

POLICY SERIES

Efficient, Competitive and Better Service



Germany's Post Office Model and Lessons for Canada

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Executive Summary

- The liberalization of the postal sector in Germany and the privatization of Deutsche Post have translated into significant benefits for business and private customers in Germany, both in terms of price and service quality;
- The efficiency and competitiveness of Deutsche Post have increased substantially;
- The feared negative effects to universal service and working conditions have been averted;
- The privatization of Deutsche Post allowed the German government to sell off a struggling state-owned company and reduce public debt.

Introduction

Canada Post has long been criticized for slow delivery, long lineups at the post office and high prices—for business customers and consumers alike.¹ As Canada Post has little competition, there is no reason to believe that it can be pressured into improving service or prices.

Using Germany's postal sector as an example, this study illustrates how the liberalization of the postal market and the privatization of this monopoly led to vast improvements in terms of efficiency, services, national and international competitiveness and customer prices.

“As Canada Post has little competition, there is no reason to believe that it can be pressured into improving service or prices.”

Background:

Germany's postal sector before liberalization

Before its privatization in January 2008, Germany's postal industry was dominated by a slow-moving, state-owned monopoly—Deutsche Post. The organization of the German postal sector resulted in limited innovation, poor customer service, below-average labour productivity and high letter prices.² Deutsche Post argued it would be able to address these issues through reform rather than a change to the whole structure of the postal sector.

However, the vast majority of market experts and, eventually, legislators disagreed. As Deutsche Post had no competition, it was feared that Deutsche Post would miss opportunities in rapidly developing new markets such as high-profit services including time-guaranteed delivery and so-called hybrid mail, where a large-volume business mailing is ordered via e-mail and sent through a printing-mailing firm. Maintaining the status quo would also potentially prevent Germany's postal service from capitalizing on the growth of online retailing. Although the Internet poses a challenge to postal services through a reduction in personal letter volumes, online retailers continue to require physical delivery of a product to a customer's home. Inexpensive, efficient postal services are essential for online retailers.³

The legislators decided that, as a monopoly, Deutsche Post could not be relied upon to become more efficient. They agreed that only competition would prompt it to restructure, and that its financial performance would improve dramatically only when it boosted

its efficiency. Thus, in the late 1990s, under the left-of-centre government coalition, the liberalization of Germany's postal market and the privatization of Deutsche Post were agreed on. The move took effect in January 2008.

The road to liberalization

The liberalization of the German postal service and the privatization of Deutsche Post did not happen overnight. Because the existence of a state-run postal sector was mandated by Germany's constitution, a two-thirds majority in the Bundestag was required to privatize Deutsche Post.

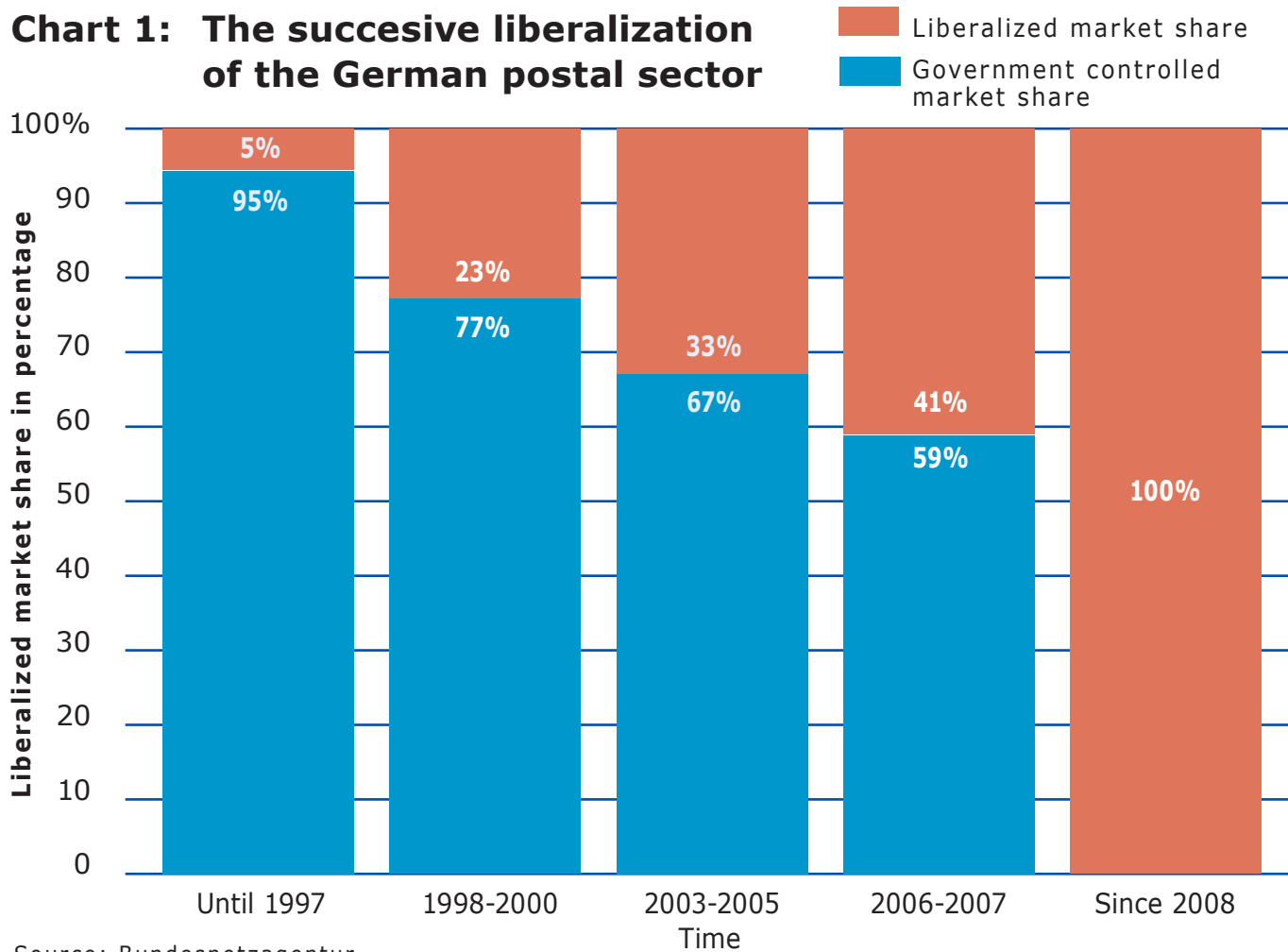
Support was widespread among all political parties, allowing the necessary constitutional changes to be made.⁴ The government did, however, retain the right to regulatory oversight. It thus approached the liberalization of postal services in much the same way it had approached the liberalization of telecommunications and insurance services: gradual reform while protecting consumer interests and jobs. The same model that was successfully adopted in Sweden and the Netherlands proved equally successful in Germany.

The first step in 2000 was to list Deutsche Post as a publicly traded company on Germany's stock market. In the lead-up to the liberalization of the market, a regulator for the postal sector was established and placed under government authority.

The market was then liberalized in segments. First, competition was allowed for letters of more than 1,000g. Gradually, the weight was reduced until the market for letters of less than 50g was opened in 2008.

Chart 1 (below) outlines the successive liberalization of the postal sector, with green representing the percentage of the market that was liberalized.

Chart 1: The successive liberalization of the German postal sector



Source: Bundesnetzagentur

The effects of liberalization

Deutsche Post is an example of how to improve customer service through privatization. Privately employed postal workers typically work longer and more flexible hours than publicly employed postal workers. This allows the working population to visit the post office outside of regular business hours instead of sacrificing their lunch breaks in order to send a parcel.

Limited opening times were particularly a problem in rural areas. Critics predicted rural populations would experience reduced service due to the liberalization. In fact, the opposite occurred. Rather than having a post office staffed by part-time workers, open for only a few hours a day, mail can now be posted and picked up as long as the local pub or grocery store housing

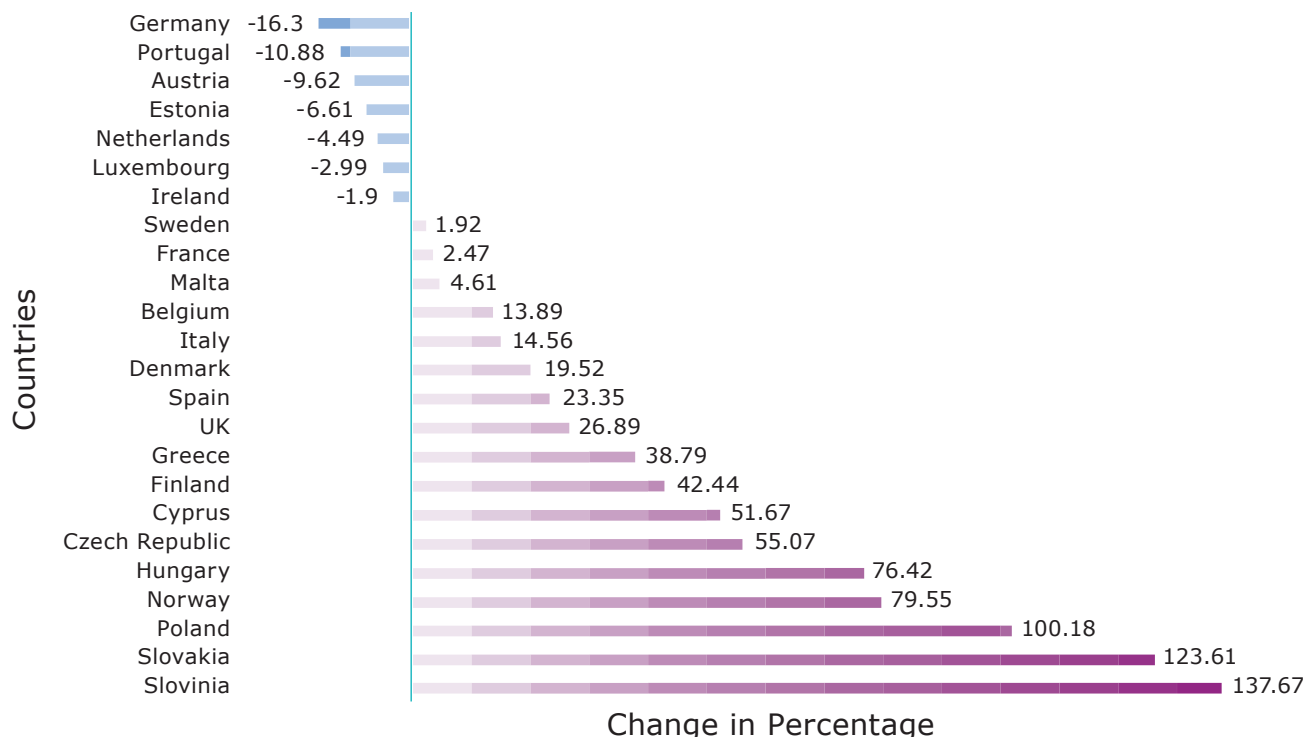
the post office is open.⁵ The liberalization and privatization of the post office led to the modernization of Deutsche Post as well as to the way the postal sector operates. Until well into the 1990s, 75 per cent of the mail volume was sorted by hand. This was slow, inefficient and required large amounts of manpower. Today, almost 90 per cent of the mail is sorted automatically, with computers tracking and facilitating delivery as well as improving overall customer service.⁶

Liberalization also led to a debate about what people really wanted from their postal services and a chance to rethink how they worked, according to Michael Critelli, the president of Pitney Bowes, a company that makes postal equipment and software. Critelli suggested some people might, for example, choose to have domestic mail delivered to their offices on weekdays.

Liberalization has also led to lower prices for customers through increased competition. In other European countries, only business customers enjoyed lower prices. In Germany, large firms now pay up to 30 per cent less in postage than they did in 2003.⁷ Consumers have also seen lower prices since liberalization. Although real prices have remained the same, there has been a better than 16 per cent reduction in prices when accounting for inflation, as illustrated in Chart 2 (below).

Voters and governments alike see privatization and the sale of state assets as a legitimate way to reduce government debt. It also reduces the risk of having to inject public capital into state-owned enterprises that are operating at a loss. Privatization gains are a less politically painful way of reducing state debt than are tax increases or spending cuts.⁸

Chart 2: Inflation adjusted change in letter prices 1998-2008



Source: Deutsche Post World Net

Assessing objections to the liberalization of the postal sector

One of the main objections to liberalizing Germany's postal market was that working conditions for postal employees would worsen substantially, if their jobs were not cut altogether. However, rather than cutting employees, Deutsche Post has increased its staff by over 100,000 workers, or 20 per cent of its workforce, since the privatization process began. Chart 3 (below) clearly illustrates how the number of employees of Deutsche Post World Net (it was renamed after it became internationally active and competitive) has risen steadily over the past decade. As the chart indicates, many of these jobs were created in other countries as part of its global delivery services.

This has translated into important direct gains for the European economy (many of these jobs were created in EU countries) and indirect gains for the German economy, as strong financial results translate into capital gains at the Deutsche Post World Net headquarters in Germany.

At the same time, Deutsche Post reduced its number of civil servants, as new hires are no longer government employees. Consequently, this has encouraged a more dynamic and efficient workforce. The increased efficiency is reflected in the gains in revenue that Deutsche Post has seen from 2000 onwards.

Chart 3: Number of employees by type

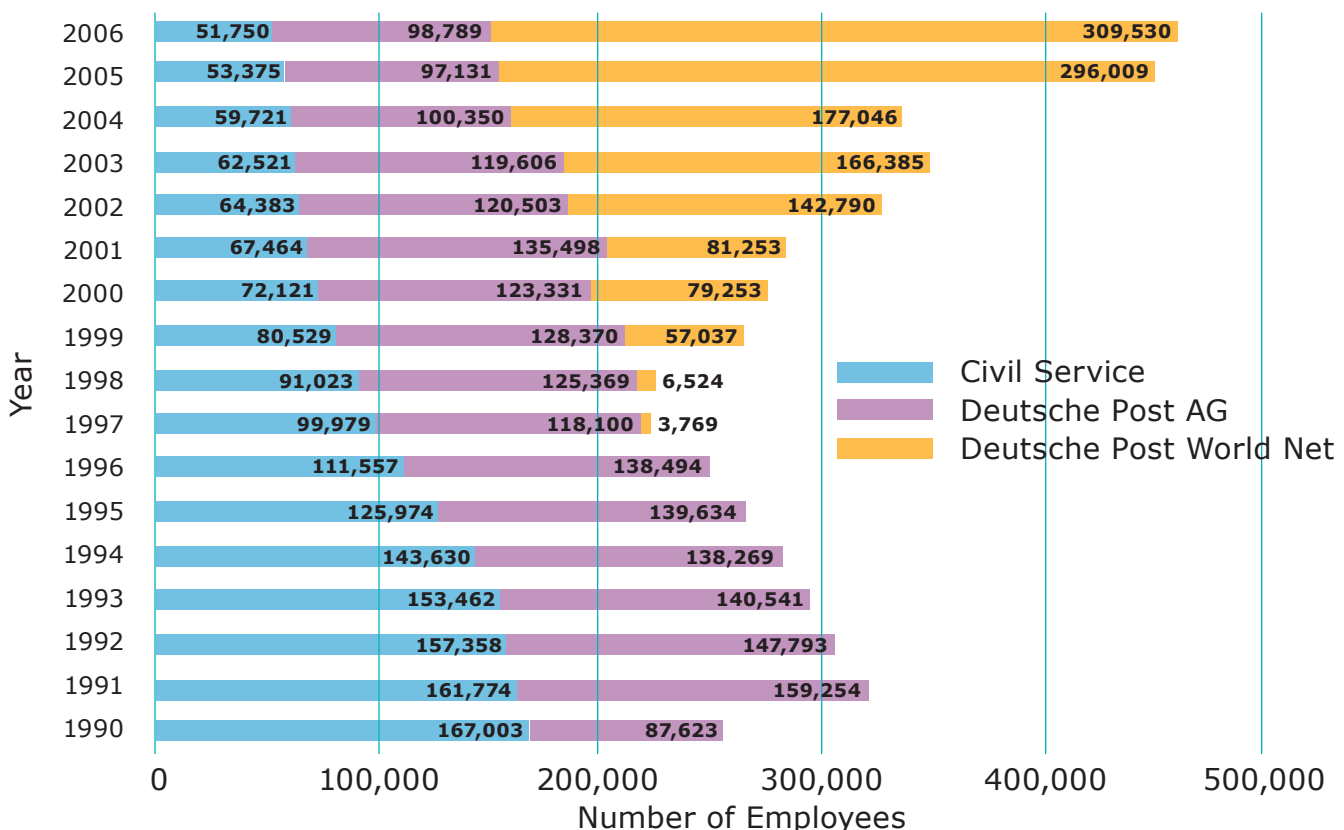
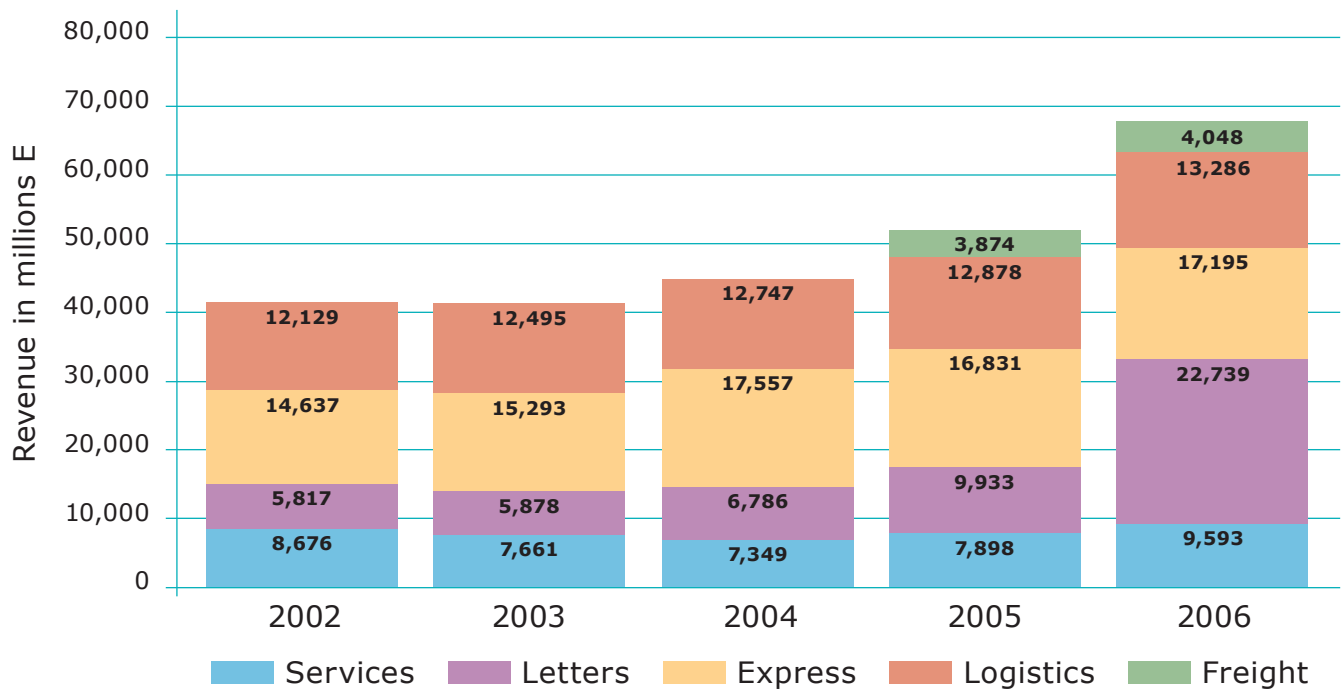


Chart 4: Revenue by operations

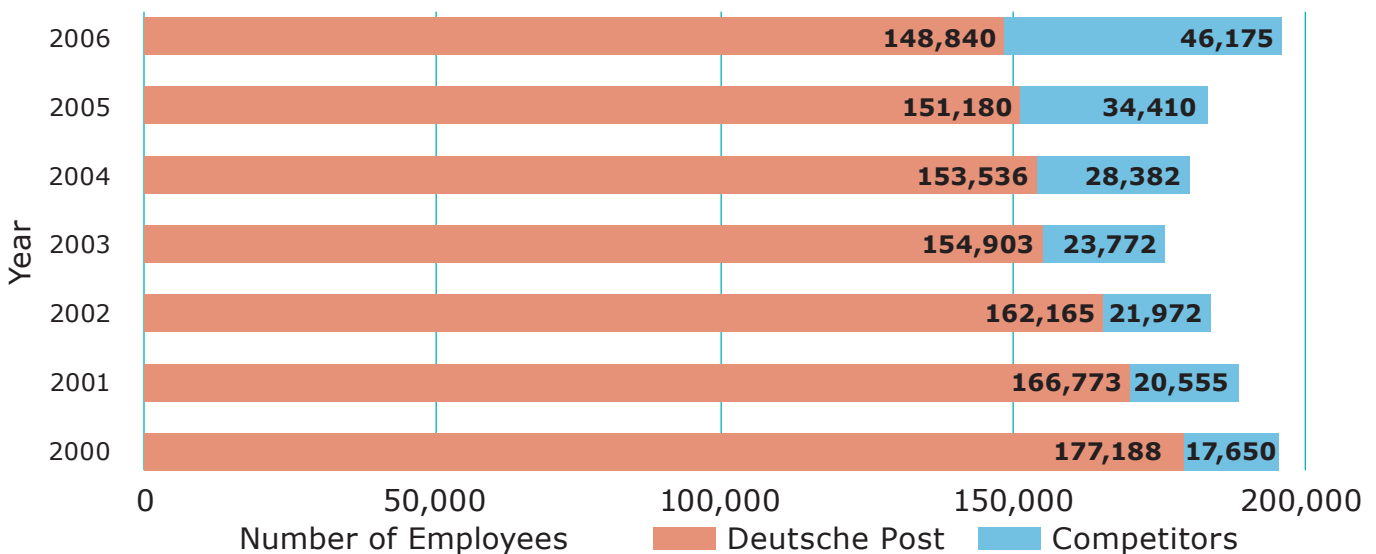


Source: Deutsche Post World Net

Although the number of Deutsche Post employees in Germany was reduced in order to remain competitive in a liberalized market, those job losses were offset, as Deutsche Post World Net’s new competitors created as many new positions as were lost in

Germany as illustrated by Chart 5 (below). In sum, national employment figures remained essentially constant, whereas international employment figures saw a strong increase in positions with Deutsche Post World Net as illustrated by Chart 3.

Chart 5: Development of the overall number of employees in the postal sector



Source: Bundesnetzagentur

The other major objection by liberalization's opponents was that remote and rural areas would receive less or possibly no mail service. As discussed above, the increased flexibility of the postal market did, in fact, lead to better opening hours for rural customers. A study by the EU found the costs of the universal-service obligation vary from 5 per cent to 14 per cent of a postal company's revenue. Critics feared that many companies would be unable or unwilling to accept these costs. However, simple rules established by regulators can protect a universal-service obligation.

In Germany, the creation of a licence system guaranteed universal service. Money raised through the mandatory licences sold by the regulators was then used to fund universal services. Public tendering for service in remote areas was also used to guarantee countrywide access. These measures proved successful, and there is currently no German resident without access to mail services.

Overall, the liberalization and privatization of the German postal sector has been hugely beneficial to customers, businesses and the state. Negative effects regarding working terms and universal service were avoided by simple rules set by a regulatory agency.

Lessons for Canada

The situation in Germany before the postal sector was liberalized and Deutsche Post was privatized is very similar to the status of postal services in Canada.

The issues Canada Post experiences are akin to those of Deutsche Post before liberalization. Therefore, liberalizing the Canadian postal sector should be seriously considered.

The implementation could come about in a similar, gradual, and controlled manner to that of Germany. The biggest challenge to Canadian mail delivery will be assuring that service remains accessible in rural areas. This can be achieved by putting a regulator into place that will oversee and guarantee universal service across the country, as illustrated by Germany's example.

Recommendations

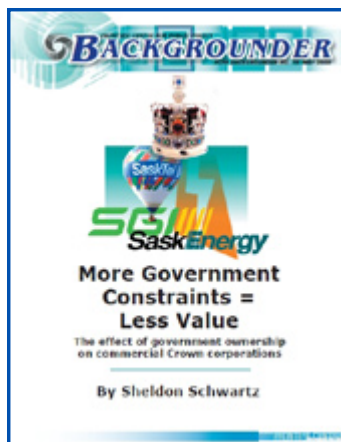
To summarize, Canada should:

- Privatize Canada Post, i.e., make it a company that is traded 100 per cent on the TSX. This can be done incrementally;
 - Completely liberalize the postal sector by allowing competitors to enter the market for all letter segments;
 - Put in place a regulator that will guarantee the universal-service provision at prices similar to customers located in business hubs (e.g., by tying extremely profitable licence areas to less profitable rural areas);
 - Allow Canadians and businesses to profit from the reduced prices, higher efficiency and improved services liberalization would bring about;
 - Make Canada Post internationally competitive.
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Endnotes

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Further Reading



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