

Postal Rate Commission, Washington, November 28, 2000

Regulation of Postal Markets in Germany - Main Issues -

Cara Schwarz-Schilling
Regulatory Authority for Telecommunications and Post

Postal Act of 22 December 1997

- **The Purpose of the Postal Act is**
 - to promote competition
 - to guarantee appropriate and adequate services throughout the Federal Republic of Germany
- **Paradigm shift**
 - In principle competition is the rule
 - Monopoly (i.e. a statutory fixed term exclusive license for Deutsche Post AG) is the exception to the rule
- **Regulatory measures are based on the antitrust concept of dominance**
 - Rate regulation
 - Access regulation,
 - Abuse of market power

The German Postal Services Market

Courier (Messenger Serv.)

Express

Parcels

Newspapers (by mail)

Magazines (by mail)

Letters > 1000 g

Letters 200 - 1000 g

**Letters up to
200 g and
5,50 DM (2.75 \$)**



Competition



**transitional
monopoly**



licensed area

Licensing Regime

- **License classes**

- letter items ≥ 200 g or $> 5,50$ DM
- letter items with identical content > 50 g and ≥ 50 items
- document exchange service
- Services distinct from universal service, having special features and higher quality
- mailing at the nearest DPAG acceptance office
- collection from DPAG PO box facilities

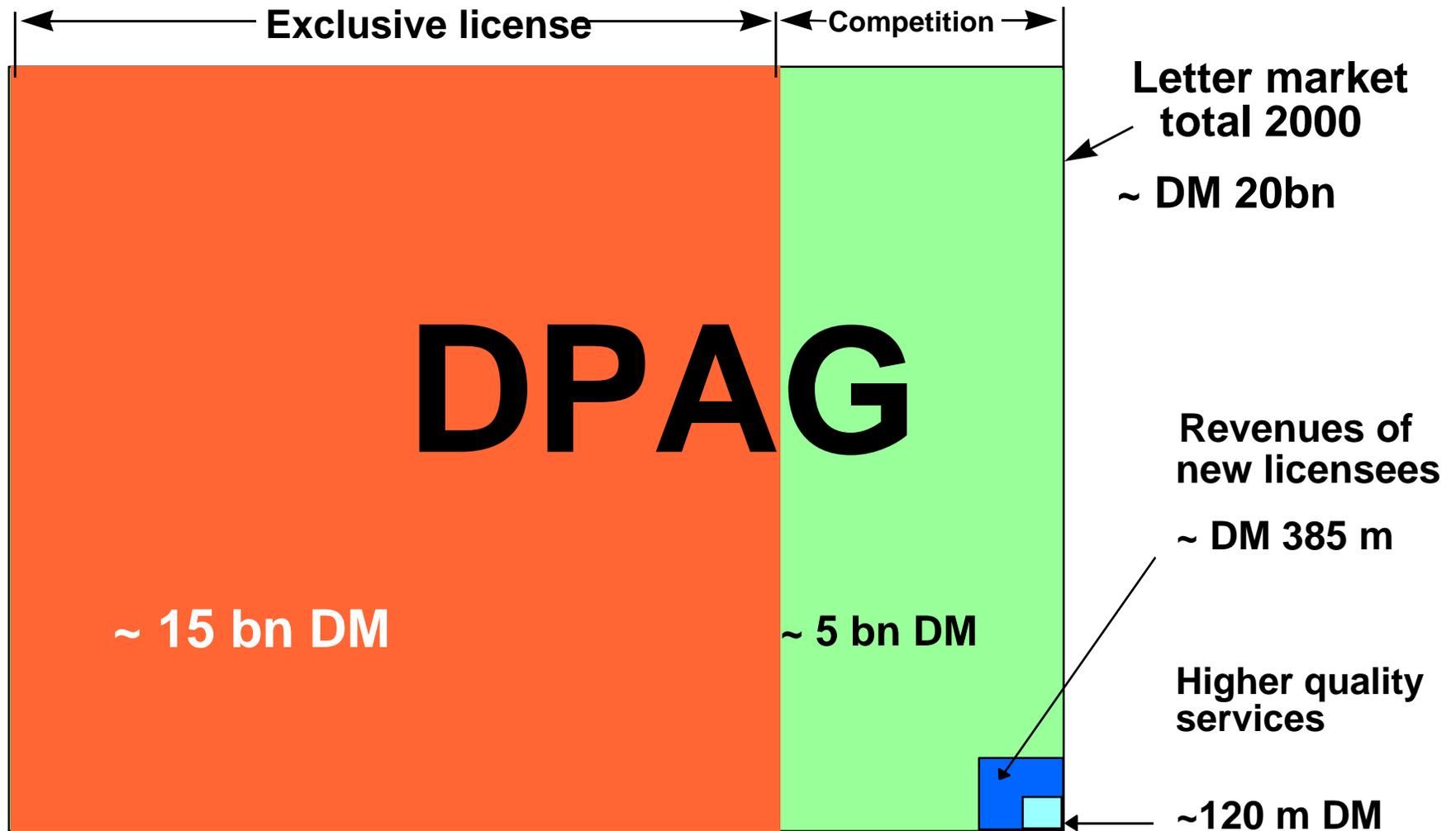
- **New Licenses granted**

- Since January 1, 1998, all together 800 new licenses have been granted,
- 650 of these are used for special services as defined above
- 1/3 of licensees do not actively use their license

Special Services

- **Criteria for defining special services**
 - Collection items from the customer at fixed times or locations
 - Delivery of letter items to the addressee
 - Same day delivery and/or
 - When collected after 5 p.m. delivery by 12 a.m. next day
 - as agreed (case by case basis)
 - Subsequent accounting at fixed periods
 - Contractually agreed non-payment of fees in the event of late delivery
 - Revised arrangements between the times of collection and delivery
 - Provision of service in a major part of the territory (2500 km²)

Letter Services Market 2000 (forecast)



Main Tasks of the Regulatory Authority

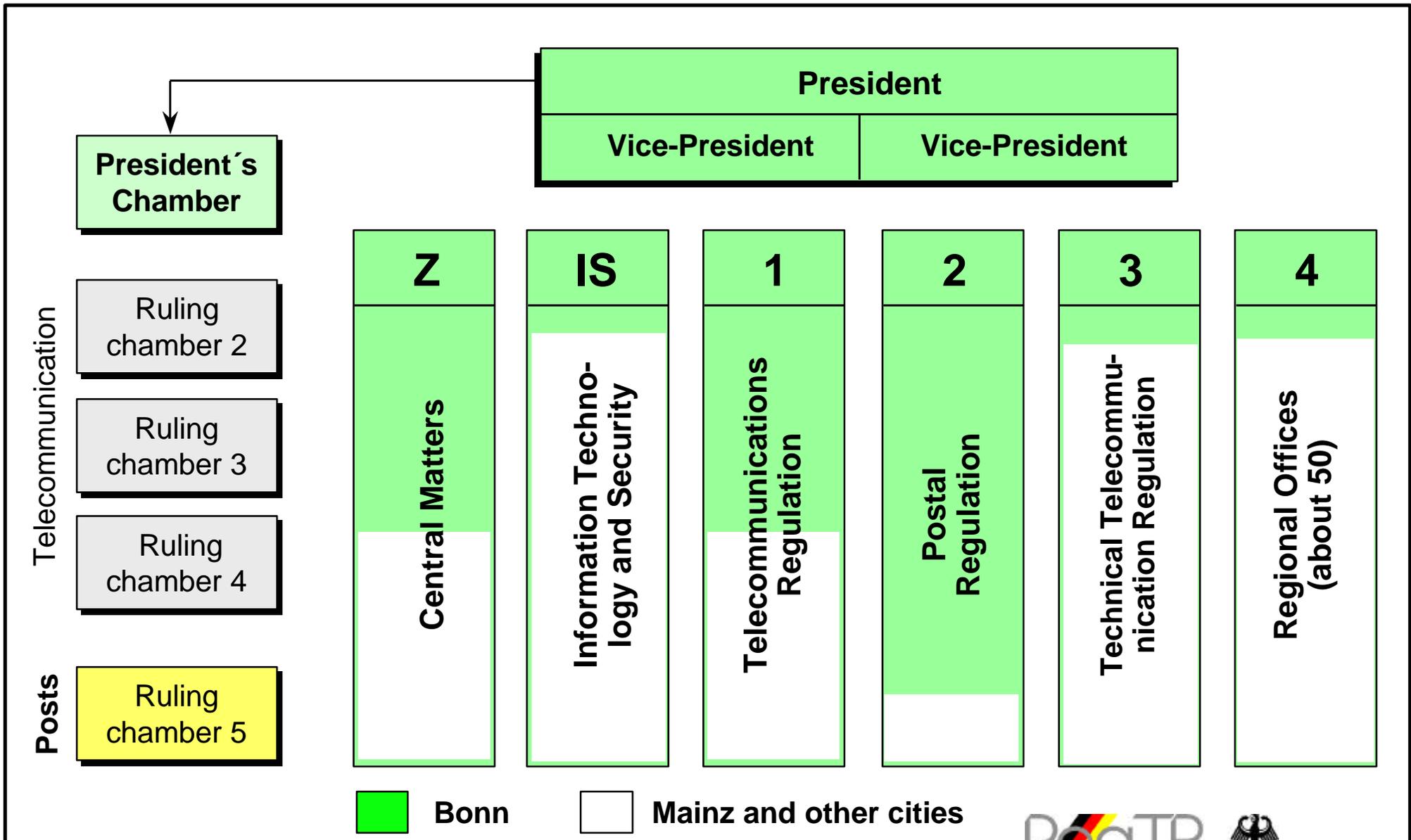
Postal Regulation

- Authorization of services in licensed area
- Supervision of universal services
- Regulation of rates/prices
- Control of access rights
- Controlling abuse of market power

Telecommunications Regulation

Digital Signature

Regulatory Authority - Organization



Powers of the Regulatory Authority

- Most decisions are taken by the ruling chambers.
- Decisions are based upon the Postal Act.
- Regulatory Authority decisions cannot be quashed by the supervisory authority (Federal Ministry of Economics).
- Legal action against decisions of the Regulatory Authority can be taken at the administrative court
- Legal action against regulatory authority decisions shall not have suspensory effect.

Universal Service

- **Universal Service is defined as a minimum set of postal services, provided in specified quality throughout Germany at an affordable price**
- **As long as services are voluntarily provided in a competitive environment no supplier is under obligation.**
- **Only in the event of inadequate or inappropriate service provision:**
 - **soliciting of bids**
 - **imposition of the universal service obligation on the company requesting the least financial compensation;**
 - **or possibly direct imposition of the universal service obligation on the dominant company.**
- **Where necessary: compensation for deficit, financed by a compensation levy payable by all licensees with sales exceeding DM 1m.**

Universal Service

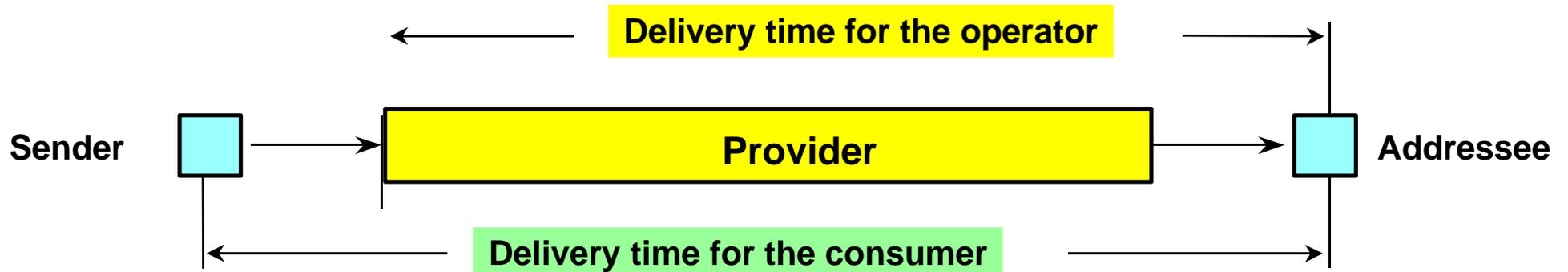
- **Universal services as defined in the Ordinance**

- **Conveyance of letter items weighing up to 2,000 g** (including registered, insured, cash-on-delivery, and express delivery items)
- **conveyance of addressed parcels weighing up to 20 kg**
- **conveyance of newspapers and magazines**

- **Major quality standards**

- **12,000 fixed-location facilities** (at least 5,000 of which must be operated with the company's own staff until 31.12.2002)
- **Customers in urban areas should in principle be within 2,000 meters of a fixed-location facility and as a rule within 1,000 meters of a letter box**
- **Average annual letter delivery times: at least 80% D + 1**

Measurement of Service Quality in the Letter Service - Letter Delivery Times



Delivery times from the consumer's point of view

	D + 1 quota	D + 2 quota
1999	86.0%	12.8%
1998	86.0%	12.8%

Delivery times from the operational point of view

	D + 1 quota	D + 2 quota
1999	95.0%	4.5%
1998	94.8%	4.7%

D + 1 = day of posting + 1 business day

Price Regulation

- **Dominance in the relevant market required for ex post and/or ex ante regulation to apply**
- **Postal services within licensed area**
 - **ex ante approval of rates (unless minimum mailing volume of 50 letter post items)**
 - **ex post control of abusive practices regarding**
 - **predatory pricing and**
 - **price discrimination**
- **Postal services outside licensed area (e.g. parcels)**
 - **ex post control of abusive practices regarding**
 - **excessive pricing**
 - **predatory pricing and**
 - **price discrimination**

Criteria for rate regulation - Section 20 (2)

- **Cost of efficient service provision**
- **Rates may not**
 - contain predatory discounts
 - contain abusive surcharges
 - be discriminatory
- **Due regard shall be given to**
 - costs of observance of basic working conditions
 - costs of postal service provision throughout the country
 - costs ensued by staff pension payments

Postal Rates Regulation Ordinance (October 6, 1999)

- **2 procedures for ex ante rate approval**
 - price cap regime as a rule
 - single price approval according to costs of efficient service provision

- **Details of procedures**
 - definition of costs of efficient service provision
 - details of price cap (e.g. benchmarks)

- **Scope of Cost statements**

Costs of efficient service provision

- **Definition**

- Long run incremental costs of providing the service plus an appropriate amount for volume neutral costs (Postal Rates Regulation Ordinance)

- **Rationale**

- benchmark for whether to supply a service in the market
- avoids inefficient bypass of postal network
- incentive for network operator to produce efficiently

- **Derivation**

- Business accounting (cost causation, activity based costing)
- Bottom up analytical cost models

Price Cap Regime

- **Determination of baskets (criterion: level of competition)**
- **Establishment of the initial rate level**
- **Determination of benchmarks**
 - price index
 - expected rate of growth in productivity
 - constraints required to guarantee compliance with the criteria of Section 20 (2) of the Act
 - relationship between the initial rate level and the cost of efficient service provision shall be taken into account

Access to the Postal Network

- **Access to the infrastructure of a dominant licensee**
- **Access to PO Box Facilities**
- **Access to Change of Address Information**
- **Provision of Incidental Services**
 - **Access to the Receipt Area at Deutsche Post AG Mail Centres**
 - **Access to the Dispatch Area at Deutsche Post AG Mail Centres**

Complete Liberalization Required

- **Monopoly is not necessary for financing universal service**
 - **25% of the German letter market is open to competition**
 - **DPAG will have lost no more than 2% market share**
 - **German tariffs are very high when compared internationally**
-
- **Only if the exclusive license will run out as currently fixed in the Postal Act**
 - **Workable competition has a chance**
 - **Will licensees be able to realize scale effects**
 - **RegTP's report concluded that there is no reason for prolonging the exclusive license**

Thank you!

Cara Schwarz-Schilling

Head of Section, Economics of Regulating Postal Markets

Regulatory Authority for Telecommunications and Posts

P.O. Box 8001

5305 Bonn

Germany

cara.schwarz-schilling@regtp.de