



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the application of the Postal Directive (97/67/EC Directive)

EXECUTIVE SUMMARY

This report is to meet the requirement of the 97/67/EC Directive (“Postal Directive”) that “*the Commission shall submit a report to the European Parliament and the Council on the application of this Directive, including the appropriate information about developments in the sector, particularly concerning economic, social, employment and technological aspects, as well as about quality of service*”. In this context, the Commission has undertaken its own review of the transposition of the Postal Directive in the Member States and has launched a number of studies to look more deeply into several aspects of the transposition and application of the Postal Directive¹. These studies have been used extensively in the preparation of this report and they are now available on the Commission web site². It should be noted that the recently adopted 2002/39/EC Directive³, amending the 97/67/EC Directive, includes the requirement for the Commission to submit regularly a report to the European Parliament and the Council on the application of the Postal Directive. However, as the 2002/39/EC Directive has not yet come into effect in the Member States, this report does not seek to consider the application of the Postal Directive, as amended by the 2002/39/EC Directive, but focuses exclusively on that of the sole 97/67/EC Directive.

The importance of postal services

The postal services market is significant in scale. In 2000, EU postal revenues were about €85 billion or about 1% of EU GDP. Direct postal sector employment is substantial, with more than 1.6 million directly employed and at least another 1 million, whose employment is indirectly related to postal services.⁴ Direct employment is still mainly in Universal Service Providers (USPs) - about 1.2 million - while nearly 500,000 are employed in the courier and express industry. Overall Pls Ramboll estimate that over 5 million jobs are directly dependent, closely related to, or induced by the postal sector.

Postal services are also strategically important as part of the wider communications and distributions market. Many key sectors, such as e-commerce, publishing, mail order, insurance, banking and advertising depend closely on the postal infrastructure, and the universal postal service is an essential element of social cohesion.

¹ These included the CTcon studies on “the conditions governing access to universal postal services and networks” and “the cost accounting systems of the providers of the universal postal service”, and that by Omega Partners on ‘the impact of certain aspects of the application of the Directive 97/67/EC on the postal sector’. The Commission has also launched a study into employment trends in the postal sector, the preliminary findings from which were recently presented by the consultants Pls-Rambøll
² http://europa.eu.int/comm/internal_market/en/postal/index.htm

³ Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to further opening to competition of Community postal services – OJ L 176, 05.07.2002 p 21.

⁴ According to the findings of Pls Rambøll.

The background to the Postal Directive

Prior to the Postal Directive, postal services in the Member States varied widely across Member States. However, they could be characterised as being primarily delivered through loss-making and sometimes inefficient public sector monopolies providing standard commodity services of a widely variable quality and efficiency. This variability was creating distortions in other sectors and a ‘frontier’ effect, where the national quality of service was low.⁵ Volumes of letter mail items had been growing in absolute terms but at a rate significantly below that for other communications and distribution sectors. Further, the USPs appeared vulnerable to volume loss in their traditional products. Traditional letter mail services represented more than 80% of their revenues and they were losing market share in other market segments (e.g. parcel services).

However, there were also positive signs. Direct mail volumes, whilst substantially below US levels, were growing relatively quickly, and new global customer needs for postal services were emerging, facilitating steady growth in the parcels, express and courier segments.

The Postal Directive

The main objectives of Community policy for postal services have been to improve the quality of service and to implement the internal market for postal services. Towards these objectives, and in line with the principle of subsidiarity, the Postal Directive set in place a limited harmonisation of EU postal services. It established regulatory provisions including the definition of a minimum universal service, a maximum reservable area, the conditions governing the provision of non-reserved services and access to the network, tariff principles and the transparency of accounts, quality of service requirements and the harmonisation of technical standards. These provisions, which mainly focus on principles and boundaries, established a Community framework for Member States to adapt to their national context.

Assessing the application of the Postal Directive

In assessing the application of the Postal Directive, this report considers how the Postal Directive is applied in Member States, analyses relevant market developments since the adoption of the Postal Directive and assesses the overall impact of the Postal Directive⁶.

The transposition of the Postal Directive

The transposition of the Postal Directive into the national legislative framework of Member States, has been a lengthy process. However, transposition of the Postal Directive is now almost complete and the Postal Directive can be considered (overall) as implemented in the Member States. Though some conformity issues remain, such as those regarding the independence of National Regulatory Authorities (NRAs) and the Commission has launched a number of infringement procedures against Member States.⁷

⁵ See the Green Paper on the Development of the Single Market in Postal services – COM(91) 476 final. Adopted 11.6.1992.

⁶ It should be noted that the Postal Directive represents part of a process begun at the Council of Ministers in 1992 and, to avoid an unrealistic and artificial separation, it is the impact of this process as a whole which should be considered.

⁷ See Page 15, footnote 21.

The regulatory application of the Postal Directive

The Postal Directive has led to the following changes:

- A largely achieved implementation of a Community universal postal service;
- Implementation of a common maximum reserved area across the Community;
- Implementation of additional safeguards for the universal service in most Member States;
- Definition of national requirements for a good and reasonable access to national postal services;
- Implementation of transparent and clearly separated cost accounting systems by USPs;
- Definition of quality of service targets both for domestic and cross-border mail;
- Harmonised arrangements for customer complaints;
- On-going definition of European technical standards;
- Establishment of independent national regulatory authorities (NRAs).

Therefore, the application of the Postal Directive has achieved measures of regulatory codification and harmonisation. However, the regulatory harmonisation has been limited by the varied application of the Community framework in the Member States. Further, whilst the Postal Directive has laid the foundations for further steps towards the internal market for postal services, there are concerns about the role of the NRAs, particularly as the market is opened to competition.

The universal service and the quality of service

Postal services have an important social dimension, and the universal postal service is an essential service for many customers⁸. Therefore, the Commission has paid particular attention to both the universal service and to the quality of services, launching two studies specifically on these topics. These concluded that the provision of universal postal services in Member States was safeguarded and remains significantly higher than level required by the Postal Directive, and that the current level of access to postal services is more than satisfactory in terms of the network density and its conditions.

The Postal Directive, together with the REIMS terminal dues agreement, has led to significant improvements in the quality of service. 92.3% of Community cross-border priority mail was delivered in D+3 in 2001 (compared with only 69.1% in 1996)⁹. Further, the harmonisation of the USPs' performance, both cross-border and domestic, has mitigated the "frontier effect". Quality of service measurement standards being developed by CEN should further enhance monitoring and performance. Domestic quality of service also appears to have improved.

The economic development of the market

The implementation of the Postal Directive has been mirrored by rapid market development:

- The postal services market has continued to be characterised by growth in all market segments;

⁸ In the context of this report, customers are all users of postal services (I.e. private and business users - see footnote 24 for the definition of users).

⁹ Source: UNEX results (International Post Corporation)

- There has been only limited competition in the mail market segment, but the parcels and express markets are fiercely competitive. The USPs have maintained their market dominance in the mail market still largely protected by reservation in most Member States, and some of the USPs have expanded, through mergers and acquisitions, into ancillary competitive markets;
- There has been a trend towards the corporatisation of the USPs, which has led them to adopt new business strategies focusing on cost efficiency, profitability, diversification and expansion. However this trend has varied across Member States and arguably those who have moved furthest along this route have enjoyed some first mover advantage. However, most USPs have become commercial and profitable business organisations even though levels of productivity vary;
- The USPs' movement, from commodity service operators to delivery service providers, has changed their activity portfolios, generally reducing their dependence on the mail market segment;
- Expansion, product innovation and the use of outsourcing are blurring the traditional boundaries of the postal sector.

These developments carry clear benefits, e.g. increased quality of service, increased efficiency increased profitability and greater innovation in the sector. As a result the USPs are now in a far stronger position to cope with the demands of a more competitive market.

But, the developments have also involved costs and risks. The strong position of USPs in the mail market segment has incentivised other postal operators to operate in niche markets. Further, the continuing cohabitation of reservation with profit-oriented USPs, may create clear concerns about fair competition and state aids, and it is noticeable that there have already been a number of competition cases in the sector.

Technological aspects

Rapid technological change has created significant opportunities and threats for postal operators. On the one hand, the increasing potential for substitution of traditional mail products presents a challenge. On the other, the technological change offers potential efficiency gains and provides the opportunity for new added-value postal services and e-commerce related products.

Until recently, there has been positive growth for mail volumes overall in most Member States and this underlying trend for volume growth and the reduced dependence of the USPs on traditional letter mail revenues, may be making them less vulnerable to the impact of substitution. Nevertheless, it appears that the threat of e-substitution is becoming more significant, and countering this threat increases the importance for postal operators of greater customer responsiveness and cost efficiency.

Here, the advances in technology have provided opportunities, for example in sorting automation, though, there remains a variability in the take-up of potential efficiency gains across Member States. Postal operators are also making greater use of Information Technology (IT) and increasingly adopting standard business practices, for example moving from traditional proprietary or in-house development of IT solutions and using off-the- shelf products and outsourcing. Further, product innovations related to technological change have led to the development of new services such as hybrid mail services, the use of internet

technology and e-commerce services. In this context, the experience and network access of the postal services operators, as end-to-end distributors, appears to be a valuable asset.

The employment dimension of postal services

Postal services also have an important internal social dimension. Though the courier and express providers and alternative postal operators have experienced direct employment growth, direct employment in the USPs has been experiencing a continuous erosion over recent years. In the USPs the positive impact created by the emergence of new services and the new business development strategies, has so far been outweighed by the moves towards greater efficiency, through increased automation and outsourcing. Although, here again, there are significant variations across the USPs.¹⁰ However, it is also important to place these losses in the wider perspective and to consider also the greater employment growth in the Competing Private Operators, the development of indirect employment and the induced effects of changes in the postal sector, where greater efficiency in the postal sector may have increased wider employment. The independent study undertaken for the Commission suggests that these developments have more than offset the employment losses in the USPs¹¹.

The market impact of the Postal Directive

In practice, it is difficult to identify the specific impacts of the Postal Directive on market development, and to isolate precise causal relationships between the two. However, it is reasonable to assert that the Postal Directive, as part of the wider Community regulation process begun in 1992, has been significant for the development of the postal services market.

In establishing a minimum harmonised universal postal service it has ensured that, in the future development of the market, this service of general interest will be safeguarded. Further, in promoting an improving quality of service through measures such as the quality of service targets and the common European standards, the Postal Directive has helped to ensure that there has been an improving quality of service and that any “frontier effects” have been reduced.

Finally, the Postal Directive has helped to create an expectation of further measures of market opening, and this expectation has increased both the pace of national postal reform and that of the restructuring of the postal sector towards concentration, efficiency and profitability.

Conclusion and Recommendations

The Postal Directive has largely been implemented in Member States and its application has had significant regulatory and market impacts. In doing so it has reached its objectives of setting in place a basic harmonisation of the EU postal services market and of improving the quality of service. Furthermore, by setting long term objectives for the postal sector, the Postal Directive, as part of the wider Community regulatory process begun in 1992, has had a significant contribution to the development of the market, not least as the first step in the longer process towards the internal market.

¹⁰ Pls Rambølls Study of Employment Trends in the Postal Sector 1995-2000.

¹¹ Pls Rambøll

Given the current situation, the safeguarding of the provision of a universal service across Member States confirmed by Postal Directive 2002/39/EC, there are no recommendations for a further update of the Community regulatory framework at this stage.

However, the level of harmonisation achieved remains limited across the Community beneath the umbrella of the basic regulatory framework set out by the Postal Directive. For example, the regulatory practice varies significantly between Member States, and this may have limited, both the actual development of competition in the EU postal services market and, the level of harmonisation in the efficiency of the USPs. This in turn has limited improvements in EU competitiveness.

Continuing regulatory asymmetry threatens to distort the market as further steps are taken towards the full accomplishment of the internal market, and there have already been a number of infringement cases on this issue. Further, the coexistence of reservation, variable regulation and competitive market segments has produced perverse incentives for market players and when combined with the corporatisation and the privatisation of the USPs, clear issues of fair competition have emerged.

In light of the above, the Commission calls for the Member States to “ensure effective independence, adequate capacity and effectiveness of the (competition and) regulatory authorities”¹², in particular in the postal sector.

Finally, the Commission calls for the Member States to prepare the implementation of the European standards currently being developed by the CEN, particularly with regard to quality of service measurement methods, which will help to ensure that quality of service monitoring and performance are further improved for the benefit of all customers.

¹² See the Commission recommendation in the 2002 broad guidelines of the Economic Policies of the Member States and the Community. ECFIN/210/02

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1. INTRODUCTION AND BACKGROUND

1.1. The purpose of the report

The purpose of this report is to meet the requirement of the 97/67/EC¹³ Directive (“Postal Directive”) that, “*three years after the date of entry into force of this Directive, and in any event no later than 31 December 2000, the Commission shall submit a report to the European Parliament and the Council on the application of this Directive*”. The delay in completing the report reflects the pro-longed timetable for the transposition of the Postal Directive.

1.2. The scope of the report

The Postal Directive required a report “*on the application of this Directive, including the appropriate information about developments in the sector, particularly concerning economic, social, employment and technological aspects, as well as about quality of service*”. Therefore, the Commission undertook its own review of the transposition of the Postal Directive, the results from which were discussed with the Member States within the Postal Directive Committee¹⁴ on 16 May 2001. In addition, the Commission launched a number of studies to look more deeply into several aspects of the transposition and application of the Postal Directive¹⁵, the results from the latest of which on employment are now becoming available. These studies, and the results of the Commission services’ own review of transposition, have been used extensively in the preparation of this report. Other sources used for this report are referenced throughout the document.

It should be noted that the recently adopted 2002/39/EC Directive¹⁶, amending the 97/67/EC Directive, includes the requirement for the Commission to submit regularly a report to the European Parliament and the Council on the application of the Postal Directive. However, as the 2002/39/EC Directive has not yet come into effect in the Member States, this report does not seek to consider the application of the Postal Directive, as amended by the 2002/39/EC Directive, but focuses exclusively on that of the sole 97/67/EC Directive.

1.3. The approach to assessing the application of the Postal Directive

The approach adopted in this report is to assess the Postal Directive in terms of the objectives which underpinned the Postal Directive; the extent of its legal transposition and its regulatory application and its market impact. Market developments will be assessed in terms of their economic, technological and social aspects.

¹³ 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 – OJ L 15, 21/02/1998 p 14.

¹⁴ Regulatory Committee established by Art. 21 of the Postal Directive.

¹⁵ Studies on “the conditions governing access to universal postal services and networks” and “the cost accounting systems of the providers of the universal postal service” by CTcon and “the impact of certain aspects of the application of the Directive 97/67/EC on the postal sector” by Omega Partners. The results of these studies are available at http://europa.eu.int/comm/internal_market/en/postal/index.htm. The Commission has also launched a study into employment trends in the postal sector, the preliminary findings from which were recently presented by the consultants Pls-Rambøll to the Commission and the main industry stakeholders.

¹⁶ Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to further opening to competition of Community postal services – OJ L 176, 05.07.2002 p 21.

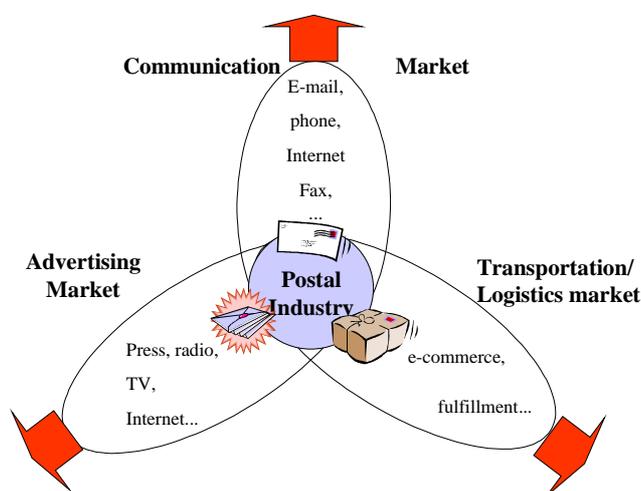
1.4. Timing considerations

The Postal Directive is the result of a lengthy legislative process dating back to the Telecommunications Council of Ministers of May 1992. This process includes the 1992 Green Paper on the development of the single market for postal services¹⁷, the Commission Communication of 1993¹⁸, the resolutions of the European Parliament¹⁹ that year and the Council Resolution²⁰ of 1994 followed by a Commission proposal²¹ in 1995. Important principles of the Postal Directive, (e.g. gradual and controlled liberalisation of postal services), had already been adopted as Community objectives before the Postal Directive. Further, the Postal Directive set out a long-term perspective towards the completion of the internal market for postal services that cannot always be assessed in the short term.

The postal services market is significant in scale. In 2000, EU postal revenues were about €85 billion or about 1% of the EU GDP and postal services. Direct postal sector employment is substantial with more than 1.6 million employees, and probably at least another 1 million jobs closely related to, or dependent upon, postal services.²² Direct employment is still mainly within Universal Service Providers (USPs) - about 1.2 million- while nearly 500,000 people are employed in the courier and express industry. However, employment in other postal service providers remains fairly marginal despite recent increases. The recent study on employment suggests that more than 5 million jobs in the EU may be directly dependent on, closely related to or induced by the postal sector.

Postal services are also important strategically to the EU economy. As is shown in Figure 1 below, they are at the cross-roads of three vital markets: communication, advertising and transportation/logistics. Financial services is also an important activity area for many of the USPs.

Figure 1: The strategic location of the postal services market



¹⁷ COM(91) 476 Final, 11.06.1992

¹⁸ COM(93) 247 Final, 2.06.93

¹⁹ OJ C 42, 15.02.1993 p. 240, OJ C 194, 19.07.1993 p. 397, OJ C 315, 22.11.1993 p. 643

²⁰ OJ C 48, 16.02.1994 p. 22

²¹ OJ C 322, 02.12.1995 p. 3

²² According to the preliminary findings of Pls Rambøll.

1.5. The European postal market prior to the Postal Directive

However, the market faced a number of challenges prior to the Postal Directive:

A growing market but one in relative decline

The volumes of postal items had been growing in absolute terms, but at a rate significantly below that for other communications and distribution sectors, resulting in physical mail losing market share.

Figure 2: The communications market of Western Europe and North America and the expected percentage change by 2005

	1995	2005	Change from 1995 to 2005
Physical mail	27.9%	19.8%	-8.1%
Fax	8.2%	6.5%	-1.7%
Telephone	51.7%	49.4%	-2.3%
E-mail	12.2%	23.7%	+11.5%
Hybrid mail	0.0%	0.6%	+0.6%
	100%	100%	0%

Source: Universal Postal Union (1997)

Loss making and sometimes inefficient public sector incumbents

National postal markets in Member States were largely dominated by public sector monopolies, which provided standard commodity services of a widely variable quality to their customers. Most postal employees were still working in a Civil Service type organisation and many of the USPs were loss-making, with 80% of them repeatedly producing losses of an average of 12% of their revenues. They varied in their level of automation and were not all achieving cost effectiveness and efficiency.

Varying and inadequate levels of the quality of service

The quality of service for national and cross border services varied considerably and this was creating distortions in other sectors and a 'frontier' effect limiting the development of the internal market.²³ Further, it was difficult to accurately compare performance between Member States, as measurement systems were not standardised.

Reliance on traditional products by USPs

Traditional letter mail services represented more than 80% of USP revenues and the USPs were losing market share in other market segments (e.g. parcel services).

However, there were also a number of positive developments occurring in the market

Postal operators were increasingly offered the potential of global customer needs. Innovation and customer responsiveness in the competitive parcels and express segment was generating

²³ See the Green Paper on the Development of the Single Market in Postal services - 1992, COM(91) 476 final, 11.6.1992

healthy growth and profit opportunities. Further, in some Member States there were moves to corporatise the incumbents and increase their cost efficiency.

1.6. The regulatory framework before the Postal Directive

The national regulatory frameworks were not harmonised and contained the following features:

Protected mail monopolies co-existing with competitive postal markets

The incumbents retained monopolies for letters (generally up to 1 or 2 kilograms) which co-existed with competitive market segments, such as parcels and this created the possibility of competition issues arising. Further, the remuneration for cross-border mail was regulated by State measures, (i.e. the Terminal Dues system).

Emerging national regulation

Though, the separation of regulatory from operational functions was beginning to occur in the early 1990s in some Member States, the National Regulatory Authorities varied in their approach, and in their level of independence.

The lack of a regulatory single market for postal services

The market lacked harmonisation, for example, of universal service definition and the quality of service measurements varied widely. As such this lack of harmonisation created distortion and could represent a significant obstacle to the future development of the market. For example:

- The lack of a harmonised minimum universal service could mean that this service of general interest may not in the future be available in all Member States;
- The continued monopoly and public nature of the incumbents did not favour efficiency improvements and innovation in the market;
- Varying quality of service levels for national and cross-border services could create a 'frontier effect' whereby some postal services were effectively stopped at the borders of some Member States due to their relatively poor standard of service or divergent regulation;
- The split between reserved and non reserved postal products could create issues of fair competition where monopoly mail operators were present in competitive segments.

2. THE POSTAL DIRECTIVE

2.1. The aims of the Postal Directive

The key objectives were:

- To improve the quality of European postal services;
- To implement the internal market for postal services.

The key principles were:

- To introduce a gradual and controlled market opening to competition;
- To ensure the provision across the EU of a minimum universal postal service.

2.2. The requirements of the Postal Directive

To achieve these objectives and key principles, the Postal Directive required Member States to implement a number of Community requirements into their national regulatory frameworks.

Main requirements of the Postal Directive:

- All Member States provide a universal postal service for all users²⁴ comprising of at least one delivery and collection five days a week;
- The maximum part of the market reservable for the Universal Service Provider in each Member State be 350g in weight or five times the basic tariff of an item of correspondence;
- Member States could establish authorisation procedures, which may include individual licences and a compensation fund in the universal service area;
- Member States should ensure that all users have a reasonable and good access to the postal network, and that this access should be transparent and non discriminatory;
- USPs should consistently apply transparent and separated cost accounting principles, and provide separate accounts for reserved and non-reserved universal services and non-universal services;
- The Postal Directive set quality of service targets for cross-border mail (85% for D+3, 97% for D+5 for the fastest standard category of service) and required Member States to define compatible national targets;
- Member States to ensure that adequate consumer protection measures were in place, particularly with regard to complaints and redress procedures;
- The Postal Directive aimed to promote greater inter-connectivity between postal networks through greater technical standardisation;
- Member States to establish National Regulatory Authorities independent from the postal operators.

2.3. The limited harmonisation required by the Postal Directive

As the first step towards the internal market for EU postal services, the Postal Directive only required a limited harmonisation across Member States. The Postal Directive provisions, which mainly focus on principles and boundaries, established a Community framework for Member States to adapt to their national context, making use of the subsidiarity principle. For

²⁴ Users: any natural or legal person benefiting from universal service provision as a sender or an addressee (Art. 2 of the 97/67/EC Directive).

example Member States were free to set a definition of the universal service above the minimum required by the Postal Directive.

3. THE STATUS OF LEGAL TRANSPOSITION

3.1. A long transposition process

The Postal Directive required that its transposition should be effective in Member States by February 1999 at the latest and, in practice, this been more time consuming than was envisaged in the original timetable.

3.2. Transposition is almost complete

However, this process is now almost complete. All Member States have now modified their primary legislation to transpose the Postal Directive provisions (last law adopted in December 2000). Figure 3 below shows the current status of transposition. Secondary legislation, and detailed regulations, are still under development in some Member States. Therefore, more information is still needed from some Member States in order to assess the transposition in depth. Where particular problems have emerged the Commission has instigated infringement proceedings against Member States.²⁵

Member States	Status on transposition	
	Completed	Conformity
BE	Yes	*
DK	Yes	Yes
DE	Yes	Yes
EL	Yes	*
ES	Yes	*
FR	Yes	*
IR	Yes	Yes
IT	Yes	*
LU	Yes	Yes
NL	Yes	Yes
AT	Yes	Yes
PT	Yes	Yes
SF	Yes	Yes
SE	Yes	Yes
UK	Yes	Yes

* Conformity issues identified and being discussed

Figure 3: The status of transposition of the Postal Directive

3.3. Some conformity issues remain

From Figure 3 above it can be seen that a range of conformity issues has arisen from the transposition of the Postal Directive in 5 Member States. These are mainly in relation to the independence of the National Regulatory Authorities, the authorisation and licensing system, the operation of compensation funds and the extension of monopoly.

²⁵ For example infringement proceedings have recently been initiated against France and Belgium for lack of independent regulation.

3.4. Transposition of the Postal Directive by the EFTA States

The Postal Directive was incorporated into the EEA Agreement on 25 September 1998 through Decision 91/98 of EEA Joint Committee. The Postal Directive is referred in point 5d of Annex XI to the EEA Agreement. Following the fulfilment of constitutional requirements by the EFTA States, the decision entered into force on 1 May 1999, which was also the date by which it was to be transposed by the EFTA States. The EFTA States have notified the transposition of the Postal Directive. The EFTA Surveillance Authority is in the process of examining the transposition measures notified.

3.5. Transposition by the Accession Countries

In general transposition has been initiated, and in some cases is quite advanced. However, as transposition requires a range of legislative measures, the process is delayed in a number of countries.

4. THE APPLICATION AND REGULATORY IMPACT OF THE POSTAL DIRECTIVE

4.1. The universal service

A main objective of the Postal Directive was to establish a Community universal service, defining minimum requirements to be met in all Member States (e.g. daily collection and delivery at least 5 days a week for items of correspondence up to 2kg and parcels up to 10kg).

Figure 4: The universal service in Member States

Member States	Days/Week	Parcels weight (kg)		Uniform tariff
		Dom.*	ICB*	
BE	5	10	20	Yes
DK	6	20	20	Yes
DE	6	20	20	Yes
EL	5	20	20	Yes
ES	5	10	20	Yes
FR	6	20	20	Yes
IR	5	20	20	Yes
IT	5	20	20	Yes
LU	5	10	20	Yes
NL	6	10	20	Yes
AT	5	20	20	Yes
PT	5	20	20	Yes
SF	5	10	20	No***
SE	5	20	20	Yes
UK	6	20	20	Yes

*Domestic, **Incoming cross-border, ***Applied in practice

The universal service in Member States exceeds that required by the Postal Directive

Figure 4 above shows that the universal service exceeds the minimum requirements of the Postal Directive in most Member States. For example, 10 Member States have adopted a 20kg maximum limit for parcel delivery within the universal service area. However, there are marginal exceptions to the universal service minimum requirements as set by the Postal Directive.

The Postal Directive requirements for a delivery every working day are met in all Member States and out-performed in 5 Member States, and a collection (clearance) is provided in all Member States, either at the level required by the Postal Directive or above. There is a single operator entrusted with the provision of the universal service in all Member States and it should be noted that the uniform tariff remains a cornerstone of the universal service in all Member States (even if it is not a regulatory requirement in all of them).

USPs use geographically averaged uniform tariffs for universal postal service in all Member States. Assessing price evolution over the period considered in this report is constrained by the diversity of the initial situations (e.g. quality of service, service features) which would make straight forward comparisons meaningless and possibly misleading. The harmonisation underway should allow for more useful information to become available in the next application report.

The objective of establishing a minimum Community universal service has been achieved. The regulatory impact of the Postal Directive has been significant. The transposition of the Postal Directive has ensured that essential requirements of the universal service are now established by legislation in all Member States for the first time. Further these requirements are now harmonised in line with the Community requirements.

4.2. The reserved area / special rights

The Postal Directive set the maximum reserved area for Member States for items of correspondence at 350g and at 5 times the basic tariff.

All Member States have now a reserved area at, or below, the maximum required by the Postal Directive and seven Member States have a reserved area below it, either through lower weight/price limits or further opening of specific market segments (e.g. direct mail and outgoing cross-border mail).

Figure 5: The reserved area in the Member States

Member	Items of correspondence		Specific Direct Mail Opening*	Specific Outgoing Cross Border Mail Opening
	Weight limit	Price limit (*basic tariff)		
BE	350gr	5		
DK	250gr	5		0gr
DE	200gr	5	50gr	
EL	350gr	5		
ES	350gr**	5	Open envelopes	
FR	350gr	5		
IR	350gr	5		
IT	350gr	5	10.000 items	
LU	350gr	5		
NL	100gr	3	0gr	0 gr
AT	350gr	5		
PT	350gr	5		
SF	0gr	0	0gr	0gr
SE	0gr	0	0gr	0gr
UK	350gr	1£		0gr

* Definition of direct mail varies between Member States

**In Spain, local mail is excluded from the reserved area

The objective of harmonising and reducing the areas reserved to the postal monopolies in all Member States at, or below, a maximum of 350gr/5 times the basic tariff has been achieved. The regulatory impact has been significant, requiring legislation in most Member States.

4.3. Authorisation, licensing and compensation funds

The Postal Directive allowed that Member States could establish authorisation procedures, which may include individual licences for services and a compensation fund in the universal service area.

Figure 6 shows that authorisation systems (applying outside the universal service area) are in place in 8 Member States. Most of them are just declaration systems (I.e. no approval required). 7 Member States do not have any authorisation system outside the universal service area (I.e. free market access). Provisions for licensing systems within the universal service area exist in 9 Member States.

Figure 6: Authorisation and licensing in Member States

Member States	General authorisation system (outside the universal service area)	Licensing system (within the universal service area)	Provisions for compensation Fund (*=active)
BE	Yes	Yes	Yes
DK	Yes	No	No
DE	Yes	Yes	Yes
EL	Yes	Yes	Yes
ES	Yes	Yes	Yes(*)
FR	No	No	No
IR	No	No	No
IT	Yes	Yes	Yes
LU	Yes	No	No
NL	No	No	No
AT	No	No	No
PT	Yes	Yes	Yes
SF	No	Yes	No**
SE	No	Yes	No
UK	No	Yes	No

**Fiscal measure

7 Member States have introduced provisions for a compensation fund in their national regulatory framework, of which only one has firm plans to activate such a fund. This suggests that there is no need for compensation funds at present. So far, the Commission has initiated infringement procedures against two Member States for implemented wrongly the Postal Directive provisions in this area.

The objective of establishing additional safeguards for the universal service has been achieved, as most Member States have implemented at least some of the available measures. However, current implementation in the Member States suggests that the universal service is not at risk. The regulatory impact has been significant as most Member States have changed their legislation.

4.4. Access to universal postal services and networks

The Postal Directive aimed to ensure that all customers should have a reasonable and good access to the postal network and to ensure that this access should be transparent and non-discriminatory. A dedicated study²⁶ concluded that the requirements of the Postal Directive are largely implemented by all Member States into their national legislation, although it emphasised the potential for discrimination and the need for transparency in access arrangements. The Postal Directive entrusts the NRAs to deal with any problems which may occur in this respect. The objective of ensuring reasonable and good access has been achieved and the regulatory impact has been significant, as most Member States have changed their legislation. (For further details see section 5.4.1).

4.5. Transparency of accounts and tariffs principles

The Postal Directive aimed to establish transparent and clearly separated cost accounting as the basis for price regulation and fair competition. Article 14 of the Postal Directive required USPs to consistently apply cost accounting principles to provide separate accounts for reserved and non-reserved universal services, and for non-universal services.

The Commission, which has conducted a dedicated study²⁷ for this purpose, concludes that all Member States have, or will have soon, implemented the Postal Directive requirements. 14 out of the 15 USPs are applying a cost accounting system which is in line with the main aspects of Article 14.

The objective of the Postal Directive has been largely achieved in Member States. The regulatory impact has been significant. Whilst the nature of the implementation differs, all Member States have (or will soon have) implemented the requirements in accordance with Article 14.

4.6. The quality of service

The Postal Directive aimed for the improvement of the quality of postal services. To achieve this it set quality of service targets for cross border mail (85% for D+3 and 97% for D+5 for the fastest standard category of service) and required Member States to define national targets compatible with the Community cross-border targets.

The Member States have notified the quality of service standards for both cross-border mail and national mail. The quality of service standards set for cross-border mail comply with the Postal Directive requirements in all Member States, with the exception of Greece. As far as national mail is concerned, the target delivery performance for the fastest standard category of service exceeds 80% D+1 delivery in all but three of the Member States, where the quality of service targets are defined.

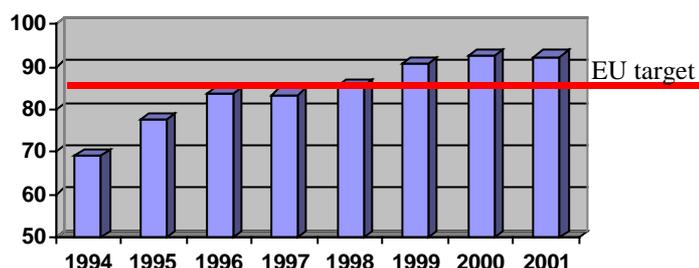
²⁶ Study on the conditions governing access to universal postal services and networks – CTcon, 2001
²⁷ Study on ‘the cost accounting systems of providers of the universal postal services – CTcon, 2001

There has been a steady improvement of the cross-border mail quality of service

The application of the Postal Directive and the related REIMS agreement have led to significant improvements in the quality of service for cross-border mail.

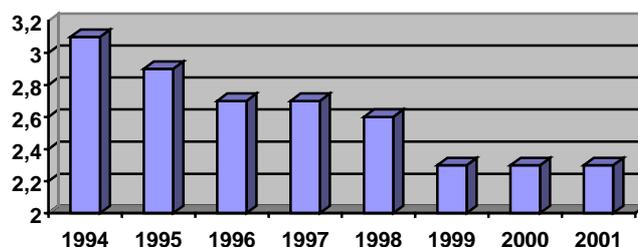
The measurement of the USPs' quality of service for single-piece priority and first class cross-border mail, as monitored by the UNEX measurement programme performed on a continuous basis by International Post Corporation, shows that the performance has consistently improved over the past few years and now exceeds, on average, the Community targets set by the Postal Directive²⁸.

Figure 7: The quality of service for cross border mail (D+3)



In 2001, 92.3% of priority cross-border mail was delivered in D+3 (speed indicator) compared with only 69.1% in 1994. Moreover, 98.7% was delivered in D+5 (reliability indicator), compared with 92.4% in 1994. The average number of days for end-to-end transit time was 2,3 in 2001.

Figure 8: The quality of service for cross border mail



This steady improvement is the result of the targets set by the Postal Directive and of the implementation, between all the EU USPs but one, of the REIMS terminal dues agreement (which introduced, as required by the Postal Directive, a direct connection between the level of remuneration to the USPs for delivering cross-border mail, and the achieved quality of service performance). It should also be noted that the average D+2 delivery performance reached 74,3% in 2001. This means that there is now more cross-border priority mail delivered in D+2 than was delivered in D+3 in 1994.

Further, the harmonisation of the USPs' performance at cross-border level (as well as at national level), and the reduction in the performance gap between cross-border and national transit times, has mitigated the "frontier effect". However, it should be noted that further

²⁸ UNEX Results for year 2001, IPC

efforts still need to be made in order to improve the quality of service for a number of cross-border routes.

The quality of service for domestic mail has also improved

The quality of service for domestic mail has improved in parallel to that for cross-border mail²⁹:

- The improvement in the cross-border mail service has improved the domestic quality of service as, once in the domestic pipeline, mail is treated the same, whether it is domestic or foreign mail;
- The improvement in the domestic quality of service has also been facilitated by the requirement of the Postal Directive for the introduction of independent performance monitoring;
- The improvement in the domestic quality of service was also facilitated by the implementation of national quality standards, as required by the Postal Directive.

The improving quality of service from postal operators has been achieved at price levels which have generally not grown in line with inflation.³⁰ The greatest improvements have been achieved in those Member States with lower quality of service, allowing a harmonisation of a satisfactory level of service quality throughout the Community. However, a remaining issue is the lack of a harmonised method for measuring the quality of service in the Member States, but this is about to be resolved, as the European Committee for Standardisation (CEN) has adopted a standard for the end-to-end measurement of the quality of service for single-piece priority and first class mail. It is essential that Member States prepare implementation of the CEN standards so that all customers can continue enjoying an increasing quality of service, beyond cross-border priority and first class mail services.

The objective of the Postal Directive has been largely achieved and the regulatory impact has been significant, as most Member States have changed their legislation.

4.7. Complaints and redress procedures

The Postal Directive required Member States to ensure that there are adequate consumer protection measures in place.

According to a recent study³¹, *'the implementation of the consumer protection provisions of the Postal Directive varies... However, it does appear that consumers³² are adequately protected.'*

The regulatory impact of this aspect of the Postal Directive has been significant, as the legislation in Member States has largely made postal regulators responsible for dealing with

²⁹ This is generally accepted as having occurred although the performance data is not comparable as independent monitoring of service performance was not undertaken in Member States prior to 1992. For example, the Eurobarometer 53 – Europeans and the services of general interests (INRA, October 2000, available at http://europa.eu.int/comm/dgs/health_consumer/library/surveys/index_en.html) found a high level of satisfaction with domestic postal service quality.

³⁰ Though there are significant variations across Member States, due in part to different VAT conditions.

³¹ Study on the impact of certain aspects of the application of the 97/67/EC – Omega Partners, 2001

³² In the context of this report, consumers are private users.

complaints. Although in many Member States many of the provisions for customer protection relate to existing legislation, that is not specific to the postal sector.

4.8. Technical standards

The Postal Directive aimed to improve the interconnectivity between Community postal networks, in part, through greater technical standardisation. The European Committee for Standardisation (CEN) is entrusted with drawing up technical standards, which take account of the harmonisation measures adopted at international level, and particularly those of the Universal Postal Union (UPU). The Postal Directive also required the Postal Directive Committee to assist the Commission in developing measures on technical standardisation.

The Commission had entrusted CEN to develop European standards for the postal sector in 1996 through the Commission mandate M/240, which originally included 15 work items. This is carried out by a dedicated CEN Technical Committee (CEN/TC331). Standardisation is a long process but the work of TC331 is progressing well. Draft standards are available for most work items of the M/240 mandate, two thirds of which have passed, or are currently undergoing, the formal adoption process. The first European standard for postal services was adopted during the year 2000³³ and three more have been adopted since then³⁴.

Figure 9: Status on current CEN mandate

Standards formally adopted	4	16%
Draft standards under formal enquiry	12	48%
Draft standards available	2	8%
Draft standards under development	7	28%
Total	25³⁵	100%

Most of the work items should result in European standards by the end of the year 2003. Based on the achievements within the existing mandate, a consultation process was initiated by the CEN/TC331, supported by the Commission, in order to come up with proposals for future European standardisation activities. A draft CEN mandate has been worked out based on the CEN/TC331 proposals, which was endorsed by the Postal Directive Committee and the Committee established by the 98/34/EC Directive³⁶. Based on the Committees’ endorsement, the Commission issued a new CEN mandate for postal services (M/312). Moreover, a memorandum of understanding was signed in 2001 between the CEN and the UPU in order to enhance existing co-operation.

Finally, the adoption of the first official European standards will involve a new phase of regulatory enforcement and technical implementation in the Member States. This implementation phase is being kicked off by the Commission in co-operation with the Member States also involving the Postal Directive Committee. It is now crucial that Member

³³ TS13712 – Postal Services – forms – harmonisation of vocabulary.
³⁴ TS14014 – Postal services - Hybrid mail - Document type definitions for customer to operator: a common set of default tags, EN13850 – Postal services – measurement of transit time of end to end services for single piece priority and first class mail and EN13724 – Postal Services – Aperture of private letter boxes and letter plates – Requirements and test methods.
³⁵ The work items have been modified by resolutions of the CEN/TC331 Plenary meetings based on technical and operational ground (e.g. splitting and merging of work items, new work items).
³⁶ Directive 98/34/EC of the European Parliament and of the Council of 22 June 1998 laying down a procedure for the provision of information in the field of technical standards and regulations OJ L 204 , 21.07.1998 P. 0037.

States prepare the implementation of the standards being developed by the CEN for postal services.

At a regulatory level the impact of the Postal Directive has been significant, as the official European standards for postal services will become national standards and as a number of the ones rooted in the Postal Directive will become mandatory for the USPs, ensuring some operational harmonisation.

4.9. National Regulatory Authorities

The Postal Directive required Member States to separate regulatory functions from the operator.

All Member States have established National Regulatory Authorities (NRAs) legally distinct from all operators including the USPs.

However, notifications and supplementary investigations have shown that the full independence of the NRA from the USPs is not applied in all Member States, as there is not always a clear distinction between ownership issues and postal regulatory powers.

Figure 10: National Regulatory Authorities

	NRA	Full Independence
BE	Ministry of Telecommunications and Institut Belge des services postaux et des télécommunications (IBPT)	No
DK	Ministry of Transport and Posttilsynet (Inspectorate for Postal Services)	Yes
DE	Regulierungsbehörde für Telekommunikation und Post (RegTP)	Yes
EL	Ministry of Transport and Communications (EETT)	No
ES	Ministerio de Fomento	Yes
FR	Ministère de l'Economie, des Finances et de l'industrie Direction Générale de l'industrie, des technologies de l'information et des postes	No
IR	Office of the Director of Telecommunications Regulations	Yes
IT	Ministero delle Comunicazioni	Yes
LU	Institut Luxembourgeois de Régulation	Yes
NL	Ministry of Transport and Public Works & OPTA	Yes
AT	Federal Ministry for Transport Innovation and Technology	Yes
PT	Autoridade Nacional de Comunicações (ANACOM)	Yes
SF	Ministry of Transport and Communication & Telecommunications Administration Centre	Yes
SE	Posts and Telecom Agency (PTS)	Yes
UK	Postal Services Commission (Postcomm)	Yes

The impact at regulatory level has been significant. All Member States have established National Regulatory Authorities (NRAs) legally separate from the USPs.

However, there are significant discrepancies between the competence and resources of the NRAs and, in general, there are concerns about the role of the NRAs, and possible regulatory asymmetry, particularly in the future, as the market is opened to competition.

4.10. The implementation of the Postal Directive in the EFTA States

The EFTA Surveillance Authority is in the process of examining the transposition measures notified. It is the first impression of the Authority's services that the Postal Directive has been correctly implemented, but a thorough analysis has yet to be done. The Authority intends to examine the tables of correspondence from the EFTA States this autumn.

5. THE DEVELOPMENTS IN THE POSTAL SECTOR

5.1. Economic aspects

Figure 11: Key market indicators

EU postal services revenues : about €85 Billion or about 1% of EU GDP.	
EU postal services employment: USPs' employment is about 1.2 million jobs. Private express and courier operators' employment is estimated at about 440,000 jobs. Over 1 million more jobs are assessed to be closely related to or dependent on postal services.	
USPs' turnover is split between mail (64%) and Parcels and express (36%).	
A growing market-	Mail- +4% revenues, +3% volumes (per annum 1995-2000). Direct Mail revenues +5% revenues (per annum 1995-2000).
	Parcels- more than +8% revenue growth (per annum 1995-2000).
A profitable market-	Most USPs are now profitable. The largest USPs are Deutsche Post World Net (€32.7 billion), French La Poste (€16 billion) and Consignia (€13.2 billion) followed by TPG (€9 billion). These represent 78% of all USPs' revenues.

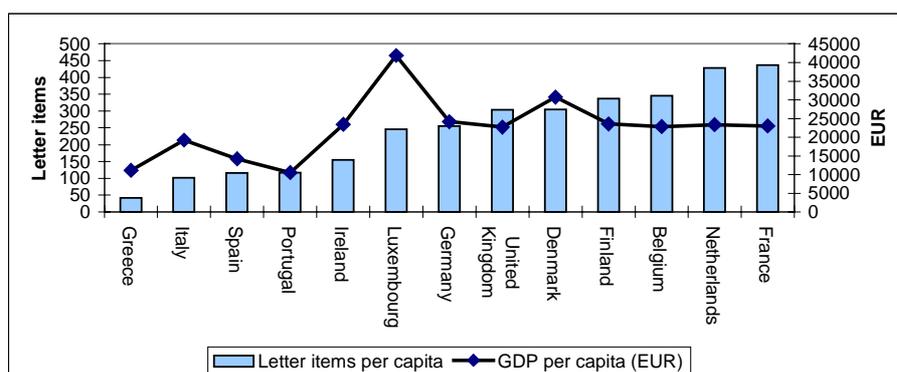
5.2. Market growth and segmentation

Continued growth in all market segments

The postal services³⁷ market has continued to be characterised by growth for all market segments.

Letter mail revenues of USPs have grown at 4% on average from 1995 until 2000 (3% for mail volumes). Within this letter mail segment, direct mail, at 5% per annum, has continued to outstrip traditional mail growth. In general, as illustrated in the Figure 12 below for 10 Member States, the growth of the letter mail volumes remains largely related with GDP.

Figure 12: GDP per capita (market prices) and mail volume per capita, 1999



Source: Eurostat Yearbook (2001) and UPU (2002). The figures concern domestic mail only and include letters, postcards, printed papers, small packets, literature for the blind, commercial papers, samples of merchandise, "Phonoost" items, and postal packets.

³⁷

Postal services: services involving the clearance, sorting, transport and delivery of postal items (items addressed in the final form in which it is to be carried by the USP. In addition to the items of correspondence, , such items also include for instance books, catalogues, newspapers, periodicals and postal packages containing merchandise with or without commercial value), Art. 1 paragraphs 1 and 7 of the Postal Directive.

However, over recent months, mail volumes have levelled off in some Member States, partly due to e-substitution, and the UPU forecasts that mail growth, up to 2005, will slow down to 2-3% per year.

In the parcels market, there has been growth over the last five years of more than 8% per annum. The total value of the EU courier and express parcels market was ca. €31 billion in 2000, compared to €21 billion in 1995. This represents an increase of ca. 48%. The business to business (B2B) part of this market is the most significant, the fastest growing and the most profitable, though the other market segments, B2C (business to consumer) and C2B/C (consumer to business or consumer) are also significant, and of potential strategic importance, for example in terms of e-commerce.

5.2.1. Market shares and structures

A variable degree of competition

Figure 13: Degree of competition in various market segments

Market segments	Degree of competition	Outline description of competition
Domestic mail	Emerging	Competition remains limited due to remaining large reserved areas in most Member States. Main competitors are mostly niche market players, competition in direct mail and local markets.
Cross-border mail	Substantial (controlled by USPs)	Despite de jure reservation still in place in 10 Member States, competition is substantial and mainly involving USPs, consolidators and large mail generators.
Parcel services	Intense (consolidation led by USPs)	USPs are consolidating and extending their (very often leading) market positions through alliances and acquisitions of private operators. This fuels market concentration and has led to pan-European or even international private/public networks. USPs are also developing their presence in logistics.
Express services	Intense (mergers and acquisitions led by USPs)	This market segment, with a substantial presence of private operators (integrators) is undergoing a concentration led by USPs who are developing partnerships and acquisitions.
New services	Emerging	This new market segment is still characterised by a fragmented competition and a strongly contested delimitation for value added services.

The USPs, still largely protected by reservation, have maintained their market dominance in the mail market and expanded it into ancillary markets such as parcels, express and courier services

In the letter mail market, USPs had a market share of ca. 84% in 2000, reflecting the level of reservation in Member States. Even where the market has been opened, USP dominance has remained.

Example 1: In Germany, 25% of the total letter mail market is open to competition since 1998. After 3 years, the 1.070 license holders have captured 9% of the open market segment I.e. 2% of the total letter mail market³⁸.

Example 2: In Spain, 62% of the letter mail market was opened to competition several decades ago. About 2.000 competitors of Correos have captured 13% of the open market segment I.e. 8% of the total letter mail market³⁹.

Example 3: In Sweden, 100% of the letter mail market was opened to competition in 1993. After 7 years, about 50 competitors of Sweden Post has only a 5.2 % market share.

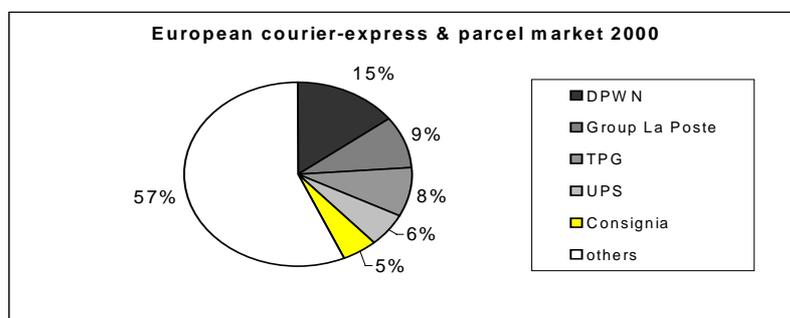
In most Member States, private operators can only provide niche services, e.g. document exchanges or distribution services for letters over 200g, but they sometimes play an important role in sub-segments.

³⁸ Annual report 2001, RegTP
³⁹ KEP Meldungen, 3/5/2001

Example: CityMail in Sweden has a market share of 4.8% of the Swedish mail market but has reached 25% in the sub-segment of computer generated business mail⁴⁰.

In the courier and express market the USPs have increased significantly their market share, which now reaches ca. 40%. All of the top five operators are USPs, apart from the United Parcel Service (UPS).

Figure 14: The European courier and express market 2000



In the parcels market, the USPs have been historically the dominant players for national services to consumers and small business customers. On the other hand, competition from private firms, developing national and sometimes pan-European networks, has been intense on the business parcel service. In this context, the USPs have been consolidating their market positions over the past few years and have developed pan-European strategies through alliances and acquisitions. This has fuelled market concentration and positioned some of the USPs as European parcel operators.

Example 1: In Germany, the USP consolidated its leadership market position with a 22% market share (more than the double as the next competitor) in an increasingly concentrated market where 3 other USPs are now in the top 5 players (La Poste, Consignia and TPG).

Example 2: In Sweden, the USP strengthened its market leadership through acquisitions and alliances while foreign USPs became increasingly active (Deutsche Post, Consignia, La Poste, Post Danmark, Norway Post).

Example 3: In Spain, Correos, which had only a 6% market share, aims at becoming a market leader by more than doubling its market share by 2004 in a market still mostly in the hands of national private operators.

5.2.2. The development of the USPs

The Universal Service Providers have increasingly become PLCs rather than public bodies

Figure 15: Organisational status of the USPs in 1991 and 2002

	Public organisation	State owned enterprise	State owned limited company	State controlled PLC	Privately controlled PLC	Privately owned PLC
Description of ownership	Fully owned by the state	Fully owned by the state	Fully owned by the state (holds all shares)	State holds majority of shares. Privates hold the minority	State holds a minority of shares. Privates hold the majority	Privates hold all the share
1991	AT, DK, EL, IT, LU	BE, DE, EL, FR, PT, SE, SF, UK	IR, NL	-	-	-
2002	-	DK, EL, LU, FR, ES	UK, SE, SF, BE, AT, IT, PT	DE, IR*	NL	-

Source: Green Paper and Pls Rambøll preliminary findings based on annual reports

*An Post is currently handing over 14.9% of shares to the employees. An Post is not quoted on the stock exchange.

⁴⁰ Uniform tariff and prices geared to costs, Report from the National Post and Telecom Agency, 1 July 2001

Figure 15 above shows that there has been a significant movement towards Private Limited Company Status, and it is notable that Denmark, Greece and Italy have recently indicated future movement away from state ownership. This corporatisation has had many significant effects, which are outlined below. and it is worth noting that the variation in the adaptation across the Member States may have created particular market advantages, (First Mover Advantage), for those in the forefront of corporatisation.

The USPs have been actively involved in the wave of mergers and acquisitions in the market, creating European-wide parcels networks

Many of the leading USPs, have bought private parcel operators to consolidate and expand market presence nationally and in other Member States. Deutsche Post (DPWN), TPG, French La Poste and Consignia have all built up European-wide parcel delivery capability for business parcels.

The USPs’ revenues have grown and their composition has become less mail dependent

The total revenues of the USPs have increased by 66% from 1995 to 2000. This significant increase is a direct result of their corporatisation. There have been higher growth rates in the parcels, courier and express market segments combined with external growth through mergers and acquisitions, which have boosted total USPs’ revenues, and the USPs have pursued new aggressive business strategies, moving into new markets such as logistics. By 2000 logistics accounted for 10% of USP revenues.

Figure 16: Share of traditional letter mail in total USPs revenues

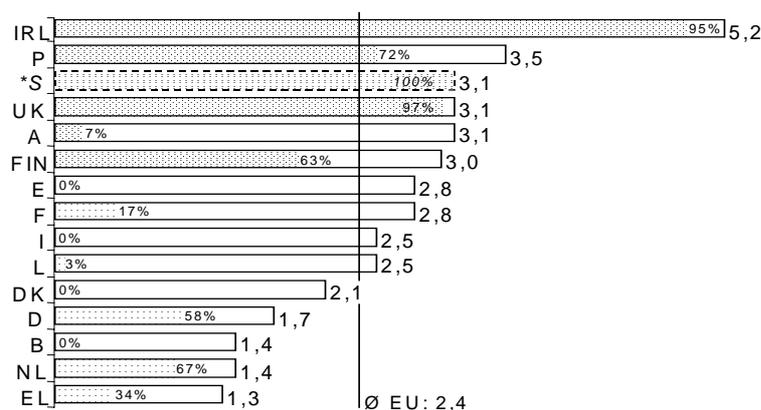


As shown in Figure 16, these trends have led to a substantial decrease in the proportion of revenues that the USPs derive from their traditional mail products.

USPs have increased their management focus on costs and customer needs

The corporatisation of the USPs has naturally increased their management focus on cost efficiency, profitability and customer needs. Some of the USPs have moved away from fixed cost to variable cost structures using outsourcing of non-core activities. They have also focused on organisational improvements and increasing their orientation towards meeting customer needs. A natural point of attention has been the counters’ network and Figure 17 below illustrates the increasing use of franchises and agencies, which now account on average for 34% of the total number of postal outlets.

Figure 17: Number of postal outlets (post offices & agencies) per 10.000 inhabitants, CTcon-2001



▨ Share of agencies

* Sweden currently reorganise its postal outlet network. Planned figure as at September 2002.

Some USPs have also particularly embraced the opportunities offered by automation

Another essential way to improve both cost efficiency and the quality of service lies in automation. Technology changes are discussed in more detail later in this Chapter but it is worth noting here that several of the USPs have particularly embraced the opportunities offered by automation to reduce their costs as illustrated in Figure 18 below. (Though it is noted that the market size and the changes prior to 1995 may need to be taken into account in comparing between Member States).

Figure 18: Number of sorting machines with automatic address reading

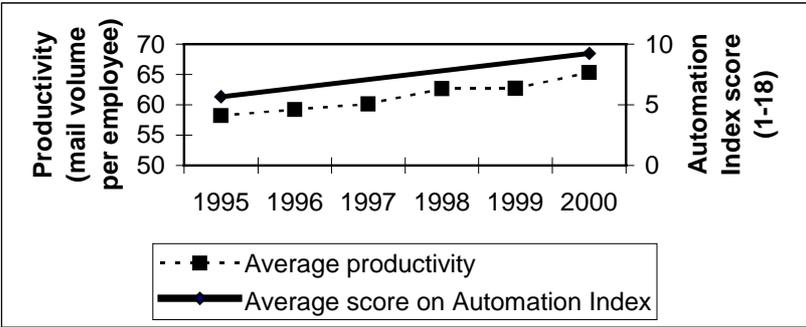
	1995	1996	1997	1998	1999	2000	Change from 1995 to 2000
Austria	3	Nd.	8	8	12	12	+300%
Belgium	10	10	12	19	19	19	+90%
Denmark	26	26	26	26	26	26	0%
Finland	11	Nd.	14	20	Nd.	Nd.	Nd.
France	113	Nd.	150	192	199	209	+85%
Germany	82	285	Nd.	Nd.	Nd.	Nd.	Nd.
Great Britain	Nd.	Nd.	191	191	273	273	Nd.
Greece	0	0	0	0	0	0	0%
Ireland	2	3	3	5	7	7	+250%
Italy	nd.	Nd.	Nd.	Nd.	22	22	Nd.
Luxembourg	3	3	3	3	4	4	+25%
Netherlands	14	Nd.	113	113	126	122	+771%
Portugal	3	5	5	6	8	8	+167%
Spain	4	4	4	4	6	6	+50%
Sweden	29	45	Nd.	Nd.	Nd.	Nd.	Nd.

Source: UPU (2002)

There remains scope for further progress in the productive efficiency of USPs

The increasing use of automation has allowed continued improvement of productivity:

Figure 19: The development in productivity and automation levels 1995 – 2000



However, Figure 19 also shows that not all the available productivity gains have been taken up by the USPs.

This is confirmed by Figure 20 below, which shows that wide variations exist between the USPs (from 49 % to 82%) with regard to wages as a proportion of their total costs.

Figure 20: Wages as a proportion of total costs 1995,2000.

	1995	2000
Ireland	71,6	68,9
Greece	84	82
Austria	N/A	75,3
Denmark	63,8	62,3
Finland	53	49
France	68,3	64,5
Italy ⁴¹	79	73
Luxembourg ⁴²	73	70
Netherlands	N/A	62
Portugal	72,9	68,7
Sweden	61,1	52,1

Source: PLS RAMBOLL survey (2002)

In light of their increasing revenues and greater cost focus the USPs have become more profitable

⁴¹ Italy is using 1999 figures
⁴² Luxembourg is using 1999 figures

Figure 21: USPs financial performance

	1988 profit/(loss) (million ecu)	2000 profit/(loss) (million euro)
Belgium	(249)	100
Denmark	(35)	66
Germany	(1210)	2038
Greece	(23)	13
Spain	(308)	2
France	(498)	N.D.
Ireland	(1)	44
Italy	(1058)	(51)
Luxembourg	(3)	N.D.
The Netherlands	47	803
Portugal	(36)	10
UK	160	80
Austria	N.D.	39
Finland	N.D.	92
Sweden	N.D.	162

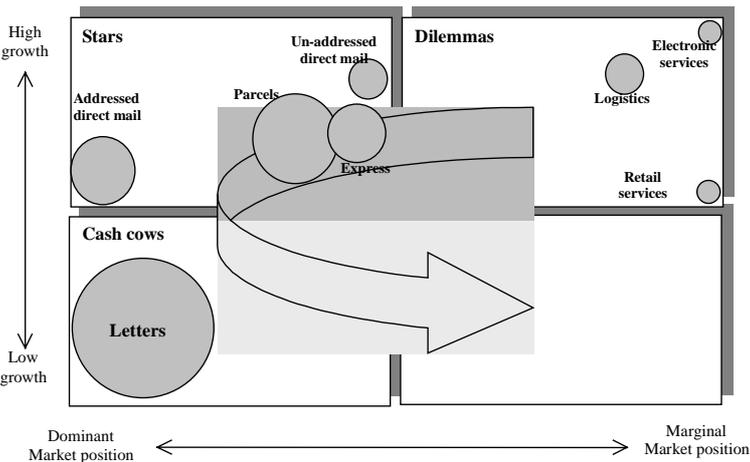
In 1992 most of the USPs were loss making, with 80% of them repeatedly producing losses of an average of 12% of their revenues. Figure 21 shows that by 2000, most USPs were profitable.

Overall, the USPs are stronger, and are poised to take advantage of new market opportunities

Increased commercial freedom has led to more effective cost control and to the development of pan-European parcels and express networks. This has allowed the USP activity portfolios to become less dependent on letter mail services and more balanced, as shown in the BCG analysis⁴³ below.

⁴³ The BCG Matrix, name after the Boston Consulting Group, graphically portrays differences among activities in terms of relative market share position and industry growth rate. *Cash cows* are activities where a company has high market share but the market is mature, slow growing or even declining; in principle, these activities should be “milked” to provide cash for investment in future product areas. *Stars* represents those activities which the company has a high market share in a growing market; in principle, they should be invested in further to maintain the growth (they can become the cash cows of tomorrow). *Dilemmas* are those activities in which a company has a low market share but where the market is beginning to take off or has significant growth potential. They need to be watched closely and adequately managed as they can either become the stars of tomorrow, or turnout as dogs. *Dogs* absorb cash without any perspective justifying continuation; in principle, they should be dropped to release funds for investment in more attractive opportunities.

Figure 22: BCG analysis of USPs



But there are threats as well as opportunities

Overall, the USPs’ situation improved as they have converted former weaknesses into strengths (e.g. improved quality of service greater customer focus, increased efficiency and profitability), adding to their traditional strengths such as branding, ubiquity and economies of scale. However, productivity remains variable, some of the USPs are constrained in their ability to manage their costs, some dependence on monopoly profits remains, and there is the threat of mail substitution.

Figure 23: SWOT analysis (USPs)

<p>OPPORTUNITIES:</p> <ul style="list-style-type: none"> •Positive growth for letters for most USPs; •Significant growth potential for direct mail and parcels; •Significant growth potential for express; •E-commerce business potential; •Business potential for logistics 	<p>THREATS:</p> <ul style="list-style-type: none"> •Mail substitution threat; •Increasing competition;
<p>STRENGTHS:</p> <ul style="list-style-type: none"> • Branding; • Ubiquitous delivery network; • Economies of scale; • Commercial statutes; • Commercial orientation; • Profitability; • Converting fixed costs into variable costs; • Strengthened market share for parcels; • Quality of service; • Diversified revenues; • Ahead in the world-wide postal reform; • Emerging pan-European networks (parcels and express) 	<p>WEAKNESSES:</p> <ul style="list-style-type: none"> • Productivity; • Dependence on monopoly profits; • Flexibility on employment • State administrations • Limited commercial orientation • Non profitable organisations; • Lack of network flexibility • Decreasing market share for parcels; • Quality of service; • Revenues depending on monopoly; • Decreasing mail volumes from consumers; • Limited flexibility to manage the USOs; • No pan-European networks (letters)

NOTE: Other postal operators enjoy similar opportunities and are confronted with they same threats. However, the considerable strengthening of the USPs will most likely make their business entry and development more challenging.

5.2.3. *Links with world-wide trends*

Beyond Europe, the world-wide postal market is also rapidly changing under the impact of globalisation, increasing competition, rapid technological change and changing customer needs. Postal reform is a world-wide trend and is supported by international organisations such as the UPU and the World Bank. The UPU Congress⁴⁴ has called for governments, postal administrations and the Union's bodies to transform the postal service from a government department into a business enterprise, endowed with management autonomy and financial self-sufficiency. Postal reform is also part of the globalisation of trade. WTO agreements are in place, and in some administrations, negotiations are underway, or imminent, on opening access to the postal market and the globalisation of services is moving with the GATS.

In this context the development of the market has put Europe at the forefront of world-wide postal services reform. *“The most notable development of the past few years [regarding postal operators] has been the transformation of four former national postal administrations into postal, express and logistics enterprises. They are Deutsche Post, TPG, Consignia and La Poste (F) and are sometimes referred as “superposts”. They are now taking their place alongside major private sector operators like UPS and FedEx”*⁴⁵.

5.2.4. *The blurring of traditional sector boundaries*

The market development is changing significantly the configuration of the postal sector, blurring former boundaries such as the traditional border separating public from private operators due to:

- The corporatisation (and sometimes privatisation) of the USPs;
- The significant change in the USPs positioning (from administrations operating a commodity service to business organisations providing delivery services);
- The USPs' moves beyond traditional mail services into e.g. courier and express services, transportation, logistics, retail, e-commerce;
- The acquisitions and alliances involving all market players.

The increasing use by USPs of outsourcing concerning components of the traditional postal value chain is also largely blurring traditional limits once considered immutable.

5.2.5. *The market development has clear benefits but also involves costs and risks*

There are clear benefits connected with the market developments: increased quality of service, increased efficiency, greater profitability and reduced dependence on mail revenues. As a result, the medium and long term business prospects of the USPs, which are able to manage their businesses as commercial organisations, are continuously improving.

⁴⁴ Postal Strategy recommendations from the Seoul UPU Congress, 1994

⁴⁵ Environmental Developments and Postal Responses at 2001, a discussion paper, draft 5 April 2001, International Bureau of UPU, Bern.

However, there are also downsides and risks involved with the current trends. The increasingly commercial attitude of the USPs (e.g. individual contracts with large mailers) involves risks of reduced transparency and potential discrimination. Further, the strengthened USPs’ dominance in the mail market confines other operators to niche markets, and may make it difficult for new entrants to take advantage of future market opening.

Moreover, the recent USPs’ development creates the need for close monitoring, as the “cash cows” of the USPs’ product portfolio enjoy dominant positions in markets still protected by large reserved areas. In this context, adequate regulatory frameworks and regulatory mechanisms (e.g. price control) are becoming essential, even if they will most likely not, in themselves be sufficient. The continuing cohabitation of sometimes large reserved areas with commercially-oriented USPs’ moving into ancillary markets, raises clear concerns of potential abuses of monopoly, which have already materialised in a number of competition cases as shown in Figure 24 and concerns over unwarranted state aid in favour of the USPs.

Figure 24: Recent competition cases⁴⁶

Types	Recent case	Comments
Antitrust	DPAG I	Abuse of dominant position by granting fidelity rebates and engaging predatory pricing for business parcel services
	DPAG II	(ECJ) Abuse of dominant position in the German letter mail market by intercepting, surcharging and delaying incoming international mail
	Hays / La Poste (B)	Abuse of dominant position by making a preferential tariff in the letter mail services subject to a supplementary contract for a new B2B service
	Hybrid Mail case	Extension of monopoly by reserving added value services different from traditional delivery services
	SNELPD	Lack of independent national regulation on access conditions
	UPS vs. DPAG/DHL	(ECJ) Court of first instance confirmed Commission clearance of acquisition of DHL by DPAG. Reserved services do not prevent incumbents to make a profit or acquisitions. However, funds used for this purpose must not derive from excessive pricing or other unfair practises in the reserved area

5.3. Technological aspects

Technology is increasingly important to the postal sector

Technological change offers customers greater choice both within, and outside, the postal services market, and it creates opportunities for postal operators for greater productivity and new revenues. The ability of postal operators to respond to technological change is becoming critical to their success.

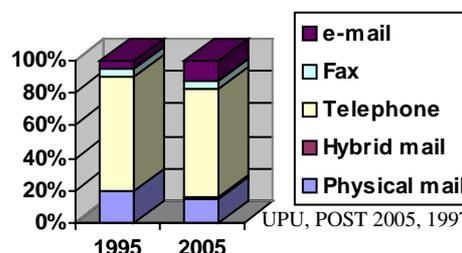
⁴⁶ The references for these cases are as follows:
 DPAG I; C147/97 and C148/97
 DPAG II; COMP/36.915
 Hays/la Poste (B); COMP/37.859
 Hybrid Mail case; COMP/37.721
 SNELPD; COMP/37.133
 UPS vs. DPAG (DHL); COMP 35.141

5.3.1. Mail substitution

There is now, increasingly, greater opportunity for customers to choose alternatives to mail. This is due to the increasing variety of cost efficient communication media available, and also to the new communications infrastructure such as increasing PC and Internet penetration.

As a result, the market share of traditional mail within the overall communication market is continuing to shrink (from 20% in 1995 to 15% in 2005⁴⁷). However, all market segments of the mail market are not equally exposed to substitution: if financial statements are vulnerable, other segments (e.g. direct mail) still appear to have significant growth potential in the medium term.

Figure 25 The communications market



Nevertheless despite some tangible evidence of mail substitution taking place, the impact on traditional mail volumes overall has been limited. Up to now, the intrinsic growth of traditional mail volumes resulting from GDP increases, combined with the new volumes generated by services such as direct mail, has ensured positive growth rates for mail volumes in most Member States. Combined with the reduced dependence of their revenues on traditional letter mail, this underlying trend for growth may make USPs less vulnerable to substitution.

However, some of the USPs have started experiencing negative growth rates in some mail market segments, which they attribute to mail substitution (e.g. USA, Sweden), and the impact of mail substitution on mail volumes in the future remains unpredictable at this stage.

5.3.2. Process automation for postal items and operations

Operators are incentivised to use new technology for increased productivity

A USP producing a 5% net margin would double its profit by slashing 5% of its costs whilst achieving the same result by increasing its business would require doubling its revenues. This is quite an incentive for greater productivity and explains the significant ongoing developments.

Letter mail process automation

During the 1980s, all USPs aimed at automating the sorting centres and automated sorting of standard letters (except the manuscript addressed ones) was largely effective in all USPs a decade ago.

The main efforts since then have been aimed at:

- Increasing the proportion of manuscript addressed mail and ‘flats’ that can be processed automatically; (e.g. by improvement of OCR⁴⁸ capabilities or video coding technology);
- Extending the automated sorting to automate sorting in the delivery centres, where there are significant costs, (sorting down to delivery rounds and even sequencing the delivery rounds).

⁴⁷ UPU, “Post 2005”, 1996.

⁴⁸ Optical Character Recognition

Today, it is estimated that more than 90% of the USPs' letter mail items involve automated processing, of which approximately 20% are sequenced within the delivery rounds. Another current area of development is ID-tagging technology, which allows all letter mail items to be individually identified i.e. 'track and traced' along the whole process. By the end of the decade, close to all the USPs' letter mail could be sorted automatically down to delivery round sequences and ID-Tagged.

Parcel mail process automation

The technology to automate the sorting of small/medium size parcels is available. However, due to the scale of the required investment, implementation has concentrated on the points where large volumes are processed. It can be estimated that about half of the USPs' small/medium size parcels are processed automatically. The scale effect in automation may be fuelling the ongoing concentration trend. Bulkier/heavier parcels are still mostly manually processed. All the USPs are now working on implementing track/trace features for their parcel services through bar coding and laser flashing.

Other process automation

Other applications include management software solutions and counter automation. USPs have implemented counter automation and are replacing internal IT systems with off-the-shelf software.

Examples: 7 USPs in the EU implemented an off-the-shelf solution for counter automation. An increasing number of USPs are implementing standard Enterprise Resource Planning systems (ERPs) for management purposes e.g. accounting, finance.

Using such standard open systems not only decreases risks and costs, but also plays an important role in the context of consolidating operations from various companies within the same USP's Group.

5.3.3. Other technology developments

e-commerce and supply chain:

The emergence of e-commerce is creating business opportunities for postal operators:

- **Transportation and logistics services:** The development of e-commerce is boosting remote selling;
- **Building Customer relations:** The USPs can add value to services (track/trace), or re-engineer traditional processes to improve efficiency, costs and convenience, (e.g. digital postage);
- **New business opportunities arising from new technology based services:** This involves using the traditional positioning of postal operators for the new economy e.g. as trusted third parties;
- **Opportunities to re-engineer back office processes:** Here the USPs can enhance efficiency and productivity (e.g. implementation of e-commerce technology into subcontracting arrangements).

5.4. Social and employment aspects

5.4.1. Access to the universal service

An extensive access infrastructure

The conditions of access to universal postal services and networks were the subject of a recent study by CTcon for the Commission. The study found that there is possibly an over-provision in European postal access infrastructure. Postal items are cleared daily at more than 750.000 access points, and there are 165 million delivery points served everyday, throughout the EU. Ctcon noted that Europe has 40% more access points per inhabitant than the USA and 5 times more access points per sq. Km. However, this usage of the postal network reveals a potential access paradigm:

- Most access points are tailored for consumers with extensive geographical coverage;
- Most volumes are generated by geographically concentrated business customers (0,1% of the access points are clearing 68% of the postal items).

This suggests an emerging difficulty for the USPs, which have to fulfil universal service obligations and to serve adequately their predominately urban business customers.

An adapting access infrastructure

Access infrastructures are being adapted by USPs to meet changing customer needs and to improve efficiency. (As previously outlined in section 4.4 - 4.4. Access to universal postal services and networks). However, the USPs remain constrained in their ability to adapt, (e.g. rural post offices are often regarded as politically sensitive), and the level of flexibility allowed to the USPs to manage their access infrastructure is clearly important if they are to cope with the access paradigm in the long run.

5.4.2. Employment aspects within the postal sector

Employment in the USPs is about 1.2m⁴⁹. Other operators (mainly courier and express service providers) employ nearly than 0,5m people. However, as a result of outsourcing and franchising there are now significant areas of direct postal employment outside traditional sector boundaries.

Preliminary figures from the forthcoming employment study suggest that direct employment in postal services is at least 1.57 million and indirect employment⁵⁰ is estimated to be at least 1.77 million. Further the study estimates that the induced effect of postal employment on wider employment is about 1.98 million. This suggest that over 5 million jobs in the EU are dependent on, closely related to, or induced by the postal sector.

e.g. the European mail ordering and distance selling industry represents more than 150.000 permanent jobs which are tightly connected to the postal sector⁵¹.

⁴⁹ According to the UPU as Full Time Equivalent.

⁵⁰ Indirect employment includes employment in areas dependent on or closely related to postal services.

⁵¹ Source: European Mail Order and Distance Selling Trade Association (EMOTA)

The evolution of postal employment is tightly connected to the market and technological developments outlined in sections 5.1 - 5.1. Economic aspects and 5.3 - 5.3.

Technological aspects.

A structural employment erosion

The evolution of the total number of USPs employees is the result of the interplay between positive drivers (e.g. development of new services, mail volumes growth) and with negative drivers (e.g. automation).

Figure 26 overleaf shows the evolution of USPs employment.⁵² The decrease in the total numbers suggests that the combination of the employment drivers is resulting into an employment erosion overall for the USPs, but also that there is significant variance between the USPs. The main underlying reasons for the total USPs' employment evolution are outlined below Figure 26.

Figure 26: The evolution of employment in USPs

	1995	1996	1997	1998	1999	2000	% change 1995-2000
Austria	34003	34599	37562	38271	33536	33421	-1,71
Belgium	44462	44292	43399	41637	41182	39933	-10,19
Denmark*	25030	25478	25981	25485	25700	24867	-0,65
Finland	24600	23221	24184	26448	25347	24763	0,66
France	289250	286793	286914	287348	287479	291812	0,89
Germany	308459	292027	269530	263342	304265	319988	3,74
Great Britain	208810	209079	213259	212500	213414	210267	0,70
Greece	11572	10834	11643	11135	10931	11438	-1,16
Ireland	8062	8063	9309	8647	8952	9391	16,48
Italy	190404	181379	181262	178649	173722	166102	-12,76
Luxembourg	1697	1698	1696	1696	1707	1714	1,00
Netherlands	55263	54427	57260	58209	60285	63255	14,46
Portugal	15527	16041	15962	16348	16861	17160	10,52
Spain	65140	64855	65127	64896	64515	58817	-9,71
Sweden**	55722	53178	51804	51793	50174	49986	-10,29
Total in EU	1338001	1305964	1294892	1286404	1318070	1322914	-1,13

UPU (2002). *Time series data in full-time equivalents. **Time series data based on annual reports (inserted by PLS RAMBØLL).

Note: the paragraphs below only outline the main underlying reasons for the total USPs' employment evolution, as more detailed data is currently being collected within the ongoing study of the employment trends in the European postal sector by PLS Rambøll for the Commission.

The demand for postal labour

Increased demand for postal services is the main positive employment driver (estimated at 2-3 % a year). Whilst mergers and acquisitions bring new employment to the sector, this effect is rather artificial, as the resulting increase in consolidated employment does not reflect genuine employment creation. Market opening has also created jobs. For example, the German National Regulatory Authority estimates that more than 16.000 full-time or part-time jobs were created by private operators following partial opening and employment has also been created by the development of new services.

⁵² These figures are slightly different to PLS -Rambøll's as PLS have used Full Time Equivalents rather than headcount data.

Increased automation

The increasing potential of automation, (see Section 5.3), has allowed postal operators to improve their productivity and efficiency by meeting the demand for greater postal volumes, whilst decreasing the size of the workforce. There is, though, evidence of considerable variance between Member States in the take-up of the available efficiency gains.

Business development strategies

New corporate structures have led to the implementation of new and diverse USPs' strategies. The varied nature and level of ambition of these new strategies explain, to some extent, the differences between the USPs' employment evolution (for instance, the most aggressively cost-cutting, automating and outsourcing USPs probably reduced employment the most). With regard to the future evolution of the USPs' employment, it can be reasonably assumed that business development strategies will play a major role and that, therefore, discrepancies among USPs' in terms of evolution will further increase. However, Pls Ramboll forecast that overall postal employment will continue to grow.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1. The long transposition process almost completed

All Member States have modified their primary legislation, and secondary legislation and detailed regulations are well under way for completion. Overall, apart from some conformity issues identified in some Member States, the regulatory framework set by the Postal Directive can be considered as implemented in the Member States.

6.2. Practical application and impact of the Postal Directive

Member States have largely adapted the Community framework to national requirements and this has had a number of positive impacts.

- ***A significant regulatory impact:*** The Postal Directive had a significant impact, as Member States have had to modify their legislation.
- ***Enhanced Community harmonisation:*** The Postal Directive has achieved a limited Community harmonisation. e.g. in terms of reservation.
- ***Improved quality of service:*** The Postal Directive contributed to improving the quality of service both for domestic and cross-border mail, this has harmonised quality of service levels throughout the Community. Moreover, The Postal Directive supported the ongoing development of European standards for postal services, including a range of quality of service measurement methods.
- ***Increased the pace of postal reform:*** The Postal Directive increased governmental focus on the postal sector and the pace of postal reform.
- ***Provided incentives for greater efficiency and customer focus by postal operators:*** The Postal Directive gave an incentive for new USP business strategies and greater cost efficiency.
- ***Allowed for a move towards the internal market in postal services:*** The limited market opening required by the Postal Directive led to a fuller market opening in some Member States.
- ***Established Independent National Regulators in Member States :*** The establishment of independent NRAs in Member States has created a new level of regulatory rigour to emerge beneath the Community regulatory framework.

However, there are some areas where the Postal Directive had little or no impact. For example: the Postal Directive implementation by Member States has not so much increased the universal service obligations as entrenched existing obligations, and the existing regulatory framework and provisions for consumer protection were often in accordance with the principles of the Postal Directive.

Further, the Postal Directive may not have moved as quickly towards the internal market as could have been safely achieved and this may have had a number of negative impacts. For example, the Postal Directive did not foster efficiency improvements e.g. by benchmarking or competitive tendering and the EU is still relatively inefficient compared to the USA. The Postal Directive only introduced limited competition and it did not prevent competition issues from developing.

6.3. The market impact of the Postal Directive

The Postal Directive has clearly been important to the development of the market.

Prior to 1992 the postal sector was lagging behind other utility, communications and distributions sectors, and it was clear that it would have to enter a process of modernisation to safeguard the productive efficiency of the EU, and to maintain the relevance of universal service provision. This modernisation would inevitably have to combine market change with regulatory change. A regulatory framework that did not allow appropriate market development would not only distort the sector, and provide perverse incentives for players, but it would also spread this distortion to other sectors. In this context the Postal Directive was indispensable to unlock the barriers to market development. Its achievements, a basic harmonisation of the Community regulatory framework and a limited market opening, were essential pre-requisites to existing and future market developments. Further, the clear direction set by the Postal Directive towards the full accomplishment of the internal market provided the signal for organisational change in the postal sector.

Finally, the application of the Postal Directive has demonstrated that there was no tension between the level of market opening achieved and the safeguarding of universal service provision. Several Member States have gone further in opening up their markets, and, from this, it could be argued that the Postal Directive could safely have gone further towards accomplishment of the internal market.

6.4. Recommendations

Given the current situation- the safeguarding of the provision of a universal service across Member States in the short term, and the new measures in the new Postal Directive 2002/39 extending this safeguarding- there are no recommendations for a further update of the Community regulatory framework at this stage.

However, this is not to say that the Postal Directive has set in place a regulatory framework fully in tune with the needs of the developing market. Distortions remain, where reservation and dominant position is abused. Instances which have led to a number of competition cases. Further, there remain issues of regulatory independence in some Member States, and it could be argued that a varied national regulation has not encouraged all the USPs to become efficient. In any case, it is clear that efficiency in postal service provision remains variable.

The Commission calls for the Member States to “ensure effective independence, adequate capacity and effectiveness of the (competition and) regulatory authorities”⁵³, in particular in the postal sector.

Finally, the Commission calls for the Member States to prepare the implementation of the European standards currently being developed by the CEN, particularly with regard to quality of service measurement methods, which will help to ensure that quality of service monitoring and performance are further improved for the benefit of all customers.

⁵³ See the Commission recommendation for the 2002 broad guidelines of the Economic Policies of the Member States and the Community. ECFIN/210/02

ANNEX

Index of abbreviations

AT	Austria
B2B	Business to Business
B2C	Business to Consumers
BE	Belgium
C2B	Consumers to Business
C2C	Consumers to consumers
ca.	Circa
CEN	European Committee for Standardisation
Commission	European Commission
DE	Germany
DK	Denmark
D+n	Delivery n days after posting
EEA	European Economic Area
ECJ	European Court of Justice
Ecu	European Currency Unit
EFTA	European Free Trade Area
EL	Greece
EN	Official European Standard
ES	Spain
EU	European Union
FR	France
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IR	Ireland
IT	Italy
IT	Information Technology
LU	Luxembourg
NL	The Netherlands
NRAs	National Regulatory Authorities
OCR	Optical Character Recognition
O.J.	Official Journal (of the European Communities)
p.a.	Per annum
PLC	Public Liability Company
Postal Directive	97/67/EC Directive
PT	Portugal
REIMS	Terminal dues agreement between a number of European USPs
SE	Sweden
SF	Finland
Sq. Km	Square kilometre
TC	Technical Committee
TS	Technical Specification
UK	United Kingdom
UNEX	Unipost External Monitoring System
UPU	Universal Postal Union
USOs	Universal Service Obligations
USA	United States of America
USPs	Universal Service Providers
WTO	World Trade Organisation

FINANCIAL STATEMENT				
				DATE:
1.	BUDGET HEADING: B5-3001	APPROPRIATIONS: N/A		
2.	TITLE: Report from the Commission to the European Parliament and the Council on the application of the Postal Directive (97/67/EC Directive)			
3.	LEGAL BASIS: Art. 23 of the 97/67/EC Directive			
4.	AIMS: To keep the European Parliament and the Council informed on the development of the internal market for postal services			
5.	FINANCIAL IMPLICATIONS Not Applicable (see observations below)	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR YEAR (EUR million)	FOLLOWING FINANCIAL YEAR YEAR (EUR million)
5.0	EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) - NATIONAL AUTHORITIES - OTHER	N/A	N/A	N/A
5.1	REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL	N/A	N/A	N/A
		[n+2]	[n+3]	[n+4]
5.0.1	ESTIMATED EXPENDITURE	N/A	N/A	N/A
5.1.1	ESTIMATED REVENUE	N/A	N/A	N/A
5.2	METHOD OF CALCULATION: Not Applicable			
6.0	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?			N/A
6.1	CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?			N/A
6.2	WILL A SUPPLEMENTARY BUDGET BE NECESSARY?			N/A
6.3	WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?			N/A
OBSERVATIONS: This report, requested by Art. 23 of the 97/67/EC Directive, is reviewing the application of this Directive. Based on the information collected, the report makes no recommendations for any further update of the Community regulatory framework at this stage or any other action involving the Commission. The only recommendations made in the report are intended for the Member States. Therefore, the report has no financial implications for the Commission				