



## Numerous market parties active Fierce competition in Dutch postal market

An average street in the Netherlands is visited each week by a dozen delivery companies, making the Dutch postal and delivery market one of the most competitive in Europe. This is mainly due to Dutch government policy, which is strongly geared to opening up the market. So what does the Dutch postal market currently look like?

Mail company Sandd has been delivering addressed direct mail and magazines to Dutch consumers since 2001. In 2002, Deutsche Post subsidiary Selekt Mail also made its entrance into the Dutch postal market. Within a relatively short space of time, both companies have set up a delivery organisation that covers most of the country. Combining bulk mail from major senders and delivering it once or twice a week is proving cost-effective. The companies' customer base, which includes charities, mail-order companies and publishers, is growing rapidly. Sandd and Selekt Mail have seen their revenues double annually in recent years. "The growth we are now experiencing exceeds our expectations", said Bart Stomphorst, Managing Director of Sandd, at the end of 2004. "We're aiming for a 20 to 25 percent share in the market by 2008."

### Variety of operators

There are now more than ten national delivery companies doing business in the Netherlands, not including express, courier and parcel service providers. Several newspaper and magazine publishers have had their own national distribution organisations, such as MediaExpreSS and Audax, for many years now. Wegener and PCM Distributie both deliver newspapers across the country, while Sandd and Selekt Mail also distribute magazines. Market growth for unaddressed advertising means that an increasing number of distributors are targeting this market segment. Interlanden Spreigroep, like Selekt Mail a subsidiary of Deutsche Post, competes with companies such as TPG Post subsidiary Netwerk VSP and newspaper deliverer DistriQ in the sizeable market for unaddressed advertising. Local postal operators are active in about eighty towns and cities in the Netherlands.

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**International postal companies**

A number of foreign postal operators can now be found in the Dutch market. Deutsche Post currently serves all market segments through its subsidiaries and Royal Mail delivers to P.O. boxes and provides cross-border mail services. La Poste of France operates in the Netherlands through the DPD, while Swiss Post is active in cross-border mail.

**Choice for competition**

The fact that the Netherlands is a relatively small and densely populated country with a solid infrastructure and good location within Europe is a main driver of the rapid growth in competition. But there is more at stake here; the situation contrasts starkly with similar countries such as Belgium or Denmark. The main reason is that the Dutch regulator is aiming at a competitive market and that TPG Post recognises the advantages of competition in terms of enhanced efficiency and innovation.

**Small universal service**

Clearing the way for competition is one of the primary objectives of legislation adopted in 2000, translated into a set of transparent measures that protect consumers and give competitors room for manoeuvre. When the 1997 European Directive, which restricted postal monopolies to mail weighing less than 350 grams, was implemented, the Netherlands reduced its monopoly to the delivery of letters up to 100 grams. Direct mail has never been part of the monopoly in the Netherlands. The Dutch Postal Act of 2000 placed this category outside the universal service, cancelling the VAT exemption and ironing out a significant competitive inequality. As a result, over 50% of the market for addressed mail and the total market of unaddressed mail is now open to competitors. The decision was made not to introduce a licensing system so as to prevent unnecessary intervention by the government.

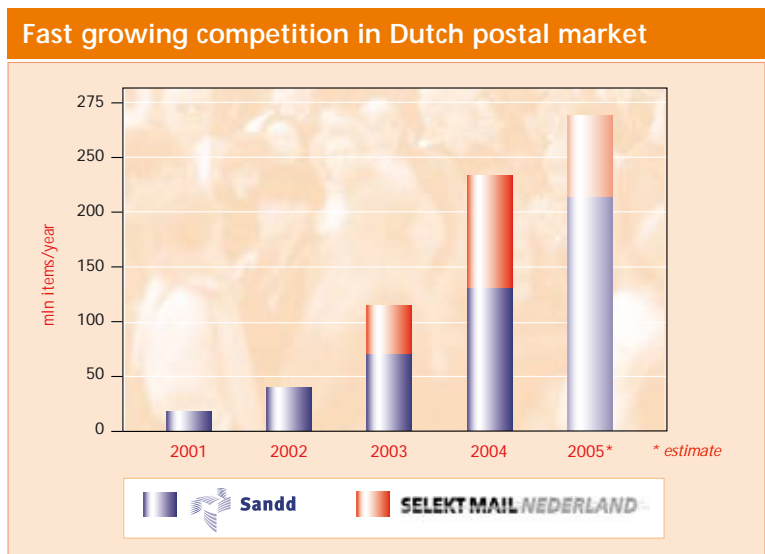
**Consumer protection**

The postal legislation at the same time offers sufficient guarantees for an affordable, accessible and high-quality service for consumers. The regulator demands, for example, that an average of 95% of mail be delivered the next working day. Standards for the proximity of service outlets have also been set. TPG Post's rates for consumers are con-

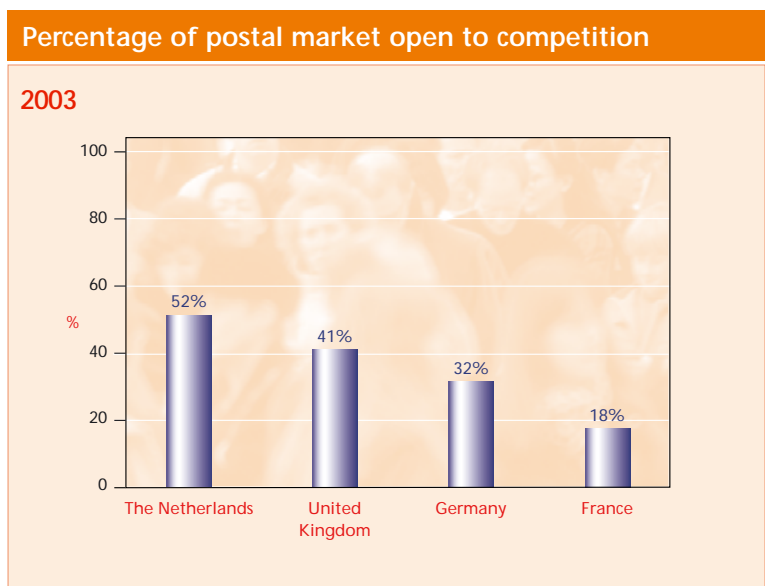
trolled by a price cap system with an inflation-based index.

**Next step**

The Dutch government decided at the end of 2004 to fully open up the Dutch postal market in 2007. However, the exact date will depend on the degree of actual liberalisation in Germany and the UK.



Source: Sandd, Selekt Mail



Source: TNT

# European Commission identifies in Application Report: Significant differences in actual market situation

Despite the fact that all EU Member States have now implemented the Postal Directive, there are still significant differences in the actual market situation. This was the conclusion drawn by the European Commission in its second Application Report on the Postal Directive, published in March 2005. The Commission also stated that there is room for opening up the market further to competing postal services.

The Commission states that although progress is being made in reforming the postal sector, actual competition has yet to develop properly. According to the Commission, the Directive has been a major driver for a gradual opening of the market while securing the universal service. The main achievements have been higher quality, greater efficiency and a separation between regulators and operators. However, the addressed mail market is still not exposed to significant competition. The Commission

blames a combination of factors: limited initial market opening, limited regulatory capacity or certainty, advantages enjoyed by incumbents and regulatory asymmetries.

## Regulatory asymmetry

The Commission expresses strong concerns over regulatory asymmetry which could prevent the emergence of a single market for postal services. Conformity issues have been identified in the areas of licensing and authorisation, complaint

and redress procedures, price control and the separation of accounts. The Commission's analysis is that the present legislation offers too much room for individual interpretation. More precise definitions, such as on the scope of the universal service, are necessary. The Commission also emphasises that VAT inequalities are a major concern.

## Universal service to be reviewed

The Commission is satisfied that the objective of establishing a minimum universal service has been achieved. The quality is higher than originally foreseen and the customers are generally satisfied. Competition has generated more flexibility and increased the ability of USPs to meet customer needs in innovative ways. The Commission concludes that increased competition has had a

## Peter Bakker, TNT's Chief Executive Officer, responds:

"We are generally satisfied with the Commission's report. It is fairly objective and also looks at the *de facto* market situation. TNT is pleased with the Commission's conclusion that the notion of a reserved area is progressively losing importance and that there is room for a further opening of the market. As we have made known, TNT is a proponent of the full liberalisation of the European postal market in 2009. The opening up of the reserved area is a key prerequisite for growth of competition. I would like to emphasise that in the Netherlands – where direct mail is excluded from the universal service – competition is not restricted to niche markets. Alongside TNT, Selekt Mail and

Sandd are active in the addressed mail market. Both market entrants are operating nationwide delivery networks."

## Concerns justified

"The concerns of the Commission over regulatory asymmetry are completely justified. I call upon the Commission to promote a more effective implementation of the requirements of the Directive. According to TNT, the solution has to be found in better and not in more regulation. With respect to supervisory responsibilities, TNT suggests that the Commission should also consider the role of independent auditors and national competition authorities in order to minimise the administrative burden. I am also

pleased that the Commission refers to a matter that TNT has frequently spotlighted – the differing VAT liabilities that incumbents and market entrants are facing."

## Real consumer needs

"TNT welcomes the Commission's observation that there is a need to review the modalities of the current universal service obligations to stimulate additional flexibility. Any new universal service definition should be based on real consumer needs. In this regard, TNT can confirm that the postal market is developing away from a traditional two-way communication model towards a distribution market for less urgent communication. The European Commission should consider setting a

positive effect on the quality of the universal service. To allow for more flexibility in a competitive market, the Commission also considers the need to review the modalities of the USO.

### Reserved area less important

There is scope for opening up the market further to competitive postal services. According to the Commission, the notion of a reserved area is progressively losing its importance. In nine Member States, primarily due to the exclusion of direct mail, the reserved area has become minimal or substantially lower than the Directive's limits. With respect to the extent of the reserved area, the Commission warns against an uneven playing field.



European-wide maximum limit to the universal service. We believe that the universal service can be limited to single-item mail. The market will guarantee the availability of services to business customers."

# TNT Express wins prestigious quality award

TNT Express in the Netherlands was in April awarded the highest Dutch distinction in the field of quality. The award, organised by the Dutch Quality Institute (INK), was presented by Mr Laurens Jan Brinkhorst, Minister of Economic Affairs.



*Minister Brinkhorst hands over the award*

TNT Express received the award because "the organisation has a high awareness of quality and distinguishes itself through its focus on its market, customers and processes". The jury's report also states that TNT Express convincingly and successfully gets across its business excellence message both internally and externally.

### Unique award

It was the first time in eight years that the Dutch Quality Institute presented the award, with PTT Post (now TPG Post) being the last winner in 1997. No entrants had been able to meet the strict requirements set for the award in the years since.

### Progress

In 2004, TNT Express received the INK Quality Commendation. When the INK audit team put the organisation under the microscope once again, they were struck by the progress that had been

made. The jury attributed the progress achieved by TNT Express in terms of both organisation and results to the company's impressive quality strategy. According to INK chairman Van de Coolwijk, "TNT excels through its strong customer focus and its clear attitude towards quality. The company is also very much aware of its customers' needs."

## Dutch Quality Institute

The Dutch Quality Institute is a foundation that aims to improve the quality of business management based on the INK management model, which is closely related to the EFQM model. One of INK's principal views is that organisations that excel are characterised by management willing to take on challenges, a focus on results, continuous improvement, transparency and co-operation.

# First step in name change

## TPG becomes TNT

Last April, shareholders approved the name change of the mail, express and logistics company TPG to TNT. The holding has already been renamed and the company's share on the stock exchanges in Amsterdam, New York, London and Frankfurt is now referred to as TNT rather than TPG.

From 2006, the company will carry out all its business under the brand name TNT. The subsidiary responsible for delivering mail in the Netherlands will be called TNT Post and the corporate colour will change from red to TNT orange.

### Growing competition

The name change was above all prompted by growing competition, making it necessary to operate worldwide under a single powerful brand. The company will become more easily recognisable, strengthening the relationship with its customers. However, the decision to change the name was not simply for communication reasons but also symbolises the closer co-operation between the company's divisions which is already taking shape.

### TNT at a glance



TNT is a global provider of mail, express and logistics services. With headquarters in the Netherlands, TNT employs over 162,000 people in 63 countries and serves over 200 countries.

The company comprises three divisions. TNT's Express division has the biggest integrated express air and road network in Europe. The TNT Logistics division is the second largest logistics company in the world. The most important part of the Mail division is the Dutch national postal operator, which currently operates under the name TPG Post but will soon use the name Royal TNT Post. TPG Post is

still market leader in the largely liberalised Dutch market.

For 2004 the company reported sales of €12.6 billion. In terms of revenue TNT is the fourth largest player in the European postal market after Deutsche Post, La Poste and Royal Mail. TNT operates as a completely private enterprise. TNT N.V. is publicly listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. The Dutch government has sold its majority interest but retains a minority holding (18.6 percent) in TNT.

## VAT-regimes result in market distortion

**In most Member States, the public postal operator is exempted from VAT. Other market parties do not enjoy such an exemption. In an increasingly competitive market, this leads to considerable market distortion.**

In several Member States services within the Universal Service Obligation are VAT exempt. In these countries the market distorting effect of the exemption is directly related to the scope of the Universal Service. With direct mail placed outside the Dutch USO, market distortion here is very limited. In Germany, Denmark, France and Ireland,

direct mail is part of the Universal Service. As a consequence, VAT has a considerable market distorting effect. Unfortunately the Commission's proposal to remove the VAT exemption on

postal services leaving Member States the option of applying either a low VAT rate for the USO or a standard VAT rate for all postal services has not been adopted yet.

Countries	VAT Exemption
Finland, Sweden, Slovenia	None
Austria, Latvia Lithuania	Reserved postal services (monopoly) Letter Mail
Germany, Denmark, Estonia, France, Greece, Ireland, Malta, Netherlands and the Slovak Republic	Universal Postal Service (USO)
Belgium, Cyprus, Czech Republic, Spain, United Kingdom, Hungary, Italy, Luxembourg, Poland, Portugal	All postal services provided by the USP (Universal Service Provider)

Source: WIK Consult, July 2004

# MEP Toine Manders discusses the postal market

## “Running while doing the splits is no easy manoeuvre”

MEP Toine Manders (ELDR) doesn't beat about the bush. “National politicians are out to get re-elected. European objectives do not always run parallel with the interests of a country's electorate, and certainly not in the short term. This gap between European ideals and national interests is hampering the opening up of European markets, and the market for postal services is no exception. Running while doing the splits is no easy manoeuvre after all.”

In 2000, government leaders meeting in Lisbon made ambitious decisions on innovation, European competitive strength and economic growth. Toine Manders finds agreements of this kind and their translation into European Directives too noncommittal. “Politicians far too often put national interests and personal interests, their own re-election, first. And when doing so they sometimes make concessions to the unions, for example, who are at odds with Lisbon. In the longer term this may have a detrimental effect on efficiency, innovation and economic growth.”

### Too much room

Manders believes it would be better if the European Directives were applied more directly in the Member States. “As they are, they leave too much room for interpretation and, accordingly, opportunities for securing national interests. You see this in the postal market too. Take the wide VAT differences between and within the Member States for example. If a different VAT system is used for market parties offering the same services, I see it simply as unfair competition.”

Not all Member States apply the European Directives to their own benefit; the opposite also occurs, something which Manders finds just as undesirable. “Based on a idealistic approach, a country like the Netherlands sometimes goes beyond what is really necessary when it

comes to opening up the national market. This only serves to widen the gaps in Europe, so we'll never achieve the level playing field we are striving for.”

### Competitive strength

Achieving a level playing field is of great importance in Manders' view. Government subsidy and measures to protect national interests do not have a positive effect on the competitive strength of the European market. A free internal market does, however. Toine Manders: “Even in the postal market you see national interests, such as employment, being defended by holding back competition from other Member States. But if you're afraid of competition, you're also afraid of innovation, which is one of the aims of competition. Being

afraid of innovation also means being afraid of economic growth, which does not really fit in with what was agreed in Lisbon to target such growth.”

### Constitutional treaty

Manders is a strong advocate of the European Constitutional Treaty, in line with his wish to accelerate the creation of the internal market. “The Constitutional Treaty will finally make the European Union more transparent. The reformation of the institutional structure that forms the Union will mean that the cloak of charity used all too often to protect national interests will no longer remain invisible.”



Toine Manders

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P.O. Box 30250, 2500 GG The Hague,  
The Netherlands

For information, please contact:  
TPG Post Public Affairs  
Tel +31 70 3343012  
Fax +31 70 3343016  
E-mail [publicaffairs@tpgpost.nl](mailto:publicaffairs@tpgpost.nl)

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