

Postcodes in Competitive Postal Markets: Is there a Case for Regulation?

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- Introduction
- What is a socially optimal postcode system?
- Possible risks to competition
- Regulation of postcodes: case studies
- Conclusions

Introduction

Background and Objectives

Starting points

- Telecommunications: access to subscriber line numbers is an essential facility – Precondition for competition in local loop – Numbering under regulator's authority in most countries – Analogous need for regulation of postcodes?
- EC proposal for Third Postal Directive: *“Whenever necessary to protect the interest of users and/or to promote effective competition [...] Member States shall ensure that transparent and non-discriminatory access conditions are available to the following elements of postal infrastructure or services: **postcode system**, address database, post office boxes, collection and delivery boxes, information on change of address, redirection service, return to sender service.”*

Study objectives

- Discuss importance of postcodes to different user groups
- Examine whether their responsibility for administering the postcode system gives incumbents a chance to discriminate their competitors
- Assess whether regulation of postcodes is necessary (and if so, where exactly)

Introduction

Uses and Purposes of a Postcode System

- Unique address identification – particularly relevant where several towns have the same name
 - Postal operators: needed for correct routing and delivery
 - Other users: e. g. online inquiry for local shops, maps, car navigation systems
- Typically, the postcode systems is optimized to the incumbents network infrastructure. E.g. Germany: first two digits identify a sorting centre
- Postcodes are widely used for non-postal purposes, increasingly for internet applications
- Sometimes, postcodes relate to identity of municipalities or regions
 - E. g. an own postcodes may be regarded as a proof of importance by small towns / villages
 - Emotional importance to citizens where postcodes relate to political regions or licence plates (e. g. in France)

Introduction

Generic Types of Postcodes (in Germany)

- **Geographic postcodes (identify an area)**
(~ 8.000 in Germany)

- **Postcodes for P.O. boxes**
(~ 17.000 in Germany)

- **Postcodes for large businesses**
(~ 2.500 in Germany)

- **Postcodes for ad campaigns**
(~ 2.000 in Germany)

Non-geographic
postcodes”

What is a Socially Optimal Postcode System?

Public Good Theory (Textbook Knowledge)

	Non-rivalrous	Rivalrous
Non-excludable	Public good	Common pool resource
Excludable	Club good	Private good

Public good theory: Free market equilibrium delivers inefficient amount (or quality) of public goods

→ State action/regulatory intervention likely needed to ensure socially optimal amount of public good is available

What is a Socially Optimal Postcode System?

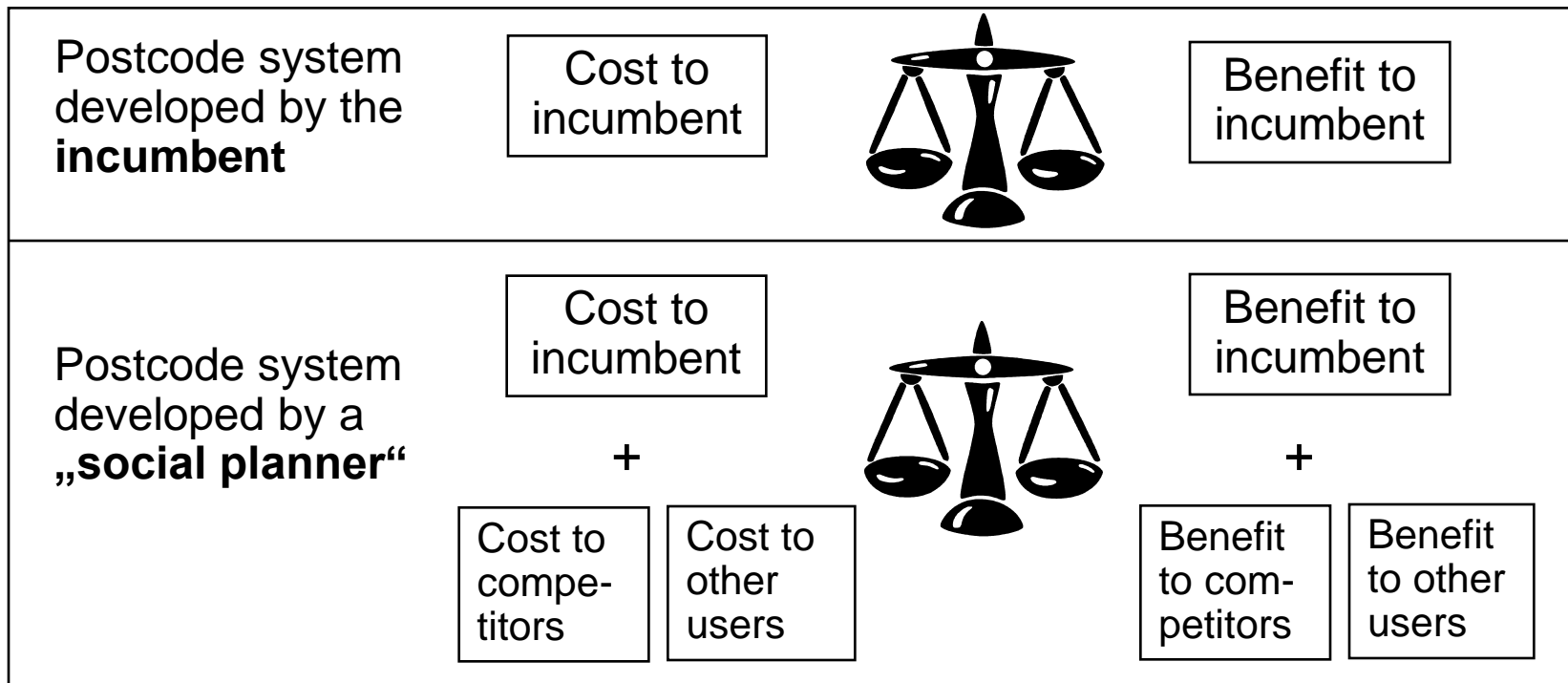
Are Postcodes Public Goods?

	Type of postcode	Excludable?	Rivalrous?	Conclusion
Senders' perspective	Geographic	No	No	Public good
	Non-geographic	No	No	Public good
Receivers' perspective	Geographic	No	Some	Public good
	P.O. box	Yes	Some	Club good
	Large business	Yes	Yes	Private good
	Ad campaign	Yes	Yes	Private good

- **Geographic postcodes** are public goods (from both senders' and receivers' perspectives)
 - Potential need for regulation
- **Non-geographic postcodes are not clearly public goods (only from the senders' perspective)**
 - No clear need for regulation (justified by public good theory)

What is a Socially Optimal Postcode System?

Incumbent vs. „Social Planner“



- Regulation needed only if a “socially optimal” postcode system would be substantially different from what the incumbent prefers
- ➔ Do competitors and other users have different expectations towards postcodes than the incumbent?

What is a Socially Optimal Postcode System?

Different Users of Postcode Systems

Group of users

- Incumbent
- Competitors
- Senders
- Receivers
- Non-postal users, e.g. public administration, market research firms ...
- Municipalities

Produce
postal
services



Optimize process
More accurate/
better quality

Use
postcodes
for



Postcodes facilitate
better or cheaper
postal services
Unique address
identification / GIS
applications
Municipal identity

What is a Socially Optimal Postcode System?

Do Competitors / Other Users Need A Different Postcode System?

Postal operators (incumbent and entrants)

- Maintaining parallel (public) postcode systems is impossible in practice – entrants could not realistically establish own public postcodes
 - Current postcodes are typically optimized for the incumbents' network
 - But: Few indications that competitors would want a significantly different postcode system – Given lower volumes, entrants do not need more granular postcodes than incumbent
- Entrants need full information about postcode system – but likely do not need a different one

Other users (Senders, receivers, administrations, market research firms...)

- Needs towards postcodes are relatively similar to those of incumbent: unique identification of addresses
- Changes in postcodes cause significant cost to these “other users” – this cost is not taken into account if system is administered by incumbent

What is a Socially Optimal Postcode System?

Summary

General structure of the postcode system

- Incumbents do not have significantly different requirements than competitors
- No regulation needed: good system for incumbent will typically be good for entrants as well

Ongoing changes to postcode system

- Incumbent has no incentive to take care of other parties' interest and cost to other parties (e.g. time needed to inform about “new address”, print new business cards ...)
- Germany: In some cases, competitors get inadequate information about changing postcodes
- All relevant parties should be consulted before changing postcodes
- Transparent and timely information about changes to all stakeholders

Possible Risks to Competition (1)

- This section discusses whether postcodes offer the potential to obstruct competitors (if the incumbent manages the postcodes system without regulatory oversight)

Potential problem for competition	Relevance
1) Slow or ineffective information about changed postcodes by incumbent	<ul style="list-style-type: none"> • Information is critical for competitors to be able to deliver all mail • Potential to obstruct competitors and mailers • Experience in Germany: Competitors have access to same postcode information as mailers – no indications for systematic obstruction
2) Incumbent could entirely deny competitors information on non-geographic postcodes	<ul style="list-style-type: none"> • Geographic postcodes are necessarily public (senders and receivers must know their postcode) • For non-geographic postcodes, delivery point is known only to incumbent (e.g. address of P.O. box) • Legal right to information on all postcodes (incl. P.O. box addresses) should be clarified by regulation • Experience in Germany: Incumbent informs all parties non-discriminatorily – but legal situation unclear!

Possible Risks to Competition (2)

Potential problem for competition	Relevance
3) Competitors cannot “issue” own postcodes to large businesses	<ul style="list-style-type: none">• Issuing postcodes is not necessary to deliver postal services• This possibility may promote competition in the “market for operation of P.O. boxes”• Experience in Germany: No claims from operators that want this possibility• Possibility exists in Sweden – has had insignificant market impact

Conclusions

- Access to information on postcode addresses – and timely information on changed postcodes – is crucial to new entrants (and other users)
- In many countries (save Sweden and UK), no legal right to such information
- Incumbents typically provide information (so far)
- ➔ Rights/obligations to information about postcodes should be clarified by legislation (could be part of “access to address databases”)

Regulation of Postcodes: Case Studies

Germany

- Postcode system administered by incumbent Deutsche Post – no formal regulation – ownership unclear – incumbent provides transparent information (against charge) by CD-ROM, book, online, anonymized database query

Sweden

- Postcode system operated by incumbent Posten AB – dedicated council for consultation of proposed changes to geographic postcodes – transparent information about all postcodes – competitors can issue “own postcodes” to customers (for post office boxes)

United Kingdom

- Postcodes Address File administered by incumbent Royal Mail – Information to all users (against charge) – consultation procedures set out by licence – ownership publicly debated

- Incumbents best placed to operate and administer postcode systems (at given market situation)
- Transparent information about all postcodes should be legally required
- Non-geographic postcodes
 - No regulation beyond transparency requirement necessary
- Changes in geographic postcodes
 - Geographic postcodes strongly affect public interest – impact on various users of postal codes, including non-postal applications. E.g. consumers, municipalities, competitors
 - Public consultation should be required – could be through “regulatory appeals board” (to become active only in case of complaints)



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