

## CONCLUSIONS FIFTH ANACOM CONFERENCE – 06.10.2011

ANACOM's fifth International Conference, "Liberalisation of the postal service: year one", took place in Lisbon on 6 October 2011. The Conference was attended by speakers from across the postal sector, including speakers from national regulatory authorities, industry and international organisations.

### Opening session

Opening the conference, José Amado da Silva, Chairman of ANACOM's Management Board, noted that the nature of the theme up for debate called for an approach based on the international context and not based on a merely national view. That is because, even while, due to various obstacles, Portugal has not yet transposed the 3rd European Postal Directive, postal services belong to a sector which has already seen liberalisation.

The discussion that is needed is not about the beginning of liberalization, but about the challenges posed by liberalization, particularly with regard to universal service. For the sake of social cohesion, safeguarding the traditional means of providing post in the liberalized market is fundamental, ensuring that citizens are not marginalized, given that not all citizens have the same access to electronic resources.

ANACOM's Chairman also stressed that, in addition to factors of the postal market's sustainability and development, the transformations occurring in this sector must take society into account, otherwise there was a risk of causing severe dysfunctions in the population's way of life.

The opening session's second speaker was Werner Stengg, representing the European Commission (EC) as the head of its Online Services unit. He began by noting the postal sector's importance to the European economy, in terms of the revenue which it generates and due to the direct/indirect employment which it supports, as well as its importance in terms of providing social and territorial cohesion.

Taking these aspects into account, the postal sector policies established by the European Union are demanding and diverse, seeking to establish conditions which are conducive to sustainable employment, growth and competitiveness. According to Werner Stengg, it is essential "to foster high quality, efficient and reliable domestic and intra-community postal services". Accomplishing this objective entails giving users more choice, while safeguarding the universal postal service.

The European Commission's representative also considered the difficulty of designing a homogeneous model for the European postal market, but noted that its extension may be relevant when associated with the sale of goods and services online, both domestically and across borders, which will lead to increased business in the distribution and delivery of parcels.

## **Panel “Regulating Postal Liberalisation”**

This panel was moderated by Isabel Travessa, Content Manager and Editor in Chief of APDC - Associação Portuguesa para o Desenvolvimento das Comunicações (Portuguese Communications Development Association).

The first speaker, Ruth Goldway, Chairman of the Postal Regulatory Commission (PRC), United States of America, presented the PRC’s work and mission and gave an outline of the characteristics of the North American postal market, which represents 40 to 50 percent of the worldwide market.

The PRC is an independent Federal Agency which only regulates the public operator, the U.S. Postal Service, and not the entire postal sector. Until 2006, the regulator was no more than a commission which established postal rates; thereafter, postal regulation was enhanced with the Postal Accountability and Enhancement Act, which gave the postal service greater flexibility, while requiring greater transparency and accountability.

Outlining the PRC’s role, Ruth Goldway noted a number of aspects, including the approval of rate increases within a price-cap, and annual reporting to Congress as to the Postal Service’s finances, compliance with regulations and adequacy of service. The regulator also adjudicates complaints from mailers and the public.

Addressing the issue of liberalisation, the PRC’s Chairman explained that mail represents a unique monopoly in the United States, as a government obligation under the Constitution. However, since 1971, the postal network has been opened up to other operators, with liberalisation in the market along the length of the value chain attracting private enterprises to the business. Meanwhile, as a result of the 2006 Act, USPS is making a more aggressive push into the parcel distribution market and has gained market share.

Referring to the challenges of the universal service, Ruth Goldway stressed the social value which citizens give to the postal service, viewing it as a national symbol and a vehicle for connecting people. As a result, even while USPS is going through a financially challenging period and is weighed down by the obligations resulting from the 2006 Act, the Chairman reminded the conference that the postal service continues to enjoy demand and that the USPS has a valuable network with unique capillarity.

Meanwhile, the Spanish case was presented by Rosa Aza, Chairwoman of Spain’s Comisión Nacional del Sector Postal (CNSP), who reported on the gradual liberalisation which has been occurring in this country, where, until full liberalisation is accomplished, a reserved area will be maintained for the universal service provider (Correos), with regulation provided by the Infrastructures and Transport Ministry (Ministerio de Fomento).

The universal service in Spain is financed through the reserved area and public funding. With the entry into force of Law 43/2010 on 1 January 2011, transposing the 3rd European Postal Directive, a number of changes took place, including: elimination of the reserved area, with competition rolled out to all products and services and change in how private operators access the public network. Rosa Aza

explained that this last point has caused a certain controversy, since private operators now have to deliver mail at a specific point of the public network (large distribution centres), whereas, before Law 43/2010 was passed, they could deliver at any point of the network.

To provide financing for the universal service, a Compensation Fund was set up, managed by CNSP with financial contributions from operators, public funds and other undefined sources. A further objective of regulation by CNSP is to ensure the rights of users, especially in terms of information, access conditions, levels of quality of service and protection for users with special needs, etc.

Identifying future challenges, Rosa Aza highlighted the need to ensure that the system of universal service provision is financially viable, the need to actively develop competition in the market and to introduce mechanisms which drive efficiency in the provision of the universal postal service.

The next speaker, Joëlle Toledano, Member of the Management Board, Autorité de Régulation des Communications Électroniques et des Postes (ARCEP), France, and Chairman of the European Regulators Group for Postal Services (ERGP) gave a view of the French postal market and an outline of the work of the Regulators Group.

In line with other regulators, ARCEP's main concern is the promotion and financing of the universal service, ensuring the existence of accessible services and promoting competition to the benefit of customers. Working recently to develop new tools to evaluate market entry scenarios and new procedures for the submission of complaints, the French regulator is currently engaged in the study of a new price-cap, in the evaluation of the net cost of territorial coverage obligations of La Poste beyond its universal service obligations and in work on quality of service issues.

Turning to ERGP, Joëlle Toledano, noted that the group has no dedicated function in the regulatory framework (setting it apart from BEREC) and has no goal of being a direct instrument for deepening harmonization, focusing instead on soft coordination based on common interest and best practices. As such, it encompasses various working groups to address issues such as regulatory accounting, access regulation, end-user satisfaction and the net cost of the universal service. The first results from the ERGP's work are expected at the end of 2011.

### **Panel "New Strategies to Make the Open Market Work"**

This panel was moderated by Alexandra Machado, from the Portuguese newspaper, "Jornal de Negócios".

Highlighting the importance of debating the theme of the conference, Pedro Coelho, vice-chairman of CTT – Correios de Portugal, began by noting that the postal business faces big challenges owing to social, economic, technological and intellectual changes, whereas a failure to change would result in a foregone and inglorious demise. In this context, CTT, which now reports around 70% of revenues as coming from its traditional portfolio, has been diversifying its business model with the introduction of digital technologies, both by strengthening existing products and by creating new products. Pedro Coelho also

stressed that CTT has been seeking to adapt its products and services to market needs, in order to ensure their sustainability and leveraging the brand's prestige, the company's credibility and network of outlets located throughout the country.

Turning to liberalisation, CTT's vice-chairman does not expect regulation to jeopardise operational profitability and, as a result, the economic viability of the universal postal service operator and the efficiency of the market itself. On the specific subject of the universal service, Pedro Coelho argued that on the one hand, it needs to constitute a comprehensive offer with quality specifications that fulfil the real needs of users, and on the other, for the need to allow greater flexibility in the provision of services and when operating in segments subject to increased competitive pressure. "The application of a uniform tariff should be limited to mail of a social nature, and priority should be given to greater pricing flexibility and ex-post regulation for bulk mail," he said.

Regarding the costs of universal service obligations, Pedro Coelho called for an effective financing mechanism, possibly using a compensation fund model, with contributions from all postal sector operators. He also called for efficient regulation of new operator entries on the postal market, with the imposition, in terms of licensing, of rules regarding provided services (geographic coverage, minimum distribution frequency, etc.) and regarding working conditions (minimum remuneration when hiring permanent staff).

From the Netherlands, Ilse Wilczek, Director of Public Affairs at PostNL, contributed by recounting the experience of a company in a liberalised market. She highlighted internationalisation and diversification as the company's key strategy, while noting Post NL's focus on being a specialist in each branch of the postal service (traditional and online mail, orders and international mail) considered as a driver of profitability.

Looking at the concept of the universal service, Ilse Wilczek argued that its provision is undergoing change, not only as a result of customer demand, but also as a result of the evolution of the postal market itself. The Director of PostNL also stressed that a concept of liberalization must allow operational flexibility if it is to be sustainable, enabling the offer of new services to customers, rather than be based on a concept of a determined single solution for all. This flexibility and the search for new solutions have led, as she clearly explained in response to a question from the audience, to a radical change in the traditional role of the postman.

The panel's final speaker was Jean-Paul Forceville, Chairman of PostEurop, the association which represents 49 postal service providers across Europe and works in the context of regulation, market oversight and corporate social responsibility. Recognising that the postal activity has been declining in the face of the world financial and economic crisis, Jean-Paul Forceville highlighted the change that is underway in the postal market, with the service incorporated into a wider communications and business market, including commercial and banking activities.

The head of Posteurop also stressed that the challenge facing the postal service is one of growth, which can be accomplished only through intense diversification and integration. The opportunities for growth

can only be realized with e-commerce solutions, financial services (e.g. insurance and banking), document management solutions and e-services, etc.

### **Panel “New Business Opportunities”**

This panel was moderated by Anabela Campos, from the Portuguese newspaper, “Expresso”.

Opening on the panel’s first theme, “E-commerce”, Joost Vantomme, Regulatory Affairs Director, bpost (Belgium), presented a view of the future of the postal service connected to e-commerce, especially in so-called non-traditional areas of postal operations. Accordingly, in addition to the delivery phase of the e-commerce value chain, bpost has also become engaged in the execution of orders, especially in warehousing and payments, not directly, but by integrating with its customers’ payment systems at back-office level.

Joost Vantomme considered that e-commerce numbers in the European Union, indicating, for example, that only 37% of Europeans have made a distance purchase on the Internet, were on the low side and called for an ambition among all operators to increase them.

In terms of regulation, the director of bpost highlighted the 2015 objectives of the Digital Agenda and the effective implementation of a single European e-commerce market. As such, he explained that consumer confidence levels needed to be increased, especially in terms of personal data protection and payment. He also called for an upgrade of electronic billing and electronic signatures, whose use remained very limited, with poor inter-operability. Joost Vantomme also argued for a global approach to the issue of e-commerce, at World Trade Organisation (WTO) level, reminding the conference that there were other markets besides Europe’s, including USA, Canada and China.

Continuing on the subject of e-commerce, next to speak was Farah Abdallah, E-Services Expert, Universal Postal Union (UPU), who presented the mission of her working group. Farah Abdallah argued that the postal service has to compete with the Internet and also cooperate with the digital world, acquiring new capabilities and resources. The UPU’s representative at the conference said “perhaps we don’t need to re-invent the letter, only think about new business and new methods of processing mail”.

Addressing the panel’s second theme, “IT Systems”, Pierre Patry, Sales & Marketing Director, Solystic, France, showed how the use of equipment and automation along the mail processing chain leads to significant gains, whereas, according to a recent study, losses and leakages throughout the process may total 5% of overall operator costs. Pierre Patry explained that it is crucial for companies to reduce leakages as mail volumes decline.

Next, Walter Trezek, CEO of the Document Exchange Network, Austria, also advanced with a scenario of declines in mail volumes to the order of 40% over the next ten years, but stressed that there will still be room for a faster and leaner postal service. Advocating a change in business model, Walter Trezek explained the need to retain core customers (senders and recipients) and also retain ownership of processes, products, pricing and postal item tracking, processes which are facilitated by the use of new

technologies. The speaker also noted that postal operators should leverage their operations based on the fundamental principles of the postal service: trust, privacy and universality.

The third theme debated by this panel was the Environment. Pieter Reitsma, Head of Sustainability, International Post Corporation (IPC), Belgium, explained that reducing carbon emissions in the postal industry is one of IPC's major concerns and that the Corporation had set up a global platform to measure and control these emissions, which its partners can access.

Pieter Reitsma considered that "making companies of the postal sector more environmentally friendly leads to a reduction in costs", and he highlighted measures as simple as regularly checking tyre pressures on mail distribution vehicles, each company measuring energy expenditure and opting for energy efficient solutions.

According to Pieter Reitsma, in 2010, the postal industry achieved a reduction of six hundred thousand tons in CO2 emissions, cutting fuel use by 120 thousand litres; at an average of 1.50 euros per litre, this has resulted in cost savings of around 180 million euros.

The second speaker on this theme, Jacob Johsen, Hybrid Mail Consultant, Gemadec, Morocco, argued that hybrid mail is the most logical solution to achieve sustainability among postal companies: firstly because the electronic solution, on its own, results in an efficient reduction of costs for the company; and then because of the substantial impact such a solution would have in terms of reducing environmental carbon emissions.

According to Jacob Johsen, the hybrid option as a mail distribution business model has other advantages, including, an increase in quality of service in terms of reducing delivery times, distribution security, flexibility for customers and added business opportunities.

### **Closing Session**

Conference proceedings were brought to a close by ANACOM's José Amado da Silva who noted that the greatest challenge of regulation at this time "is to know what is to be regulated" during times of change, given that part of the postal sector's activity has been liberalised for some time. In proof of this is the fact that the digital space is no longer the "old enemy" of the traditional postal service, but instead has become "one of its greatest allies", specifically through electronic commerce.

However, despite everything that has been advocated by the speakers, ANACOM's chairman cautioned that use of electronic media did not safeguard the confidentiality and privacy of all information, and underlined his view that this remains one of the most important issues facing regulation.