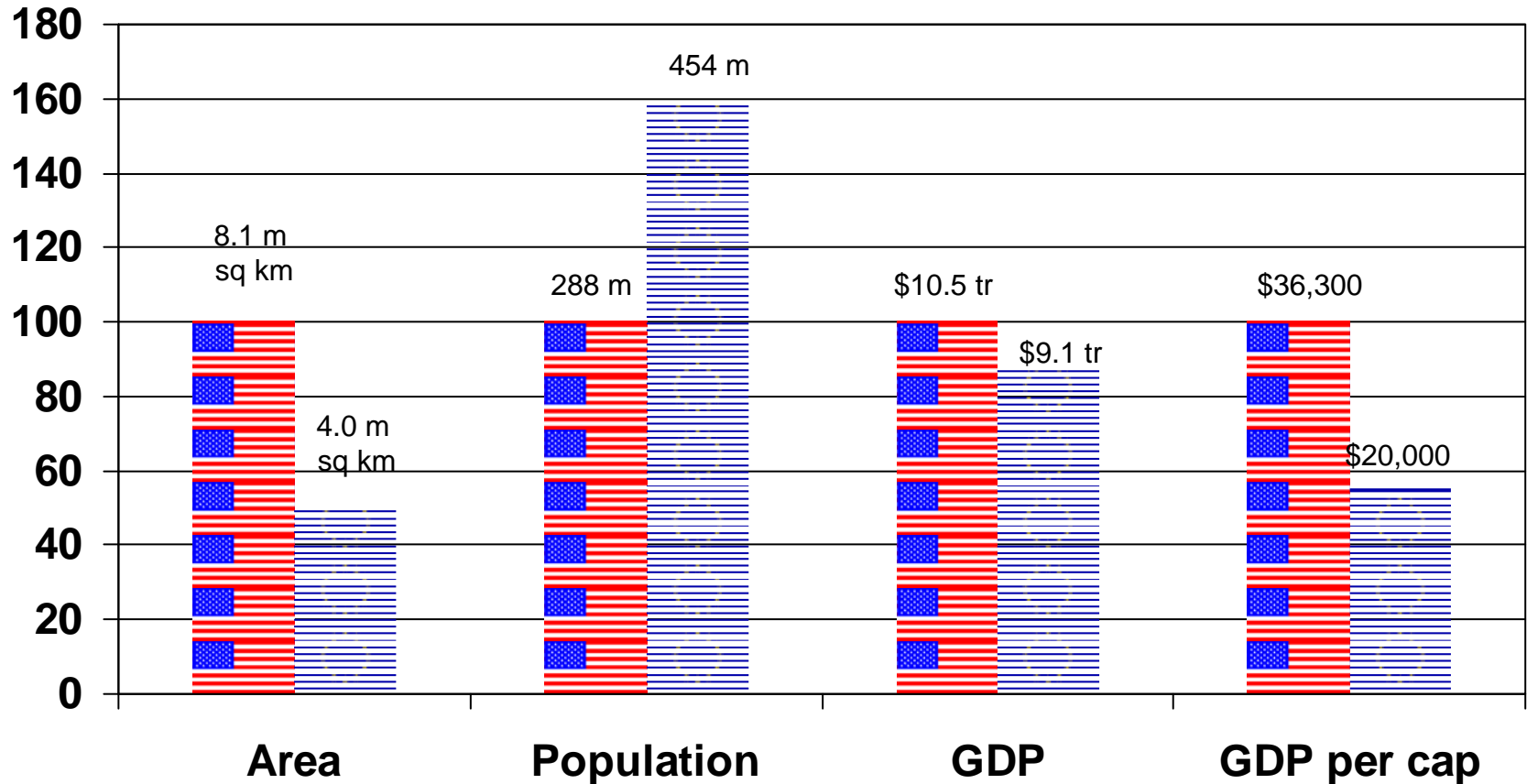


- AT Austria
- BE Belgium
- DK Denmark
- FI Finland
- FR France
- DE Germany
- GR Greece
- IR Ireland
- IT Italy
- LU Luxembourg
- NL Netherlands
- PT Portugal
- ES Spain
- SE Sweden
- GB U. Kingdom

After May 1, 2004

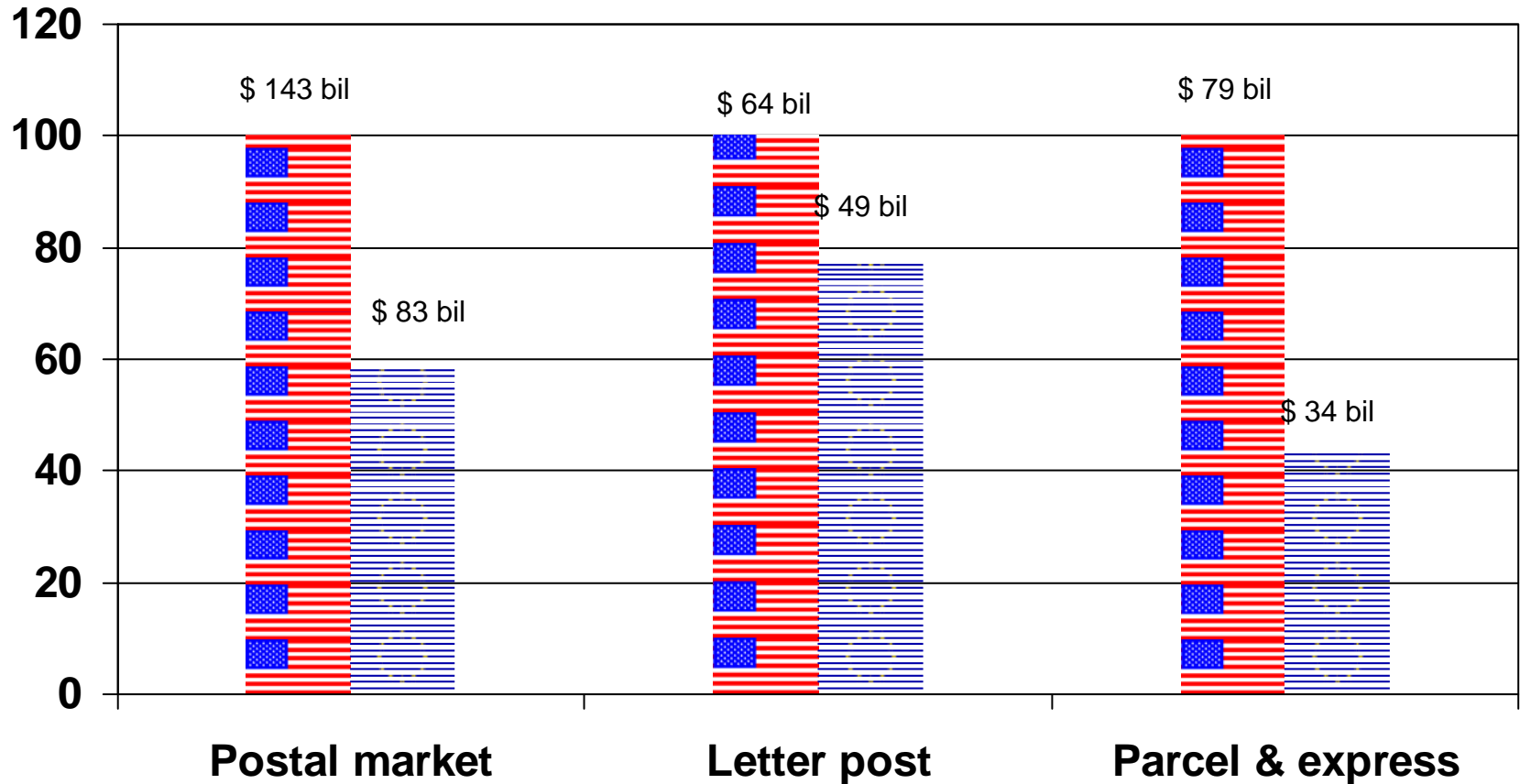
- CY Cyprus
- CZ Czech Rep.
- EE Estonia
- HU Hungary
- LV Latvia
- LT Lithuania
- MT Malta
- PL Poland
- SK Slovakia
- SI Slovenia

United States v. EU, 2002



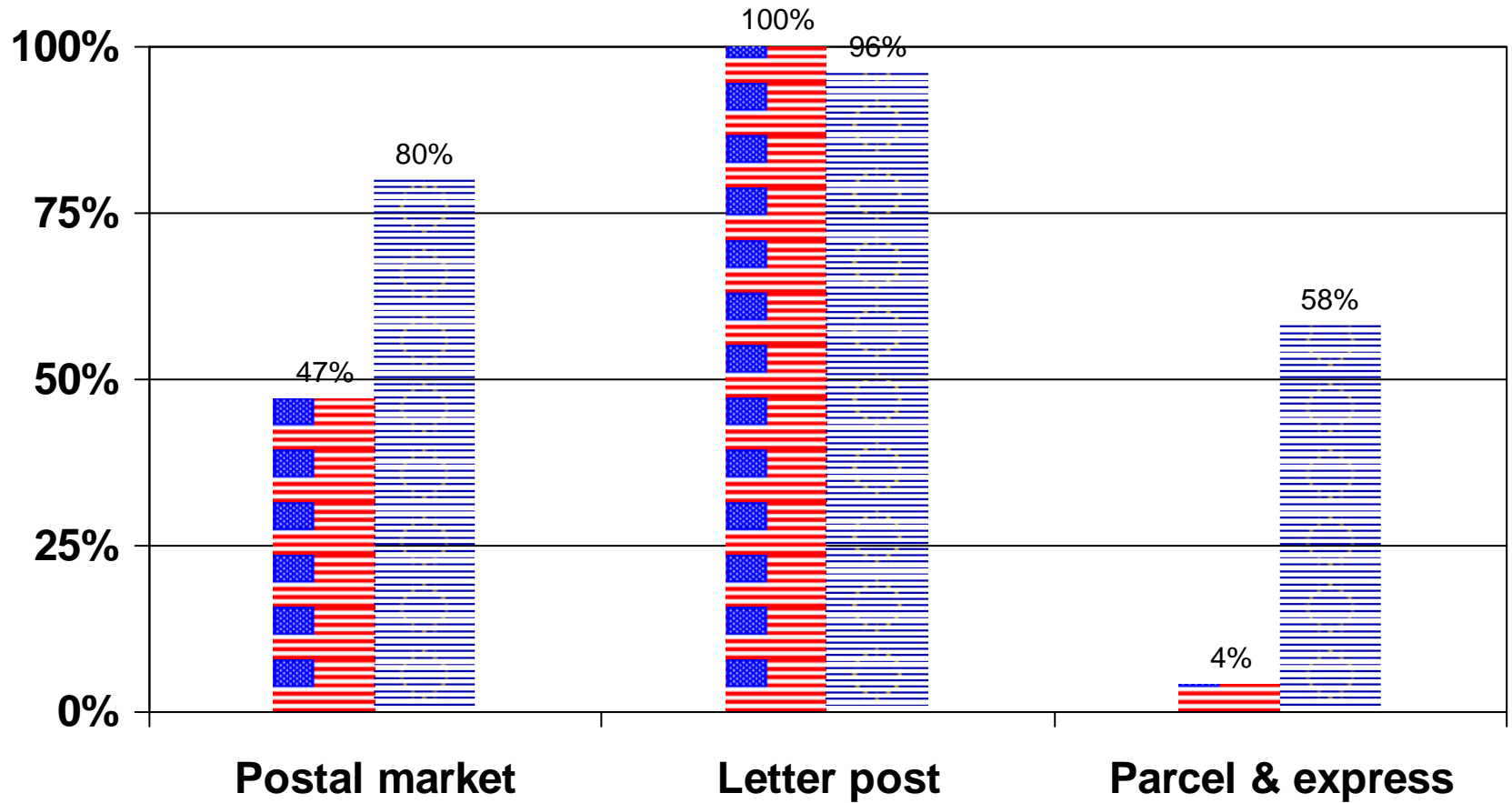
United States = 100. Key: "m" = million; "tr" = trillion. US area omits Alaska. US\$ 1.00 = EUR 1.06.

Total Postal Markets, 2002

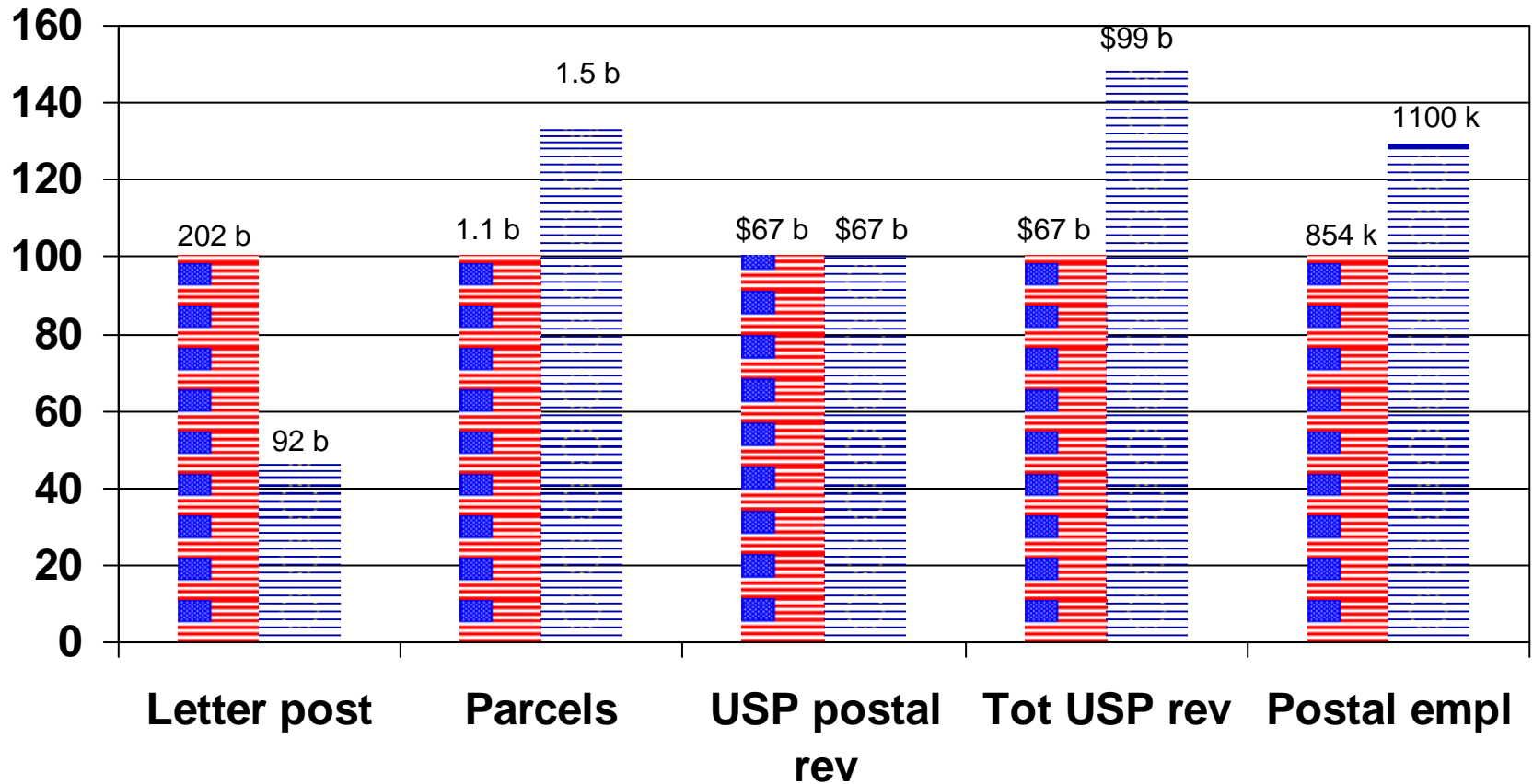


U.S. = 100. Estimate of US parcel and express market by Colograpjy; estimate of EU parcel and express market by MRU.

USP Share of Postal Markets

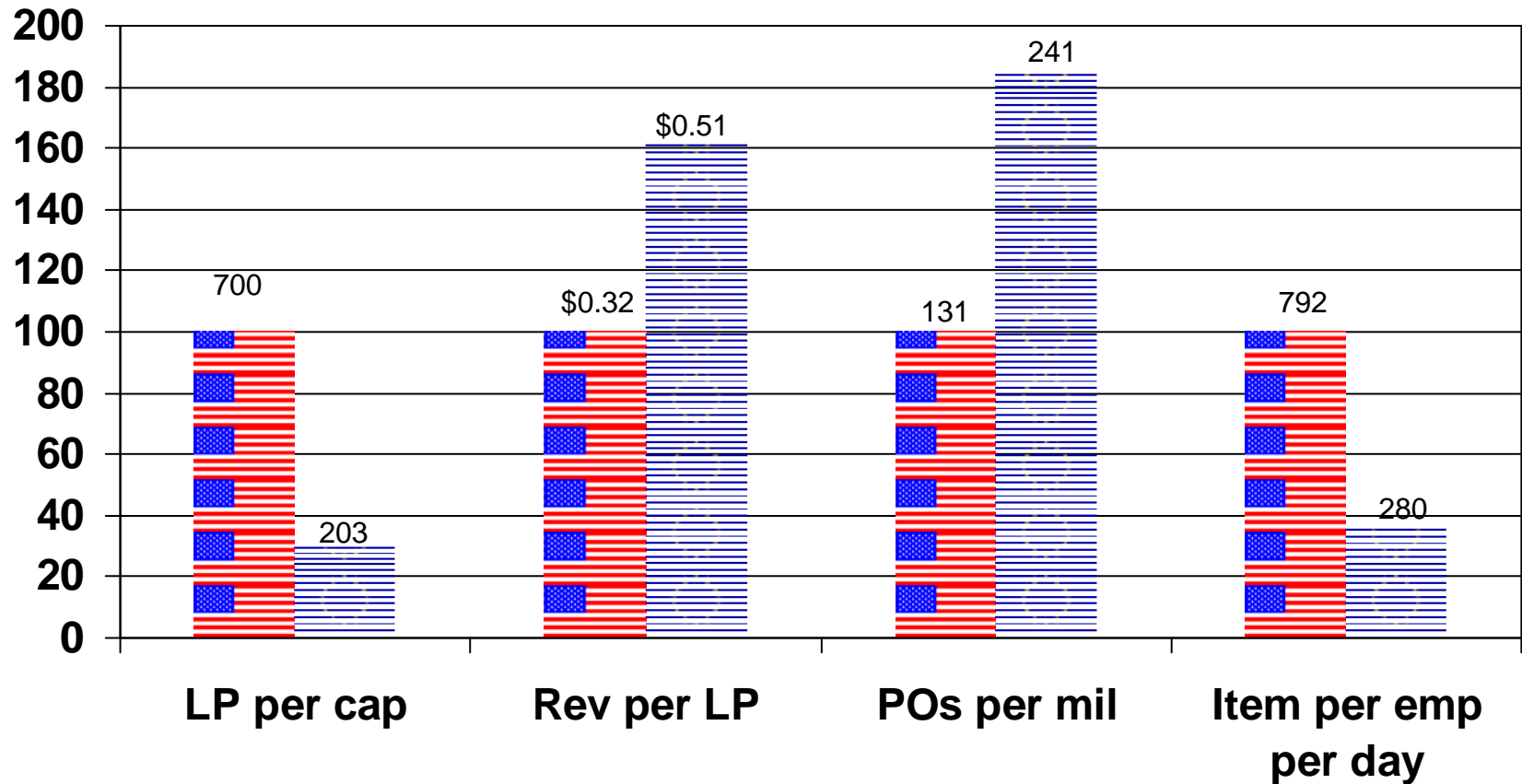


USPS v. EU Posts, 2002 (1)



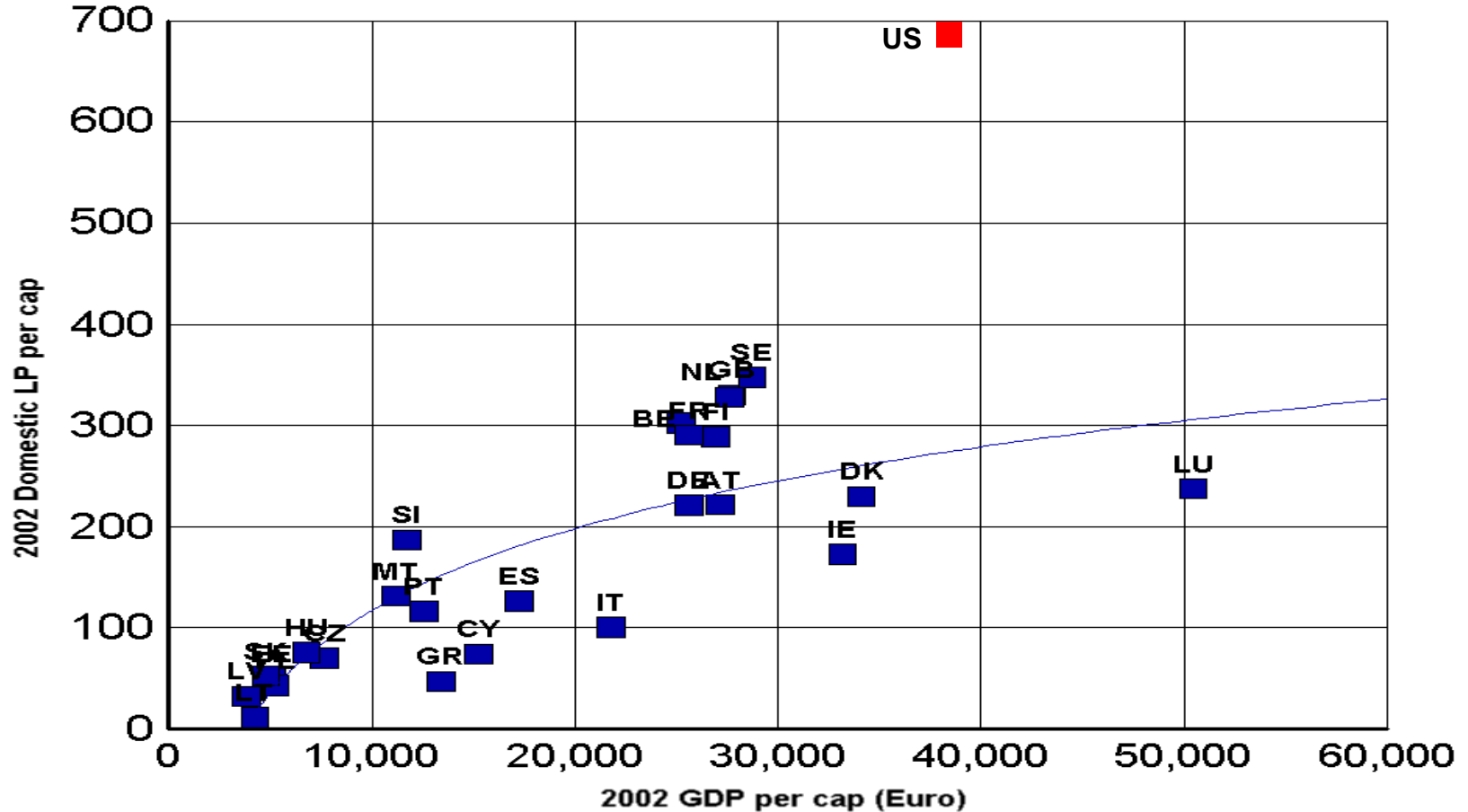
United States = 100. Key: "b" = billions;"k" = thousands. "Parcels" includes express.

USPS v. EU Posts, 2002 (2)



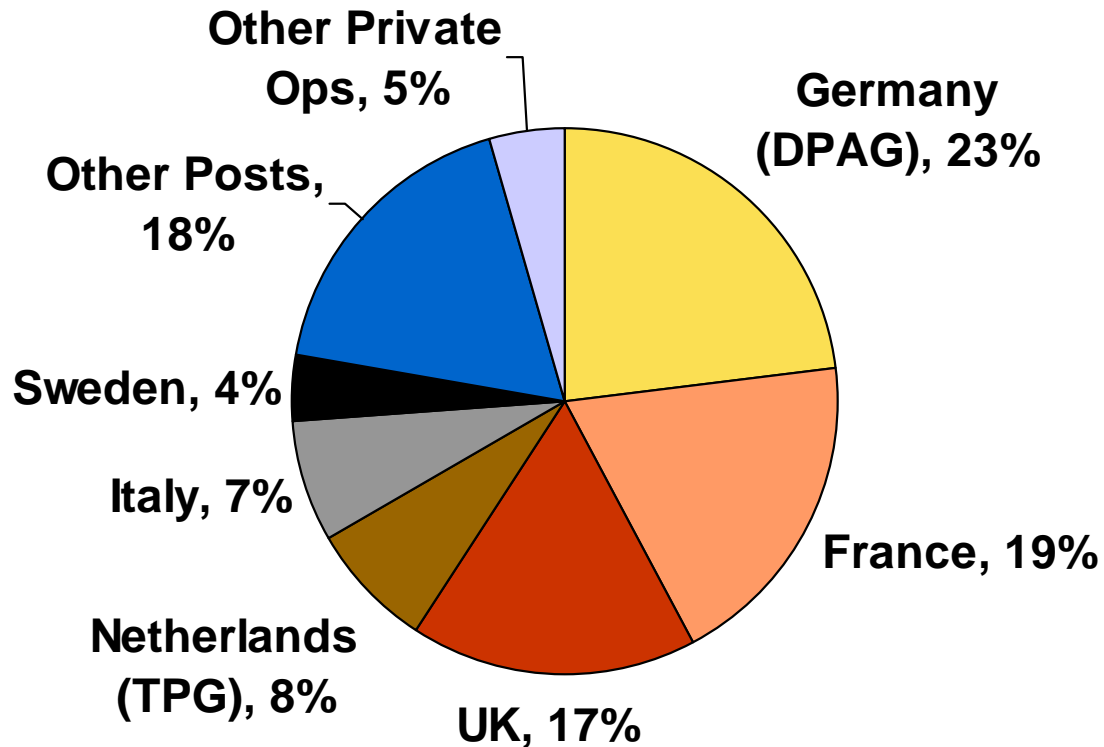
United States = 100. Key: Items per employee per day assumes 300 work days per year.. US\$ 1.00 = EUR 1.06.

LP per cap v. GDP per cap



EU Letter Post Market

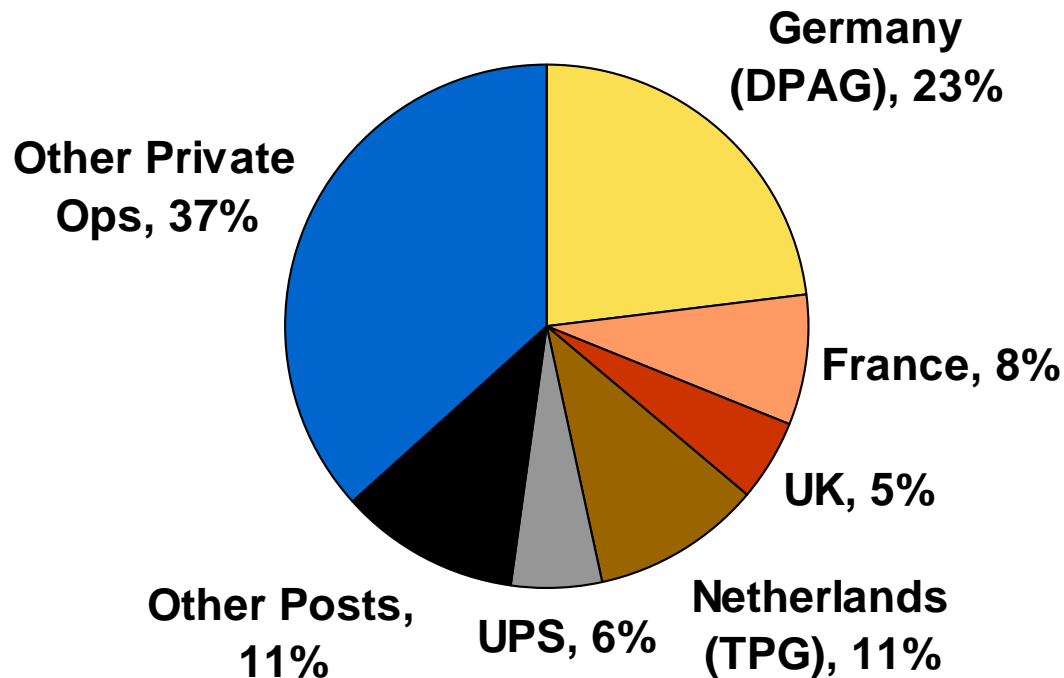
EU 25 letter post market about \$ 49 bil in 2002



Big 4 (DE, FR, GB, NL) = 67%

EU Parcel and Express Market

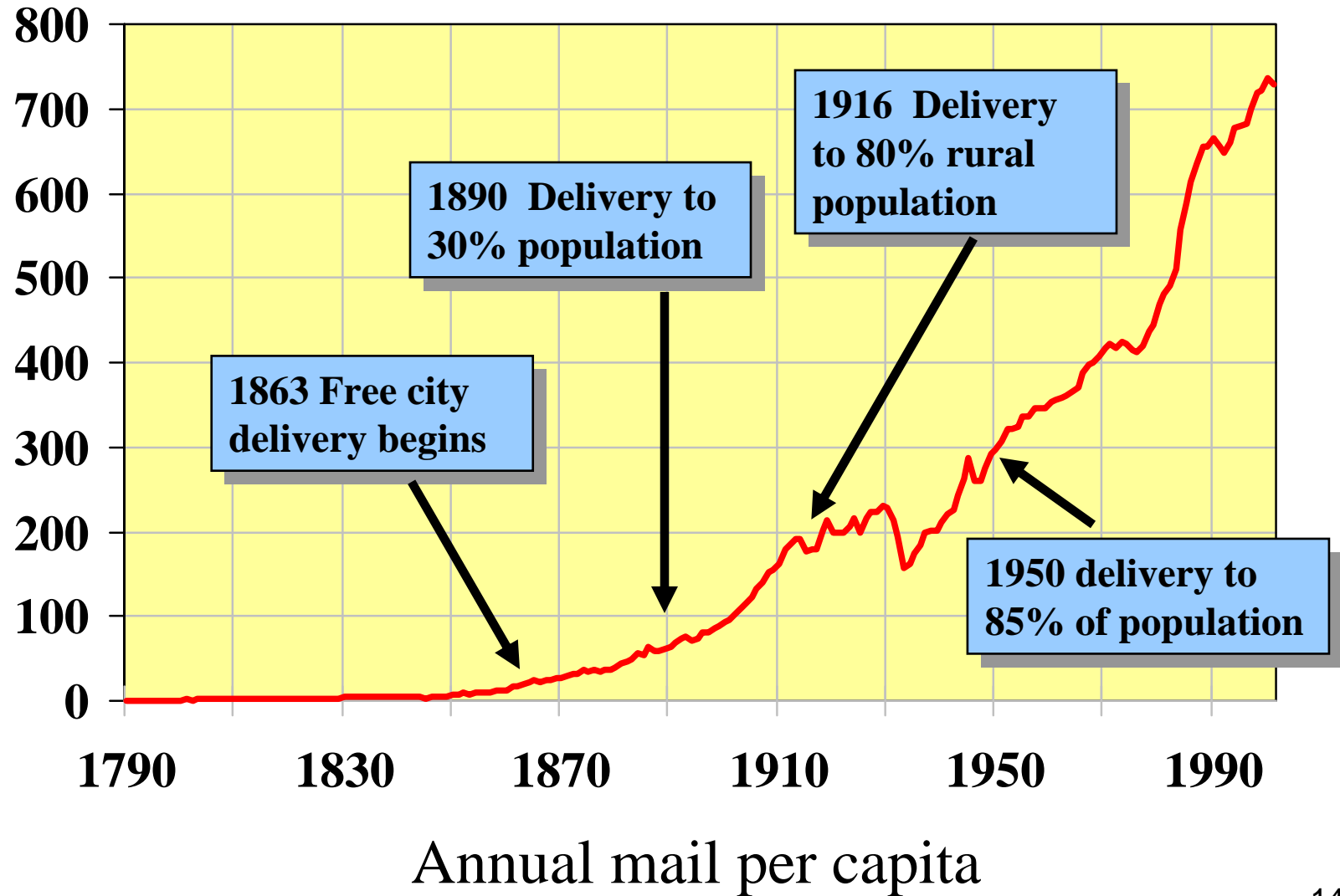
EU-25 parcel and express market about \$ 36 bil in 2001



Big 4 (DE, FR, GB, NL) = 47%

II. Universal Service

Universal Delivery



Postal Code: General Policy

§ 101. Postal policy

(a) The United States Postal Service shall be operated as a basic and fundamental service. . . to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.

(b) . . . provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns.

§ 403. General duties

(a) The Postal Service shall . . . provide adequate and efficient postal services at fair and reasonable rates [and] receive, transmit, and deliver throughout the United States [and] the world, written and printed matter, parcels, and like materials . . . [and] shall serve as nearly as practicable the entire population of the United States..

(b) . . . meet the needs of different categories of mail and mail users [and] maintain postal facilities. . . consistent with reasonable economies

- 1958 Act
 - Findings & Policy Declaration
 - Dispute over 4¢ stamp
- 1960 Code
 - §§ 2301-02
- 1970: Postal Reorg Act
 - §§ 101, 403 (revised)

Postal Code: Specific Provisions

§ 3623. Mail classification

(d) The Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class shall be uniform throughout the United States, its territories, and possessions.

§ 3626. Reduced rates

(a)(1) Except as otherwise provided in this section, rates of postage for a class of mail or kind of mailer under former section 4358, 4452(b), 4452(c), 4454(b), or 4454(c) of this title shall be established in accordance with the applicable provisions of this chapter. . . .

§ 3683. Uniform rates for books; films; other materials

(a) Notwithstanding any other provision of this title, the rates of postage established for mail matter enumerated in former section 4554 of this title shall be uniform for such mail of the same weight, and shall not vary with the distance transported.

- Benefits for specific types of mail generally based on pre-1970 rates set by Congress
 - Uniform rate for letters
 - Reduced rates for mail of nonprofit organizations
 - Uniform rate for books

Annual Appropriations Bills

UNITED STATES POSTAL SERVICE PAYMENT TO THE POSTAL SERVICE FUND.

For payment to the Postal Service Fund . . .
Provided, That mail for overseas voting and mail for the blind shall continue to be free: *Provided further*, That 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level:
. . . *Provided further*, That none of the funds made available to the Postal Service by this Act shall be used to consolidate or close small rural and other small post offices in fiscal year 2004.

- In lengthy annual appropriations bills, Congress includes restrictions on use of USPS funds:
 - Free mail for blind
 - 1983 service levels
 - No closure of rural post offices

Universal Service in the U.S.

- US has not adopted a comprehensive definition of universal service
 - Postal statute does not define explicit obligations
 - Postal Rate Commission is not authorized to establish universal service standards
- Universal service is defined by
 - General statutory principles
 - Historical practice

EU Postal Directive

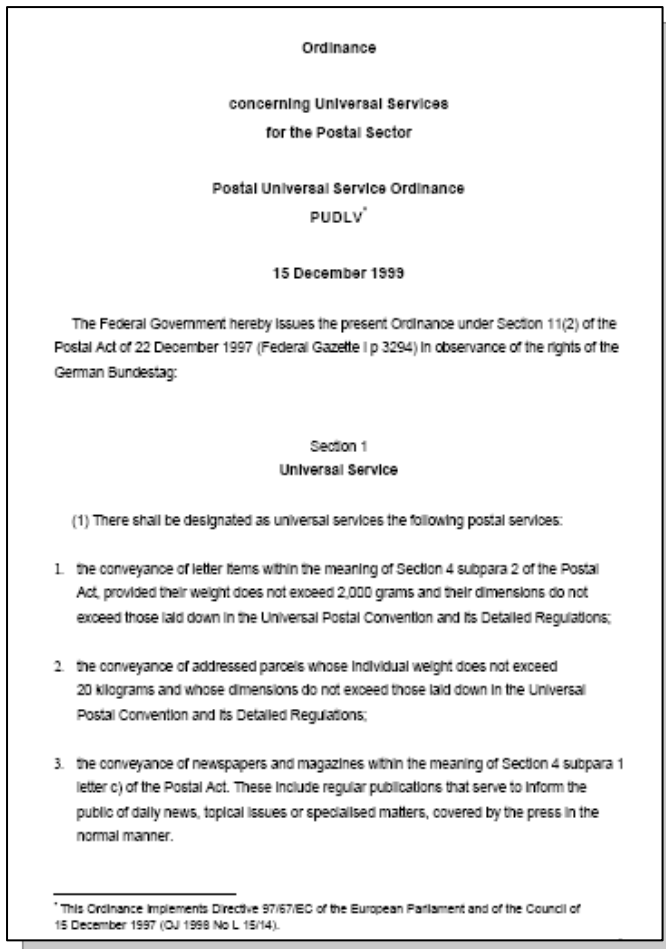
L 15/14 Official Journal of the European Communities 21. 1. 98	
DIRECTIVE 97/110/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service	
THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,	in that postal services are an essential instrument of communication and trade;
Having regard to the Treaty establishing the European Community, and in particular Articles 37 (3), 48 and 100a thereof,	(1) Whereas on 11 June 1992 the Commission presented a Green Paper on the development of the single market for postal services and, on 2 June 1993, a Communication on the guidelines for the development of Community postal services;
Having regard to the proposal from the Commission ⁽¹⁾ ,	(4) Whereas the Commission has conducted wide-ranging public consultation on those aspects of postal services that are of interest to the Community and the interested parties in the postal sector have communicated their observations to the Commission;
Having regard to the opinion of the Economic and Social Committee ⁽²⁾ ,	(5) Whereas the current extent of the universal postal service and the conditions governing its provision vary significantly from one Member State to another, whereas, in particular, performance in terms of quality of services is very unequal amongst Member States;
Having regard to the opinion of the Committee of the Regions ⁽³⁾ ,	(6) Whereas cross-border postal links do not always meet the expectations of users and European citizens, and performance, in terms of quality of service with regard to Community cross-border postal services, is at the moment unsatisfactory;
Having regard to the resolution of the European Parliament of 22 January 1993 concerning the green paper on the development of the single market for postal services ⁽⁴⁾ ,	(7) Whereas the disparities observed in the postal sector have considerable implications for those sectors of activity which rely especially on postal services and adversely impede the progress towards internal Community cohesion, in that the regions deprived of postal services of sufficiently high quality find themselves at a disadvantage as regards both their interconnector and the distribution of goods;
Having regard to the Council resolution of 7 February 1994 on the development of Community postal services ⁽⁵⁾ ,	(8) Whereas measures seeking to ensure the gradual and controlled liberalisation of the market and to secure a proper balance in the application thereof are necessary in order to guarantee, throughout the Community, and subject to the obligations and rights of the universal service provider, the free provision of services in the postal sector itself;
Acting in accordance with the procedure laid down in Article 189b of the Treaty, in the light of the joint text approved by the Conciliation Committee on 7 November 1997 ⁽⁶⁾ ,	(9) Whereas action at Community level to ensure greater harmonisation of the conditions governing the postal sector is therefore necessary and steps must correspondingly be taken to establish common rules;
(1) Whereas measures should be adopted with the aim of establishing the internal market in accordance with Article 7a of the Treaty, whereas this market comprises an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured;	
(2) Whereas the establishment of the internal market in the postal sector is of proven importance for the economic and social cohesion of the Community;	

- Postal Directive 1997
 - Amended in 2002
- Framework law
 - National laws to implement

EU Universal Service Obligation

- Postal Directive requires Member States to adopt an explicit USO -
 - Ensure universal collection and delivery throughout national territory
 - At least 5 days per week
 - Letter post up to 2 kg and parcels to 10 to 20 kg
 - Ensure affordable rates geared to costs
 - Adopt transit time (QoS) targets for all universal services and independent monitoring
 - Define access requirements for post offices, boxes
 - Define complaint procedures and publish results

Example: German Regulation



- “There shall be designated as universal services the following postal services . . .”
- “a minimum of 12,000 fixed-location facilities”
- ”customers are not farther than 2,000 metres from their nearest fixed location....”
- sufficient letter boxes ... [not] travel more than 1,000 metres”
- “at least 80 per cent [of letters] on average ... must be delivered on the working day following the day of mailing”
- “A uniform tariff shall be applicable in respect of postal services ...”

III. Postal Monopoly

US Monopoly Law: 1872 Post Code

§ 1696. Private express for letters and packets

(a) Whoever establishes any private express for the conveyance of letters or packets . . . or provides for the conveyance of the same by regular trips or at stated periods over any post route . . . or from any city, town, or place to any other city, town, or place, between which the mail is regularly carried, shall be [fined or imprisoned].

This section shall not prohibit any person from receiving and delivering to the nearest post office. . . any mail matter properly stamped . . .

(c) This chapter shall not prohibit the conveyance or transmission of letters or packets by private hands without compensation, or by special messenger. . . .

§ 601. Letters carried out of the mail

(a) A letter may be carried out of the mails when: (1) it is enclosed in an envelope; (2) the amount of postage which would have been charged on the letter if it had been sent by mail is paid

- Codification of 1845 act
- Bans private carriage of “letters and packets”
- Exceptions
 - Stamped letters may be carried out of mails (39 USC 601)
 - Other limited statutory exceptions

USPS Regulations

§ 310.1 Definitions

(a) Letter is a message directed to a specific person or address and recorded in or on a tangible object, subject to the following:

(1) Tangible objects used for letters include, but are not limited to, paper (including paper in sheet or card form), recording disks, and magnetic tapes. . . .

(2) Message means any information or intelligence

(4) Methods by which messages are recorded on tangible objects include, but are not limited to, the use of written or printed characters, drawing, holes, or orientations of magnetic particles. . . .

§ 310.2 Unlawful carriage of letters

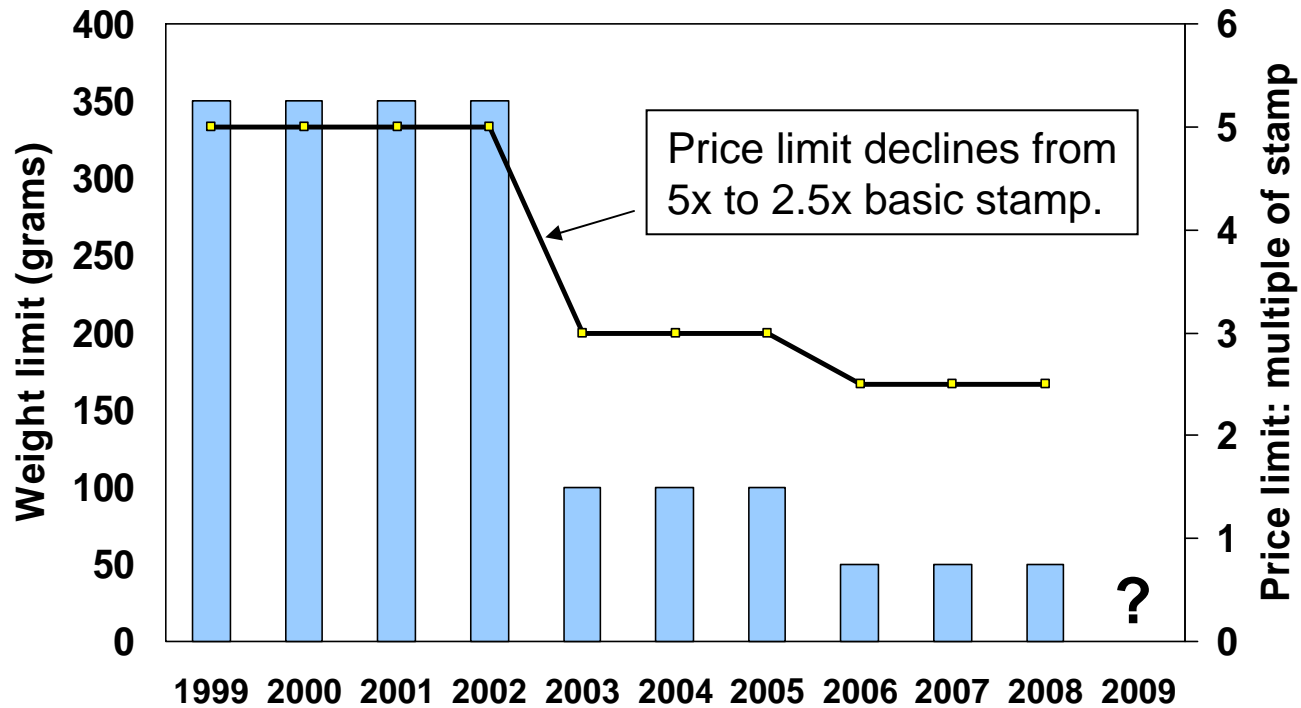
(a) It is generally unlawful under the Private Express Statutes for any person other than the Postal Service in any manner to send or carry a letter on a post route

- Bans private carriage of any “message directed to a specific person or address and recorded in or on a tangible object”
- USPS “suspends” reserved area in certain situations
 - Newspapers, books, checks, etc.
 - Urgent letters
 - International remail

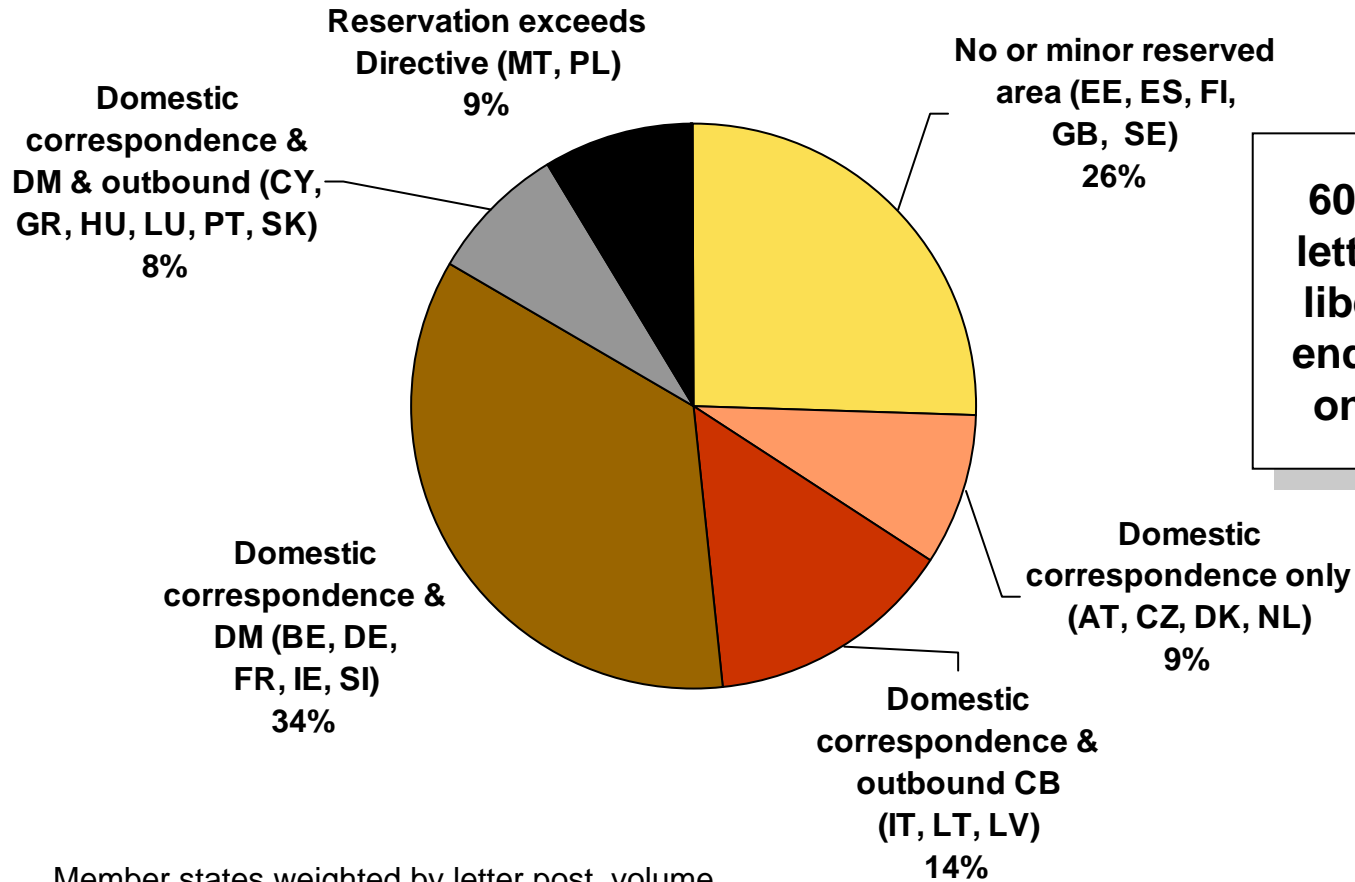
EU Postal Monopoly

Rule of proportionality

“To the extent necessary to ensure the maintenance of universal service . . . “



EU Postal Monopoly (2)



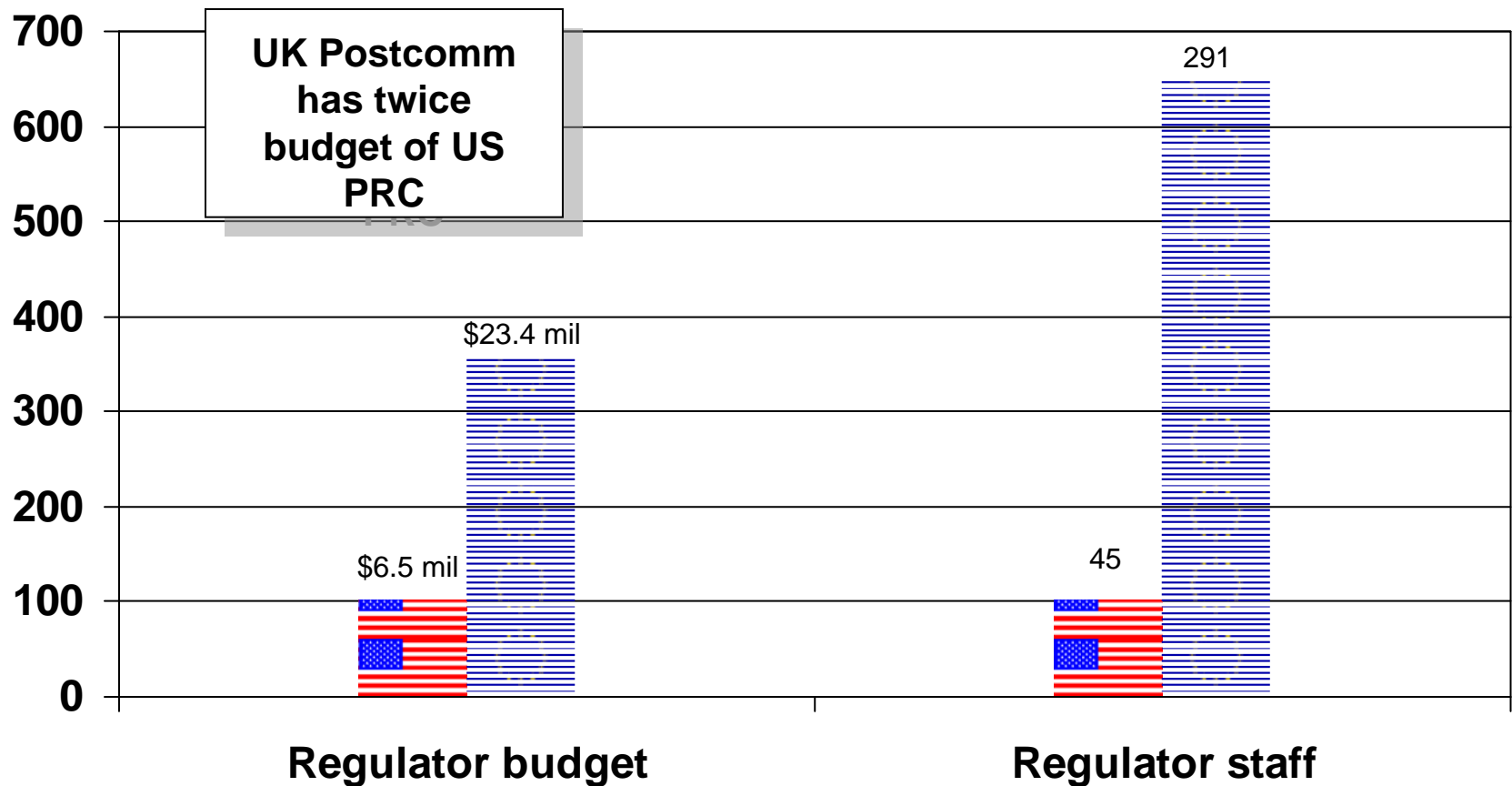
60 percent of EU letter post will be liberalized by the end of 2007 based on current laws.

Member states weighted by letter post. volume

IV. Regulation

PRC v. EU Regulators, 2003

17 EU regulators regulate telecomm as well as postal sectors



Key: Items per employee per day assumes 300 work days per year.. US\$ 1.00 = EUR 1.06.

Regulation of Post Office

Min (Ministry). NRA (National Regulatory Authority). NCA (National Competition Authority).
USP (Universal Service Provider)

Regulatory area	European Union	United States
Specific provisions of USO	Min or NRA	None
Price level	NRA	None
Price discrimination and cross subsidy	NRA	PRC (domestic)
Access	Min or NRA	None
Service standards (QoS)	Min and NRA	None
Antitrust law	NCA [and NRA]	USPS exempt

NB: Regulatory discretion may be limited by EU Directive or US law

Regulation of Private Operators

Min (Ministry). NRA (National Regulatory Authority). NCA (National Competition Authority).
 USP (Universal Service Provider)

Regulatory area	European Union	United States
Specific provisions of reserved area	Min or NRA	USPS
Authorization of private operators	NRA (License or Gen. Auth.)	None
Antitrust law	NCA [and NRA]	DOJ & Cts

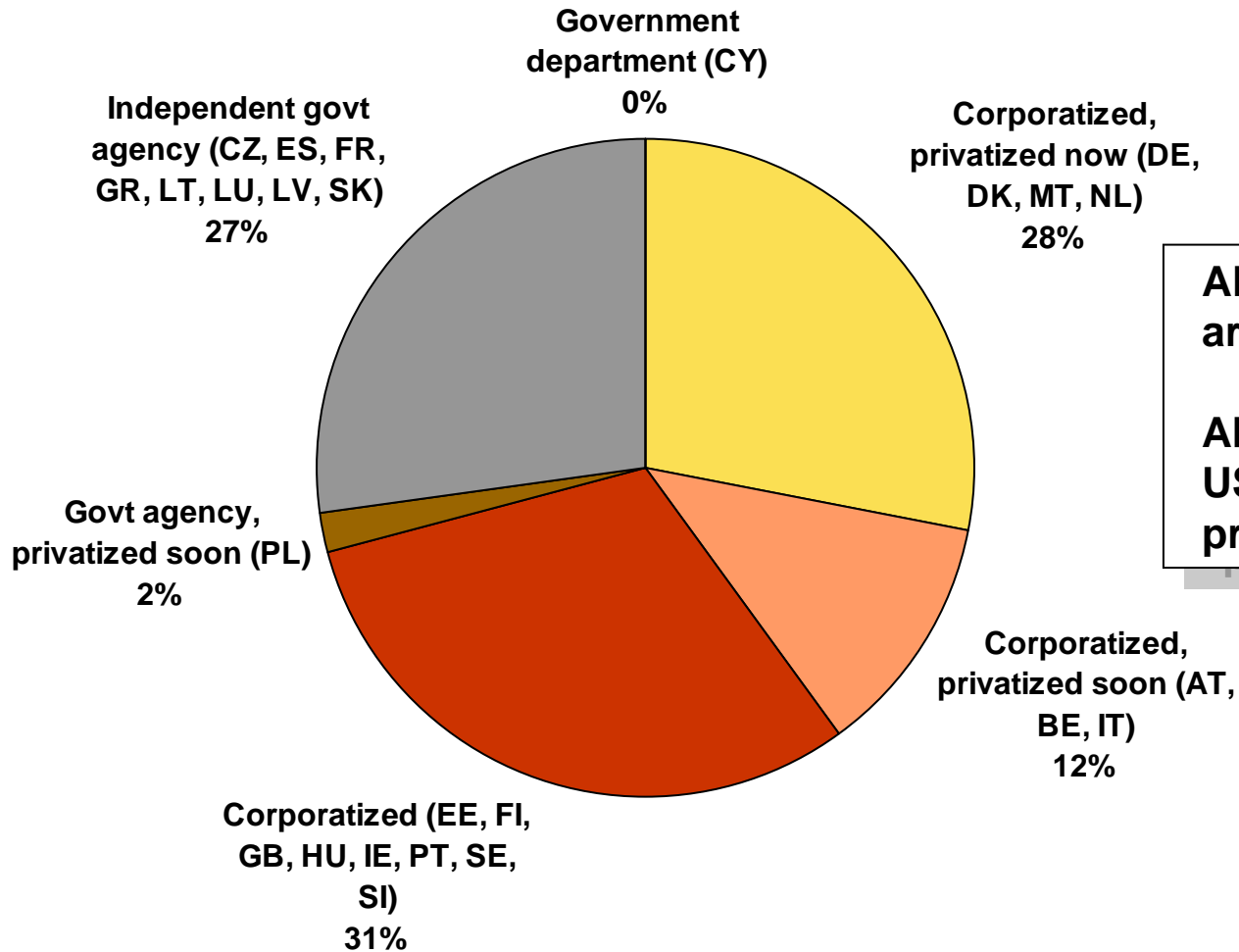
NB: Regulatory discretion may be limited by EU Directive or US law

V. Evolution of National Post Office

US: Legal Status of USP

- USP is a government agency
 - Board of Governors appointed by President
 - USP can adopt some federal regulations
 - USP is exempt from some types of legal action
- US has not considered corporatization or privatization

EU: Changing Commercial Model

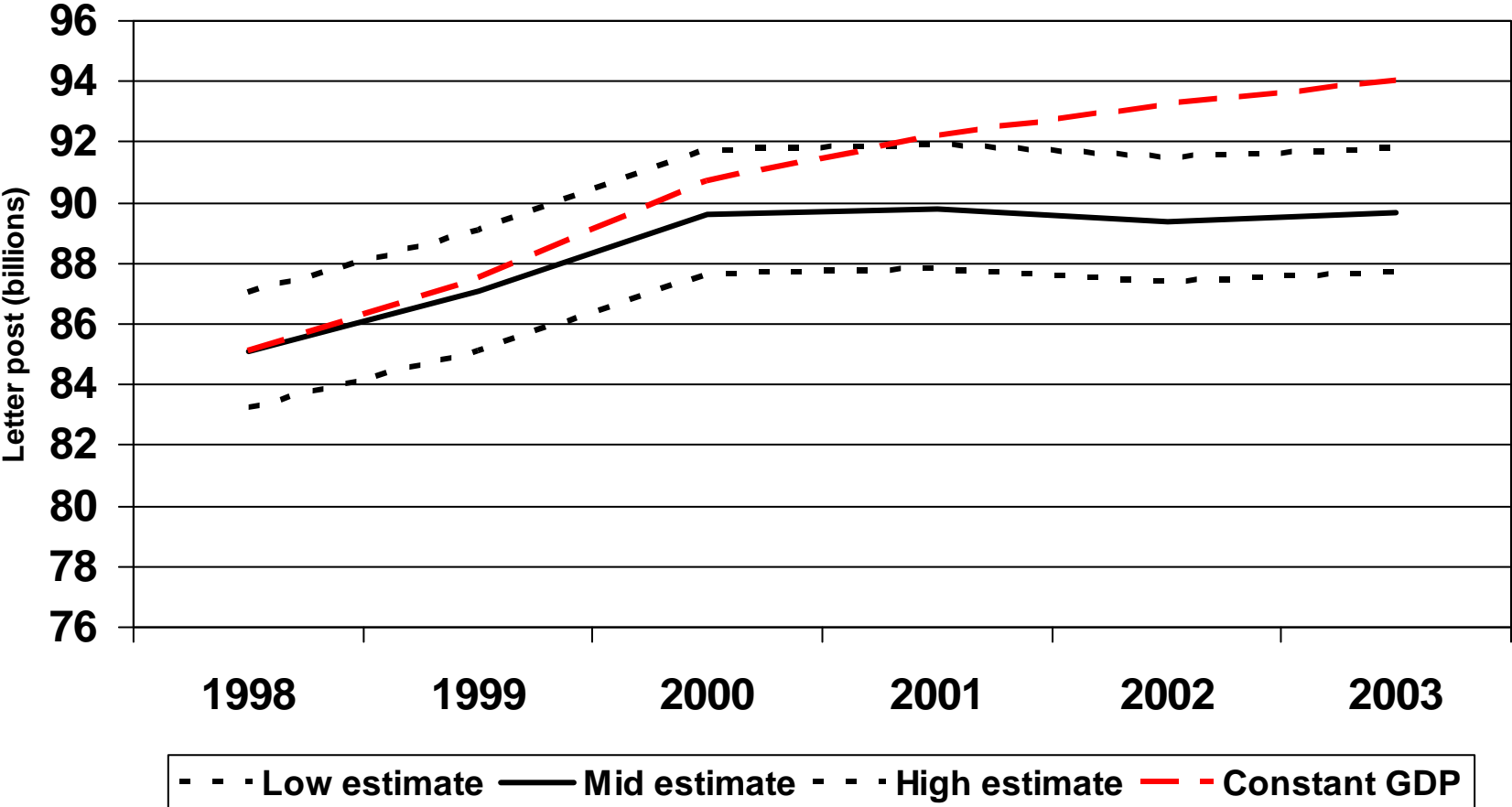


Almost 75% of USPs are corporatized.

About 40% of EU USPs are or will be privatized.

Member states weighted by letter post volume

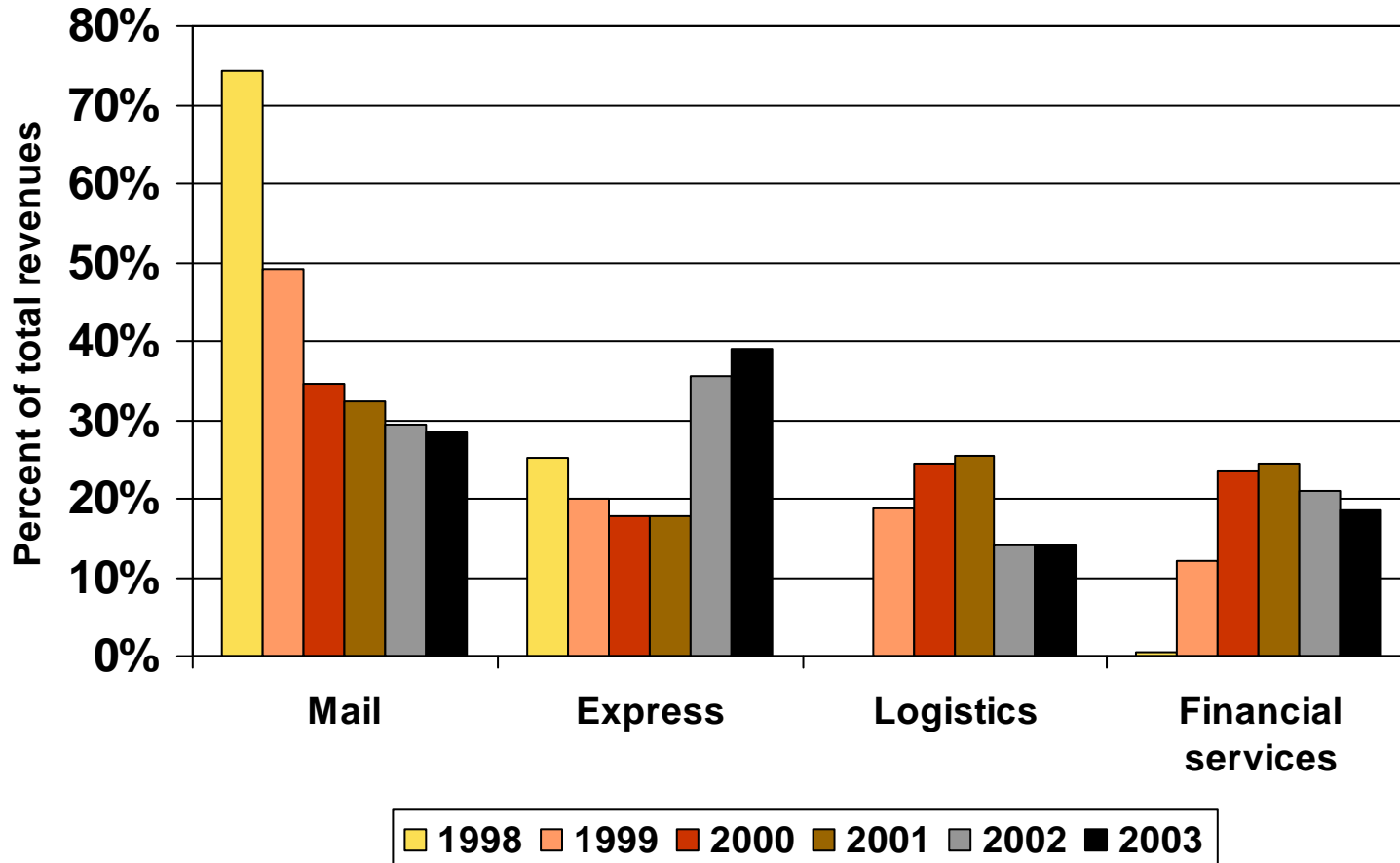
Growth of EU Letter Post, 1998-03



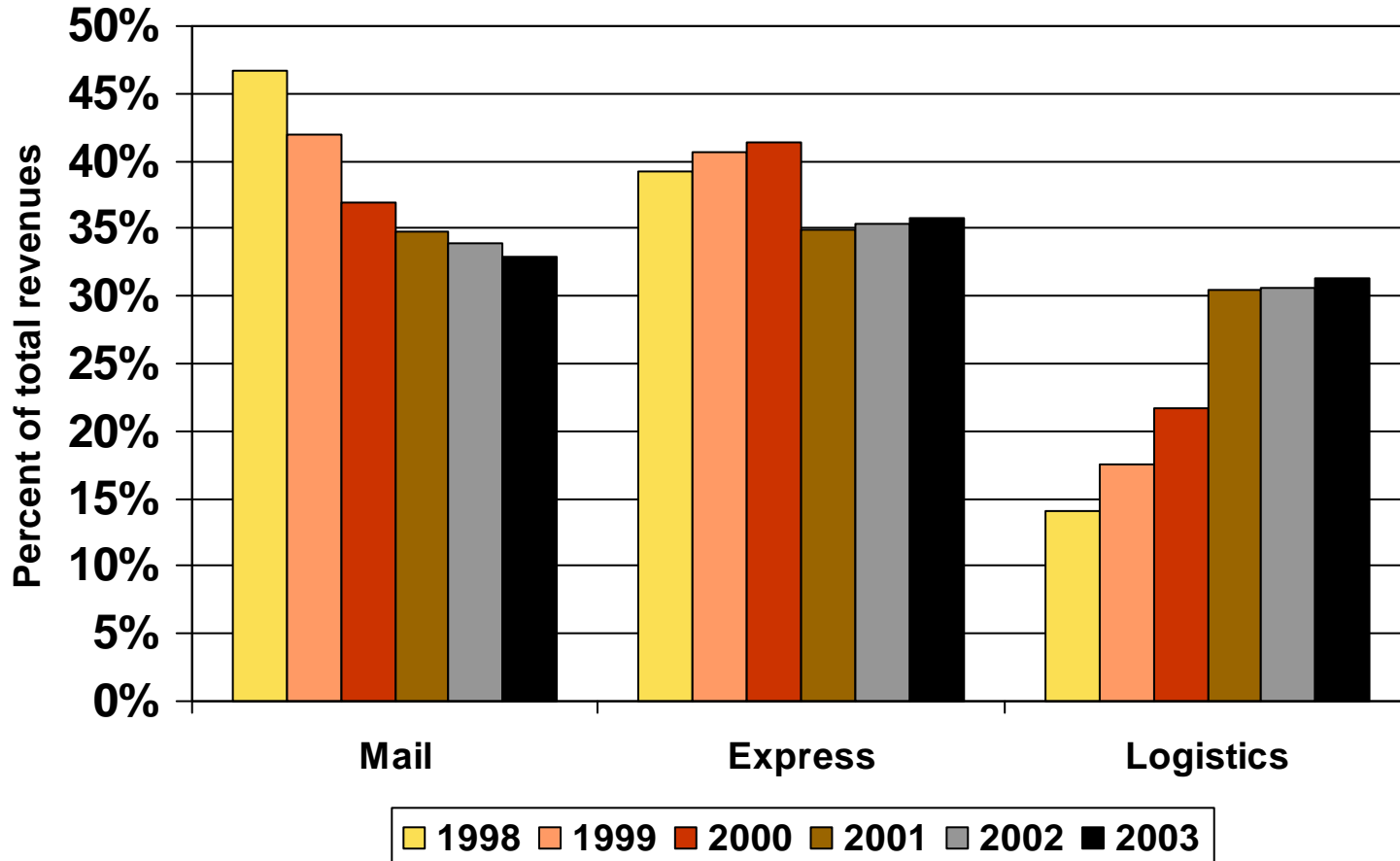
Acquisitions Big 4 USPs, 1998-03

Business	Company	Acquisitions or franchisees	Countries
Letter post and distribution of unaddressed items	DPAG	4	GB, NL
	TNT	15	AT, DE, GB, IT
Activities related to letter post services	TNT	6	CZ, GB, IT
Parcel and express services	DPAG	17	BE, DK, ES, FR, GB, HU, IT, NL, PL
	La Poste	30	AT, BE, CZ, DE, DK, EE, ES, FI, GB (and IE), HU, IT, LT, LV, NL, PL, PT, SE, SI, SK (DPD franchisees)
	Royal Mail	21	AT, BE, CZ, DE, DK, EE, ES, FI, FR, HU, IE, IT, NL, PL, SE, SI (GLS subsidiaries and associates)
	TNT	5	DE, FR, IT, LU
Logistics	DPAG	13	AT (PL, CZ, HU, SI), ES (ES/PT), FI, FR, GB, IT, NO, SE
	TNT	12	DE, FR, GB, IT, NO, SE, FI, DK

DPAG Revenue Structure, 1998-03



TNT Revenue Structure, 1998-03



VI. Postal Reform Process

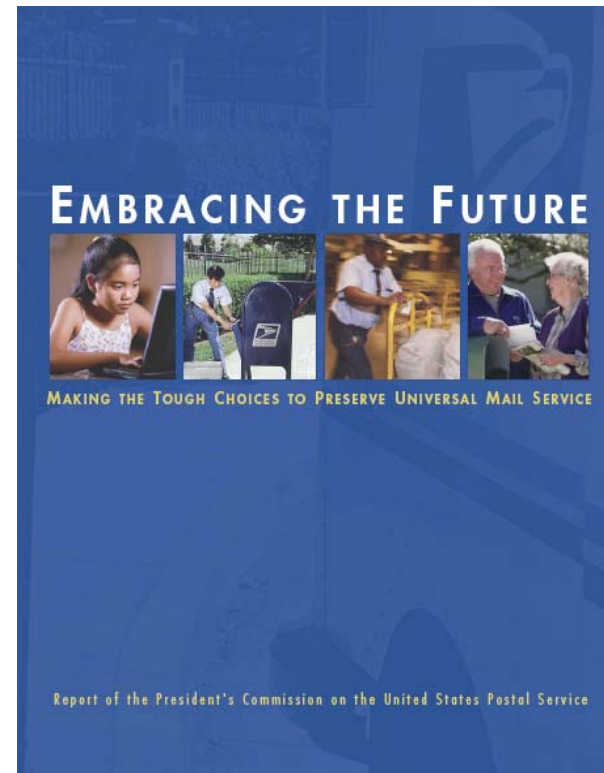
US: Postal Reform

- 1995 Postal reform hearings begin in House of Representatives
- 1998 HR 22 approved by HR subcommittee
- 2002 USPS Transformation Plan
- 2003 Presidential Commission
 - Urges reform generally similar to HR 22
- 2005 HR 22 approved by HR; pending in Senate
 - Requires major studies on universal service, monopoly, legal status; due in 2007

US Studies, 2002-05



USPS, Transformation Plan
(2002)



Presidential Commission
Report (2003)

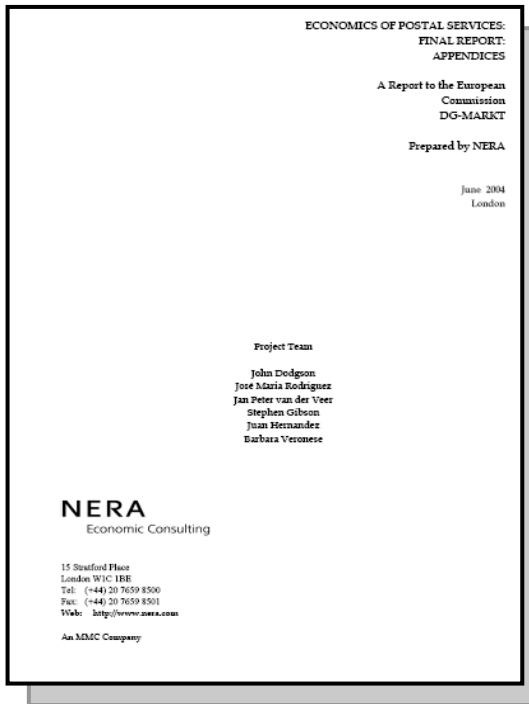
EU: Postal Reform (1)

- 1988 Remail antitrust case filed in EU
 - Prompted by US remail regs (1986)
 - Commission begins policy review
- 1989 - Posts become more commercial
 - International Post Corporation (1989)
 - TNT-Posts joint venture (1991)
- 1992 Postal Green Paper adopted by EU
- 1993 - Key national reforms
 - Sweden (1993); German (1997); UK (2000)
- 1997 Postal Directive adopted by EU
 - Reims terminal dues agreement.

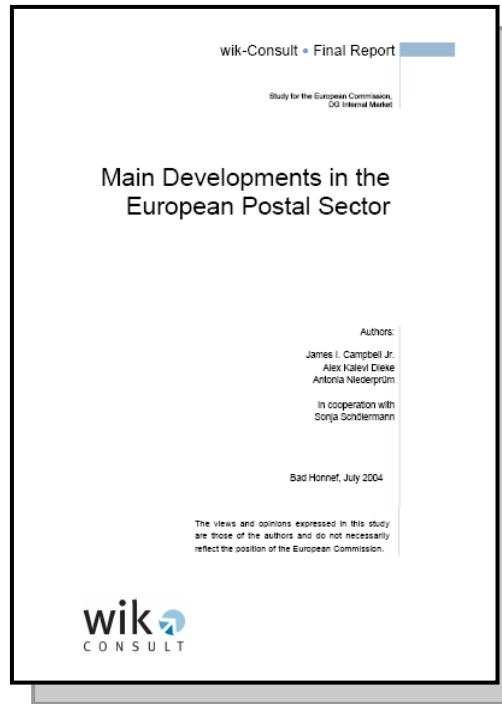
EU: Postal Reform (2)

- 2002 Postal Directive amended
 - Reims II amended. (2003)
- 2006 *End UK monopoly*
- 2006 *Commission proposal for new directive*
 - Major studies on postal economics, competition,
 regulatory policy, market developments,
- 2007 *End German (and NL?) monopolies*
- 2009 *Further EU reform begins*

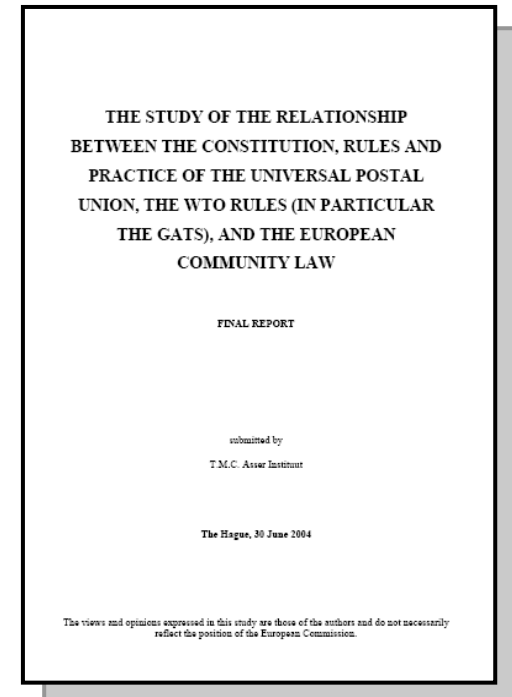
EU Studies 2004



Economics of
postal services



Development of
EU postal regulation
and services



Implications of GATS
and competition law
for EU postal laws

EU Major Studies 2005



Development of competition in postal markets



Application of sound regulatory principles to postal regulation

EU Studies 2006

Price Waterhouse

THE IMPACT ON UNIVERSAL
SERVICE OF THE FULL
ACCOMPLISHMENT OF THE
POSTAL INTERNAL MARKET
IN 2009

WIK

THE MAIN DEVELOPMENTS
IN THE POSTAL
SECTOR (2004-2006).

European Commission

DRAFT
POSTAL DIRECTIVE
FOR 2009 ONWARDS

Major Postal Reform Issues

European Union

- Definition of universal service
- Limitation and ultimate repeal of reserved area
- Independent regulation of services and rates
- Harmonization among MS
- Restructuring of post offices, leading towards privatization

United States

- Better regulation of rates
 - Caps on rate increases
 - Rules for discounts for bulk mailers
- Commercial flexibility for USPS
 - Esp. for competitive postal products but USP limited to postal service
- Fair treatment of private operators

VII. Lessons, Observations, Conclusions, Etc.

Some Possible Pros . . .

(For discussion purposes only)

European Union

- Major advances in ability and efficiency of USPs.
- Declining distortions in market (reserved area, TDs, govt ownership)
- Well studied process
- Advanced political consensus on direction of long term reform

United States

- Very extensive postal services
- Inexpensive LP services well adapted to social needs
- Sophisticated, transparent, yet minimal, regulatory intervention

. . . And Possible Cons

(For discussion purposes only)

European Union

- Relatively less developed and divided postal market
- Inefficient and perhaps too intrusive regulation
- Lack of transparency and data systems
- Possible over investment in LP services
- Slow pace of reform

United States

- No mechanisms to ensure USP efficiency
- Regulatory controls too intrusive or ineffective
- Dependence on reserved area and legal privileges
- Lack of good studies
- Lack of consensus on long term reform
- Even slower pace

Why Has the Pace of Reform Differed?

- EU antitrust law applies to Posts
- EU posts divided into national territories.
 - Cooperation implied violation of antitrust
 - Possibility of different national solutions.
 - Posts benchmarked one another.
- EU policymaking separate from Posts
 - No US ministry is responsible for postal policy

Overall

- Regulatory framework for postal services in the EU has built in mechanisms that permit and spur evolution, and EU postal policy is evolving slowly despite great political inertia.
- 1970 Postal Reorganization did not include built in mechanisms capable of evolutionary change.