

• *Károly Miklós Kiss* •

THE HUNGARIAN POSTAL SECTOR

This paper summarizes recent developments on the Hungarian postal markets and the manner, in which they are regulated. In the first part of this study, I describe the evolution and main features of the relevant Hungarian regulations. In the second section, I outline the process of market opening and the emergence of market competition, including key Hungarian legal cases concerning anti-competitive market conduct. In the third section, I assess the economic performance of the Hungarian postal sector and its various segments, examining changes in prices over time and price regulations in a separate section. Finally I provide a summary of service quality indicators.

THE DEVELOPMENT OF POSTAL REGULATIONS IN HUNGARY

Reform of Hungary's postal regulations began in the early '90s, drawing on the postal regulations of the European Union as they developed. Following institutional separation of postal, telecommunications and broadcasting services in 1990, separate legislation was introduced for the three sectors from 1992 to 1993. Act XLV of 1992 on Postal Services replaced the earlier Act II of 1964. The 1992 Act indicated, to a certain extent, the intention of opening the hitherto entirely monopolized postal markets and allowing other players to be present, subject to possession of the relevant license. The conditions set down in law did not enable actual market entry.

The concept of the convergence of the information and communications markets, which gained ground in the '90s, also impacted on Hungarian legislation: the need for common framework regulations for these sectors arose as part of the communications modernization program that got under way in the late '90s. Accordingly, Act XL of 2001 on Communications set the framework regulations for various information and communications activities. When regulating postal services under the Communications Act, the first EU postal services directive, namely Directive 97/67/EC of the European Parliament and of the Council, was taken into account, with the result that the fundamental principles of provision of universal postal services and market opening were adopted. The 2001 Act opened up those market segments involving non-universal services to new entrants. The impact was reflected in the increase in the number of market players – 18 registered service providers were

present in these market segments in 2002 (the first year of the Communications Act), with that number rising to 43 in 2003.

However, the delegation of the European Commission that assessed implementation of the first postal services directive, criticized several aspects of the Hungarian Act on the grounds that it extended the privileges of the universal service provider. Criticisms were made in two important respects: first, regarding extension of the scope of reserved services (to include cash transfers and payment intermediary services) contrary to the directive, and, second, regarding *contributions to the subsidy fund for universal postal services*. In the meantime the second EU postal services directive (Directive 2002/39/EC) was adopted, with the result that there was both an internal and external need for reform of the Hungarian legislation. However, while preparing the amendment to the Act, it became increasingly clear that it was not expedient to set out the regulations in a joint law owing to the unique characteristics of the telecommunications and postal sectors. For that reason, these sectors were again regulated separately. Act CI of 2003 on Postal Services and Act C of 2003 on Electronic Communications were passed. The new Postal Services Act, which drew on the second EU postal services directive, was adopted, and within a short time the key government decrees and ministry decrees supplementing the Postal Services Act came into force.

As the regulations evolved, the scope of universal services was defined with increasing precision based on the directives. Although the 1992 Act used different terms (namely basic postal services and basic provision of services), it introduced numerous elements of universal services (for example, mail not weighing more than 2 kilograms and money orders). The provision of universal postal services as defined in the 2001 Communications Act was obliged to provide countrywide services with respect to domestic packages not weighing more than 10 kilograms, postal payment services and financial services, and the following extra services: registered mail, delivery with return receipt and insured mail. It also introduced a number of quality indicators.

The 2003 Postal Services Act extended the scope of universal services to include packages weighing up to 20 kilograms and set new, more exacting quality requirements. In addition, with respect to the manner of providing postal services, the obligations tied to universal services were defined with increasing precision. That manifested itself, for example, in provisions concerning household delivery to addresses beyond municipal boundaries. The Communications Act and the 2003 Postal Services Act also regulated access to universal services (minimum opening hours of permanent postal service points and minimum times that mobile services and mobile post offices are required to spend at the designated access points). These two Acts, unlike the 1992 Act, no longer allowed the universal service provider to not even attempt delivery of mail weighing over a specified amount to addresses outside municipal boundaries.

The 2003 Postal Services Act defined *universal* and *reserved* services as follows:

Scope of universal postal services:

- postal services involving domestic and international letters, addressed advertising mail and forms not weighing more than two kilograms;
- postal services involving domestic and international packages not weighing more than 20 kilograms;
- postal services involving domestic and international mail not weighing more than seven kilograms and containing Braille;
- extra services (registered mail, delivery with return receipt and insured mail) that can be ordered by the person posting the mail to supplement the services defined above.

Reserved postal services within the scope of universal services:

- services involving domestic or international letters or addressed advertising mail not weighing over 50 grams if the price of the service is less than two and a half times (earlier three and a half times) the price of a letter in the first weight category of the fastest service category of the universal services segment,
- postal services involving official documents, unless otherwise regulated by law or government decree.

With respect to market competition, another important question is how market entry is regulated in the various segments. The earlier postal services directive set out the possibility for the various Member States to apply a licensing procedure to non-reserved universal services, recommending two forms of licensing: the more liberal general license and the more stringent individual license. The practices of the Member States with regard to licensing can be categorized into four groups. In increasing order of stringency and difficulty of entry, these groups are as follows: *a)* no license is required; *b)* a general license is required; *c)* an individual license is required only for letter mail in the non-reserved universal segment or a limited scope of such letters; *d)* an individual license is required for all universal postal services (including packages). Hungary was among the countries in the last group, i.e. those countries that apply the strictest licensing procedures. The earlier 2003 Postal Services Act classified postal activities into three groups regarding entry requirements.

1. Non-universal postal services (express mail, courier mail, integrated mail and document exchange) can be performed subject to *registration* (which is a straightforward process, requiring only a formal declaration of intent).
2. Non-reserved universal postal services can be performed subject to an individual license (licensed service providers are not only entitled, but are also obliged to perform the universal service for the mail types and geographical area, to which the license applies).

3. The universal postal service provider (Magyar Posta Zrt. (Hungarian Post)), which has the exclusive right to provide reserved postal services, was *designated by the Act*.

To what extent the requirement for an individual license represents a barrier to entry also depends on the related conditions and obligations prescribed by the regulations and the national regulatory authority. One indicator of the extent, to which the requirement restricts entry may be the number of service providers present in the various universal postal service sectors. Even among the countries in the last group listed (countries where universal postal services can only be performed subject to an individual license) significant differences can be observed. (While for example, in 2005 more than 200 service providers operated in certain universal service segments in Italy, where an individual license is also widely prescribed, in Hungary there was not a single service provider aside from the designated universal service provider.)

Hungary was granted a moratorium until December 31, 2012 to transpose the third postal services directive into domestic law and to fully open its postal markets to competition. Following protracted negotiations and drafting, Parliament adopted the new Postal Services Act in fall 2012 (Act CLIX of 2012 on Postal Services) virtually at the last moment. The government decrees and ministry decrees for implementation of the Act then came into force in December 2012 (Government Decree no. 335/2012 (XII. 4.), Government Decree no. 336/2012. (XII. 4.), National Development Ministry Decree no. 67/2012. (XII. 15.).

The most important change in the new legislative environment was that almost all services were removed from the scope of reserved services, thereby opening up the hitherto monopolized postal service segments to competition. The only field, in which the universal postal service provider retains the exclusive right to provide postal services is the official documents segment.

The new Postal Services Act distinguishes between three types of postal services:

1. *Universal postal services:*

- a)* non-registered domestic or international mail (differing from the mail defined in *b)–d)*) not weighing more than two kilograms;
- b)* domestic or international packages not weighing more than 20 kilograms;
- c)* domestic or international mail containing Braille;
- d)* official documents.

However, only services provided pursuant to the general terms and conditions constitute universal services. If the universal postal service provider provides the service according to terms and conditions set out in an individual agreement that differ from the terms and conditions for the universal postal service, according to an individually set price, then the service qualifies as a service replacing a universal service (hereinafter: replacement universal service).

2. Any postal service involving any mail type qualifies as a *replacement universal service* that does not come under the scope of the services specified in Section 8 of the Act (services that do not replace universal services; see the summarized group of the services in the section below) and is not provided by the postal service provider under its universal postal service obligation. In other words, replacement universal services are postal services involving all mail in the universal category if they are not provided by the universal service provider, or if they are provided by the universal service provider, but not under the general terms and conditions applicable to the universal service.
3. The below postal services that provide added value compared to universal postal services or replacement universal services constitute *postal services that do not replace universal postal services* (hereinafter: non-replacement universal postal services).
 - a) courier service,
 - b) express mail service,
 - c) international EMS service
 - d) mail service including at least one of the below supplementary services that represent considerable added value:
 - mail tracking,
 - service with delivery time guarantee,
 - cash-on-delivery service,
 - service whereby the mail is delivered at a time individually agreed with the recipient after the postal service provider has taken receipt of the mail,
 - delivery solely to the person designated as the recipient,
 - other supplementary services connected to mail delivery that are tailored to the needs of the sender and are provided on the basis of an individual agreement, provided they do not come under the scope of supplementary services that must be offered in connection with the universal postal service, and whose use means that from the perspective of the user the given service no longer qualifies as a replacement universal postal service.

Non-replacement universal services may be performed by any business organization based on registration (services subject to registration). By contrast, a license is required for performance of replacement universal services (services subject to a license). Only the universal service provider may provide universal services. The Act designates Magyar Posta Zrt. as the universal service provider until December 31, 2020.

The Act prescribes that the prices of universal services should be cost-based, but only the pricing of individually posted domestic letters not weighing more than 50 grams and domestic services involving official documents is regulated. The method for regulating these prices is set out in National Development Ministry Decree no. 67/2012. (XII. 15.). In place of the earlier regulatory prices, price cap regulations were introduced (which will be discussed later under “prices over time”).

The new Act creates the possibility for a *Subsidy Fund for Universal Postal Services* to finance the undue additional burden posed by the universal service obligation. Payments to and from that account are governed by a separate government decree (Government Decree no. 336/2012. (XII. 4.)). All service providers, including the universal service provider that provides replacement universal services is obliged to make contributions to the subsidy fund from their revenue from replacement universal services. This contribution is payable according to market share on the relevant market (replacement universal services), according to the formula set out in the government decree. However, each postal service provider is not obliged to pay more than 10 percent of its net revenue from replacement universal services. The level of the contribution is determined by a formula set out in the decree according to the undue additional burden posed by the universal service. The amount of the undue additional burden is established by the National Media and Infocommunications Authority.

The Hungarian postal sector regulator

In Hungary state service provision and regulatory activities were separated in 1989. It was at that time that the separate, state-owned Hungarian Telecommunications Company, the Hungarian Broadcasting Company and the Hungarian Post Company were established. Simultaneously, the Ministry of Transport, Communications and Water Management assumed the role of regulatory authority. In 1993, based on the authorization of the Telecommunications Act (Act LXXII of 1992), a combined communications authority was created: an independent central authority (communications authority) operating under the control and supervision of the Transport, Communications and Water Management Minister, for the performance of postal, telecommunications and frequency management authority tasks. Its central body was the Communications Inspectorate General and its local bodies were the regional communications inspectorates. As successor to the Communications Inspectorate General the Communications Inspectorate was established by Government Decree 248/2001. (XII. 18), pursuant to which it became a central public administration body with legal personality and nationwide competence, operating under the control of the government and the supervision of the Minister in Charge of the Prime Minister's Office. In January 2004 the National Communications Authority (NHH) was established as legal successor to the Communications Inspectorate pursuant to the Act on Electronic Communications, and was vested with significantly greater powers than its predecessor (as it was granted regulatory, market-shaping and, under certain circumstances, legislative powers by the law).

The current regulatory authority, the National Media and Infocommunications Authority (NMHH) was established on August 11, 2010 by Parliament with Act LXXXII of 2010 on the amendment of certain laws governing media and commu-

nications. The NMHH was created by merging the National Radio and Television Authority (ORTT), which regulated the media, and the National Communications Authority (NHH), which regulated the communications sector.

The NMHH is a central budgetary body with independent financial management; it covers the costs of its operation from its own revenues. It is *tasked with* promoting the smooth, effective operation and development of the communications markets: it protects the interests of those performing communications activities and of communications users and it strives to ensure the development and maintenance of fair and effective competition and oversees legal compliance of entities performing communications activities. However, the independence of the NMHH is reduced by certain provisions of the new Act: 1) the head of the authority may be appointed by and removed from office by the prime minister, 2) the duties and powers of the regulatory authority may be prescribed not only by law, but also by government decree. Moreover, the new Act states that the NMHH is involved in the implementation of the government's communications policy.

Market structure and market size

In terms of competition, the Hungarian postal sector can be broken down into three categories up to the time of total market opening:

- absence of competition (because it was prohibited): reserved universal services: segment involving letters weighing below 50 grams,
- minimal competition: non-reserved universal services (until 2009 Magyar Posta did not have a competitor; in 2009 a competitor emerged with a small market share),
- strong competition: non-universal postal services, for which the service provider needs to be registered (courier services, express mail services, integrated postal services, postal intermediary activities, document exchange services).

International experiences show that, in addition to general reduction of reserved services, competition was primarily boosted by fully liberalizing segments of the addressed mail market (eliminating the reserved scope determined by weight limits in those segments), in which competitors were rapidly capable of offering competitive services. For example, the opening of the outbound international mail segment, the total liberalization of addressed advertising mail (e.g. in the Netherlands) or liberalization of the market involving (otherwise reserved) postal services that are supplemented by services with added value (e.g. in Germany the "D-license" or hybrid mail in Bulgaria). In Hungary's case, these market segments (within the prescribed weight limits) were classed among reserved services until the prescribed deadline

for total market opening. The Hungarian regulations have consistently made full use of any flexibility allowed by the effective postal services directives to make the scope of *reserved* services as broad as possible. Throughout, Hungary has been in the group of countries that have made the least advances in terms of market opening.

In the case of non-reserved universal postal services, the earlier postal services Act (Act CI of 2003 on Postal Services) tied provision of such services to obligations that acted as a barrier to entry for a long time. As mentioned above, the provision of universal services was subject to a license in Hungary pursuant to the earlier Postal Services Act. Licensed service providers were not only entitled, but also obliged to provide universal services in the geographical region and for the mail types, to which the license applied. A license could be requested for provision of non-reserved universal postal services in one of the following public administrative regions:

- one or more settlements, with the exception of towns or cities;
- at least one county with the exception of Pest County;
- Pest County and at least one county;
- Budapest and – with the exception of Pest County – a combination of at least two counties;
- countrywide.

The obligations entailed by the license prevented potential market entrants from picking and choosing the more profitable market segments within universal services. However, they also hindered the development of competition in the non-reserved universal services segments. It was not until 2009 that a competitor emerged in those market segments, namely Feibra Kft. (a subsidiary of Österreichische Post (Austrian Post)). Feibra Kft. commenced operations in 1990, and for a long time focused on the unaddressed advertising mail market. In 2008, following a merger with Cont Média, it became the largest market player on the unaddressed advertising mail market, with a market share of 60 percent. Having established the necessary infrastructure, it entered the market for mail weighing more than 50 grams, which is classified as a universal service, in 2009. No reliable data are available with respect to the market share it achieved in that universal mail segment, but it is highly probably that, in line with the experiences of other countries with a liberalized postal market, it did not capture a significant share of Magyar Posta's market.

Following the complete market opening, in January 2013 Feibra Kft. submitted an application to provide replacement universal services (for which a license is required). However, the outcome of the authority assessment indicates that even the new Postal Services Act failed to lessen the entry barriers resulting from the regulations. Feibra Kft. was not granted a license by the regulatory authority for the postal sector (the authority established that the company's accounting procedures were not sufficiently transparent). Another applicant came on the scene in 2015. City Mail Hungary Kft.

submitted a license application to the authority to perform replacement universal services in Hungary, in addition to the postal services it was providing on the basis of registration. The NMHH also rejected that license application on the grounds that the necessary conditions for reliable delivery performance of the service provider in the whole public administrative area of Budapest and material conditions for providing the service were not in place. As a result, no competitor managed to enter the most recently opened market segments within the scope of universal services.

The anti-competitive tax conditions also act as a barrier to entry. Despite much criticism of the EU system of exemption from VAT, it is still the case that only a few Member States apply an equal level of VAT to the universal service provider and the other service providers on the market. In most countries either all activities of the universal service provider or its services involving mail that comes under the scope of universal services are exempted from VAT or receive a VAT discount, which significantly distorts competition. In Hungary, like in most Member States, universal postal services are exempt from VAT (on the grounds that they are in the public interest)¹, while replacement services are not, with the result that Magyar Posta's competitors are at a significant competitive disadvantage in those segments. In order for entrants to the universal services segment to make their services attractive (for instance, to the financial sector or public sector, which cannot reclaim VAT), they have to offer their services at below the universal service provider's prices, less the VAT amount, which significantly distorts price competition. That limits the range of potential customers, and thereby the commercial opportunities of competitors.

There is, however, fierce competition in the field of non-universal postal services. *Table 1* shows steady growth in the number of service providers in the various service categories (although the number of deleted service providers also rose sharply in 2009, the year following the financial crisis). Since 2010 the number of

TABLE 1 • Number of non-universal postal service providers by service category
(based on service categories designated at the time of registration, number of service providers)

	2005	2006	2007	2008	2009	2010	2015*
Total number of registered service providers in the various non-universal service categories	96	111	137	178	237	265	179
Deleted in the respective year	8	24	49	66	92	36	n/a
Other courier services	54	75	88	114	139	150	94
Only express mail	0	0	0	0	0	0	6
Integrated	0	10	13	12	12	15	10
Combined (courier, express, integrated, and intermediary services)	44	24	30	45	76	100	69
Postal intermediary services	0	2	6	7	10	20	2

* Data as of July 1, 2015 from the NMHH's searchable database.

Source: Data provided by the NMHH.

¹ Section 85 (1) of Act CXXVII of 2007 on Value Added Tax.

registered service providers has declined; according to the searchable database of the NMHH there were 179 postal service providers providing non-universal services at the start of July 2015.

Magyar Posta's main competitors in the non-universal packages segment and the express mail and courier segments are the large international integrator companies, namely DHL, TNT, FedEx, UPS, GLS, and Road Parcel Logistics. In those market segments, the role of international service providers has continuously grown, with Magyar Posta's market share falling from almost 30 percent in 2002 to around 15 percent in 2007. In 2007, the CR5 index indicating market concentration (the combined market share of the five companies with the largest market shares) in these segments was 75 percent (*ITA-WIK* [2009a] p. 60.). In addition to the large international service providers, there are also several small enterprises, which chiefly provide local courier and express mail services. In these competitive segments, Magyar Posta's market share (based on revenue) in 2006 was as follows in the various segments: 82 percent in the express mail segment, 1.5 percent in the courier segment (Magyar Posta is not present in the integrated mail services segment). (*Ecorys* [2008] p. 56)

Magyar Posta met with a considerable challenge in the newspaper distribution segment in 2007. At the end of 2006, three large newspaper publishers (Ringier, Népszabadság and Sanoma) and the Fiege Group established a new newspaper distribution enterprise called Médialog Fiege Zrt., which set up an independent distribution network in Budapest and another 104 towns and cities. As a result, on the newspaper distribution market, Magyar Posta had to scale down its activities to smaller settlements not affected by Médialog.

Figure 1 below shows the weighting of the various market segments in 2010. The market segments with actual competition accounted for approx. a quarter of the total postal industry in 2006. That figure increased to 32 percent in 2008, and was at roughly the same level in 2010 (33 percent). Between 2006 and 2008, revenue in the universal services segment grew to a lesser extent than that of the competitive segments, so the weighting of the competitive segment within the total revenue of the postal sector increased. However, between 2008 and 2010 the service providers in the competitive seg-

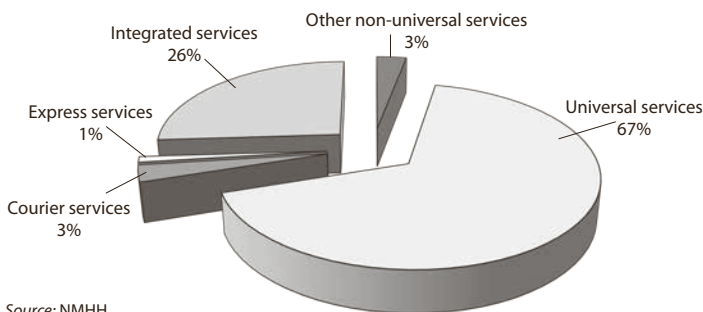


FIGURE 1 • Breakdown of postal revenues by service type in 2010 (based on revenue)

ment were hit harder by the effects of the financial and economic crisis than the universal service provider (which held a monopoly or near monopoly in many of its markets).

Table 2 shows the volume of mail handled by the various competitive segments. We can see from the mail volume data that integrated postal services are the largest market segment within non-universal postal services, as is also shown by the revenue data set out in *Table 4*. Of the competitive segments, the combined revenue of the service providers is by far the greatest in this market segment (integrated mail services: HUF 37,585 billion, courier services: HUF 3,560 billion, express mail services HUF 1,411 billion).

From *Table 3* we can see that the number of letters handled by Magyar Posta (unlike packages), contrary to international trends, has not yet fallen significantly (although, despite the minor fluctuations, a slight downward trend can be observed). In the case of packages, the decline can be attributed to the fact that some of the mail volume has shifted to services with greater added value (e.g. express mail services, courier services and integrated mail services). The majority of letters even in 2010 were in the reserved (i.e. monopolized) segment involving mail weighing below 50 grams (94 percent of letters and 73 percent of addressed advertising mail).

TABLE 2 • Breakdown of mail in the competitive segments, 2010

	Courier	Express	Integrated	Total
Domestic delivery	1,944,761	493,448	17,371,463	19,809,672
Posted abroad/inbound	0	79,725	2,229,808	2,309,533
Outbound international	0	31,913	1,544,715	1,576,628
Forwarded by another service provider	0	9,683	49,834	59,517
Forwarded to another service provider	1,921	36,329	34,123	72,373
Undelivered	148	17	33,677	33,842
<i>Total</i>	<i>1,946,830</i>	<i>651,115</i>	<i>21,263,620</i>	

Source: NMHH.

TABLE 3 • Volume of domestic mail in the universal services category over time, 2005–2010
(number of mail items)

	2005	2006	2007	2008	2009	2010
Standard letters	546,581,962	577,675,535	625,071,170	644,007,359	611,849,821	625,983,883
Registered	91,653,008	89,626,214	80,382,591	78,370,999	75,954,598	71,557,794
Value-declared letters	328,715	465,036	351,082	312,881	325,161	305,105
Official documents	38,307,238	39,640,710	43,774,374	45,799,263	46,712,382	50,398,334
Addressed advertising mail	75,490,746	89,579,418	31,721,887	27,788,101	27,509,099	26,930,883
Forms	13,138,625	10,330,540	5,766,055	3,338,148	5,031,472	2,314,206
Packages	4,559,849	2,673,383	1,760,958	1,541,523	1,443,324	1,379,066
Of the above: insured	1,881,753	1,033,462	1,178,690	1,303,731	252,201	200,743
<i>Universal mail</i>	<i>770,060,143</i>	<i>809,990,836</i>	<i>788,828,117</i>	<i>801,158,274</i>	<i>768,825,857</i>	<i>778,869,271</i>

Source: Data provided by the NMHH.

From the data in *Table 4* we can see that in recent years the net sales revenue increased in both the non-competitive universal services segment and in the competitive express mail services and integrated mail services segments, while the aggregate revenue from courier services decreased significantly between 2008 and 2010. If we examine the development of these market segments by looking at the volume of mail, we can see that during the three years the mail volume of the universal service provider showed a negative tendency, with some fluctuations, while the growth rate of the mail volume in the competitive segments was typically greater than the revenue increase in those same segments.

Payment services and financial intermediary activities play a highly significant role at Magyar Posta. If we look at Magyar Posta's 2011 Annual Report (*Magyar Posta* [2011]), we can see that revenue from payment services and financial intermediary services accounted for approx. 32 percent of its total revenue (*Table 5*).

TABLE 4 • Net sales revenue, broken down by market segment (HUF millions)

Segment	2006	2008	2010	Percentage change (2006–2008)	Percentage change (2008–2010)
Universal service	74,000	85,001	95,346	+14.87	+12.17
Courier service	2,455	7,237	3,560	+194.79	–50.81
Express mail service	1,484	349	1,411	–76.48	+304.30
Integrated mail service	22,406	31,227	37,585	+39.37	+20.36

Source: NMHH and *Magyar Posta* [2006], [2008], [2010].

TABLE 5 • Revenue of Magyar Posta over time, 2009–2011

Services	2009		2010		2011	
	HUF millions	%	HUF millions	%	HUF millions	%
Letter mail services	83,977	48.8	85,311	49.6	85,786	49.0
Newspaper services	6,173	3.6	5,489	3.2	5,364	3.1
Logistics services	7,497	4.4	7,608	4.4	8,549	4.9
Postal finance services	46,133	26.8	45,989	26.8	46,942	26.8
Banking and investment services	7,487	4.3	7,635	4.4	7,509	4.3
Insurance services	1,198	0.7	1,360	0.8	1,730	1.0
Retail and postal outlet activity	7,540	4.4	6,460	3.8	6,868	3.9
International services	12,038	7.0	12,058	7.0	12,432	7.1
Total revenue	172,043	100.0	171,910	100.0	175,180	100.0

Source: *Magyar Posta* [2011] p. 14.

Competition authority and regulatory authority proceedings

The proceedings of the regulatory authorities can be divided into three main categories. The cases in the first group are typical of the earlier period of regulation of the postal markets and resulted from the particular features of those regulations, namely cases concerning interpretation of the boundaries of the reserved scope of services. Since the universal service provider was granted exclusive rights to provide services in certain sectors, the exact boundaries of those sectors were a key question in terms of competition. It was naturally in the interest of the universal service providers for the reserved segment to be as broad as possible.

The second category of proceedings involves cases investigating conduct that restricts competition. Such cases involve abuse by universal service providers of their market strength (discriminative price discounts, cross financing that distorts competition, pricing that drives out competitors, and problems concerning accessibility). The earlier system of reserved services meant that there were exclusive rights in certain market segments. As a result, one purpose of the regulations was to prevent cross financing between services provided in a monopoly and services provided under competitive conditions in the case of economic players with exclusive rights. As the proportion of competitive markets has increased, the regulator also needs to examine whether companies extend their established dominant position on one reserved market to their activities in liberalized segments, or whether they abuse their monopoly by discriminating between the various consumer categories. Since the market strength of the incumbent national postal companies had not declined significantly after the market opening in the previously reserved segments, such regulatory cases remained important following the total market opening.

The third main group of competition authority proceedings involves merger inspections resulting from the international expansion of the large universal postal service providers. This last group does not differ from competition authority proceedings in other industries,² so I will not discuss it in detail, and will instead provide a summary of cases in the first two groups.

Proceedings concerning anti-competitive market conduct were launched against Magyar Posta in 2005. The NHH conducted an investigation into the discount system of the designated universal postal service provider. The authority chiefly investigated whether the pricing and discount system applied by Magyar Posta Zrt. to its contractual customers as per its *key partnership agreements*, and to other major consumers, were in line with the provisions of the Postal Services Act on the pricing of postal services and application of such prices, and whether the requirement for non-discriminatory treatment was met with respect to Magyar Posta's contractual partners. The Authority ruled that several aspects of the key partnership agreements gave cause for

.....
² A summary of such cases can be found in the paper of *Geradin and Henry* [2004].

concern and ordered Magyar Posta to review its discount system and to develop a set of contractual conditions in line with the principles set out in the ruling and to render its active contracts legally compliant (ruling no. PS-19.710-4/2005 – NHH [2006]).

With respect to that same period, the Competition Authority also examined whether Magyar Posta had abused its dominant position (Vj-174/2005/55). In cooperation with the NHH, it examined in relation to Magyar Posta's discount system whether the conclusion of certain exclusive agreements had led to closure of the market. The Competition Authority terminated the proceedings since it established that Magyar Posta had only concluded an exclusivity agreement with Magyar Telekom Rt. and that Magyar Telekom Rt.'s share of the letter mail market was less than 10 percent. The Competition Council therefore concluded that the agreement did not lend itself to preventing competitors from entering the market or creating a disadvantageous market situation for such competitors (i.e. closure of the market).

The Competition Authority earlier examined whether Magyar Posta's discount system constituted abuse of its dominant position on the grounds that the discount system led to the bundling of products in a way that restricts competition. The 2011 proceedings (Vj-167/2001/52) focused on Magyar Posta's practice of giving greater than usual discounts to those customers that also had the delivered mail (typically invoices) produced by Magyar Posta. The investigation, although it was launched in relation to a specific order (Émasz public procurement), identified objectionable discounts in contracts between 1999 and 2001. According to the ruling, Magyar Posta used its dominant position on the basic postal services market to restrict and distort competition on the mail delivery market, which can be termed competitive. Thanks to the special discount it offered, it persuaded customers to commission it with mail production too. The Competition Authority fined Magyar Posta HUF 20 million and ordered it to desist from the practice in question.

It is also worth mentioning two other Hungarian legal cases concerning the anti-competitive conduct of Magyar Posta. The Competition Authority's Competition Council launched proceedings against Magyar Lapterjesztő Zrt. and Magyar Posta Zrt. on the grounds that they had *concluded an agreement restricting competition*, and established that their conduct had restricted competition in its ruling of November 8, 2007. Pursuant to an earlier agreement in effect between 1998 and 2001 in connection with the privatization of Magyar Posta's newspaper distribution companies, Magyar Posta would not compete for the delivery of newspapers from the printing presses to retailers. In exchange, Magyar Posta managed to have the commission paid by Lapker for newspapers sold in Magyar Posta's post offices increased from 13 to 23.5 percent in the cooperation agreement concluded between the two companies for the period between 2002 and 2007. In the amendment of the agreement effective from January 2003, the newspaper distributor agreed not to engage in subscription-based newspaper distribution, which was considered to be Magyar Posta's domain. In connection with the non-compete agreement, Magyar Posta re-

ceived one-off market organization fee of HUF 260 million for not impeding Lapker's business for another five years. The Competition Council ordered Magyar Posta Zrt. and Lapker to pay a fine of HUF 468 million each. The appellate ruling of April 22, 2009 reduced that amount to HUF 250 million each (ruling no. Vj-140/2006/69).³

The other case worth mentioning involves postal services, but does not concern the letter and package markets. On November 8, 2007, the Competition Authority launched proceedings against Magyar Posta on the grounds of abuse of its *dominant economic position*. According to the investigation, Magyar Posta applied terms and conditions to the authorization or conclusion of contracts concerning the production of cash transfer orders that were liable to distort competition on the related market for the production of forms (on which Magyar Posta is itself present) or in certain segments of that market. The Competition Council, based on the evidence available, found that on at least five occasions between 2004 and 2007 Magyar Posta declined to authorize the production of forms required for cash transfer orders. In one case it had technical reasons for declining, but in the other cases its decision was based on commercial considerations. However, it was established during the proceedings that several enterprises are present on the market for production of the forms required for cash transfer orders, and that those market players are significant competitors of Magyar Posta, so, in the period examined, Magyar Posta's conduct would not have jeopardized competition on the market for production of forms for cash transfer orders or on other markets, and damage to consumers was also not considered likely. By its ruling of July 8, 2008, the Competition Council therefore terminated its competition supervision proceedings (ruling no. Vj-186/2007/36).⁴

MARKET PERFORMANCE

Economic performance

According to the estimates of the international study carried out by the ITA-WIK group, in Hungary the letter mail segment accounted for 59 percent of the mail volume of the postal industry in 2007 (with an estimated market value of EUR 405 million), while activities involving packages and express mail accounted for 41 percent (estimated market value of EUR 280 million) (*ITA-WIK* [2009*b*] pp. 59–60). By comparison, letters accounted for 56 percent of the EUR 94 billion revenue of the total EU mail sector in 2007, while packages and express mail accounted for 44 percent (*ITA-WIK* [2009*a*] p. 25). In general, the packages and express mail segment is growing more dynamically than the letter mail segment. Total internal

³ http://www.gazdasagkifeheritese.uni-corvinus.hu/images/8/8b/GVH_-_lapterjesztokartell.pdf.

⁴ http://www.concurrences.com/IMG/pdf/2008-09-18-Hungary03Doc_82_.pdf.

EU letter mail grew in the past 10 years by 0.4 percent on average, while package and express services rose by 6.1 percent on average (*ITA–WIK [2009a]* p. 36 and p. 140). First, that reflects the stimulating effect of competition, which developed far sooner internationally on those last two markets. Second, the fact that new forms of electronic communication are gaining ground primarily poses a challenge to the letter mail segment, since such information can be conveyed by other methods with new communications technology solutions. That is less true of package and express mail services involving tangible, physical mail.

Of course considerable deviation of the various Member States lies behind the EU averages. We can see from *Table 6* that the growth rate was considerably lower in the Western European Member States, which have more mature postal markets, than in the Southern and in particular Eastern Member States. The data, however, show that despite the more marked growth rate, the letter mail markets of the latter country groups are still significantly “less developed” (in the sense of saturation/maturity of the market): the number of letters per capita is significantly below the Western European average. *Table 6* shows that in Hungary the volume of mail per capita is below the EU average (and considerably lower than that of the Western Member States, which have more mature postal markets), but higher than that of the Eastern Member States that have joined the EU more recently. Understandably, the growth rate was lowest in the period between 2003 and 2007 in those Member States with a mature (and therefore largely saturated) postal market.

The negative Hungarian growth rate is somewhat misleading, however. If we look in more detail at the underlying data (*Table 7*), we can see that of the growth rates of the three separate groups of addressed domestic letters (numbers in italics), newspaper distribution is the only segment with a negative growth rate. That, however, is highly distorted, since for that segment the data only reflect the mail volume handled by Magyar Posta, which decreased considerably in 2007 as described above, owing to the arrival of a new competitor. The conclusion cannot be drawn from the data that the total volume of mail actually decreased to that extent on the newspaper distribution market. Further, the data concerning addressed advertising mail do not give an accurate impression of that segment, since Magyar Posta’s classification of mail has since changed; in 2007 some mail types were reclassified from the earlier addressed advertising mail segment into the unaddressed advertising mail segment. If we eliminate all those distortions from the growth data of the cited international study, then the growth of the Hungarian letter mail market (dominated by the 0.7 percent growth rate of letters), would be around the modest EU growth average, below the 2.2 percent growth of the Eastern Member States, but, as we can see from *Table 6*, with a greater number of mail items per capita.

With respect to packages and express mail, the Hungarian 18.5 percent growth rate shown in *Table 6* is in line with the average growth trend of the Eastern European Member States.

TABLE 6 • Domestic letter mail within the EU–27, 2007

Member States	Number of mail items per capita*	Compound annual growth rate, 2003–2007 (percentage)	Share of revenues from mail within the EU (percentage)
<i>Letters</i>			
Western Member States	297	0.2	81.4
Southern Member States	94	1.1	14.5
Eastern Member States	68	2.2	4.1
Hungary	98	–1.5	–
<i>Packages and express mail</i>			
Western Member States	–	5.4	75.1
Southern Member States	–	9.3	21.7
Eastern Member States	–	18.8	3.2
Hungary	–	18.5	–

Western Member States: Austria, Belgium, Denmark, United Kingdom, Finland, France, Netherlands, Ireland, Luxembourg, Germany, Sweden; *Southern Member States:* Cyprus, Greece, Malta, Italy, Portugal, Spain; *Eastern Member States:* Bulgaria, Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Romania, Slovenia, Slovakia.

* Weighted average (weighted by population).

Source: based on *ITA–WIK* [2009a] p. 38, p. 143 and *ITA–WIK* [2009b] pp. 59–60.

TABLE 7 • Size and growth of the Hungarian letter mail market

Market segment	Items per capita, 2007	Compound annual growth rate, 2002–2007 (percentage)
Domestic letter post	98	–1.5
<i>Letters</i>	90	0.7
<i>Addressed advertising mail</i>	3	20.6
<i>Newspaper distribution</i>	5	–23.1
Unaddressed advertising mail	70	15.5
Outbound international mail	2	–1.3

Note: Data on the segments publications, unaddressed advertising, and cross-border outbound generally refer to incumbent postal operator / universal service provider.

Source: *ITA–WIK* [2009b] p. 59.

The vast majority of mail is sent by companies and public organizations. Eighty-eight percent of the total volume of letters in the EU is sent by such market players (B2X) and just 12 percent by private individuals (C2X) (including micro enterprises and sole traders). Of the letters posted by businesses, 35 percent are addressed to other businesses (B2B), while 65 percent are addressed to private customers (B2C). Unfortunately data of such depth are not available for Hungary, but the proportion of letters posted by businesses is estimated to be around 95 percent, i.e. higher than the EU average (correspondence by private individuals has steadily declined since 2004). (*ITA–WIK* [2009b] p. 60)

In *Table 8* more detailed data for the last three years have been compiled showing the performance of the postal sector and of the universal service provider.

TABLE 8 • Data showing the economic performance of the Hungarian postal sector and the universal postal service provider (2006–2008)

Designation	2006	2007	2008	Percentage change	
				2006–2007	2007–2008
<i>Net sales revenue</i> (HUF millions)					
Universal service ^a	74,000	79,465	85,001	+7.37	+6.98
Courier service	2,455	3,281	7,237	+33.65	+120.57
Express mail service	1,484	1,865	349	+25.67	-81.29
Integrated mail service	22,406	26,066	31,227	+16.33	+19.80
<i>Number of mail items</i> ^b (in thousands)					
Universal service	809,990.8	788,828.1	801,158.2	-2.61	+1.56
Courier service	1,192.1	1,789.6	2,599.5	+51.42	+45.26
Express mail service	411.0	501.5	483.6	+22.02	-3.57
Integrated mail service	8,167.9	10,072.8	13,133.7	+23.32	+30.39
<i>Number of employees</i>					
In the postal sector	39,706	37,648	n/a	-5.18	-
Universal service provider ^c	38,686	36,429	35,973	-5.83	-1.25
<i>Productivity</i> ^d					
Postal sector revenue (HUF million/employee)	2.53	2.94	n/a	+16.21	-
Number of mail items handled by the postal sector (in thousands/employee)	20.65	21.28	n/a	+3.05	-
Revenue of universal service provider (HUF millions/employee)	1.91	2.18	2.37	+14.13	+8.72
Number of mail items handled by the universal service provider (in thousands/employee)	20.93	21.65	22.27	+3.44	+2.86
<i>Investment</i> (at current prices, in HUF billions)					
Postal sector total	18.30	16.20	n/a	-11.47	
Postal sector, proportional to revenue ^e	0.18	0.15		-16.67	
Universal service provider, total ^f	13.63	11.29	7.97	-17.17	-29.41
Universal service provider, proportional to revenue ^f	0.18	0.14	0.09	-22.22	-35.71

^a Magyar Posta [2006], [2007], [2008].

^b Number of mail items with domestic delivery.

^c Magyar Posta [2006], [2007], [2008].

^d The productivity of the industry measured in output per employee and productivity of the incumbent service provider measured in output per employee (calculated on the basis of the other data in the table)

^e Investment per forint of revenue (investment/sales revenue)

^f Magyar Posta [2006], [2007], [2008].

Source: Unless otherwise indicated, the data are taken from the communications statistics database of the National Communications Authority (NHH).

We can see from the data in *Table 8* that the net sales revenue increased in both the non-competitive universal services segment and in the competitive market segments (courier, express and integrated mail services) in the period shown, but the competitive segments showed much stronger growth. If we examine the development of these market segments by looking at mail volume, we can see that in the

case of universal services the volume of mail tended to fall, with some fluctuations, while the growth rate of the mail volume in the competitive segments was typically greater than the revenue increase in those same segments.

The output per employee was calculated as a measure of productivity, measuring output in revenue or volume of mail. The indicator calculated on the basis of the number of mail items is not suitable for the comparison of various industry segments (or for the comparison of the industry average and the universal service provider), because the mail types are very different in the various segments (Magyar Posta handles a significantly higher proportion of letters than its competitors, which chiefly operate in the packages and express mail segments). However, it can serve as a more useful indicator of development over time within the given market segment than the productivity indicator, which is calculated on the basis of revenue, since the latter can change as result of price increases, i.e. it does not necessarily reflect an actual change in efficiency. We can see that distinction, for instance, in the case of the indicators of the universal service provider, since the increase in mail volume per employee (3.44 and 2.86 percent in the periods of 2006–2007 and 2007–2008 respectively) was considerably more modest in the period examined than the revenue increase per employee (14.13 and 8.72 percent in the same periods respectively). The income per employee, however, is worth comparing directly for the various market segments. We can see from these data that the productivity of the sector as a whole was greater in that period than that of the universal service provider (the productivity of the sector as a whole was HUF 2.53 million/employee and HUF 2.94 million/employee in 2006 and 2007 respectively, while the productivity of the universal service provider was HUF 1.91 million/employee and HUF 2.19 million/employee) in 2006 and 2007 respectively).⁵

If we examine investments over time, we can see that there is not a considerable difference in investments proportional to revenue (investment per forint of revenue) of the sector as a whole and of the universal service provider. From the last rows of *Table 8* it can, however, be seen that in recent years the investments of the universal service provider decreased to a greater extent (by 17.17 percent between 2006 and 2007) than the investments of the sector as a whole (by 11.47 percent). Moreover, the investments of the universal service provider decreased even more sharply in the following year (by 29.41 percent between 2007 and 2008).

.....
⁵ Caution is advised when drawing conclusions since the number of employees refers to the entire workforce (those whose duties only include mail services do not constitute a separate group), while the revenues are from mail services only. In the case of Magyar Posta, the proportion of other, non-mail activities is greater (for example, in 2008 financial activities accounted for approx. 31.5 percent of Magyar Posta's revenue – *Magyar Posta* [2008] p. 13) than at its competitors, so the proportion of employees performing non-postal tasks within the total workforce is likely higher.

PRICING REGULATIONS AND PRICES OVER TIME

In most Member States price regulations refer to universal services as a whole, but in some countries they only apply to those universal services segments where there is no discernible competition. In Hungary until the complete market opening, only the prices of reserved services were regulated despite the fact that for a long time Magyar Posta did not have any competitors in the non-reserved universal services segment, so the universal service provider's prices in that segment were not restricted by either market competition or regulations. In Hungary, until the end of 2012 (until the time of total market opening), prices were regulated *ex ante* by ministry decree (by decree of the Ministry of National Development, and earlier by decree of the Ministry of Economic Affairs and Transport and of the Ministry of Informatics and Communications).

Price cap regulations came into force in Hungary too following the complete market opening. As of January 2013, National Development Decree no. 67/202 (XII.15.) sets out the method for determining the postal fees for individually posted domestic letters not weighing more than 50 grams that come under the scope of universal services (quantity and price in the respective year q_{ti} and p_{ti} , quantity and price in the preceding year p_{t-1i}) and of official documents (quantity and price in the respective year q_{tj} and p_{tj} , quantity and price in the preceding year p_{t-1j}). The price cap has to be specified per mail type, and the growth rate in the respective years is tied to the consumer index. If the latest forecast of the Hungarian National Bank (RPI_{t-1MNB}) indicates a rise in the consumer price index, the postal service provider is entitled to increase the price, and obliged to decrease it if a decrease in the consumer price index is forecast.

Given the possible inaccuracy of the forecast, the deviation from the actual change in prices (data published by the Hungarian Statistical Office: RPI_{t-1KSH}) needs to be taken into account when prices are changed in the following year as an inflation correction factor ($Z_t = RPI_{t-1MNB} - RPI_{t-1KSH}$). If the service provider is loss-making despite providing services effectively, then it is exempt from the obligation to reduce prices and does not need to apply the inflation correction rate (the loss needs to be demonstrated to the National Media and Infocommunications Authority). The percentage value of price changes of the respective year for mail of the postal service provider that comes under this category can be calculated as follows (using a Paasche-type price index):⁶

$$\Delta V_t = \left(\frac{\sum_{i=1}^n q_{ti} \times p_{ti} + \sum_{j=1}^m q_{tj} \times p_{tj}}{\sum_{i=1}^n q_{ti} \times p_{t-1i} + \sum_{j=1}^m q_{tj} \times p_{t-1j}} - 1 \right) \times 100.$$

⁶ The Paasche-, Fisher- or Törnquist-type indexes can also be used for ex post regulations. The Törnquist index is widespread in telecommunications, whereas in the postal industry the Paasche index is frequently used, despite the fact that the Paasche indexes do not have Fisher-type properties and do not stand the time test (for there to be a multiplicative inverse relationship between the indexes calculated by inverting the time periods) or the factor test (i.e. the price index multiplied by the volume index does not give the value index).

Should the service provider fail to calculate the price change level in that manner, then an authority correction factor ($X_t = \Delta V_{t-2} - \Delta P_{t-2}$) may be applied. That authority correction factor is reflected in the maximum extent of the annual average price change of services to which regulated prices apply: $P_t = RPI_{tMNB} - Z_t - X_t$.

We can only directly examine price changes of those mail segments with regulated prices, since information for Hungary is only available for those segments. We can draw cautious conclusions about the other segments only by comparing the mail volume data and revenue data. In most Member States price regulations refer only to universal services, but in some countries they only extend to those segments of universal services where there is no perceptible competition. In Hungary until the complete market opening only the prices of reserved services were regulated, despite the fact that for a long time Magyar Posta did not have any competitors in the non-reserved universal services segment, so the universal service provider's prices in that segment were not restricted by either market competition or regulations. As mentioned earlier, it was not until 2009 that a competitor entered the non-reserved market segments involving addressed letters (primarily advertising mail) weighing more than 50 grams. From the data set out in *Tables 3–5* above, we can attempt to draw cautious conclusions about prices over time in the various market segments. If we compare the growth rate of revenue and the volume of mail, we can see that in the non-competitive universal services segment, the overall volume of mail declined slightly in recent years (by almost 3 percent from 2008 to 2010), while revenue increased (by 12 percent). The difference between the two indicates an increase in prices exceeding inflation in this market segment. By contrast, in the competitive segments the volume of mail increased to a greater degree than the resulting revenue, which suggests that prices did not increase significantly in those segments (we have to be cautious, however, when drawing conclusions, since we do not have information at our disposal concerning changes in the breakdown of mail types in the various price categories, so we cannot filter out the effect of changes to the proportions of the various mail types).

Table 9 shows regulated prices over time in the reserved segments. From the data it can be seen that prices increased for every mail type. The greatest price increase (for both letters and addressed advertising mail) was in the most frequent (non-priority standard) category (85 percent from 2007 to 2014 for letters and addressed advertising mail).

We can see therefore that in recent years the prices for letters weighing less than 50 grams, which are regulated, increased to a greater extent than inflation, in particular from 2011 to 2012, when the increase in price for letters and advertising were between 12.5 percent and 16.66 percent. We can also see from the data in the table, however, after the total market opening, which coincided with the introduction of price cap regulations, the increase in prices slowed. While in the previous years the increase in prices was considerably higher than the inflation rate; in 2013 and 2014 it only slightly exceeded inflation. The slowing down of the price increase is due to

TABLE 9 • Regulated prices over time (in HUF)

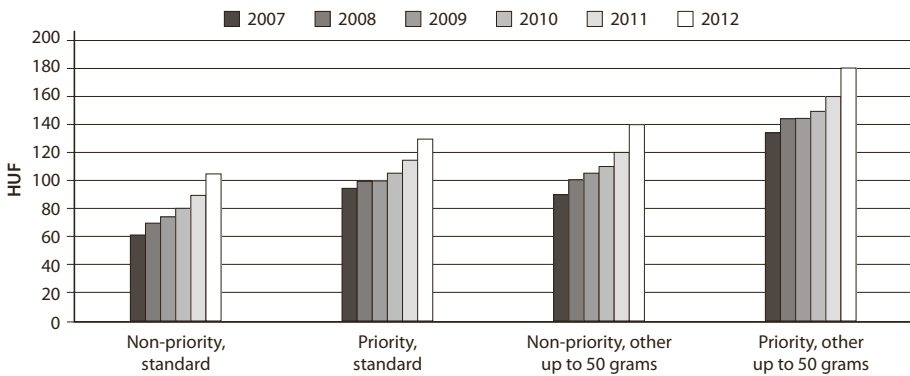
	2007		2008		2009		2010		2011		2012		2013		2014	
	price	%	price	%	price	%	price	%	price	%	price	%	price	%	price	%
<i>Letters (letters, plain postcards, illustrated postcards)</i>																
Non-priority, standard	62	+12.9	75	+7.14	80	+6.66	90	+12.5	105	+16.66	110	+4.76	115	+4.55		
Priority, standard	95	+5.26	100	0.00	105	+5.00	115	+9.52	130	+13.04	140	+7.69	145	+3.57		
Non-priority, other up to 50 grams	90	+11.11	105	+5.00	110	+4.76	120	+9.09	140	+16.66	145	+3.57	150	+3.45		
Priority, other up to 50 grams	135	+7.40	145	0.00	150	+6.66	160	+6.66	180	+12.50	195	+8.33	200	+2.56		
<i>Addressed advertising mail</i>																
Non-priority, standard	62	0.00	75	+20.96	80	+6.66	90	+12.50	105	+16.66	110	+4.76	115	+4.55		
Priority, standard	95	-6.31	100	+12.35	105	+5.00	115	+9.52	130	+13.04	140	+7.69	145	+3.57		
Non-priority, other up to 50 grams	90	-1.10	105	+17.97	110	+4.76	120	+9.09	140	+16.66	145	+3.57	150	+3.45		
Priority, other up to 50 grams	135	-5.19	145	+13.28	150	+6.66	160	+6.66	180	+12.50	195	+8.33	200	+2.56		
<i>Domestic official documents</i>																
Must be delivered to recipient in person	300	+6.66	330	+3.13	355	+7.57	370	+4.22	390	+5.40	410	+5.13	415	+1.22		
Delivery to recipient in person not required	250	+1.00	280	+1.81	290	+3.57	300	+3.45	315	+5.00	325	+3.17	330	+1.54		

Source: Economic Affairs and Transport Ministry Decree no. 85/2006. (XII. 15), Economic Affairs and Transport Ministry Decree no. 100/2007. (XII. 19), Transport, Communications and Energy Ministry Decree no. 39/2008. (XII. 20), Transport, Communications and Energy Ministry Decree no. 83/2009. (XII. 30), National Development Ministry Decree no. 21/2010. (XII. 16), National Development Ministry Decree no. 75/2011. (XII. 15) and the official price list published by Magyar Posta for 2013 and 2014 (from January 2013: [http://www.posta.hu/static/internet/download/2014_tarifatabla_HU_2014_01.pdf](http://www.posta.hu/static/internet/download/USZ_2013_tarifatabla_HU_BELFOLD_20121221.pdf)).

the stricter price cap regulations, rather than the total market opening directly, since new competitors did not manage to enter the universal services segment.

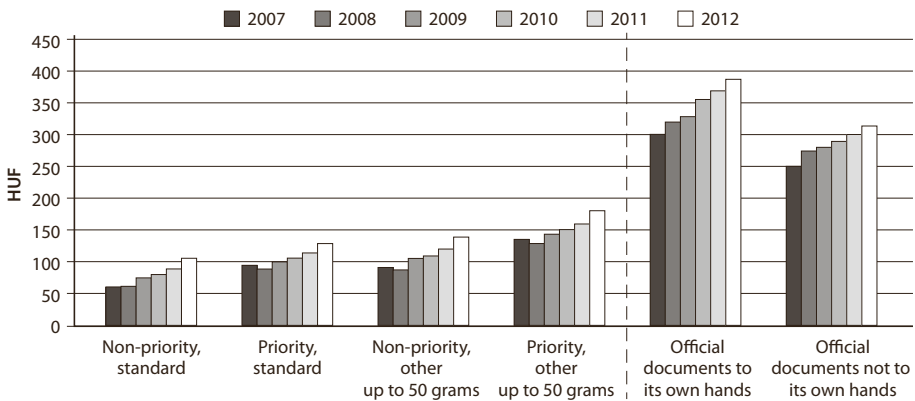
The figures below summarize price changes in the letter mail segment and the addressed advertising mail segment.

The prices of letters increased continuously (*Figure 2*). In the case of addressed advertising mail (*Figure 3*) following a minor decline in 2008 (there was no change in the most frequent category (non-priority standard) and a slight decline in the other categories), in 2009 prices went up again. In total, the combined price increase of those three years was at the same level as the price increase in the letter mail segment.



Source: Table 9.

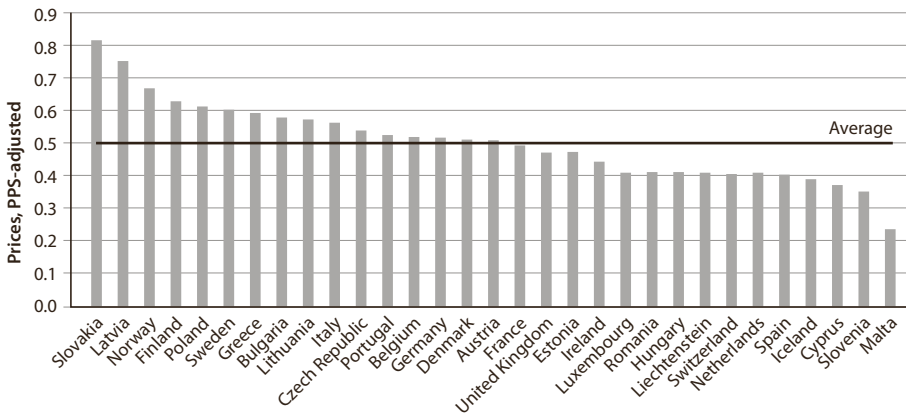
FIGURE 2 • Regulated prices for postage of letters (letters, plain postcards, illustrated postcards) over time



Source: Table 9.

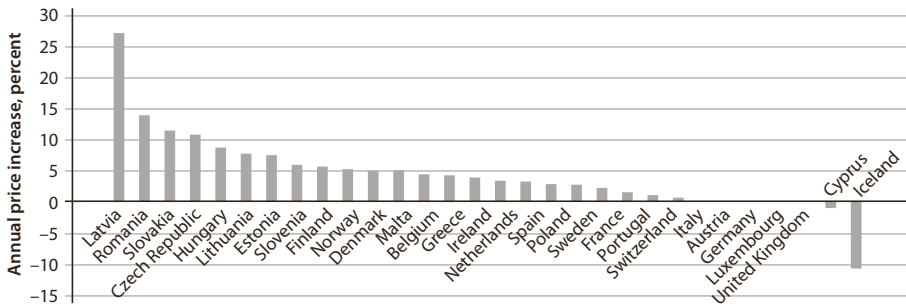
FIGURE 3 • Regulated prices for postage of addressed advertising mail and official documents over time

If we wish to assess the performance of the Hungarian postal sector and the regulations in terms of price changes, then it is worth comparing the prices of services with the data from other countries. For international comparisons, the price of 20 gram letters is a frequently used measure since the majority of mail is in that category. The prices of postal services differ considerably among European countries. *Figure 4* shows that the prices for 20 gram letters ranged between EUR 0.23 and EUR 0.8 in 2009 (adjusted for purchasing power). If the prices are simply converted to EUR and compared, then the Hungarian prices would seem relatively high (in the top third of the EU Member States). If, however, we compare the prices after adjusting for purchasing power, then the Hungarian prices were not high in 2009 and were below the EU average, despite the fact that the prices of services increased fairly significantly in Hungary between 2005 and 2009. A greater price increase than in Hungary was only experienced in four countries during that period (*Figure 5*).



Source: Copenhagen Economics [2010] p. 37.

FIGURE 4 • Prices in EUR for 20 gram letters in 2009, PPS-adjusted



Source: Copenhagen Economics [2010] p. 39.

FIGURE 5 • Annual growth rate of nominal prices for 20 gram tariff letters, 2005-2009

Service quality

With respect to universal services, the Hungarian Postal Services Act (similarly to the postal services directive), not only defines the scope of service obligations, but also contains provisions concerning regional accessibility and opening times, and quality requirements pertaining to those services. Below I will give a summary of the performance of the Hungarian universal postal service provider in light of those indicators.

Accessibility of services⁷ • In 2010 no interruptions in the operation of postal service points, delivery districts or collection services were experienced. Services were provided in compliance with the legal requirements, and there was full household delivery in compliance with the law in all (3,154) settlements. Magyar Posta complied with the requirements for *opening times* (referring both to the times when mobile post offices are present and to the opening hours of permanent postal service points).

Compliance with the provisions concerning *geographical accessibility* in 2010 was as follows:

- Universal postal services were not available in three of the 1,250 settlements with a population of fewer than 600 residents.
- Three settlements with between 600 and 1,000 residents did not have the prescribed permanent postal service point.
- Currently 1,037 settlements only have a mobile post office, in addition to which services are provided by means of a combination of a mobile post office and a permanent service point in 85 settlements. An access point was designated and a post-box was installed in each of those settlements that only have a mobile post office.
- Of the 1,394 settlements with a population of greater than 1,000 residents, availability was not in compliance with the law in one case.

Act CI of 2003 also prescribed that when establishing and operating postal access points, it needs to be ensured that those using the services (including persons living with disabilities) can easily access the postal network without barriers.

- 1,743 of the 2,740 permanent postal service points did not comply with the legal requirements, despite the fact that the relevant grace period expired in 2007;
- 74 of the 8,988 postboxes available to the public did not comply with the statutory requirements;
- 17 of the 3,890 designated delivery/collection boxes outside municipality boundaries did not comply with the requirements for barrier-free access;
- the designated access points could be accessed barrier free in 1,036 of the settlements that only have a mobile post office; that was not possible in 70 settlements.

⁷ Based on data provided by the NMHH.

Service quality indicators • In 2010 Magyar Posta's operations complied with all the quality indicators prescribed by law. There has been improvement in respect of almost all delivery time indicators in recent years. The indicators for reliability of mail forwarding showed either no change or a slight worsening, but the service provider's performance was well above the statutory requirements regardless. These quality indicators are summarized in *Table 10*.

TABLE 10 • Postal service quality indicators, 2008–2010*

Type of quality indicator	Number of business days	Statutory requirement (%)	Performance (national average, %)	
			2008	2010
<i>Delivery time: speed and reliability indicators</i>				
Delivery time for priority letters	<i>D</i> + 1	85	92.69	93.68
	<i>D</i> + 3	97	99.73	99.76
Delivery time for non-priority letters	<i>D</i> + 3	85	95.07	95.59
	<i>D</i> + 5	97	99.39	99.58
Delivery time for packages	<i>D</i> + 1	85	92.89	92.27
	<i>D</i> + 3	97	99.73	99.89
<i>Quality requirements for the date stamp</i>				
Proportion of mail with an illegible date stamp		≤ 0.15	0.0017	0.0005
<i>Requirements for reliability of mail forwarding</i>				
Proportion of totally or partially lost registered domestic mail		≤ 0.06	0.0338	0.0338
Proportion of damaged registered domestic mail		≤ 0.05	0.0038	0.0080

* The specific quality requirements were established as a percentage of mail items arriving with a given number of business days following the day of being posted (*D*), i.e. the percentage of mail items that need to arrive by the given day. For each category there is a so-called speed indicator (*D* + 1 for priority letters and packages, *D* + 3 for other mail) and a reliability indicator (*D* + 3 for priority letters and packages, and *D* + 5 for other mail).

Source: NHH [2009] and the NMHH.

SUMMARY

Reform of the regulations of the Hungarian postal sector began in the early '90s. The postal, telecommunications and broadcasting services were had been previously combined into a single company with a state monopoly, and it was not until 1990 that the three fields were split into three separate companies. These fields were then also regulated separately by law. The Postal Services Act of 1992 opened up certain segments of the postal market (using current terms, certain non-universal segments) to competitors. Nevertheless, there were no actual market entrants owing to the strict conditions set out in the legal regulations. The Communications Act of 2001, which combined regulation of the information and communications markets, created an actual market opening in the field of non-universal services. After the Communications Act came into force, the number of registered service providers in the courier and express mail segments rapidly multiplied. The regulations set

out in the Communications Act concerning the postal sector were intended to be in line with the first EU postal services directive (Directive 97/67/ EC). However, the Act was strongly criticized by the European Commission in its examination of Member State implementation of the postal services directive on the grounds that the privileges of the universal service provider had been extended (primarily with reference to extension of the scope of reserved services to cash transfers, payment intermediary services and postal order services contrary to the directive).

As there was both internal and external need to amend the legislation, a new Act on postal services was adopted in 2003, in which the regulation of the postal sector was again separated from the telecommunications and other communications services. The second postal services directive (Directive 2002/39/EC) was taken into account when drafting that Act. Hungary was granted a moratorium until December 31, 2012 for transposition into Hungarian law of the third postal services directive and total market opening. Owing to the lengthy negotiating and drafting procedures, at almost the last minute, in fall 2012, Parliament adopted the new Postal Services Act, which almost entirely eliminated reserved services. The only field, in which the universal postal service provider retains the exclusive right to provide postal services, is the official documents segment. Hungary consistently sought to define both universal services and reserved services as broadly as possible (to the extent allowed by the EU directives), and prescribed conditions for entry to the opened universal services segments that barely allow for the emergence of new competitors. Hungary was in the last group of EU Member States with respect to the extent of market opening.

The anti-competitive tax conditions also act as a barrier to entry. In Hungary, similarly to most Member States, universal postal services (in view of being in the public interest) are exempt from VAT, while replacement universal services are not, with the result that Magyar Posta's competitors in those segments are at a considerable competitive disadvantage. In order for entrants to the universal services segment to make their services attractive (for instance, to the financial sector or public sector, which cannot reclaim VAT), they have to offer their services at below the universal service provider's prices less the VAT amount, which significantly distorts price competition.

In terms of competition, the Hungarian postal sector can be broken down into three categories up to the time of total market opening:

- absence of competition (because it was prohibited): reserved universal services: segment involving letters weighing below 50 grams,
- minimal competition: non-reserved universal services (until 2009 Magyar Posta did not have a competitor; in 2009 a competitor emerged with a small market share),
- strong competition: non-universal postal services, for which the service provider needs to be registered (courier services, express mail services, integrated mail services, postal intermediary services, document exchange services).

Nor did the picture change after total market opening, since competitors have not managed to enter the most recently opened reserved services segment (mail weighing less than 50 grams) since then. The two entry applications were rejected by the regulatory authority on the grounds that they did not fulfill the statutory requirements. There is, however, fierce competition in the field of non-universal postal services. In the non-universal packages segment and the express and courier segments. Magyar Posta's main competitors are the large international integrator companies. In addition to the large international service providers, there are also several small enterprises, which chiefly provide local courier and express mail services.

Based on revenue, the competitive segments account for just over a third of the total Hungarian postal sector, and the mail volume of the competitive segments grew faster in the last ten years than that of universal services. As a result, the total revenue of the competitive sectors as a proportion of the total industry revenue is increasing slightly from year to year. Integrated mail services are the largest market segment (26 percent in 2010) within competitive, non-universal postal services. Contrary to international trends, the number of letters handled by Magyar Posta (unlike packages) has not yet fallen significantly (though a slight negative trend can be observed despite minor fluctuations). The majority of letters sent in 2010 were in the reserved (i.e. monopolized) segment of mail weighing less than 50 grams: 94 percent of letters and 73 percent of advertising mail (in which Magyar Posta does not currently have a competitor). Payment services and financial intermediary services continue to play a major role within Magyar Posta's activities (accounting for roughly a third of its total revenue). The performance data from the period examined here show that the productivity of the total sector including the competitive segments was greater than the productivity of the universal service provider (measured in revenue per employee).

In Hungary until the complete market opening only the prices of reserved services were regulated, despite the fact that for a long time Magyar Posta did not have any competitors in the non-reserved universal services segment, so the universal service provider's prices in that segment were not restricted by either market competition or regulations. Until the end of 2012, prices were set by the relevant authority *ex ante* – the regulated prices of reserved services were stipulated by ministry decree. Price cap regulations came into force in Hungary too, following the complete market opening. Within universal services, the price cap regulations apply to the prices of individually posted domestic letters not weighing more than 50 grams and to official documents. The regulated prices have increased every year in the past ten years for every type of mail. The greatest price increase (with respect to both letters and addressed advertising mail) was in the most frequent (non-priority standard) category (by a total of 85 percent from 2007 to 2014 with respect to letters and addressed advertising mail). The increase in prices slowed following the complete market opening, which coincided with the introduction of price cap regulations.

While in the previous years the increase in prices was considerably higher than the inflation rate, in 2013 and 2014 it only slightly exceeded inflation. The slowing down of the price increase is due to the stricter price cap regulations, rather than the total market opening directly, since new competitors have not managed to enter the majority of the universal services segment.

REFERENCES

- COPENHAGEN ECONOMICS [2010]: Main Developments in the Postal Sector (2008–2010). November 29, 2010 http://ec.europa.eu/internal_market/post/doc/studies/2010-main-developments_en.pdf.
- ECORYS [2008]: Main Developments in the Postal Sector (2006–2008). Ecorys, September, http://ec.europa.eu/internal_market/post/doc/studies/2008-ecorys-final_en.pdf
- GERADIN, D.–HENRY, D. [2004]: Regulatory and competition law remedies in the postal sector. In: *Geradin, D.* (ed.): Remedies in network industries: EC competition law versus sector-specific regulation. Intersentia, Antwerpen/Oxford, pp. 125–182.
- ITA–WIK [2009a]: The Evolution of the European Postal Market since 1997. ITA Consulting–WIK Consult, August 2009, http://ec.europa.eu/internal_market/post/doc/studies/2009-wik-evolution_en.pdf.
- ITA–WIK [2009b]: The Evolution of the European Postal Market since 1997 – Annex: Country Fiches. ITA Consulting–WIK Consult, August 2009, http://ec.europa.eu/internal_market/post/doc/studies/2009-wik-evolution-country-annex_en.pdf.
- MAGYAR POSTA [2006]: Annual Report Magyar Posta. Budapest, http://www.posta.hu/static/internet/download/MP_eves_jelentes_2006.pdf.
- MAGYAR POSTA [2007]: Annual Report Magyar Posta. Budapest, http://www.posta.hu/static/internet/download/MP_eves_jelentes_2007.pdf.
- MAGYAR POSTA [2008]: Annual Report Magyar Posta. Budapest, http://www.posta.hu/static/internet/download/MP_eves_jelentes_2008.pdf.
- MAGYAR POSTA [2010]: Annual Report Magyar Posta. Budapest, http://www.posta.hu/static/internet/download/MP_eves_jelentes_2010.pdf.
- MAGYAR POSTA [2011]: Annual Report Magyar Posta Zrt., Budapest, http://www.posta.hu/static/internet/download/Posta_Evesjelentes_2011.pdf
- NHH [2009]: 2008 Quality Report on Universal Postal Services. National Communications Authority (NHH), Budapest.

Cited Hungarian legislation:

- Act CLIX of 2012 on Postal Services
- Act LXXXII of 2010 on the Amendment of Certain Acts Governing the Media and Communications
- Act CLXXXV of 2010 on Media Services and Mass Communications
- Act CI of 2003 on Postal Services

- Act C of 2003 on Electronic Communications
- Act XL of 2001 on Communications
- Act XLV of 1992 on Postal Services
- Act LXXII of 1992 on Telecommunications
- Government Decree no. 336/2012. (XII. 4.) on the detailed rules of the Subsidy Fund for Universal Postal Services
- Government Decree no. 335/2012. (XII. 4.) on the detailed rules of provision of postal services and of postal services involving official documents, on the general terms and conditions of postal services, and on mail excluded from postal services or mail that may only be delivered under certain conditions
- National Development Ministry Decree no. 67/2012. (XII. 15.) on the method of determining the prices for postage of domestic letters not weighing more than 50 grams that are posted according to the per-letter price schedule and come under the scope of universal services and the prices for postage of official documents.
- National Development Ministry Decree no. 75/2011. (XII. 15.) on amendment of Economic Affairs and Transport Ministry Decree no. 85/2006 (XII. 15.) on the maximum regulated prices for reserved domestic postal services
- National Development Ministry Decree no. 21/2010. (XII. 16.) on amendment of Economic Affairs and Transport Ministry Decree no. 85/2006 (XII. 15.) on the maximum regulated prices for reserved domestic postal services
- Transport, Communications and Energy Ministry Decree no. 83/2009. (XII. 30.) on amendment of Economic Affairs and Transport Ministry Decree no. 85/2006 (XII. 15.) on the maximum regulated prices for reserved domestic postal services
- 248/2001. (XII. 18.) Government Decree no. 248/2001. (XII. 18.) on the Communications Inspectorate and on fines that may be imposed by the bodies of the Communications Inspectorate