



Letter prices in Europe.

Up-to-date international letter price survey.



Letter prices in Europe – up-to-date international survey

Dear readers,

Europe is in preparation for the imminent liberalisation of the postal markets. In 2011, the last barriers will be removed in ten more European Union (EU) Member States, making postal monopolies a thing of the past. Together with the six countries which have already completely opened up their markets to competition in advance, the majority of the EU will now be liberalised. The last eleven countries will then follow in 2013.

Events that occurred several years ago in Germany are just now taking place in the other countries concerned: In parliament, there are debates on the future competitive arrangement of the postal market, politicians are arguing over the future financing of the universal postal service and governments are forging plans to privatise

the former state-owned enterprises. Not to mention the companies themselves, which have to alter their strategic positioning and streamline their organisations.

As much as we greet these developments, we as well as the EU must keep a watchful eye on the legislation process in these countries. This is because there is reason to believe that some states do not take the issue of competition as seriously as stipulated in the EU Postal Services Directive. Thus, there are hidden barriers to entering the market such as certain universal service obligations or licence conditions which make it more difficult for competitors to the 'incumbents' to be successful in the postal market. In some countries there are even tendencies to charge providers in adjacent markets to finance the universal service costs. This must be put to an end.



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However, competition is only one of the main challenges for Europe's postal service providers. The other, and much larger, challenge is the internet. The headline in a recent Austrian newspaper ran 'mail market: forget liberalisation, the real danger is the internet'.

At Deutsche Post, we prefer to use the phrase 'if you can't beat them, join them'. The internet also provides opportunities for postal service providers, if they know how to marry the advantages of electronic communication, speed and convenience, with those of mail. One of these advantages and at the same time, one of Deutsche Post's core competences, is security. This is where Deutsche Post comes in, with its new product under the working title 'internet letter'. This can be sent conveniently and easily by computer, like an e-mail message. In contrast to e-mail, the internet letter is binding, confidential and reliable. Additional benefit: if the recipient is not connected to the user portal, or does not wish to receive electronic letters, Deut-

sche Post prints the letter, puts it into an envelope and delivers it the normal way.

This makes it clear that Deutsche Post not only holds its ground competing in Europe's largest and most lucrative postal market, it is also keeping with the times and listens to its customers. Internet euphoria aside, we are certain that the physical letter still has a long life ahead of it. An important condition for this is competitive pricing. The cost of sending a standard letter has not increased for the last thirteen years and seven years ago the price even fell.

Walter Maschke
Executive Vice President,
Corporate Regulation Management.

1 Summary

The current comparison of European letter prices clearly shows that the postage price in Germany is lower than in many other European countries, taking significant economic parameters into account.

Letter prices in the 27 Member States of the European Union (EU) and in the European Free Trade Area (EFTA) countries Norway and Switzerland were studied. As in previous years, the nominal prices of the different countries were compared and contrasted for the reference year, 2009. Macro-economic factors such as labour costs and purchasing power, as well as the development of inflation rates were also taken into account. This gives a real understanding of the reasonability and actual affordability of letter prices in the countries surveyed. Studies by other 'incumbents' and foreign regulatory authorities also rely on results obtained in this way.

The consolidated result shows that in comparison with prices in other European countries, Deutsche Post's letter price remains in a low mid-field position across Europe. The postage price for domestic customers is only more affordable in eleven states, whilst it is more expensive than in Germany in seventeen. In this analysis, Bulgaria has once again the highest letter price, whilst Malta has the lowest. Eight of the ten most expensive countries are from Eastern Europe, joined by Norway and Greece. In this graphic, Poland has gained some ground: after lowering the postage price, the country improved its ranking amongst the highest letter prices by moving from third to sixth place. Estonia also improved, falling from seventh to thirteenth but this is due to rising labour costs making an unchanged postage price appear more adequate. The average letter price factored for macro-economic conditions is now 0.77 Euro and therefore lower than in 2009 (0.79 Euro).



The overview for the period 1999 – 2009, adjusted for inflation, clearly shows how beneficial the development of letter prices has been for postal customers in Germany in the last few years: according to these figures, letter prices have dropped almost 17% in the last ten years, taking general inflation into account. Only in Italy has the letter price fallen more sharply (- 23%) by comparison with the general price level in this period. Overall, the letter price for this period fell in only six countries whilst the average postage price rose by more than 28% in real terms.

The explanation for this is obvious: last year letter prices rose again in many of the countries under consideration. For example, Belgium, Greece, Norway, Slovakia, Slovenia, Spain and the UK have increased the prices for both domestic and international letters. In addition, prices rose for domestic mail in Romania and Hungary, whilst international mail prices rose in Denmark and Switzerland.

At Deutsche Post, the postage price of a domestic letter has remained unchanged at 0.55 Euro since 2003. Prior to that, the postage price for standard mail actually declined by 0.01 Euro. It has now been thirteen years since the last domestic price increase in Germany (1997).

Conclusion: adjusting letter prices for the cost of labour and purchasing power illustrates once again that, measured in the context of Germany's economic situation, Deutsche Post's postage rates are amongst the most favourable in Europe.



2 Methodology



The only letter products included in the Deutsche Post price comparison were those that are comparable with one another. This approach in combination with the inclusion of key macro-economic factors is designed to provide an objective and scientifically sound picture of European letter prices. As in previous years, the survey starts with an illustration and comparison of letter prices in the 27 Member States of the EU and in the EFTA States of Norway and Switzerland for standard domestic letter mail and for letter mail within Europe.

Unlike other studies, the letter price survey only concentrates on the fastest letter mail product in all countries under review, which generally carries a next-day delivery target (D+1). In countries where value-added tax (VAT) is levied on letter services, Finland, Norway, Sweden and Slovenia, as well as Spain for inner-city letters, the survey uses the gross price, i.e., the letter price including VAT. This is because the relevant subject of such a comparison is the actual price that the consumer must pay for a letter in the various countries. This survey focuses exclusively on the standard letter. This product represents two thirds of all letters sent by private customers and is therefore most suited to reflect the actual usage behaviour of postal customers.

Following the illustration of the nominal letter prices in Europe, the development of letter prices for the years 1999 to 2009 is shown, adjusted for inflation. In addition, the study also calculates the average number of minutes worked by industrial employees in the individual countries to earn the price of a standard letter. Finally, the study compares the letter prices adjusted for the factor of labour costs and the factor of purchasing power parity. For each country, the value of the factor they are adjusted for is shown relative to the corresponding value in Germany. The calculated ratios are multiplied by the nominal letter prices of the relevant countries which results in the adjusted letter prices.

The survey takes into account all postage price increases that were known at the time of going to print (March 2010). The data on the individual countries surveyed were taken from official sources, such as Eurostat and the Statistisches Bundesamt (German federal statistical office). In order to calculate the 'work in minutes per letter', the hourly wages of a worker in the manufacturing sector, as recorded by the Institut der Deutschen Wirtschaft (German business institute), were used (as at August 2009).

Exchange rates also had a significant impact on letter prices this year. Hence, letter prices in the UK and Hungary rose in domestic currency last year but after conversion into euros are lower than in 2009.

Otherwise, the data used as basis for this comparison were updated and improved. Countries for which no uniform and reliable data were available were not taken into consideration in the individual analyses.



3 Nominal price comparison

3.1 Domestic letter mail

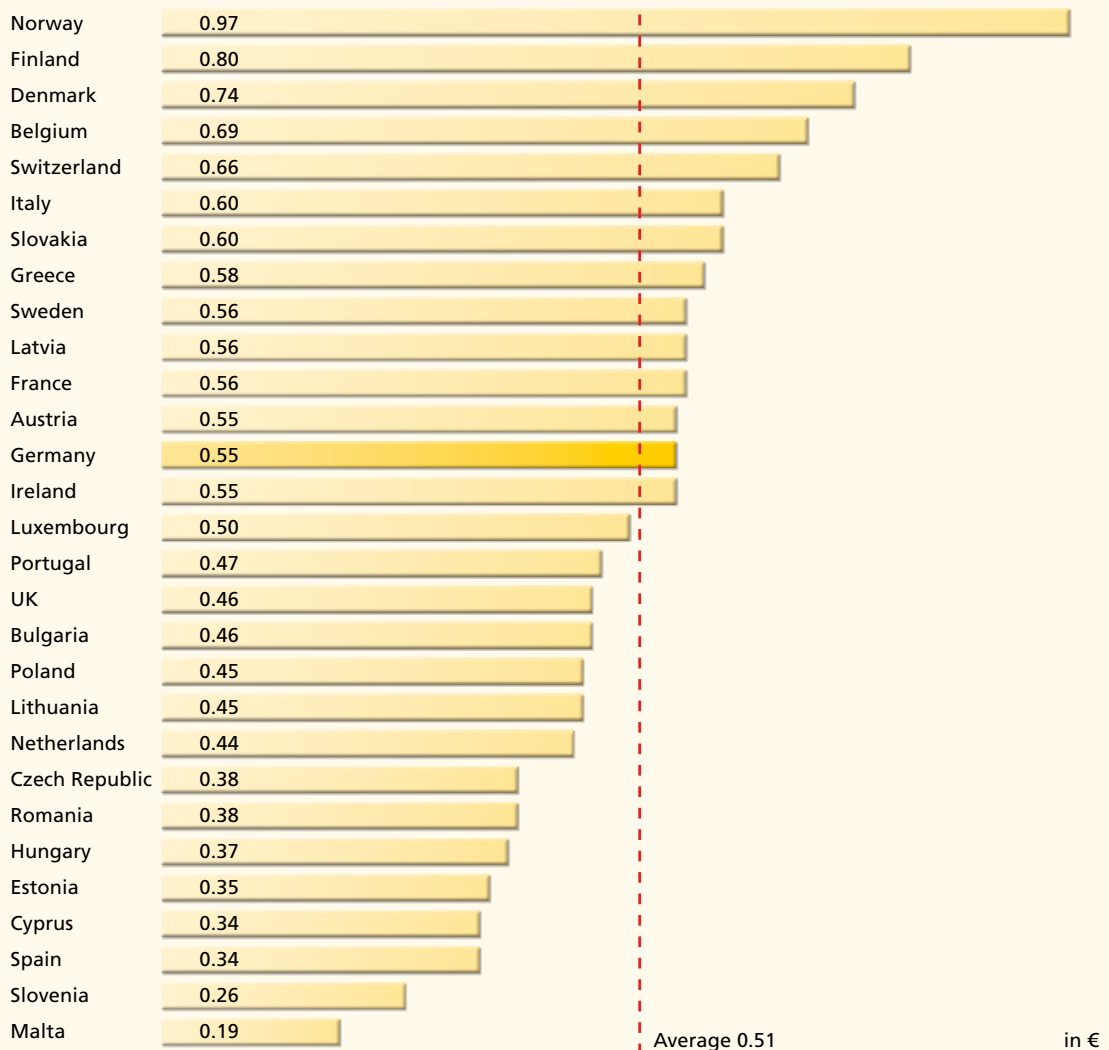
An examination of purely nominal prices for a domestic standard letter places Germany in the middle of the field of countries studied, along with Austria and Ireland. The highest letter prices in Europe are still charged in the northern European countries Norway, Finland and Denmark, whereby the postage price in Norway and Finland includes VAT. Belgium's De Post/La Poste rose to the fourth most expensive provider in Europe after a 0.10 Euro price rise. However, in this case the price rise only applies to single stamps. The old price remains for quantities over nine stamps. Switzerland dropped a place compared to last year. Sweden improved its position as a result of exchange rates, falling four places. However, the greatest improvement belongs to Poland: by lowering the price of standard letters by 7%, combined with the weakness of the zloty, Poland not only came below the average value for the first time, at 0.51 Euro, but dropped from seventh place to nineteenth place.

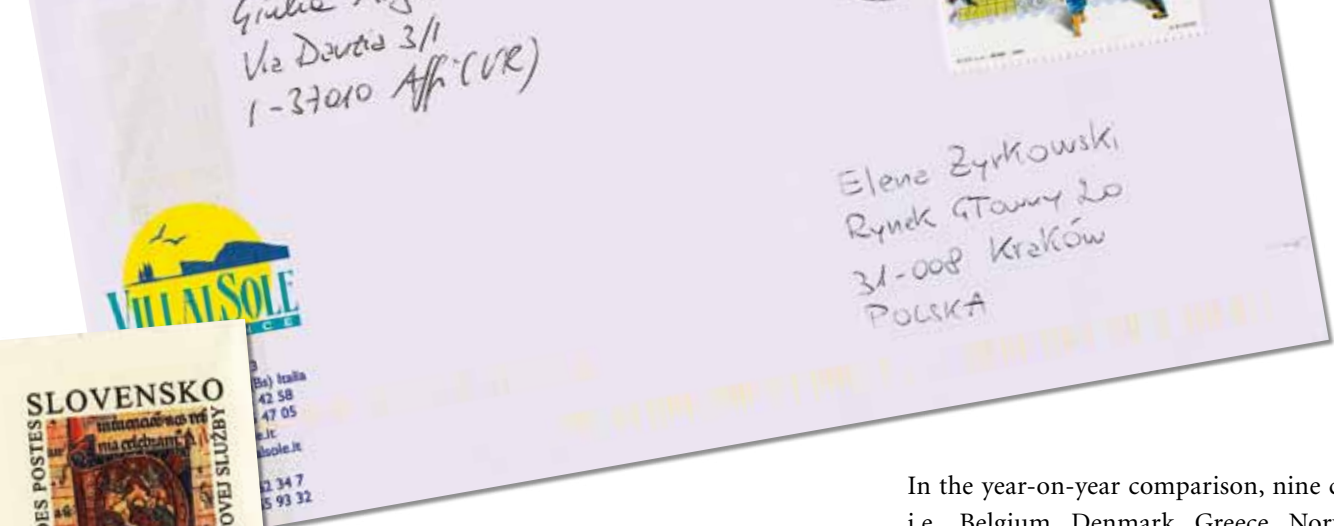
In nominal terms, the lowest postage price is still that of Malta. The western European countries France, Italy and the Netherlands, whose postal companies are amongst the most modern in Europe, remained unchanged in the rankings. The UK did not move either in this respect, although its standard letter price has risen again. The increase of two pence was made up for by the exchange rate. Spain's Correos, in turn, increased its rate for domestic letters from 0.32 Euro to 0.34 Euro but remains amongst Europe's lowest charging providers due to letter price rises in other countries.

In comparison with last year, Belgium, Greece, Hungary, Norway, Romania, Slovakia, Slovenia, Spain and the UK increased the price of domestic letters. This is the third consecutive increase in the price of domestic postage in Belgium, and the fourth for Greece, Spain and the UK. Once again, Germany made a good impression, keeping the price of standard letters, after a decrease in 2003, at the same level for the seventh time.



Nominal price for a domestic standard letter





3.2 Letter mail within Europe

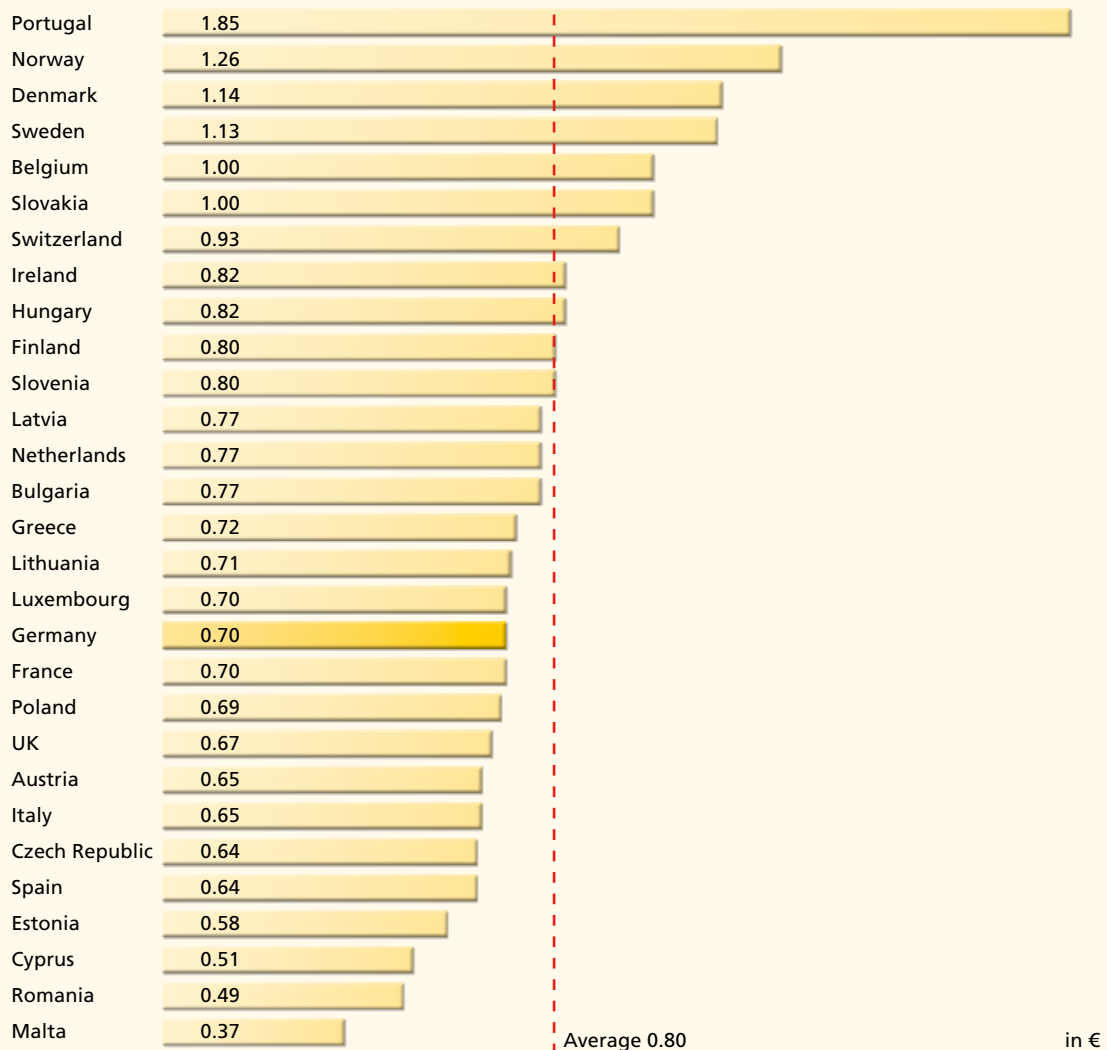
A comparison of nominal prices for European letters shows far greater price differences between providers than the comparison of domestic letter prices. The undisputed 'leader' in the ranking is Portugal with 1.85 Euro, whereas the Maltese postal service remains the cheapest provider of the European letter product. Also amongst the most expensive providers are the northern European countries Sweden, Norway and Denmark. With its postage rate of 0.70 Euro, Deutsche Post ranks level with Finland and Luxembourg and rates once more below the average, which remains at 0.80 Euro.

In the year-on-year comparison, nine countries, i.e., Belgium, Denmark, Greece, Norway, Slovakia, Slovenia, Spain, Switzerland and the UK, have increased their prices for European letters. Worthy of mention are Denmark, Greece, Spain and the UK, who have increased the prices for European letters for the third time in a row, whilst Belgium and Norway have done so for the second time in a row. Poland also increased the price for international letter mail but improved its position for seventh to twentieth place, due to the exchange rate.

Finland remains the only European country that still charges the same rate for domestic and international letter mail.



Nominal price for letter mail within Europe



4 Price developments since 1999



It is worth noting that compared with last year, the inflation rates have significantly fallen in almost all countries considered.

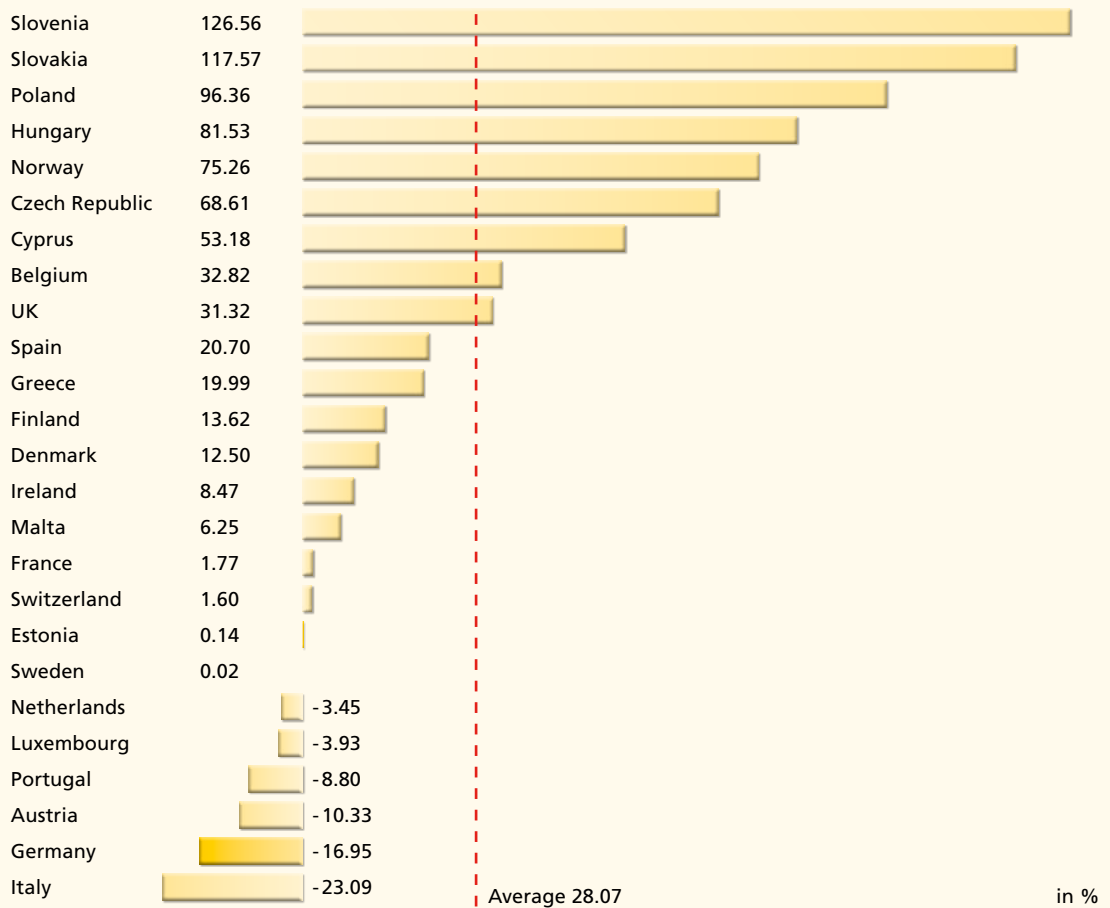
The real price for a standard domestic letter has increased on average in the countries surveyed by more than 28 % since 1999. The letter price has gone up in real terms in eighteen of the surveyed countries and in only six countries has the standard letter become more affordable. As in the previous year, Germany can be found at the bottom end of this scale. The inflation-adjusted letter prices have dropped there by almost 17 %. Only one country has bettered this, namely Italy (- 23 %). Prices have also fallen in the Netherlands (- 3.45 %), Luxembourg (- 3.93 %), Portugal (- 8.8 %) and Austria (- 10.33 %), taking inflation into account. A comparison with similar countries illustrates the scale of the price changes: letter prices in the UK have risen by 31.3 %; those in Spain are up by more than 20 %. The clear frontrunner, as last year, is Slovenia, where the letter price rose by over 126 % between 1999 and 2009. However, it must be noted that in this country there is a clear difference in quality and price between products on offer now and the former standards.

At this point, the development of standard letter prices in each country over the last ten years is presented. To this end, the inflation-adjusted real letter price development during this period is determined because a nominally unchanged letter price decreases in real terms every year by the rate of inflation. As inflation rates vary considerably across Europe, this is helpful in terms of producing as genuine a comparison as possible. The scale of differentiation between inflation rates shows that the consumer price in Switzerland, for example, has risen by an annual average of only 0.8 % in the last ten years, whilst in Hungary for this period, it has increased by almost 8 %. In Germany, this amount is 1.48 %. Bulgaria, Estonia, Latvia, Lithuania and Romania are not included in this overview as no sufficiently reliable data could be obtained for these countries.





Inflation-adjusted change in letter prices 1999 – 2009





5 Work in minutes per letter price

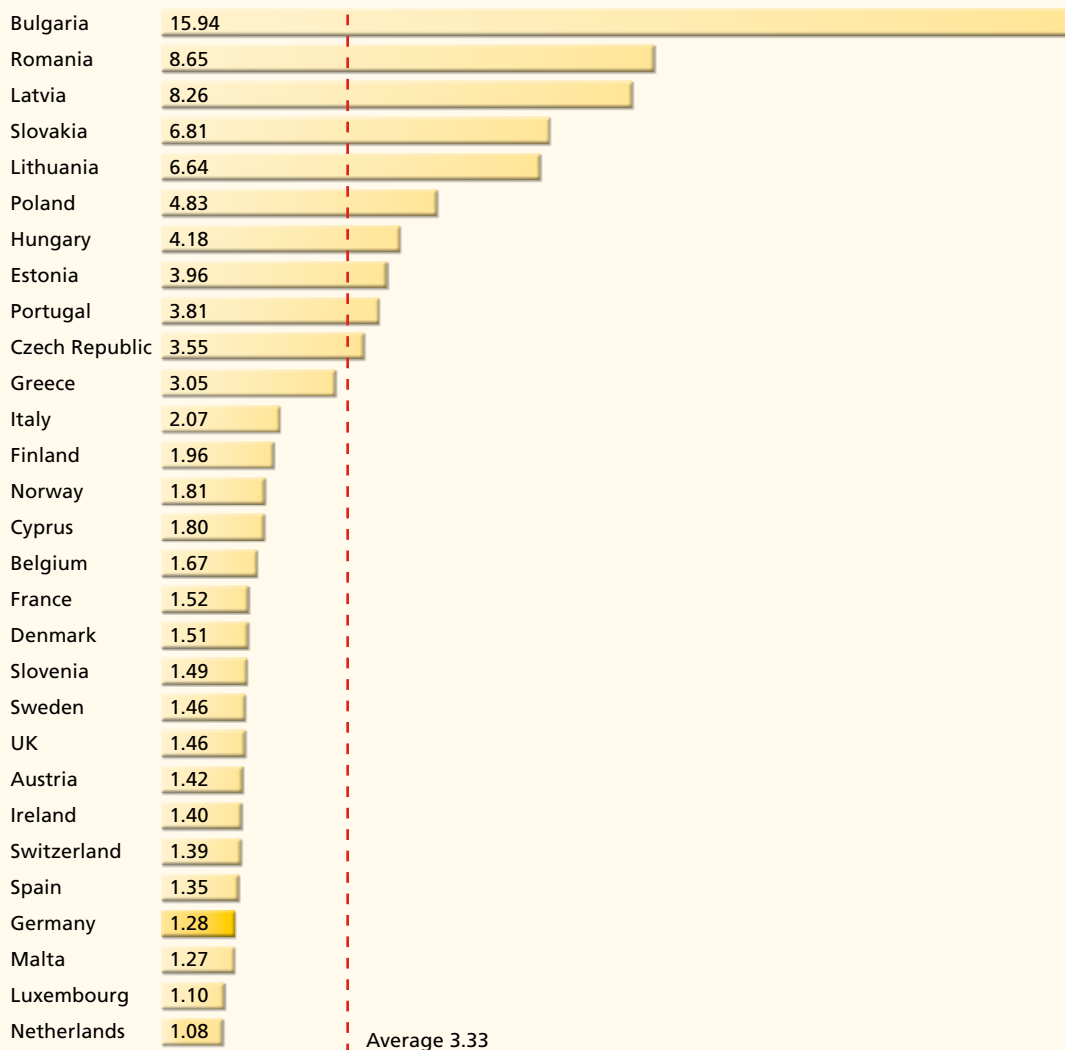
The calculation of minutes worked per letter price illustrates how long a worker takes to earn the price payable for a standard letter. It consequently reflects how affordable the postage rates actually are, based on the worker's hourly wage. The calculation is based on the hourly wage of an industrial worker. The hourly rates established by the Institut der Deutschen Wirtschaft as per August 2009 for workers in the manufacturing sector have been used as standard and reliable data for the calculation of the work in minutes per letter price.

The analysis reveals a considerable gap between the 'new' and 'old' Member States. Of the ten countries where the most working time is

required in order to earn the respective postage price, nine are in Eastern Europe. This ranking is again led by Bulgaria. Here, a worker needs almost sixteen minutes to earn the postage fee for a standard letter, whilst in Germany it is only around 1.3 minutes. Comparable countries with Germany, such as Italy, France, the UK and Spain all have poorer results. According to this overview, the country with the most affordable standard letter price for an employee is the Netherlands. On average, a worker in Europe needs to work for 3.33 minutes to earn the postage price of a standard letter.



Work (in minutes) per letter price



6 Adjustment for labour costs



Mail delivery operations are highly personnel intensive. This in turn is reflected in the large proportion of staff costs in overall costs. However, the cost of labour varies widely from country to country, so providers have to shoulder differing cost burdens. An uncritical comparison of high-wage economies such as Germany with low-wage countries such as the Eastern European EU Member States would not be very meaningful. This year's survey hence also adjusts the letter prices for cost of labour.

The adjustment takes into account that staff costs account for a certain proportion of the overall cost of mail delivery operations. Only this part is factored into the calculation, whilst the rest of the price remains unaffected.

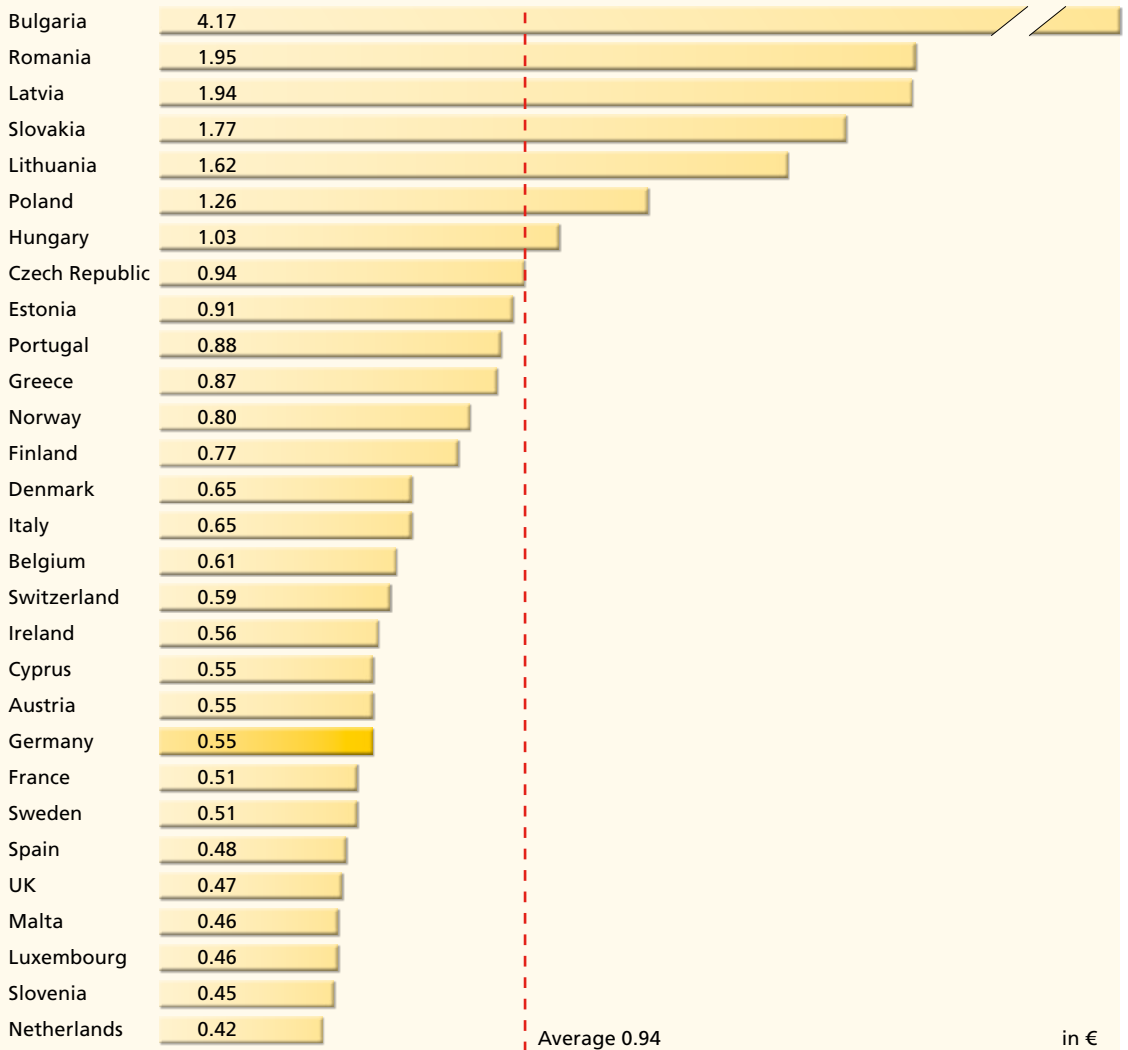
The adjustment takes into account the cost of labour in the service and manufacturing sectors in the countries under review. The ratios are calculated using the relevant values for Germany in relation to its European counterparts. This is multiplied by the share of the letter price accounted for by staff costs. The cost of labour in the service sector, relevant for postal providers, is given a stronger weighting (60 %) than in the manufacturing sector (40 %).

Due to the high cost of labour in Germany, adjusting the letter prices for cost of labour has the strongest effect on the position of its letter price in the European ranking. The adjusted European average price of 0.94 is much higher than the price in Germany, which is in the lower mid-field of the ranking. As in the previous year, the Netherlands and Slovenia are at the bottom end. Nine Eastern European countries, with graduation, top the ranking of letter price taking the cost of labour into account.





Letter prices adjusted for labour costs



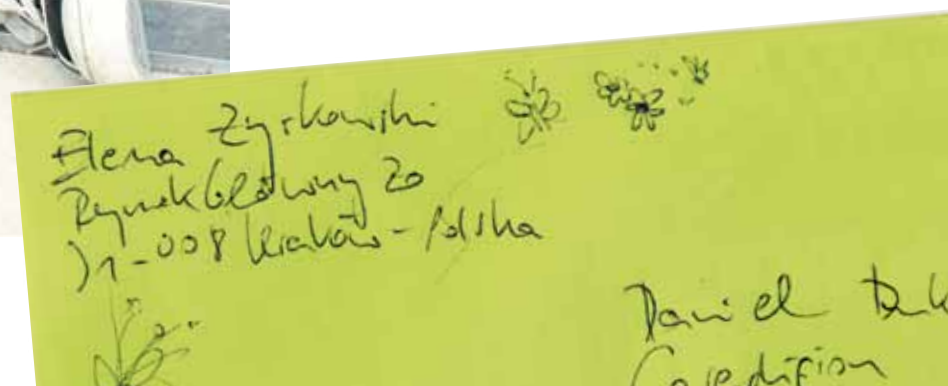
7 Adjustment for purchasing power



Actually how affordable are the letter prices for consumers? In order to answer this question as fully as possible, the present survey includes the consumers' purchasing power in the various European countries to account for each country's specific economic situation. It is used to account for the varying price levels across the countries that emerge during currency conversion.

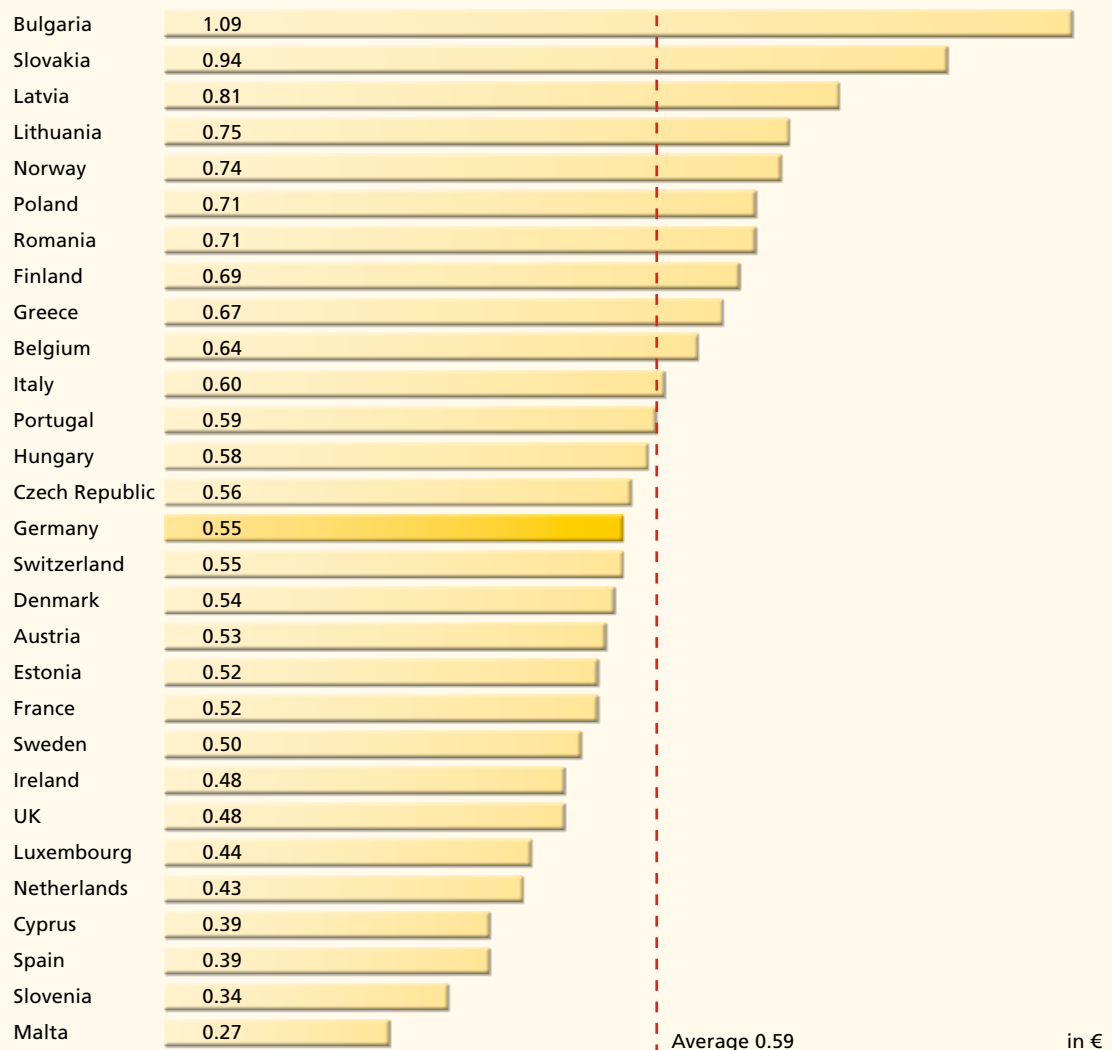
Letter prices are divided by the countries' purchasing power relative to Germany, meaning that letter prices in countries with a relatively high purchasing power compared with Germany are cheaper and vice versa. The calculation is based on purchasing power parities published by the EU statistical office, Eurostat. The comparative price levels are applied to the calculation, and express the actual price of the same representative basket of consumer goods and services in each country in a comparable currency unit.

Here, as well, Deutsche Post's price is below the average of 0.59. Eleven countries are above this average. Whilst, adjusted for purchasing power, Bulgaria's letter prices are still the most expensive (1.09 Euro), Malta has the cheapest letter price (0.27 Euro). Poland improved its position in the ranking and is no longer the second most expensive country, now occupying sixth position with Romania.





Letter prices adjusted for purchasing power parity





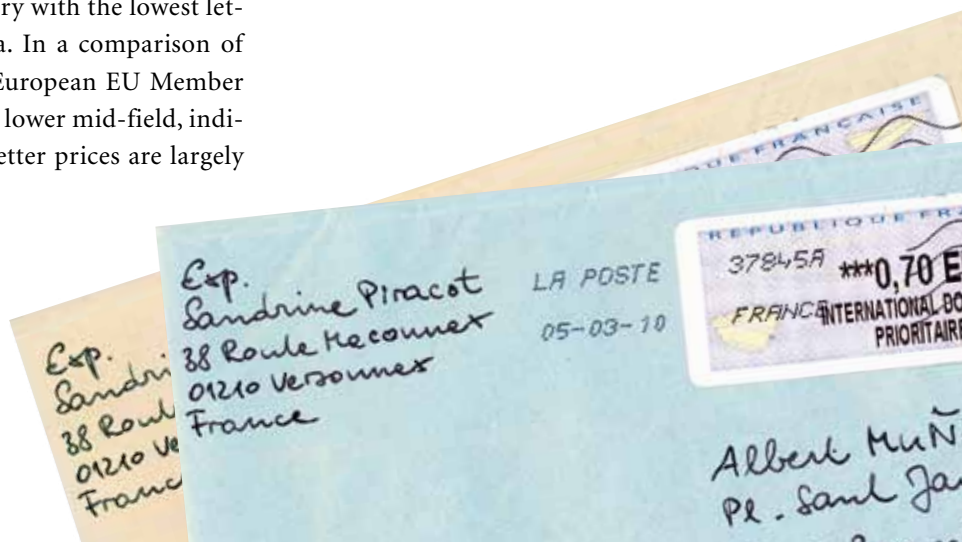
8 Consolidated results

These figures represent the consolidated values after adjustment for purchasing power and cost of labour. The result shows that Deutsche Post's postage rate of 0.55 Euro is in the lower mid-field of the European survey, far below the average value of 0.77 Euro, which has gone up from the previous year's average of 0.79 Euro).

Of 29 countries surveyed, seventeen have higher letter prices than Germany, whilst the postage price is lower in only eleven countries. Eight Eastern European countries, along with Norway and Greece, make up the ranking of the top ten most expensive countries. Bulgaria is once again the clear leader, the country with the lowest letter prices overall is Malta. In a comparison of nominal prices, Eastern European EU Member States tend to come in the lower mid-field, indicating that the nominal letter prices are largely uninformative.

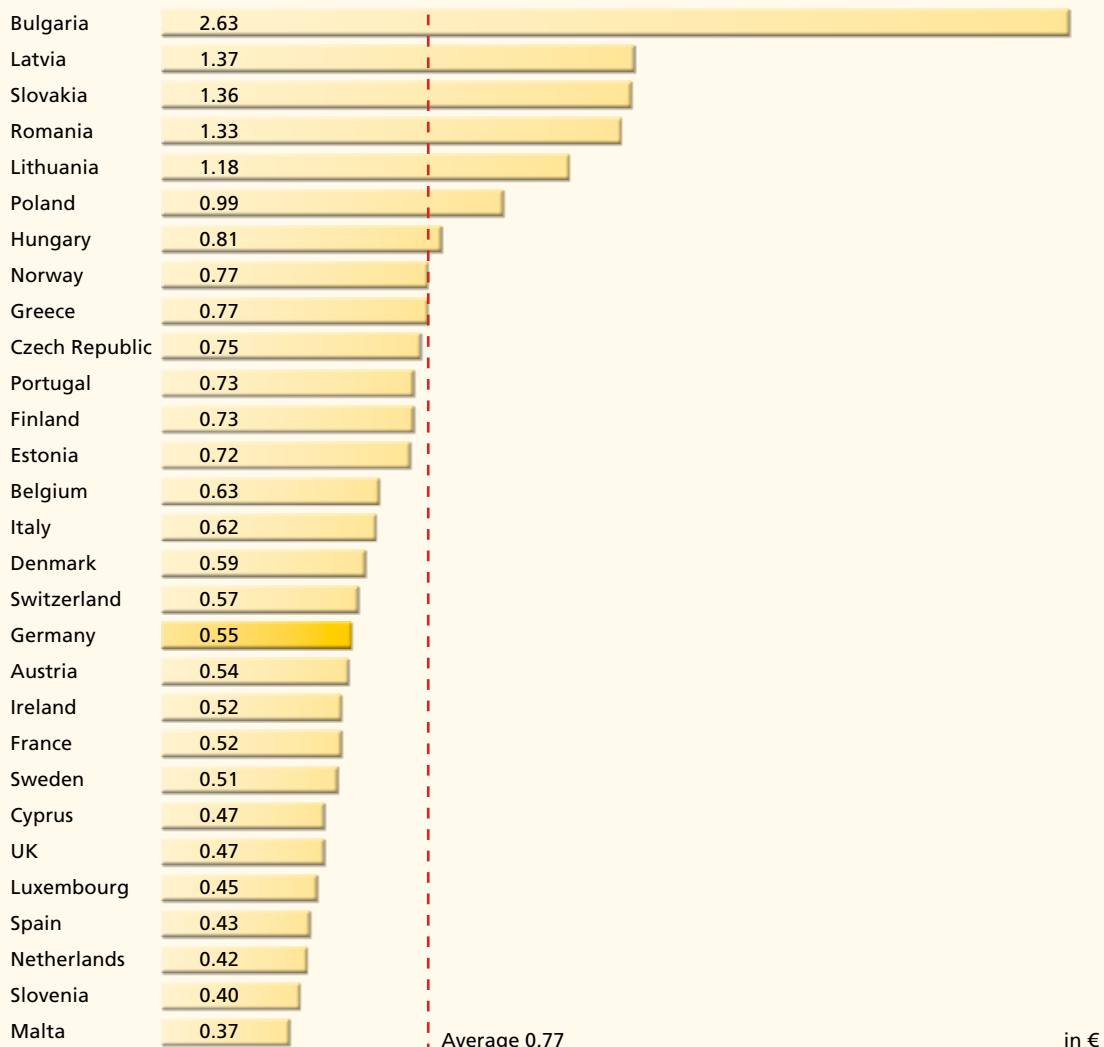
However, once purchasing power is taken into account, it is evident that it is sending a letter is more expensive than average in these countries. The same is true once the cost of labour is taken into account. This confirms that, especially in the case of the so-called low-wage economies, the advantage of low labour costs is not sufficiently reflected in the letter prices.

Adjusting letter prices for the cost of labour and purchasing power clearly shows that Deutsche Post's standard letter price of 0.55 Euro offers a good price-performance ratio compared with the rest of Europe.





Consolidated results





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