

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(91) 476 final

Brussels, 11 June 1992

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

(Communication from the Commission)

Blank pages not reproduced: 14, 16, 23, 30, 62, 144, 160, and 182.

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

EXECUTIVE SUMMARY

1. NATURE OF DOCUMENT/CONSULTATION

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

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

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

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

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

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

2. THE COMMUNITY'S POSTAL SECTOR

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

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

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

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

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

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

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

3. WHY SHOULD THE COMMUNITY BE INVOLVED?

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

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

3.1 Present lack of harmonisation

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

3.2 Single market implications

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

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

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

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

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

3.3 Cross-border service performance

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

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

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

3.4 Divergences

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

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

3.5 Market distortions

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

4. OBJECTIVES OF GREEN PAPER

The Green Paper therefore has two general objectives.

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

The paper is therefore divided into four sections:

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

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

5. POLICY FUNDAMENTALS

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

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

6. GENERAL OPTIONS

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

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

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

6.1 Complete liberalisation

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

6.2 Complete harmonisation

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

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

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

6.3 Status quo

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. PROPOSED SCENARIO

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

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

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

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

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

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

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

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

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

- | | |
|-----------|---|
| Part I: | <i>GENERAL REGULATORY ISSUES</i> |
| Part II: | <i>OBLIGATIONS OF UNIVERSAL SERVICE PROVIDERS</i> |
| Part III: | <i>HARMONISATION AND COHESION</i> |

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

PART I: GENERAL REGULATORY ISSUES

1. ESTABLISH A SET OF UNIVERSAL SERVICES

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

2. DEVELOP THE DEFINITION OF UNIVERSAL AND RESERVED SERVICES

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

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

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

4. SEPARATE REGULATORY AND OPERATIONAL FUNCTIONS

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

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

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

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

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

7. INTER-ADMINISTRATION COMPENSATION TO REFLECT DELIVERY COSTS

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

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

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

