

WAGES AND EMPLOYMENT CONDI- TIONS IN LIBERALISED POSTAL MARKETS

REPORT FOR THE NORWEGIAN MINISTRY OF TRANSPORT AND COMMUNICATIONS |

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INFORMED DECISIONS



COPENHAGEN ECONOMICS

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PREFACE

The Norwegian Ministry of Transport and Communications has asked Copenhagen Economics to examine developments in wages and employment conditions in the postal market in five countries - Sweden, Germany, the Netherlands, New Zealand and the UK - which have undergone full market liberalisation:

“The Ministry of Transport and Communications requires a report which summarises developments in wages and employment conditions in countries with liberalised postal markets.

The Ministry of Transport and Communications asks for developments in the Netherlands, New Zealand, the UK, Sweden and Germany to be included in the report. The report shall assess the development in postal sector employment conditions and wages before and after liberalisation. If there are other conditions connected to the welfare of postal sector employees which are due to liberalisation, these should also be included.”

Our report is based on a literature review and interviews with relevant stakeholders such as incumbent postal operators, their main competitors, and postal sector trade unions. Information from these sources has been complemented with official statistics.

The project manager for this project is partner Ph.D. Henrik Ballebye Okholm. Economist Anna Möller and analyst Hanna Hedlund have been responsible for much of the data work.

Stockholm, August 31st, 2010

Partner, Ph.D. Henrik Ballebye Okholm

EXECUTIVE SUMMARY

The third Postal Directive liberalises all postal services in the EU after 31st December 2010, with a possible extension until 31st December 2012 for 11 EU Member States. Norway has previously implemented the first and the second Postal Directives into national legislation. These Directives have gradually reduced the national postal operator's reserved area, which today only includes the delivery of letters below 50 grams. The third Directive would, amongst other things, eliminate all special and exclusive rights including the reserved area, while maintaining the universal service obligation, whose organisation and financing would be decided at national level.

To decide whether or not to implement the third Postal Directive, the Norwegian Government has requested information about the possible consequences of full market opening. The Norwegian Ministry for Transport and Communications has asked Copenhagen Economics to examine developments in postal sector wages and other employment conditions in five countries with fully liberalised postal markets (Sweden, Germany, the Netherlands, New Zealand and the UK).

We conclude that wages and employment conditions have been affected by liberalisation in two ways depending on the situation before market opening. On one hand, if wages in the postal sector are *similar* to wages in private sectors with similar skill levels prior to liberalisation, there is no room for new operators to offer lower wages and still attract qualified labour. Developments in Sweden and in the UK provide examples of this situation. On the other hand, if wages in the postal sector are above wages in private sectors with similar skill levels (in which case there will be a pre-liberalisation wage premium paid to the employees of the incumbent), new operators will most likely create a downward pressure on wages and other employment conditions towards a more market-based level. Developments in Germany, New Zealand and the Netherlands illustrate this context.

We also conclude that employment conditions – in addition to liberalisation - have been affected by a change in the structure and skill level of postal sector employment due to technological development and decreasing mail volume. New operational structures often require fewer full-time employees and an overall lower skill level than before, leading to a simplification of the tasks performed by postal workers and a subsequent reduction in wages.

Finally, we conclude that overall changes in wages and employment conditions are driven by a combination of several factors, such as pre-liberalisation wage premiums in the postal sector, increased automation, lower mail volume and increased competition from new operators.

OPPSUMMERING

I Det tredje Postdirektivet liberaliseres all postvirksomhet i EU etter 31. desember 2010, med en mulig forlengelse til 31. desember 2012 for 11 EU medlemsland. Norge har tidligere implementert Det første og Det andre Postdirektivet i nasjonal lovgivning. Disse Direktiver har gradvis redusert den nasjonale postoperatørens enerettsområde, som i dag bare inkluderer leveranse av brev under 50 gram. I Det tredje Direktivet elimineres blant annet alle spesielle og eksklusive rettigheter, men samtidig beholdes leveringsplikten, hvis organisering og finansiering blir besluttet på nasjonalt nivå.

For å beslutte om Det tredje Postdirektivet skal implementeres i Norge eller ikke har norske myndigheter etterspurt informasjon om de mulige konsekvenser av full markedsliberalisering. Samferdselsdepartementet har derfor bedt Copenhagen Economics om å undersøke utviklingen i lønn og andre arbeidsvilkår i postsektoren i fem land hvor postmarkedet er fullstendig liberalisert (Tyskland, Sverige, New Zealand, Nederland og Storbritannia).

Vi finner at lønn og arbeidsvilkår er blitt påvirket av liberalisering på to forskjellige måter, avhengig av situasjonen før liberalisering. På den ene siden, hvis lønninger i postsektoren er lik lønninger i privat sektor med lignende kompetansenivå før liberalisering, finnes det ikke rom for nye postoperatører å tilby lavere lønninger og fortsatt tiltrekke kvalifisert arbeidskraft. Utviklingen i Sverige og i Storbritannia er eksempler på dette. På den andre siden, hvis lønninger i postsektoren er høyere enn lønninger i privat sektor med samme kvalifikasjonsnivå (hvilket betyr at de ansatte hos den nasjonale postoperatøren fikk en lønnspremie før liberalisering) vil nye postoperatører med høy sannsynlighet kunne presse lønninger og andre arbeidsvilkår mot et mer markedsbasert nivå. Utviklingen i Tyskland, New Zealand og Nederland illustrerer dette.

Vi finner også at arbeidsvilkår – utover liberaliseringen - er blitt påvirket av en endring i struktur og kompetansenivå hos arbeidskraften innenfor postsektoren. Dette skyldes teknologisk utvikling og redusert postvolum. Den nye operasjonelle strukturen krever ofte færre fulltidsansatte og generelt sett et lavere kompetansenivå enn tidligere. Dette fører til en forenkling av de oppgaver, som postbud skal lage, og en dertil lønnsreduksjon.

Samlet finner vi at endringer i lønninger og arbeidsvilkår generelt er drevet av en kombinasjon av flere forskjellige faktorer, som eventuelle lønnspremier i postsektoren før liberalisering, økt automatisering, redusert postvolum samt økt konkurranse fra nye operatører.

Chapter 1 | BACKGROUND AND LITERATURE REVIEW

1.1. BACKGROUND

In the process of postal market liberalisation, postal operators try to reduce costs and increase efficiency. Due to high labour intensity (on average, labour costs represent 60 percent of European national postal operators' total costs and in Norway the corresponding figure was 53 percent in 2009), an effective way to reduce costs is through layoffs and changes in employment conditions.

This has created a double-sided concern connected to the full liberalisation of the postal sector: On one hand, it is feared that new operators will apply employment conditions inferior to the existing ones, reducing the quality of postal sector employment. On the other hand, there is concern that national postal operators might try to prevent entry by promoting expensive, sector-wide employment standards, creating disproportionate entry barriers.

In this report, we mainly focus on the first aspect, i.e. whether and how liberalisation and increased competition have affected postal sector wages and employment conditions. We have not assessed the likelihood of liberalisation leading to actual or potential competition in Norway.

1.2. LITERATURE REVIEW

The relevant theoretical literature mainly relates to two topics:

1. Deregulation and its effect on wages, and
2. Existing (dominant) operators' incentives to introduce sector-wide standards to raise new operators' labour costs to an entry-deterring level.

Deregulation and wages

In labour intensive sectors, reducing labour costs is a core element in achieving competitiveness. This can be achieved by lowering wages and/or by hiring workers on temporary or fixed-term contracts which are cheaper than full-time contracts.¹ If the incumbent apply above-market wages, it will be possible for new entrants to attract labour at a lower cost.

In one of the first and most widely-cited studies, provided by Card (1986), the author finds that airline mechanics in the US earned essentially the same wage at all airlines prior to deregulation. In contrast, mechanics at the aircraft manufacturer earned 5-10 percent less. Thus, due to above-market prices and rent sharing between the airlines and their workforce, airline mechanics enjoyed a wage premium prior to market opening.

Deregulation of the market encouraged the entry of new airlines. This resulted in reduced employment at the established carriers and created pressure on the wages of airline mechanics towards the wage level paid by comparable firms outside the industry (i.e. aircraft manu-

¹ See e.g. Brandt and Schulten (2007), p. 2

facturers). Five years after deregulation, airline wages were in line with those of manufacturers. That is, the wage premium was eliminated as a result of deregulation.

Another important contribution is provided by James Peoples (1998) in a study covering the trucking, railroad, airline and telecommunications industries. Earlier research had found that pre-liberalisation wages in these industries were at least 14 percent higher than in comparable industries.² Moreover, above-market prices allowed carriers to pass on costs to costumers, which contributed to the rent-sharing and high wages.³

Peoples found that the shift from above-market prices toward competitive pricing makes it unprofitable for employers to pass on higher wages which are not justified by higher productivity. Consequently, in a deregulated industry, larger emphasis on cost savings and the declining power of trade unions put further pressure on moving wages towards the market based level.

Raising rivals' costs

Ex-monopolists' strategies to prevent market entry by forcing other operators to apply sector wide standards and the underlying incentives to raise rivals' costs have been analysed for over forty years. However, the basic conclusions are the same: An established operator applying above-market employment conditions due to a monopoly position has incentives to prevent market-based conditions from emerging in the market.

The issue of "raising rivals' costs" was first examined by Williamson (1968) who argued that an industry-wide wage contract, which increases the costs of relative labour-intense firms to a larger extent than the costs of relative capital-intensive firms, can be used to force labour intensive firms to exit the market.

Fifteen years later, Salop and Scheffman (1981) generalised Williamson's analysis to arbitrary cost functions without altering the basic conclusion: that the increase in wage rate must have a larger impact on competitors' costs than those of the dominant firm in order for the behaviour to be profit-maximising for the dominant firm. This conclusion was later confirmed by Rogerson (1984), who showed that the same behaviour can also be profit-maximizing in a situation with symmetric cost conditions.

The models developed in the 80's are very generic and are not tailored to any particular industry sector. However, when the German letter monopoly was about to be abolished and wages at new operators were noted to be far lower than those at the former monopolist, interest in the topic of raising rivals' costs and its possible effects on competition regained interest, now in a postal specific setting.

² Hendricks, W. (1994)

³ James, A. (1973), Ehrenberg, R. (1979), Moore, T.G. (1986)

Shilov and Tourovsky (2008) adapted the dominant firm behaviour model to the context of minimum wages determined by state law in the postal sector. Their model assumes that the dominant firm has a labour-intensive production function, but a cost advantage relative to its competitors (e.g. a well-established network, advanced logistics, and/or superior knowledge accumulated over time). The authors demonstrate that any wage increase increases the market share of the dominant company (up to a certain limit depending on the cost advantage factor). Thus, with the assumption of a cost advantage, the dominant firm's profits will decrease in the short run, but that of its competitors will decrease even further. Consequently, a minimum wage in this model affects the development of competition in the short run and might potentially reinforce the position of the dominant firm in the long run.

The most recent research in this area is provided by Wey and Heitzler (2010) who, in their paper based on the German postal market case, analyse the bargaining problem of an incumbent firm and a union when the wage contract becomes generally binding for the entire sector. They show how minimum wage legislation in the form of a collective labour agreement, extended to cover all operators in the sector, can be used to deter entry or to drive existing competitors out of the market.

Chapter 2 SWEDEN

The main part of our analysis of postal sector wages and employment conditions in Sweden is based on three interviews with representatives from relevant stakeholders in the Swedish postal market: The former monopolist (Posten AB), its main competitor (CityMail), and the trade union representing employees at both operators (SEKO). This input is complemented with information provided by previous studies and official statistics.

2.1. MAIN FINDINGS

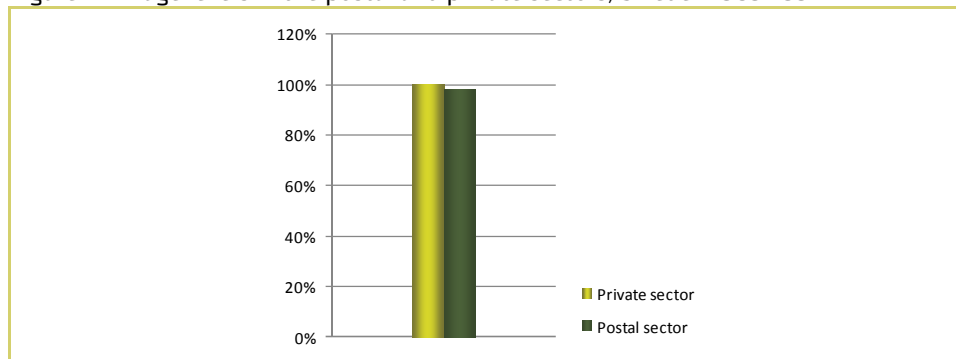
We do not find that wages and employment conditions in the Swedish postal sector have been significantly affected by the liberalisation of the market, mainly due to the fact that wages in the postal sector were already at a market-based level prior to liberalisation. However, we do observe a slight decrease in postal sector wages after liberalisation, going hand in hand with changes in the age composition and educational qualifications among postal sector employees.

We conclude that this development is due to the long tradition of collective bargaining and a strong culture of industrial relations in Sweden. This has promoted market-based pre-liberalisation employment conditions at the national postal operator, Posten AB, and it has also prevented new operators from wage dumping.

2.2. SITUATION BEFORE MARKET OPENING

In the late 1980's and early 1990's, before the Swedish postal market was opened up to competition, wages were regulated by a central public sector collective agreement. Despite the fact that Posten was the only postal operator until 1991, we note that postal sector wages at that time were slightly lower when compared with wages in the private sector, cf. Figure 2.1.

Figure 2.1 Wage levels in the postal and private sectors, Sweden 1989-1991



Source: Copenhagen Economics based on SOU 2005:4

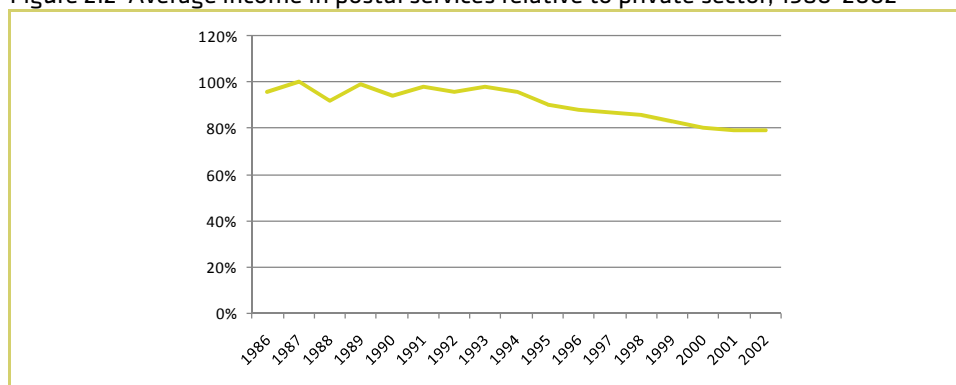
This observation indicates that there was, most likely, no wage premium in the Swedish postal sector prior to market opening.

2.3. DEVELOPMENTS AFTER MARKET OPENING

On January 1st 1993, the Swedish postal market was fully opened up to competition. However, CityMail (the operator which is still Posten's main competitor) had already started its distribution of industrial mail in Stockholm in 1991. One year after liberalisation, Posten was corporatized, meaning that the central public sector collective agreement was exchanged for a private sector agreement. Whereas existing employees were guaranteed the employment conditions in the old agreement, the agreement for new employees included employment conditions adapted to the private sector, such as a higher age of retirement and fewer annual vacation days.

When analysing the changes in wages in the postal sector, we observe a slight decline in average wages in the years after market liberalisation, cf. Figure 2.2.

Figure 2.2 Average income in postal services relative to private sector, 1980-2002



Source: Copenhagen Economics based on SOU 2005:4

However, we also observe that the structure of employment in the postal sector in the same time period changed relative to that in the private sector. Between 1989 and 2000 we note an increased difference in educational level between the postal and the private sector. One can observe a larger proportion of primary level education and a lower proportion of secondary level education among workers in the postal sector relative to the private sector. We also observe a shift in age structure, with a significant decrease in employees aged 25-44 and an increase in employees below 25 years old in the postal sector relative to the private sector, cf. Table 2.1.

Table 2.1 Conditions in the postal vs. private sector, Sweden 1989-2000

Parameter	Postal vs. private sector, change in percentage points, 1989-2000
Wage	-9
Employees with primary education	+20
Employees with secondary education	-18
Employees < 25 years old	+6
Employees 25-44 years old	-14

Source: Copenhagen Economics based on SOU 2005:4

This change in postal sector employment structure is most likely explained by two factors: Increased automation (reducing the need for skilled full-time employees) and CityMail's business model, which consists of hiring mainly young people without higher education to distribute post by bicycle three days a week in larger cities.

Except for wage changes, changes in employment conditions also include changes to working time, pension benefits, compensation schemes or holiday allowances. In the Swedish postal market, the main change in this respect has concerned work-time flexibility. Whereas all employees at Posten have to work eight hours per day since 1993, the employees at CityMail were subject to an arrangement of "over time" and "under time" until 2007, when they could work more than eight hours one day, and less than eight hours the next. The hours of "over time" were set off against the hours of "under time", without extra compensation.

This arrangement did not affect the work-time flexibility applied at Posten. Overall we find that differences in employment conditions between Posten and CityMail have been eliminated over time. In most cases, the conditions at CityMail have been aligned with those at Posten, rather than the other way around. However, we also find examples where the conditions at Posten have been adjusted upwards to a level more in line with those applied at CityMail. That is, we find that wages and employment conditions applied in the postal sector prior to liberalisation have not been negatively affected by the full market opening, but have remained at the market-based level.

Our interviews reveal that changes in employment conditions introduced at Posten after liberalisation (such as the introduction of the eight hour working day) had already been considered necessary earlier, but due to strong industrial relations, Posten's monopoly position and the lack of a revenue target, it had been difficult to bring about change. CityMail's market entry (which eliminated the monopoly argument) and the upcoming corporatization with a predefined revenue target changed this situation. In other words, competition was the tool, rather than the underlying reason, to achieve structural change at Posten.

We conclude that the reason for non-existing wage premium prior to liberalisation and the similar wages and employment conditions applied by all operators is, to a large extent, due to the strong tradition of industrial relations in Sweden, cf. cf. Box 2.1.

Box 2.1 Strong industrial relations in Sweden explained

There are mainly three reasons why the collective bargaining situation in Sweden is rather different to many other European countries:

1. Trade unions always have the right to take industrial action to enforce an employer to sign the most relevant existing agreement.
2. If, for some reason, the employer refuses to sign such an agreement, the trade union can call a strike for its members at the workplace, and if there are no union members, it can still take industrial action, mostly by boycotting the firm. Consequently, the scope for wage dumping by new operators in the Swedish market is practically eliminated.

3. The existence of close co-operation and transparency in the negotiations between trade unions and postal operators is the main reason for the smooth process of reorganisation and the absence of conflicts, despite large lay-offs and changing working conditions:

"As an employer, Posten has a duty to negotiate with the unions before it makes decisions on major organizational changes. There is no minimum notice period regulated by contract. The Collaboration and Employee Participation Agreement includes provisions on addressing other notice issues. The Agreement states that unions shall receive information at an early stage and shall have the opportunity to exert influence in order to increase understanding and participation in the changes that take place at Posten."

Source: Posten's Sustainability Report 2008, p.14

Source: Brandt and Schulten (2007), Posten (2008)

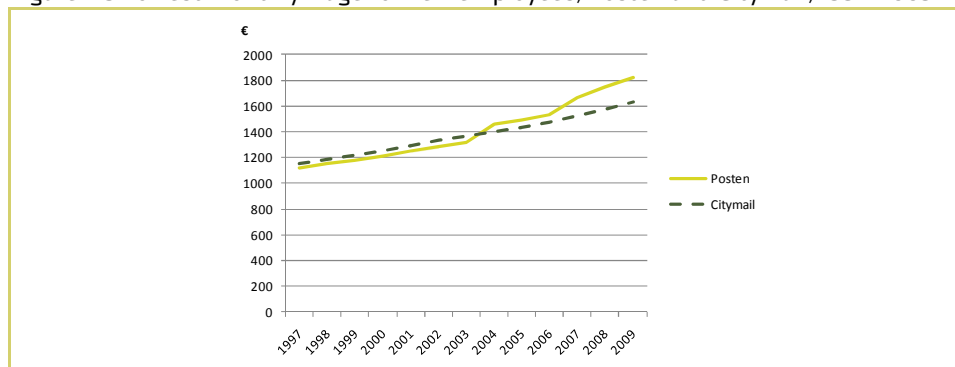
When CityMail entered the market in 1991, SEKO immediately started to recruit employees from CityMail. One year later, the first collective labour agreement was concluded. Despite a very low unionisation rate (after more than 15 years still not above 50 percent), the agreement covered all CityMail's employees. Although the collective labour agreement is negotiated between the same trade union and employers' association as in the case of Posten, there is no industry-wide agreement in place. This, in combination with the fact that explicit wage levels are negotiated locally, means that the two operators could, in principle, apply different employment conditions.

Nevertheless, we conclude that the wage conditions at CityMail and Posten are very similar. Both employees have a regulated minimum wage and predefined wage increases in the first years of employment (one year at Posten and two years at CityMail due to the larger turnover among CityMail's employees⁴), thereafter all wages are negotiated individually.

We observe that minimum wages at Posten and CityMail have been almost identical as far back as we have been able to obtain data, cf. Figure 2.3.

⁴ The larger employee turnover at CityMail is mainly explained by the age structure of its work force, consisting mainly of young employees.

Figure 2.3 Lowest monthly wage for new employees, Posten and CityMail, 1997-2009



Note: Estimations based on percentage wage increases

Source: Copenhagen Economics, based on Posten's and CityMail's collective labour agreements.

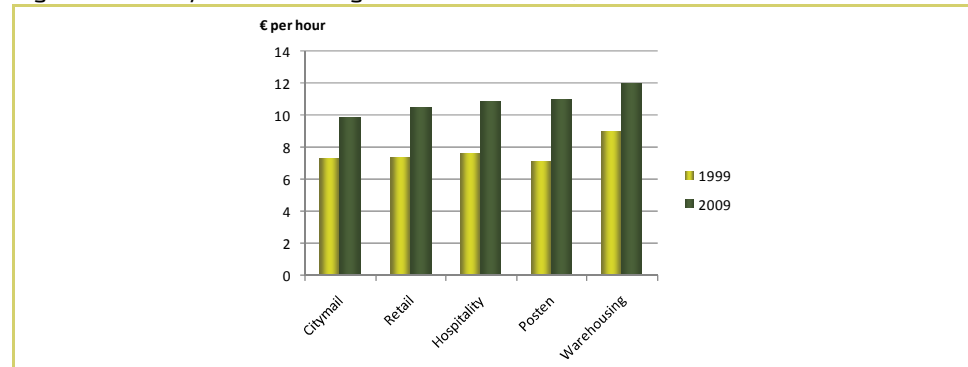
This picture supports the statements made in our interviews - that there is no competition as regards wages in the Swedish postal market. Throughout the period depicted in Figure 2.3, there have only been two occasions in which the aforementioned pattern in wages between the employers has differed. In both cases, these discrepancies can be explained by the negotiations conducted by SEKO.⁵

Our findings so far indicate that wages in the Swedish postal sector are market based and similar across operators. As a final test, we compare the current postal sector wage level with wages in other sectors hiring workers with the same skill level to detect any systematic differences. If collective bargaining has forced CityMail to apply wages above the market-based level, we would expect postal sector wages to be higher compared to other sectors with similar skill levels. If CityMail has dumped wages in the postal sector, we would expect postal sector wages significantly below those in comparable sectors.

However, what we do observe is that wages at CityMail and Posten over a period of ten years correspond to those applied in the other sectors, cf. Figure 2.4.

⁵ The disproportionate increase in wages at Posten compared to Citymail in 2004 is explained by the fact that SEKO suddenly noticed that the Posten's minimum wage was effective (i.e. Posten had not been able to hire employees at this wage before). SEKO therefore considered it crucial to negotiate a higher initial wage level. The larger wage increases at Posten in 2007 are explained by the fact that SEKO's negotiations with Citymail in 2007 mainly focused on working time conditions, providing less room for wage increases.

Figure 2.4 Hourly minimum wage in various sectors, 1999 and 2009



Note: The wage comparison is made for employees that are at least 18 years old

Source: Handelsanställdas förbund (2009), Almega Tjänsteförbunden and SEKO (2007), Posten (2007), HRF (2009)

Based on this, we conclude that wages and other employment conditions have not been significantly affected by the liberalisation of the Swedish postal market and that market opening has neither led to wage dumping, nor to an entry deterring wage level in the postal sector.

Chapter 3 GERMANY

Most of our analysis of developments in Germany is based on interviews with representatives from three relevant stakeholders in the German postal market: The national postal operator (Deutsche Post AG), one of its main competitors (TNT Post) and the trade union representing the majority of employees in the sector (ver.di). This input has been complemented with an interview with a representative from the Hans Böckler Foundation⁶ and data from previous studies and official statistics.

3.1. MAIN FINDINGS

We find that liberalisation of the German postal market has put pressure on wages and other employment conditions towards a market-based level. Prior to liberalisation, postal workers employed by the incumbent, Deutsche Post AG (DPAG), enjoyed a wage premium which was only partly reduced by the introduction of a two-tire structure with new employment conditions for new employees in 2000. The lower wages only apply to workers hired after 2000, whereas workers hired before 2000 were relatively unaffected.

We also find that new postal operators apply labour contracts with wages and employment conditions more in line with those in other private sectors with a similar skill level. To remain competitive in this new setting, DPAG has created a subsidiary, First Mail, applying the same wages and employment conditions as the low-cost competitors. However, the employment conditions at the mother company itself seem to remain disproportionately good in relation to the skill level of the tasks performed.

3.2. SITUATION BEFORE MARKET OPENING

The liberalisation of the German postal market began in 1998 with a new postal law which foresaw the gradual shrinking of the incumbent's reserved area. In 1999, the new operator Briefdienstleistungsunternehmen PIN intelligente Dienstleistungen AG (PIN AG) was founded and in 2001 the Dutch operator TNT Post entered the German postal market. To be able to compete with DPAG, with an established network and strong brand recognition, the new operators introduced alternative business models. These included, for instance, delivery only a few days per week due to low volumes, lower wages, and a higher share of part-time or "mini job" contracts in delivery.

A "mini job" is a contract type common for secondary jobs or for people who are not able to work more than only a few hours per week. The earnings from a mini job (which cannot exceed 400€ per month) are tax-free and the employer pays a lump sum of 30 percent (covering health insurance, pension fund and wage tax) to the insurance association. Whereas DPAG only employed 0.8 percent of its workforce on mini job contracts in 2001, this kind of employment dominated at many of its competitors (on average, approximately 60 percent of employees at the new operators were hired on mini job contracts in 2001).

⁶ The Hans Böckler Foundation deals with co-determination, research linked to the world of work and the support of students on behalf of the DGB, the Confederation of German Trade Unions.

On one hand, it can be argued that mini jobs are inferior to full-time or other part-time jobs due to the few hours worked. Alternatively, mini jobs provide opportunities for people who are not able to, or do not want to work more than only a few hours every week. Thus, mini jobs provided by the new postal operators do not necessarily decrease the quality of employment in the sector since there are people who prefer these jobs to ordinary full-time contracts.

To adapt to this new context and prepare for further liberalisation, DPAG introduced a two-tire employment structure in 2000 where new postal workers were hired under a new collective labour agreement with a wage level oriented at the conditions in the logistics sector (approximately 30 percent lower than the existing one). Except the change in wage level, the new agreement also included a change in bonus schemes, pension schemes and other benefits. Employees hired before 2000 received an income guarantee, warranting them the same wages and employment conditions as before.

Nevertheless, we observe that DPAG's employment conditions seven years later (one year prior to full market opening) still were above those applied by its competitors. Among other things, the lowest pay level at DPAG was approximately 70 percent higher than the lowest pay level at the competitors, and there were significant differences regarding pension benefits, annual vacation, and the structure of employment, cf. Table 3.1.

Table 3.1 Employment conditions at DPAG and competitors, 2007

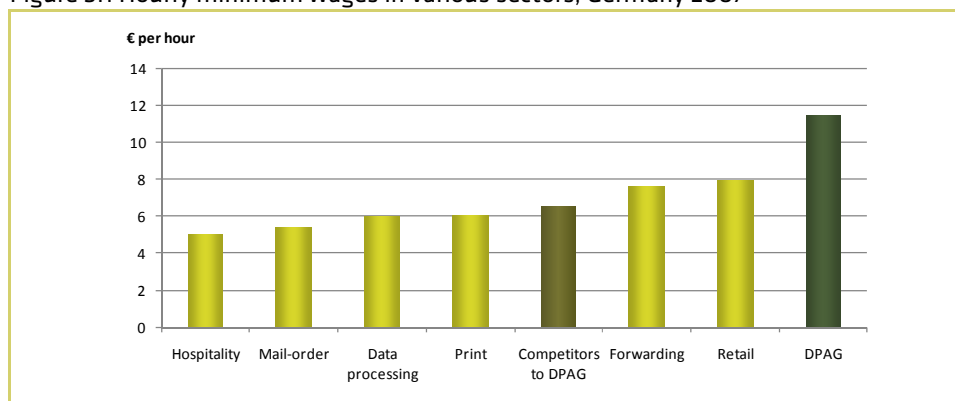
Employment condition	DPAG	Competitors
Collective agreement	Company level	Mostly not applied
Lowest wage applied	11.4€/hour*	6.54 €/hour
Weekly working hours	38.5	38.8
Annual vacation days	28	22.9
Share of full-time employees	59%	22%
Share of mini jobs	5%	53%
Pension benefits	Yes	No
Holiday allowance	Yes	No
Christmas allowance	Yes	No

*Note: *inclusive holiday and vacancy pay*

Source: Copenhagen Economics based on Dieke and Zauner (2007), Dieke and Wojtek (2008), Wey and Heitzler (2010), Bundesnetzagentur (2009), Verdi (2010), Brandt and Schulten (2007)

To assess whether the observed wage difference indicates wage dumping by the new operators or a wage premium enjoyed by the workers at DPAG, we compare minimum wages in the postal sector to minimum wages in a number of sectors with a similar skill level. When doing this, we observe the wages applied by the new operators to be well in line with those in comparable industries, cf. Figure 3.1.

Figure 3.1 Hourly minimum wages in various sectors, Germany 2007



Source: Copenhagen Economics, based on Dieke and Zauner (2007), Brandt and Schulten (2007)

Based on this, we conclude that prior to market opening, postal workers at DPAG probably enjoyed a pre-liberalisation wage premium which provided the new operators with a comparative labour cost advantage. However, a clause in German law⁷ allowing the extension of a company labour agreement to the entire sector if this would be in the interest of the majority of employees, provided DPAG with an opportunity to reduce the comparative advantage of its rivals by raising their labour costs to a level closer to its own.

Consequently, in August 2007 (four months before full market opening) a new employers' association (AGV Postdienste)(dominated by DPAG and its subcontractors) was created. One month later, a collective labour agreement stipulating hourly minimum wages of 8.00-9.80€ per hour (clearly above the level applied by the new operators and intended to serve as reference for a sector-wide minimum wage) was signed with the trade union ver.di.

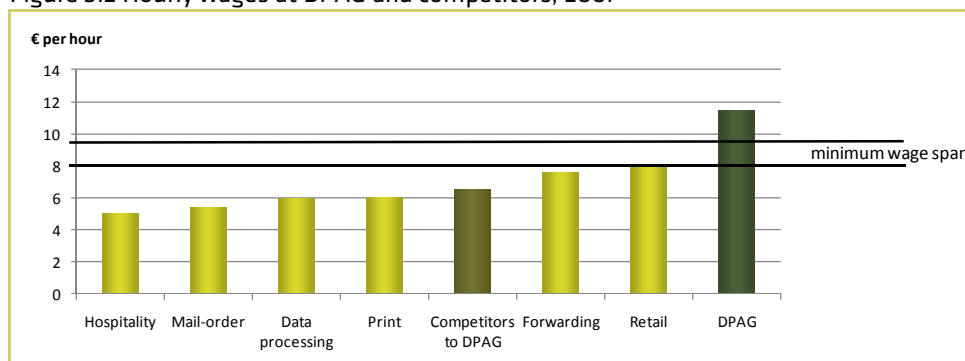
As a direct response to this, the new operators established their own employers' association, AGV Neue BuZ, signing a collective labour agreement with the new trade union GNBZ. The minimum wage agreed upon (6.50-7.50€ per hour) was filed as an alternative proposal to the sector minimum wage.⁸

In December 2007, the German government declared the wage agreement between ver.di and AGV Postdienste generally binding for all mail service providers as from 1st January 2008. In practice, this meant that all postal service operators whose main business activity was the collection, transport and delivery of addressed mail up to 1 kg, were obliged to apply a minimum wage per hour between 8.00€ (applying to sorting staff in Eastern Germany) and 9.80€ (applying to all postal workers in Western Germany), a minimum wage level significantly above the existing one at the new operators, cf. Figure 3.2.

⁷ Called the "Allgemeinverbindlicherklärung"

⁸ In 2008, the labour court of Cologne declared that GNBZ, due to its insufficient independence from employers, has not the legal standing as a trade union and thereby cannot sign collective labour agreements.

Figure 3.2 Hourly wages at DPAG and competitors, 2007



Source: Copenhagen Economics, based on Wey and Heitzler (2010), Brandt and Schulten (2007)

3.3. DEVELOPMENTS AFTER MARKET OPENING

Almost immediately after the implementation of the new minimum wage level, PIN AG claimed that the minimum wage forced them to carry out large lay-offs.⁹ This action was followed by a complaint at the Berlin Administrative Court against the minimum wage ordinance, filed by PIN AG and some of DPAG's other main competitors. Two months later, the minimum wage was declared invalid, but the decision was brought to appeal and the case was handled by various courts before a final ruling in favour of the plaintiffs was issued by the Federal Administrative Court in January 2010. The conclusion reached was that the federal government had infringed the rights of the plaintiffs by not hearing them out and the plaintiffs were released from the obligation to pay the minimum wage.

The latest contribution to the minimum wage debate is a statement made by the employers' association AGV Neue BuZ in July 2010, stating that they do not intend to enter into any new negotiations regarding a sector-wide minimum wage for postal workers.¹⁰ Moreover, our interviews have revealed that the introduction of a new, sector-wide minimum wage is not considered very likely by the stakeholders in the market.

This means that wages and employment conditions in the German postal market will continue to be governed by separate collective labour agreements across operators and with a two-tire structure within DPAG.

When focusing on the development of wages and employment conditions at DPAG over time, we do not find any significant changes after 2000 when the two-tire structure was introduced, differentiating the employment conditions between new and old employees. Today, DPAG pays its postal workers a minimum wage of 11.24€ per hour. This is still ap-

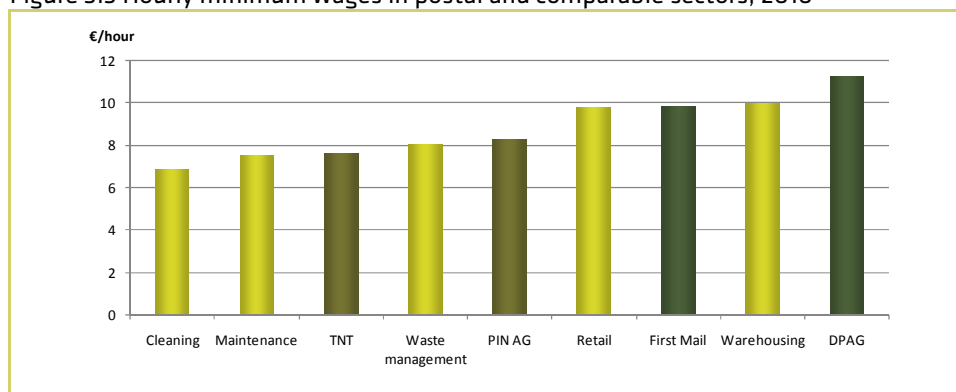
⁹ This has also been a topic of debate as there are signs indicating that the large lay-offs at PIN AG also were the result of poor management and an inappropriate business model with delivery in unprofitable remote areas and little innovation.

¹⁰ Neues Deutschland (2010)

proximately 40 percent above the level at the new operators such as TNT and PIN, cf. Figure 3.3.

To compete with low-cost competitors, DPAG has set up its own subsidiary, First Mail, applying wages slightly above the other new operators and close to those found in retail and warehousing. First Mail is mainly active in the delivery of unaddressed items, but does also provide delivery of addressed items and of official letters from public authorities. The postal workers' minimum wage at First Mail is 9.80€ per hour, approximately 11 percent below the wage paid at the mother company.

Figure 3.3 Hourly minimum wages in postal and comparable sectors, 2010



Note: The minimum wage paid to postmen at DPAG does not include holiday allowance and productivity benefits, meaning that the actual pay difference might be larger than represented in Figure 3.3.

Source: ver.di (2010), Interview with representatives from ver.di.

The decrease in wage differences (from 70 to 40 percent) between DPAG and the new operators or comparable sectors in the years following full market opening indicate a movement towards more market-based wages in the postal sector. However, workers at DPAG still seem to enjoy a wage premium.

We observe that neither wages nor other employment conditions have changed at DPAG since the introduction of the two-tire structure in 2000. The convergence between DPAG and its competitors is therefore due to larger improvements in wages and other employment conditions at the new operators. Since the introduction of the new collective labour agreement annual vacation, weekly working hours, compensation schemes and the provision of training have not changed. On the other hand, we observe that the non-wage employment conditions of the new operators have come closer to DPAG after the introduction of collective labour agreements among its workers. Today, pension benefits, holiday allowances and Christmas allowances are also common among the new postal operators, cf. Table 3.2.

Table 3.2 Employment conditions at DPAG and competitors, 2010

Employment condition	DPAG	Competitors
Collective agreement	Company level	Present at some competitors since 2008
Minimum wage	11.14 €/hour	7.6-8.30 €/hour
Weekly working hours	38.5	40
Annual vacation days	26-30 (age related)	21-28 (seniority related)
Share of full-time employment	58%	25%
Share of mini jobs	4%	52%
Pension benefits	Yes	Yes
Holiday allowance	Yes	Yes
Christmas allowance	Yes	Yes

Source: Copenhagen Economics based on ver.di (2010) and interview with Deutsche Post

One change we do observe at DPAG is a slight shift from full-time to part-time employment contracts. However, this structural change is more the result of increased automation and lower mail volumes (decreasing the need for full-time employees) than a consequence of liberalisation or competition. Our interview with representatives from DPAG tells the same story: the observed decrease in wages and employment conditions at DPAG in 2000 and the subsequent convergence to the level applied by new operators and in similar sectors were not driven by the entry or threat of competition. Instead the development was driven by existing above-market conditions and it is a sign of adaption to more market-based conditions.

Chapter 4 NETHERLANDS

Our analysis of the Dutch postal market is based on interviews with representatives from three relevant stakeholders in the Dutch postal market: The former monopolist (TNT Post), its main competitor (Sandd), and the trade union representing the majority of employees in the sector (AbvaKabo). This input is complemented with information found in both previous studies and official statistics.

4.1. MAIN FINDINGS

We find that liberalisation of the postal market and the entry of low-cost competition, in combination with structural changes stemming from declining mail volumes and increased automation have put a pressure on wages and employment conditions in the Dutch postal market. Market liberalisation has promoted the entry of low-cost operators with wages and other employment conditions considerably below those applied by the national postal operator TNT Post. This has put pressure on the wages adopted by TNT Post, which prior to liberalisation were likely to have been excessively high when compared to the skill level of tasks performed.

Moreover, a simplification of the tasks performed by postal workers has encouraged TNT Post to change the structure and reduce the skill-level of its workforce by introducing a new employee category – the mail deliverer. The employment conditions in the new mail deliverer contracts are not equivalent to those of the traditional postal workers (i.e. a two-tire structure has been introduced). However, due to the existence of a pre-liberalisation wage premium at TNT Post, we interpret this development as an adaption to market-based conditions with wages and other employment conditions which are more appropriate to the skill-level required.

Finally, we find that wages applied by new operators do not always correspond to the national minimum wage, which might indicate attempted wage dumping in the sector. The measures introduced to prevent this development have so far been unsuccessful, but the situation might change if the foreseen governmental decree is implemented in 2011.

4.2. SITUATION BEFORE MARKET OPENING

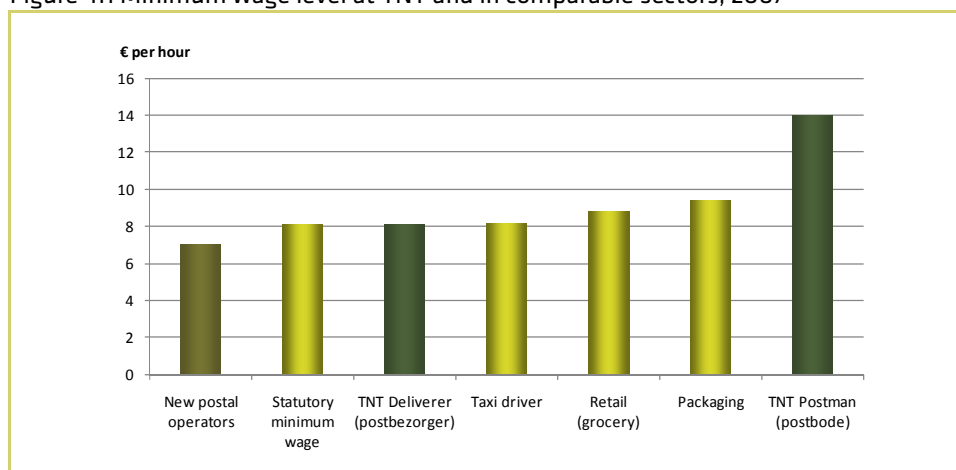
The full liberalisation of the Dutch postal market took place in April 2009. However, the process had already started in the late 90's, followed by the entry of two new postal operators into the market, Sandd and Selekt Mail. These two operators presently remain the main competitors to TNT Post (which also have established an own subsidiary Netwerk VSP, competing directly with Sandd and Selekt Mail in the market for non-time critical mail).

The business strategy of the new postal operators is based on delivery 1-2 days a week, performed by self-employed part-time deliverers without ordinary labour contracts and with wages and employment conditions below those applied at TNT Post. According to the new operators, this type of strategy is necessary in order to build up a delivery network based on

initially small volumes that vary considerably with the weekdays. The self-employed deliverers are paid on a per piece basis, and neither enjoy pension benefits, holiday or illness allowances nor social protection.

To assess whether the wages paid to the self-employed constitute wage dumping in the sector, or if the pre-liberalisation wages paid at TNT Post can be interpreted as a wage premium, we compare wages in the postal sector with wages in other sectors hiring workers with the same skill level. We observe that low-skill sectors often apply a minimum wage close to, or slightly above the statutory one, whereas the wage level of traditional postal workers lies considerably above this and the wages at the new operators lie below, cf. Figure 4.1.

Figure 4.1 Minimum wage level at TNT and in comparable sectors, 2007



Source: TNT Post (2010), Schulten and Watt (2007), Collective labour agreements for taxi drivers, retail and packaging from www.salaris-informatie.nl

That the wages paid to self-employed workers were below the statutory minimum level was discovered in a governmental investigation of the employment conditions in the postal sector in 2007. Consequently, the new operators promised to revise the per-piece rates paid to ensure that they correspond to the statutory minimum level. A follow-up investigation is currently underway to assess whether this promise has been kept.

The observation in Figure 4.1 indicates two things:

- New operators are engaging in wage dumping;
- Postal workers at TNT Post enjoyed a wage premium prior to full market opening.

To avoid inferior employment conditions in a fully liberalised postal sector, the Dutch trade unions negotiated an agreement with the new operators in 2008, stating that the use of self-employed deliverers must be phased out over a number of years according to a specified time-table.

With an above-market wage level for traditional postal workers and low-cost pressure from new operators (together with structural changes stemming from declining mail volumes, process automation and changes in the tasks and skill level in mail delivery), TNT Post started a restructuring process to increase its efficiency and competitiveness in 2003. This on-going process has the goal of changing TNT Post from a predominantly full-time organization to a predominantly part-time organization where the main focus will lie on three peak-delivery days per week (however, delivery will still be conducted six days a week).

The main change in this process has been the introduction of a completely new type of employee – the mail deliverer (postbezorger). In contrast to traditional postal workers (postbodes), the postbezorgers are hired on a part-time basis and *only* perform delivery tasks. That is, they never enter the premises of TNT Post but collect the pre-sorted mail batches from depots along the delivery route.

Wages and other employment conditions of the postbezorgers are inferior to those of the traditional postal workers. Wages are close to the national minimum and equivalent to those found in comparable sectors hiring people with the same skill level. Due to the evolution of electronic communication and new payment measures, mail delivery no longer includes tasks such as delivery of pension payments or special items. This has reduced the skill level required and consequently also the applicable wage level.

4.3. DEVELOPMENTS AFTER MARKET OPENING

Today, seven years later, the postbezorgers make up approximately 30 percent of the total delivery workforce at TNT Post (another 30 percent consists of Saturday deliverers and the remaining 40 percent are traditional postal workers). At competing operators, the self-employed contract still predominates. In April 2010, the share of self-employed personnel hired by the new operators was 99.5 percent, a share far above the 86 percent agreed upon in the pre-liberalisation agreement with the trade unions.

According to our interview with representatives from Sandd, the failure to meet the requirement of 14 percent labour contracts in 2010 was due to the fact that the self-employed (who had the opportunity but not the obligation to switch contract type) refused the ordinary labour contract in favor of their existing status as self-employed. Today, the share of ordinary labour contracts at Sandd amount to 5 percent.

Due to the failure of this agreement (interpreted as a failure to prevent wage dumping due to the below-minimum wage conditions applied), the Dutch government now has the option to put an administrative decree into effect as of 1 January 2011. With this decree all companies active in the distribution of mail either must have a collective labour agreement with a phasing-out model for self-employed staff or they have to offer ordinary labour contracts to *all* employees. However, as the business model of the new operators largely rests on self-employed contracts, there is a risk that the decree would affect their competitive strength.

Therefore, there is still some uncertainty as to whether the decree will come into effect or not.

According to the new operators, the introduction of 100 percent ordinary labour contracts would lead to bankruptcy. The volumes handled are still too low and varied to warrant more delivery days or regular part-time employment. Additionally, they argue that the working conditions of self-employed staff are attractive to certain labour groups such as students, housewives and retirees who enjoy greater flexibility and few working hours per week. Finally, there is also a fear that the requirement of full labour contract coverage would deter market entry due to the fact that all new competitors in the mail market start with small volumes and high investment models which are difficult to finance on the basis of ordinary full- or part-time employees.

When comparing wages and employment conditions across the two¹¹ contract types existing at TNT Post and the new operators, we observe that the conditions of the TNT postbezorgers are the most market-oriented, lying somewhere between the self-employed and the postbodes, cf. Table 4.1.

Table 4.1 Employment conditions at TNT and competitors, 2010

Employment condition	TNT Postbodes	TNT Postbezorgers	Self-employed deliverers
Collective agreement	Yes	Yes	Only applies to 0.5% of the deliverers
Minimum wage	15 €/h	8,71 €/h	7 €/h (national minimum wage for those who are covered by CLA)
Payment scheme	Per hour	Per hour	Per piece
Contract type	Full-time	Part-time	Part-time
Weekly working hours	37	38	40
Annual vacation days	26	20	20
Share of total delivery staff	40%	60%	100%
Pension benefits	Good	Yes, but below those of postbodes	No
Holiday allowance	Yes	Yes	No
Social benefits and insurance	Yes	Yes	No
Protection against dismissal	Yes	Yes	No

Note: The share of postbezorgers in total delivery staff also includes Saturday deliverers (*Zaterdag bestsellers*) who receive a higher hourly wage but otherwise have the same employment conditions as the postbezorgers.

Source: Interviews with representatives from TNT Post and AbvaKabo

Based on these observations, we conclude that liberalisation of the postal market and the entry of low-cost competition in combination with structural changes stemming from declining mail volumes and increased automation have moved employment conditions at TNT Post towards more market-based levels.

¹¹ Here, the TNT Post Saturday deliverers are discussed jointly with the weekday deliverers since the only difference in employment conditions is a higher rate of pay at the weekend.

Chapter 5 NEW ZEALAND

Most of our analysis of developments in the New Zealand postal market is based on interviews with representatives from three relevant stakeholders: the former monopolist (NZ Post Ltd.), its main competitor (DX Mail) and the trade union representing employees in the sector (EPMU). This input is complemented by information from previous studies and official statistics.

5.1. MAIN FINDINGS

We note that postal workers in New Zealand have traditionally enjoyed a wage premium and fairly generous non-wage employment conditions due to the monopoly position of the national postal operator, New Zealand Post (NZ Post). This wage premium has, over the years, been reduced and wages and employment conditions of postal sector workers have converged towards a more market-based level. This development started a decade before liberalisation when NZ Post was transformed into a State-Owned Enterprise to be run as a commercial company, but with the liberalisation of the postal sector and the entry of low-cost operators, the pressure on postal sector wages and employment conditions towards a market-based level has increased even further.

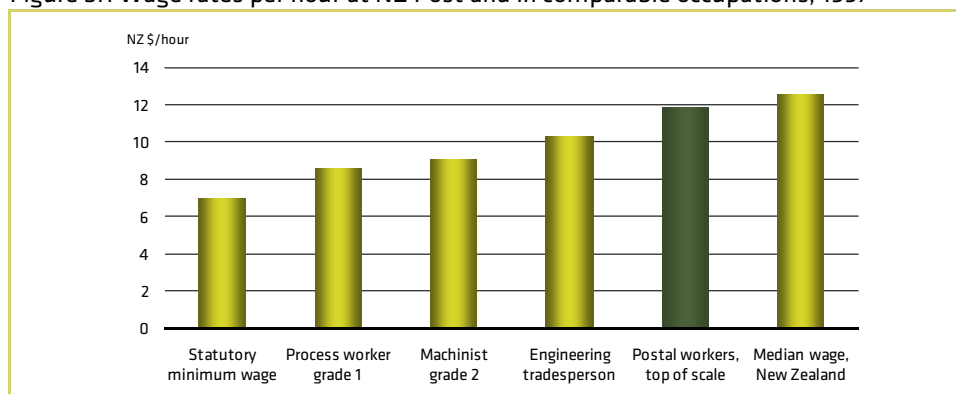
5.2. SITUATION BEFORE MARKET OPENING

The New Zealand postal market was fully liberalised in 1998. However, as early as 1987, the national postal operator was restructured, creating NZ Post Ltd, a State-Owned Enterprise operating with a revenue target. In the following years several post offices and agencies were closed and significant staff reductions were made. From 1987 until the liberalisation of the postal market in 1998, the number of full-time equivalents fell by 43 percent.¹²

Despite significant restructuring measures we observe that the wage received by workers at NZ Post in 1997 (after 10 years of NZ Post being run as a commercial company and just before the full market opening) was between 15 and 38 percent higher than wages in occupations with a similar skill level in the metal industry and approximately 70 percent above the statutory minimum wage, cf. Figure 5.1.

¹² Kenny (2006)

Figure 5.1 Wage rates per hour at NZ Post and in comparable occupations, 1997



Note: Engineering trades person, Machinist and Process worker all working in the Metals industry. Postal workers, top of scale – maximum wage rate for postal worker, usually achieved after 3–4 years of experience.

Source: Copenhagen Economics, based on Kenny (2006)

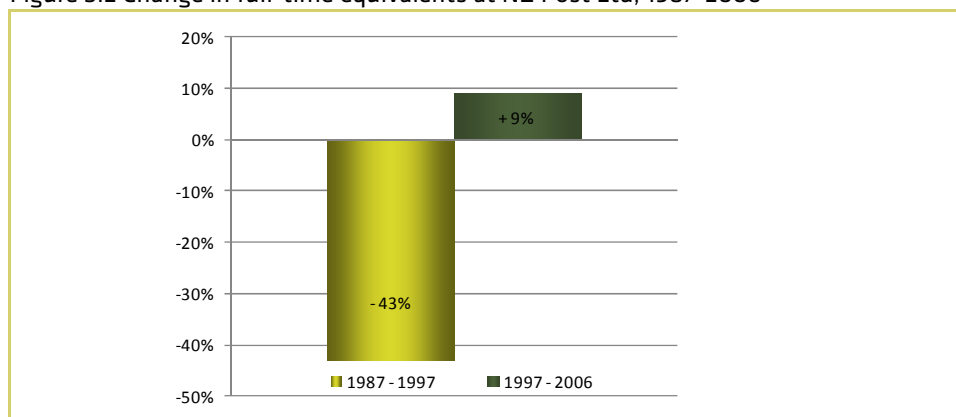
These differences do most likely indicate a wage premium enjoyed by the workers at NZ Post prior to liberalisation. Moreover, non-wage conditions from the time when all postal workers were civil servants still ensured generous provision of parental leave and training for employees at NZ Post.

5.3. DEVELOPMENT AFTER MARKET OPENING

Since the liberalisation of the NZ postal market in 1998 a number of operators have come and gone or merged. By 2006 there were 27 operators competing with NZ Post in various segments of the market. This number has remained fairly stable and currently there are 25 alternative operators, holding some 20 percent of the total market.

To remain competitive in the liberalised market, NZ Post has diversified its activities (into international operations, for example). As a consequence, the number of full-time equivalents increased by approximately 9 percent between 1997 and 2006, cf. Figure 5.2. However, this increase does not compensate for the decline in the years prior to liberalisation.

Figure 5.2 Change in full-time equivalents at NZ Post Ltd, 1987-2006



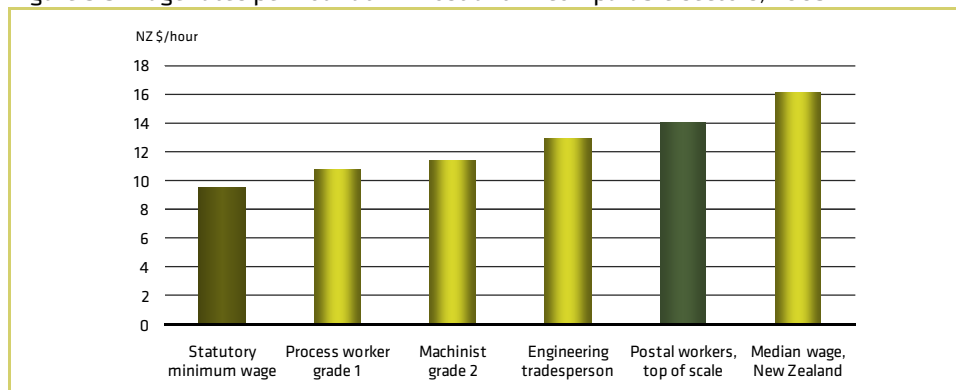
Source: Copenhagen Economics, based on Kenny (2006)

Although the postal market has been fully open to competition for over ten years, most alternative operators still do not have their own processing and delivery networks. Instead they compete on customer service, marketing, retail distribution and postage production costs, using NZ Post's delivery network of. There are only two competitors (DX Mail and Reachmedia) with their own delivery network.¹³ The main competitor, DX Mail, focuses on business customers and is the only nationwide business mail alternative to NZ Post. The delivery workforce of DX Mail has a diverse age structure and contains a mix of people, from secondary income earners to mothers and students. DX Mail has a lodgement agreement with NZ Post, meaning that undeliverable items are sent with NZ Post at a discounted rate.

According to the trade union EPMU, DX Mail pays its deliverers the statutory minimum wage (or a lower youth rate where applicable) and they do not pay any overtime compensation or shift or night rates. Furthermore, pension benefits and other non-wage conditions are at a minimum (below the level applied at NZ Post) and there is no collective labour agreement covering the workers. DX Mail argues that wages paid are above the statutory minimum, but the actual level is not made known. By comparison, in 2005, seven years after the full market opening, wages at NZ Post were significantly above the statutory minimum wage paid by its competitors and similar to or slightly above those in comparable sectors, cf. Figure 5.3.

¹³ DX Mail has a nation-wide delivery network for business-to-business mail. Reachmedia has an urban delivery network for unaddressed mail. Rural delivery utilizes the services of NZ Post Ltd.

Figure 5.3 Wage rates per hour at NZ Post and in comparable sectors, 2005

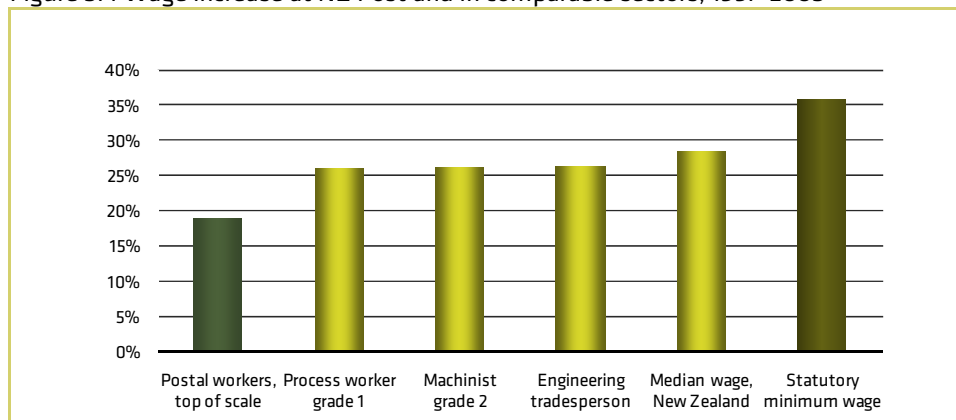


Note: Engineering trades person, Machinist and Process Worker all working in the Metals industry. Postal workers, top of scale – maximum wage rate for postal worker, usually achieved after 3-4 years of experience.

Source: Copenhagen Economics, based on Kenny (2006)

However, low-cost competition from new operators seems to have initiated a slight deterioration of wages and other employment conditions at NZ Post. In the first years after full market opening (1997-2005) we do observe a decline in the wage difference between postal workers and comparable occupations. In this time period, the wage for a worker at NZ Post increased by 18.9 percent whereas the increase in the NZ median wage was 28.3 percent and the increase for a machinist in the metal industry was 26 percent, cf. Figure 5.4.

Figure 5.4 Wage increase at NZ Post and in comparable sectors, 1997-2005



Note: Engineering trades person, Machinist and Process worker all working in the Metals industry.

Postal workers, top of scale – maximum wage rate for postal worker, usually achieved after 3-4 years of experience.

Source: Copenhagen Economics, based on Kenny (2006)

The non-wage benefits at NZ Post have also been reduced. The old civil service privileges are about to, or have already, disappeared and no improvements in pension benefits, working-time or annual holidays except for statutory required ones have been made. This can be interpreted as reduction of the pre-liberalisation wage premium enjoyed by the postal workers and a convergence towards more market based conditions.

Chapter 6 UNITED KINGDOM

Most of our analysis of developments in postal sector wages and employment conditions in the UK is based on interviews with representatives from two relevant stakeholders in the British postal market: The main competitor in the market (TNT Post), and the largest trade union representing postal sector employees (CWU). This input is complemented by information from previous studies and official statistics. The national postal operator, Royal Mail, declined to participate in the study.

6.1. MAIN FINDINGS

We conclude that liberalisation of the postal market in the UK has not had any significant effect on wages and employment conditions in the sector. Rather, we find that wages for postal workers at the national postal operator in the UK (Royal Mail) have consistently been on a market-based level, i.e. it is likely that there was no pre-liberalisation wage premium. We observe that postal workers still currently enjoy some non-wage benefits from the time they were civil servants, but these benefits are slowly declining. The trade union has a strong position and attempts from Royal Mail to lower wages or non-wage benefits have been met with extensive strike actions, making change slow. In recent years the wage increase has even been higher than in comparable sectors (but similar to the increase in the statutory minimum wage).

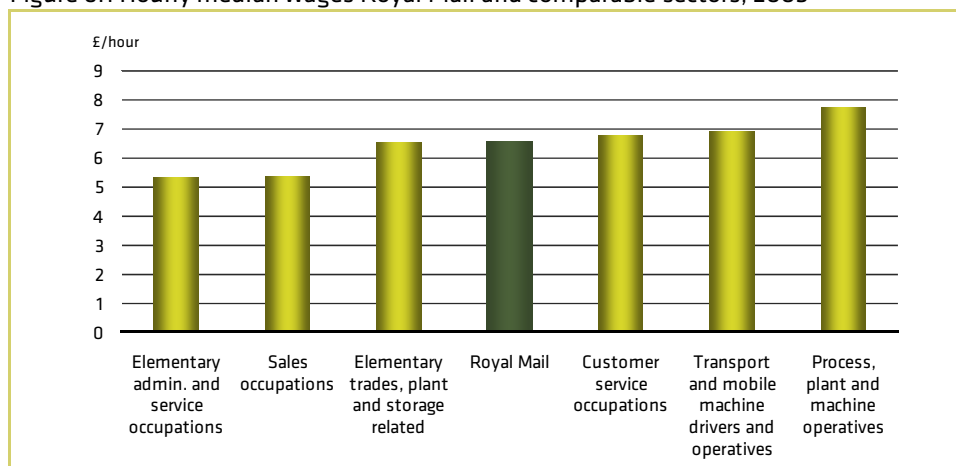
Competition in the mail market is very limited, but we note that the wage level at the main competitor is lower than at Royal Mail, but equivalent to the level applied in sectors hiring workers with the same skill level. Consequently, existing wage differences are most likely a result of difference in employment structure at the two operators.

6.2. SITUATION BEFORE MARKET OPENING

The UK postal market was fully opened up to competition in 2006. Royal Mail had already been privatised 2001 but is still under public ownership today. The restructuring of Royal Mail started already 1981 and, since then, we observe that the tasks of Royal Mail's postal workers have changed and been simplified. For instance, postal workers are no longer required to handle pension payments or other more skilful tasks.

Before full market opening, we found that wages at Royal Mail were rather similar to those in other low skill sectors such as retail and repairs. They were also considerably below the wages in other transport, storage and communications industries, cf. Figure 6.1.

Figure 6.1 Hourly median wages Royal Mail and comparable sectors, 2003



Note: Hourly median wages, excluding overtime. Royal Mail wage (October 2002 to October 2003) calculated from weekly earnings, working 40 hours per week.

Source: Copenhagen Economics, based on interviews and data from UK National Statistics (2010)

This observation does not indicate that postal workers in the UK enjoyed a wage premium created by the monopoly position of Royal Mail prior to liberalisation. Regarding non-wage benefits such as pension schemes and vacation days provided at Royal mail, we observe that, prior to liberalisation, they exceeded the statutory minimum. This was most likely a heritage from the time prior to 2001 when all postal workers enjoyed civil servant status.

6.3. DEVELOPMENTS AFTER MARKET OPENING

The UK postal market was fully liberalised in 2006, but Royal Mail still delivers almost all the mail. The main element of competition takes place before delivery; competitors collect and pre-sort mail and Royal Mail performs the final sorting and delivery. In 2009, more than one third of all bulk mail items were posted with alternative providers (although delivered by Royal Mail). Competition is expected to increase and in 2010, approximately 50 percent of all addressed mail items are expected to pass through the hands of other operators than Royal Mail.

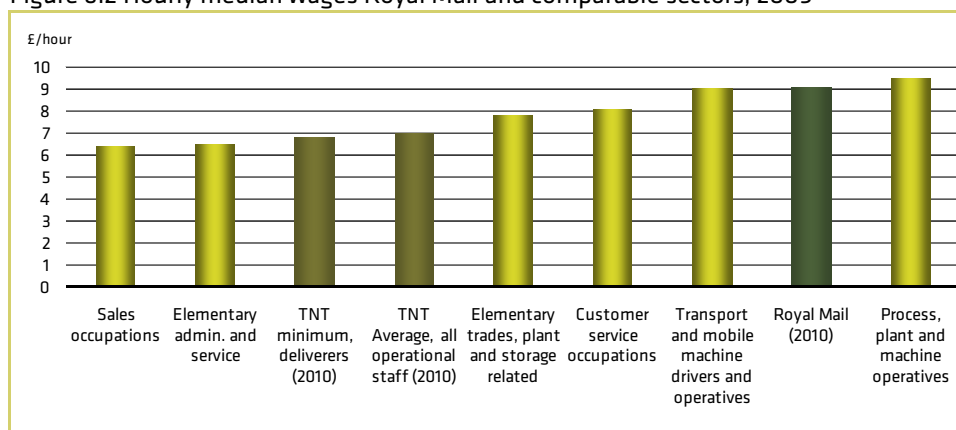
However, in the letter market, there is very little competition. In 2009 Royal Mail still held approximately 99 percent of the market. Competitors argue that VAT exemptions¹⁴ of Royal Mail still discourage competitors to enter the segment of large mailers such as banks and insurance companies.

There is only one competitor with its own delivery network. This is TNT Post, who entered the market in 2004 (providing final delivery through the network of Royal Mail) and who

¹⁴ Royal Mail can exempt their services from Value Added Tax, while the competitors cannot. Therefore the competitors have to lower their prices (including VAT) considerably to get below the Royal Mail price (excluding VAT).

(since 2008) only provide final delivery in the area of Liverpool. TNT provides a delivery service two days per week by part-time, low-skilled workers with no previous experience, typically men between 20 and 40 years old. The wage level of these workers is slightly below that adopted by Royal Mail, cf. Figure 6.2.

Figure 6.2 Hourly median wages Royal Mail and comparable sectors, 2009



Note: Hourly median wages, excluding overtime. Royal Mail wage (October 2009 to October 2010) calculated from weekly earnings, working 39 hours per week.

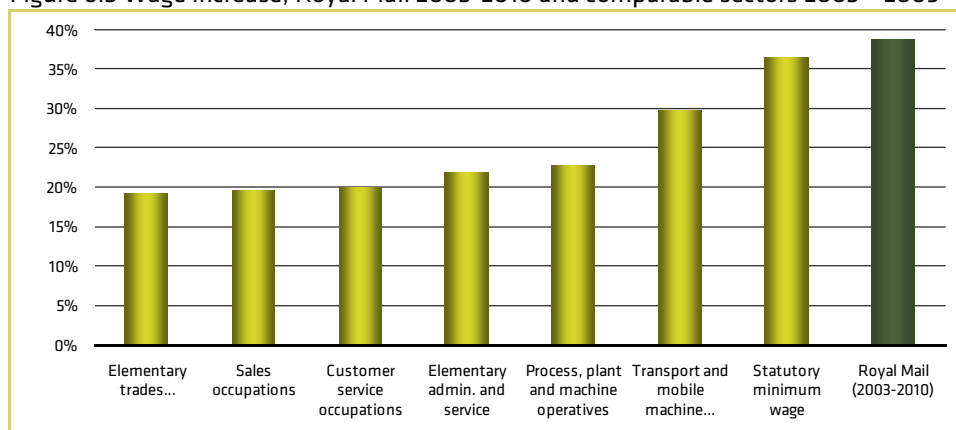
Royal Mail and TNT wages are from 2010, comparable sectors from 2009. Comparable sectors are most likely somewhat higher 2010.

Source: Copenhagen Economics, based on interviews and data from UK National Statistics (2010)

We also observe that the wage level applied at TNT is comparable to that applied in other low-skill sectors such as retail and repairs and higher than the statutory minimum level. The difference in wage level between TNT and Royal Mail can most likely be explained by the difference in workforce composition at the two operators (TNT using young, unskilled, inexperienced part-time employees and Royal Mail using more full-time workers of a higher age and experience).

Based on these observations, we conclude that the lower wage applied by TNT Post not is a sign of wage dumping in the sector, but more an indication of a market-based wage level applied by the new operator. The wage development at Royal Mail has, over the past seven years, been the same as or slightly better than in other low skill sectors. From 2003, the minimum as well as the median wage at Royal Mail increased by approximately 38 percent over a period of seven years. Over a six year period (2003-2009) the wages in comparable sectors increased by 20-30 percent and the statutory minimum wage increased by approximately 36 percent, cf. Figure 6.3. Nevertheless, wages applied by Royal Mail are still at a market-based level and we cannot find any signs of a wage premium despite the low degree of competition in the market. In fact, the trade union representing Royal Mail's postal workers argues that the basic wages are so low that the workers often have to rely on large amounts of overtime.

Figure 6.3 Wage increase, Royal Mail 2003-2010 and comparable sectors 2003 – 2009



Note: Royal Mail wage increase is calculated for 2003 to 2010, one year more than all other sectors.

Source: Copenhagen Economics, based on interviews and data from UK National Statistics (2010) and Low Pay Commission (2010)

To remain competitive in a fully liberalised market, Royal Mail is using more part-time staff and a bonus system linking pay with efficiency. However, attempts to cut back staff or freeze wages to deal with continuous losses have been met by extensive strike actions.

Regarding non-wage employment conditions such as pension benefits, working hours and annual vacation, we observe that the conditions at Royal Mail are better than those applied by its competitors. This might be explained by the fact that many of the privileges enjoyed by Royal Mail's workers at the time when they still enjoyed civil servant status have been preserved. However, this has changed slightly in the past few years. For example, Royal Mail's defined-benefit pension scheme closed to new members from April 2008.

Based on this, we conclude that liberalisation of the postal market in the UK has not had any significant effect on wages and employment conditions in the sector.

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