



Postal practice
FRONTIER ECONOMICS

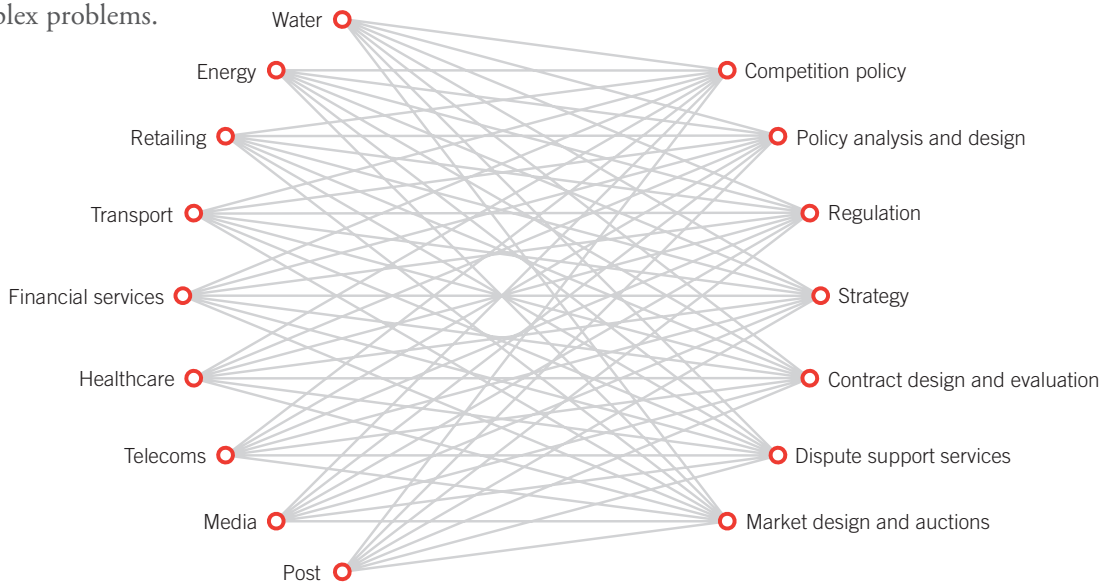


Frontier practice areas

Frontier Economics was founded in 1999 by a team of experienced consulting economists. Our objective is to provide the highest standards in strategic, regulatory and competition policy advice for business and public policy-makers. We use advanced techniques to provide practical solutions to complex problems.

The European and Australian companies in London and Cologne, and Melbourne and Sydney, are staffed by economists used to working together for many of the largest companies and most important policy-makers around the world.

With over 50 consulting staff and associates in London and Cologne, we are one of the largest economic consulting firms in Europe. The Frontier company in Australia employs a further 15 consulting staff.



Postal practice



Frontier's postal practice

The Frontier postal practice has been growing as reform of the postal markets across Europe gathers pace.

The shift towards liberalisation of the market, combined with incentive regulation of the reserved area, raises many of the policy and strategic challenges that Frontier has worked on in other sectors.

Our consultants combine this regulatory and competition policy expertise with an in-depth knowledge of the industry acquired over a number of years.

In the rest of this portfolio we outline our expertise in:

- liberalisation policy;
- regulatory policy and tools; and
- institutional and regulatory reform.

At the end of this portfolio we summarise the experience of the consultants in our postal practice.

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Liberalisation of postal markets

Opening up postal markets is not a straightforward task. A number of challenges present themselves to regulators and policy makers. These include:

- identifying the postal activities that are genuinely contestable;
- ensuring that the liberalisation of those activities is consistent with the obligation to ensure a universal service at a uniform price;
- determining the appropriate terms under which new entrants can use the incumbent's essential facilities; and
- striking the right balance between allowing the incumbent commercial freedom in a liberalised environment and ensuring that it does not exploit the dominant position it has inherited as a monopoly provider.

We have an in-depth knowledge of the postal market in the UK and the EU competition policy framework for postal services. Our team combines this sector expertise with an ability to apply advanced economic techniques to advise on the reform of this sector.

Examples of the practice team's experience

- Frontier has been selected to sit on the panel of advisers to **Postcomm**, the UK postal regulator, and is closely involved with the reform of the industry. Frontier has provided Postcomm with advice on a number of competition-related issues including:
 - introducing competition in the postal sector - we developed a framework for evaluating licence applications and contributed to the identification of the potential forms of further liberalisation in the UK (2001);
 - assessing Royal Mail's financial viability under wider liberalisation - we worked with Postcomm on the financial implications of further liberalisation for the Universal Service Obligation (USO) provider (2001);
 - determining access prices for new entrants - we have undertaken detailed cost analysis in order to advise Postcomm on the implications of alternative access pricing rules (2002-3); and
 - assessing the impact on Royal Mail's volumes of the introduction of downstream access (2003).
- Frontier has also advised a **European postal operator** on the development of a framework for assessing various models to calculate the cost of the USO in posts (2001), and on the motivation of regulators and operators for USO costing in a selection of European countries (2003).
- We advised **Neopost holdings**, a postal franking machine supplier, on its merger with Ascom Mailing Systems (2002). We acted as economic advisers to Neopost throughout the investigation into the merger, which was cleared by the UK Competition Commission.

Regulatory policy and tools

Even though postal markets are being liberalised, regulation to protect customers' interests still has an important role to play in this sector, at least until competition has established itself. The regulatory and competition policy frameworks must be consistent with each other to avoid distorting incentives, or encouraging inefficient entry.

Our consultants have faced these regulatory challenges in many different environments, and are able to apply this regulatory expertise to the postal sector.

Examples of the practice team's experience

- For **Postcomm**, the UK postal regulator, we advised on a number of regulatory issues including:
 - efficiency benchmarks for Royal Mail - our report provided a range of reasonable productivity improvement benchmarks for Royal Mail based on a review of productivity performance in the economy as a whole, regulated utility sectors, other similar sectors and the past performance of Royal Mail;
 - assessment of the nominal price freeze applied to Royal Mail;
 - assessment of a reasonable rate of return that Royal Mail could earn on its activities; and
 - assessment of financial implications of different access pricing arrangements.
- Also for **Postcomm**, we reviewed the mail traffic forecasts produced by Royal Mail (2001). We assessed the robustness of their projections, focusing on the impact of the economic cycle, liberalisation and the e-substitution threat.
- We analysed the price control applied to **Royal Mail's** products in 2001, and audited the new price control model developed by Postcomm in 2003.
- We have provided a **European postal operator** with a review of alternative approaches to setting charges for access and the economic principles that support them (2001).

Institutional and regulatory reform

The consultants in our postal practice have been involved in many of the major reform processes in postal markets of recent years. Our consultants have advised governments on how to proceed with postal reform, and how to commercialise and regulate postal operators.

We have also advised international agencies on how to shape their reform and modernisation programmes.

Examples of the practice team's experience

- We carried out two case studies of postal reforms in Uruguay and Tanzania for the **World Bank**. This project aimed to analyse the evolution of the postal market since the reforms and to contrast the paths for regulatory changes. This work was undertaken to facilitate the development of the World Bank's strategy for postal sector reform (2003).
- We are advising the **Malawi Posts Corporation (MPC)** on the implementation of a new business plan and postal strategy. The objective of this project, sponsored by the government of Malawi, is to ensure that the MPC be financially viable within two to three years (2003).
- Our consultants advised the **Channel Islands** on the appropriate regulatory structure for the commercialisation of the island of Guernsey postal sector. The main objective was to develop a structure that was compliant but not overly bureaucratic, and promoted the longer-term objectives of improving efficiency and introducing a greater degree of commercialisation (2000).
- For the **Malaysian Ministry of Communications**, Frontier staff carried out a major study on the development of postal sector strategy (2001). This assessed the current institutional and regulatory framework and provided recommendations for the modernisation of the Malaysian postal sector. The report also focused on e-commerce opportunities, especially in South-East Asia. This led to the development of a new regulatory and legal structure.
- Our consultants advised the **Bolivian Ministry of Privatisation** on the regulatory framework and legislation for a privatised postal sector (2000). This project examined the appropriate regulatory framework if ECOBOL (the national postal operator) was privatised. The study also reviewed and provided recommendations on the different privatisation options being considered by the Government and the impact of different assumptions about liberalisation on the potential value of the postal operator.
- For the **Mauritius Government**, Frontier staff advised on modernisation of the postal sector (1999). This major project provided recommendations on the modernisation of the postal sector, assessing the institutional framework, operations, finances, IT and HR functions of the Mauritius Post Office.



Senior Members of the Frontier Economics postal practice

Phil Burns

DIRECTOR

Phil specialises in the regulatory, strategic and market design issues arising in the energy, transport and postal sectors. He has been advising Postcomm on a range of economic issues since 2001, including the licensing regime for new entrants and price control, and has recently been working on the development of the access regime that will be applied to new entrants and Royal Mail. Phil is an expert on utility regulation, and has published widely on the subject.

Dr George Houpis

DIRECTOR

George joined Frontier in September 2001, to focus on the development of Frontier's postal consulting services. Since joining Frontier, he has been involved with Frontier's work for Postcomm. Prior to joining Frontier, George was a Director in KPMG's strategy group where he was responsible for KPMG's postal account. George has led a number of strategic studies for European operators including advice to Royal Mail and to the Finnish and Greek operators, and he has advised on the valuation for privatisation of a European postal operator. His international postal experience includes advice at government/ministerial level on modernisation and postal sector reform in Mauritius, Malaysia, Kenya and Bolivia.

Zoltan Biro

DIRECTOR

Zoltan leads Frontier's work in competition policy and litigation support. He specialises in providing economic advice in relation to domestic and European competition law cases – mergers and acquisitions, abuses of market power, horizontal and vertical agreements, and state aid. He has been involved in many of the key competition cases of the past decade, at both the UK and the European level, and has prepared expert evidence in private actions under Articles 81 and 82 of the EC Treaty, breaches of contract and tort, and intellectual property disputes. Zoltan provides regulatory advice to suppliers of telephony and broadcasting services, and is an economic adviser to Postcomm.



Sir Ian Byatt

SENIOR ASSOCIATE

Ian was the UK water regulator between 1989 and 2000. He oversaw the privatisation of the England and Wales water sector and established a successful regulatory regime for the only completely privatised water and waste water industry in the world. He was responsible for two fundamental periodic reviews of all functions and price controls for water companies. Ian also has extensive experience of providing economic advice to the Government at the highest level. Prior to becoming the water regulator, he held the position of Deputy Chief Economic Adviser to the Treasury, Head of Public Sector Economic Unit in the Treasury and was Director of Economics in the Department of the Environment.



Philip Maggs

MANAGER

Phil has over six years' experience of consulting in utility regulation and has provided advice on efficiency measurement and price reviews to regulated utilities, regulators and government in a number of different utility sectors. He has worked on a number of projects for Postcomm including Frontier's assessment of the nominal price freeze and an evaluation of the appropriate rate of return for Royal Mail.



Rob Francis

MANAGER

Rob is an experienced economist who has worked in many different sectors. His expertise includes financial analysis and regulatory economics and he has assisted clients with assessments of profitability, the cost of capital, investment appraisal techniques, acquisition strategies and regulatory strategies. Rob has worked on these issues for a number of major telecommunications operators and regulators, both in the UK and overseas. Before becoming an economic consultant, Rob worked for the investment bank Barclays de Zoete Wedd and for the Confederation of British Industry (CBI).