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**HORIZONTAL EVALUATION OF THE PERFORMANCE OF NETWORK
INDUSTRIES PROVIDING SERVICES OF GENERAL ECONOMIC INTEREST**

2004 report

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*Working paper of the services of Mr. Almunia and Mr. Bolkestein in cooperation
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Introduction

This is the first horizontal evaluation report produced in accordance with the Methodology adopted by the Commission in its June 2002 Communication (COM (2002) 331).¹ The importance of systematic evaluation and monitoring for the Community's policy on services of general interest was highlighted in the Commission's White Paper adopted on 12th May 2004². Together with sectoral reporting, the horizontal evaluation reports aim at increasing transparency and at allowing for a better informed debate on the orientations and results of the Community's activities in the area of services of general interest.

This evaluation report follows the logic of Article 16 of the Treaty: after a short update on the legislative framework, it presents an assessment of market performance in network industries providing services of general interest and then considers to what extent the regulatory changes taking place in most of these industries are contributing to or hindering the fulfilment of public service obligations. The assessment of public service obligations is based on universal and public service obligations as defined at the EU level. Finally, to complete the analysis, consumers' opinions regarding several aspects of the provision of services of general interest are described.

The report covers the EU-15 Member States³ and the seven sectors initially identified in the 2002 "Methodology" Communication⁴ as far as data allow.⁵ The analysis is based on those indicators included in the 2002 Communication which are currently available. As noted in the methodology communication, the horizontal evaluation will develop and evolve over time. The sectoral scope, country coverage and indicators should be extended in future editions of this horizontal evaluation report.

1. LEGISLATIVE FRAMEWORK

The legal and regulatory framework designed to allow network industries to operate efficiently and to meet economic and social needs is evolving gradually. However, the legal and regulatory framework is still far from being properly implemented.

The Judgement of the Court of Justice of 24 July 2003, Case C-280/00, Altmark, clarifies the conditions under which public service compensations are considered State aids subject to a compatibility analysis. With this ruling and the subsequent publication of a package of

¹ COM(2002)331 "A Methodological Note for the Horizontal Evaluation of Services of General Economic Interest" will be referred to as the methodology communication hereafter. Although this document refers occasionally to the recent White Paper on services of general interest, the scope of the evaluation is limited to a number of network industries providing services of general economic interest as established in the methodology communication.

² White Paper on services of general interest, COM (2004) 374, 12.05.2004.

³ As established in the methodology communication, the 10 new Member States will be covered by the horizontal evaluations starting in 2005. Nevertheless, this horizontal evaluation report already includes some occasional references to the situation in the new Member States.

⁴ These sectors are (mobile and fixed) telecommunications, gas, electricity, postal services, air transport, railways and urban transport.

⁵ This report takes into account the results of the consultation on services of general interest launched by the Green Paper published in May 2003 (COM(2003)704) and the European Parliament report on that Green Paper (ASno 484/2003) December 2003.

Commission documents in February 2004⁶, an important step was made to improve the transparency and legal certainty surrounding the application of Internal Market and competition rules. In addition to that the White Paper announces further efforts by the Commission to increase legal certainty in this area. The publication in May 2003 of a Commission Green Paper has launched a broad debate on the future of services of general interest in the European Union. The answers to the Green Paper provided valuable input for policy development in the short term.

At sectoral level, two key directives for electricity and gas were adopted by co-decision in June 2003. For railways, after the entry into force of the first package in March 2003, an agreement has been found on the second package, which foresees the opening of international freight on January 2006 and domestic freight on January 2007. In addition, the Commission adopted in March 2004 a proposal for the third legal package. 2003 was also a key year for the enforcement of important legislative instruments: the second postal directive, further opening postal market services to competition, and the new legislative package for telecommunications. Finally, legislation on quality of services and better regulation have attracted wide interest, with several regulations or directives on quality aspects in air transport, railways, electricity and gas.

The Commission has had to open infringement procedures against several Member States for undue delays in implementing new rules in telecommunications, postal services and railways transport. These law enforcement failures have an impact on market performance and delay the realisation of benefits from regulatory changes.

2. MARKET PERFORMANCE

In general, the overall performance of services of general interest in the EU is good in terms of prices, employment, productivity, service quality, fulfilment of public service obligations and consumer satisfaction. It seems to improve over time although not in a uniformly satisfactory manner for all sectors. This very broad and generic statement is therefore subject to many qualifications for particular sectors and countries where specific problems call for policy intervention. These are highlighted below. In addition, the evaluation suggests that, overall, the performance of these service sectors could often be significantly further improved in terms of economic performance, affordability and service quality.

2.1. Economic assessment based on the evolution of market structure

Market structures are changing as reforms are progressively implemented in different sectors open to competition. Supply sources are diversifying and new competitors are gradually entering the market. For instance, the number of authorised fixed telecoms operators doubled between 1998 and 2003 to reach 1202 public voice telephony operators. Most of that increase took place up to 2001, before the telecommunications bubble burst. Since then the number has stabilised.

Most entries via mergers and acquisitions have been purely domestic, cross-border mergers and acquisitions being the exception. These features are common to most sectors such as

⁶ Press release IP/04/235 of 18/02/2004, "Commission proposes new rules to increase legal certainty for services of general economic interest"

telecommunications, gas, electricity and air transport. In energy, mergers and acquisitions have mainly involved actors within the energy sectors, whilst bidders from other sectors have been more active in acquiring EU telecommunications companies. This could suggest that economies of scale are potentially higher in energy, or that sector-specific knowledge is more important than in telecommunications.

Despite the growing number of competitors, incumbent operators' market shares still remain dominant. Indeed, the increasing market share of entrants has not stopped incumbent operators from keeping large market shares. However, in Member States where markets have been open longer and competition has become more effective, incumbents' market shares have shrunk more. The special features of network industries – such as common facilities and network effects – together with remaining market obstacles establish a limit to the free play of competition.

For most countries and sectors, markets remain basically national in geographic dimension and interconnection problems between networks hinder cross-border provision of services. Markets would become much more competitive than they currently are if they were opened to foreign competition and if shortages in cross-border capacities and congestion problems were addressed, especially in those sectors where entry is costly and takes time (e. g. electricity generation). For instance, on average, only 8.6% of the electricity consumed in the EU-15 is produced abroad. Countries suffering from congestion problems also risk facing higher prices. This is for example the case in Portugal and Italy where imports are close to their interconnection capacity and domestic prices are much higher than in neighbouring countries.

The number of users who have actually switched service provider is growing in sectors and countries where opening to competition has allowed significant market changes. Users' switching is beginning to reach significant proportions, especially for industrial users and in telecommunications and electricity. In telecommunications, a third of EU users have already changed service provider for long-distance and international calls. Users' switching in electricity has also become a possibility. For example, in the UK, where provider choice has been available for some time now, the proportion of small and household consumers having switched supplier in 2002 is 12%. Larger percentages of industrial users have also switched to alternative electricity producers and many more have renegotiated their contracts with their traditional operators. These percentages are notably lower in the gas sector.

In conclusion, despite the positive changes observed, the gap between effective and legal opening up to competition is still significant, especially in countries where there are delays to legislative enforcement or where physical and technical barriers continue to hinder market integration and entry of new competitors.

2.2. Economic assessment based on price performance

Although lower prices remain the main benefit of opening up network services to competition, only air transport and telecommunications services – where average prices respectively dropped 1% and remained unchanged - delivered a clearly better price performance in 2003 than the general evolution of consumer prices. On the other hand, price performance was particularly poor in gas (+4.4%) and road transport (+3.8%). Although the evolution of prices depends on many sector-specific factors, it appears that benefits in terms of lower prices for consumers could be more easily obtained in sectors which are more open to competition.

Over a longer period (1996-2003), telecommunications and electricity prices have increased by less than the consumer price index. The evolution of prices for rail transport and postal services was in line with the consumer price evolution, while that of gas and road transport increased almost twice as fast as this index. Gas shows the least satisfactory performance over time. However, gas consumer prices depend heavily on the price of gas at the origin which in turn is in some Member States indexed to the price of oil. In that sense, it must be said that gas prices in the EU have behaved relatively well compared with natural gas prices in the USA, where price increases of 68% are reported for the 1994-2001 period, while the price of natural gas actually fell in several EU countries.

2.3. Economic performance: impact on employment and productivity

Employment in network industries is far from negligible, accounting for 5% of total EU employment, a level similar to the US. The opening up of these industries to competition has raised fears of massive cuts in employment that could represent a painful restructuring cost. This does not seem to be confirmed by the data that show a limited decline in employment in network industries taken as a whole. **Although employment in network industries declined from 8.8 million to 7.9 million between 1991 and 1999, this figure rebounded afterwards to reach 8.2 million in 2001.**

Job gains or losses vary across sectors and countries and it is difficult to find any direct link with opening up to competition. Over the recent period (1996-2001), the communications sector – including telecommunications and postal services – has expanded employment by 6.8% whilst the sectors of electricity, gas and water supply have recorded job losses of 14%. Due to a lack of data availability, the impact on job quality has not been assessed.

Average annual growth of labour productivity per hour in network industries outpaced the corresponding figure for the economy as a whole between 1996 and 2001. Growth in productivity per hour has been particularly strong in the communications sector. This sector and air transport show a positive evolution of employment combined with a strong increase in labour productivity per hour. In all other network industries, there seems to be a negative relationship between employment and productivity development, indicating that the positive changes in productivity are mainly driven by cuts in labour force. This result is confirmed by a recent study⁷ analysing the impact of liberalisation in network industries on their performance. Overall, this study shows that the movement towards greater competition in network industries was associated with an increase in the *level* of productive efficiency - through labour shedding - and of total factor productivity, a measure of technical progress. However, no significant impact of reforms was identified on the *growth* of labour productivity and this seems to suggest that deregulation is associated with one-off changes in the level of productivity. However, these results have to be taken with caution due to the small size of the sample and the short time period considered in this study.

3. WHAT IS THE IMPACT OF THESE REGULATORY CHANGES ON COMPLIANCE WITH PUBLIC SERVICE OBLIGATIONS?

A satisfactory market performance from a purely economic perspective is insufficient to judge the overall performance of network industries in relation to political and social objectives that

⁷ CEPR/IFS (2003), “The Link between Product Market Reform and Macro-economic Performance”, December 2003, study for the Directorate General of Economic Affairs of the European Commission.

go far beyond economic efficiency considerations. One needs to assess the performance of these service sectors against the fulfilment of universal and public service obligations assigned to them.

This part of the evaluation report is necessarily based on compliance with public service obligations as defined in Community directives for two reasons. Firstly, a horizontal evaluation can only be carried out on the basis of commonly applicable requirements, but public service obligations for each sector differ considerably across countries. Secondly, public service obligations are often too loosely defined by Member States, making it practically impossible to use them for a horizontal evaluation.

In order to facilitate the reporting of the results of the horizontal evaluation, compliance with public service obligations in different sectors have been grouped in three main types of obligations: **affordability**, **accessibility** –from a geographic, time and social point of view– and **service quality**. In this latter group, we report on other aspects of service quality, even though they may not always be included in the Community’s definition of public service obligations.

3.1. Affordability

Affordability indicators track what share of their budget households have to pay for a bundle of services of general interest. They show that, irrespective of considerable differences between sectors and Member States, *services of general interest have generally become more affordable in all sectors analysed (telecommunications, electricity and gas) and in the majority of countries during the last seven years, although the improvement in the gas sector is relatively modest.*

Energy and telecommunications services account for about 1% or, in very few cases, more than 2% of consumers’ available income. This figure rises to about 2.3 to 4.4 times more in Portugal. This is mainly due to Portugal’s relatively low income levels which represent only about a third of the EU-average for the lowest income quintile and about 45% of the EU-average for the average-income quintile. But this is not the only reason: Portuguese prices for telecoms and gas bundles are up to 50% above the EU-average. Still, if the considerable improvements in affordability in Portugal over the last 7 years continue into the future this will bring the country closer to the EU-level.

In the electricity sector, affordability indexes have deteriorated in just a few countries (the Netherlands, Sweden and Denmark, all three relatively advanced in the implementation of the Electricity directive) while in the gas sector, this is the case in almost half the Member States (the Netherlands, Sweden, Denmark, Germany, Austria, France and Belgium) but not for all income groups considered.

The distribution of the benefits from price reductions across households with different income levels is relatively well balanced. In Italy, the UK and Spain, low-income consumers benefited from a 50% cut in their telecommunications and energy bills between 1996 and 2003. In monetary terms, this means over € 100 per person and per year on average.

Consumers with average income have also benefited from telecommunications and energy bill reductions of 50% in Ireland and the UK. On average, annual savings per capita amounted to € 346 in Ireland and € 293 in the UK in 2003 compared to 1996. However, in the Netherlands, the total cost of these services went up by € 97 per person, largely due to higher gas prices.

Affordability indicators show the importance of special tariffs for low income or special user groups. In telecommunications, for example, the cost of the standard bundle for low-income consumers is more than cut by half in Spain by special tariffs and is significantly reduced in other countries such as Belgium, Austria, France, Italy and Germany.

3.2. Accessibility

The accessibility of services of general interest can be expressed in several dimensions:

- Geographically: How far is the next access point (airport, post office, public telephone)?
- Time wise: How frequently is the service provided (mail, public and air transport) / How long does it take to get connected to the network (fixed telephone, electricity, gas)?
- Socially: Do all citizens have access to the service (e.g. special tariffs (young and elderly persons, families) or special access facilities (telephone, post offices, and transport))?

A recent study by CIRIEC⁸ has expanded considerably the information available on accessibility. However, several difficulties arise when evaluating aspects related to accessibility. First, data are scarce and regulators, operators and Member States do not always report comparable statistical indicators. In addition, comparability is hindered by country specificities (density, population, geographic characteristics). For instance, there is little point in comparing railways network density in Luxembourg and Sweden. Finally, public service obligations are seldom precisely defined at country level and loosely defined at Community level. Despite these difficulties, the following can be reported.

On territorial accessibility, there are interesting developments to report. *On the positive side*, the rapid growth of *low-cost aviation* has been largely based on regional airports. This has facilitated access and can be considered as a positive development from the cohesion and regional point of view, although the end effect will depend on the links between airports and the integration of several transport modes. Universality of service in energy and electricity is a practical reality with some caveats. In telecommunications, *accessibility in terms of coverage is very high, with coverage ratios of 100% in many Member States for both mobile and fixed telephony*. On the negative side, *network density on railways has been reduced*, affecting border regions in particular. *Postal service* networks keep a relatively high density although some coverage reductions are reported in sparsely populated areas. Finally, some country or sector specific coverage problems have been detected: gas provision is limited in some countries (only 37% of the population is covered in Finland); secondly, mobile telephone coverage is broad but installed capacity sometimes cannot cope with demand.

A few results can be reported on **time accessibility**. The performance of **postal services** in the EU seems **satisfactory in terms of service frequency**. In telecommunications, waiting

⁸ See “*Contribution of Services of General Interest to Economic and Social Cohesion*”, study prepared by Ciriec for the Directorate General Regional Policy of the European Commission. As concerns social accessibility, the latest Joint Report on Social Inclusion adopted by the Spring European Council 2004 contains information on access to basic services and transport. This report is available at http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/joint_rep_en.htm

lists for new lines are rare and limited to sparsely populated areas. Local transport frequency has been reduced in some areas in recent years as reported by the CIRIEC study.

Social accessibility varies considerably across countries. The importance of special tariffs to make telecommunications affordable has already been mentioned above. Some energy social accessibility obligations are scarce and even more sparsely implemented - e.g. a few Member States offer special tariffs to vulnerable consumers and even fewer offer any free supply to such consumers.

3.3. The quality of services of general interest

Availability of comparable data on service quality is still very poor. A Community-wide **quality obligation** can be clearly found in postal services: the obligation related to cross-border first class mail delivery (Directive 97/67/EC). This **standard is met for the vast majority of bilateral cross-border first class mail streams** between Member States. Only mail to and from Greece frequently fails to meet the time limits set by the directive. As for **domestic mail**, there is no Community-wide standard, but data suggests that postal services in **Greece, Spain and France perform relatively worse than in the rest of the EU**. As revealed by a recent study⁹, country-specific factors due to the particular social and geographic characteristics of these countries are not the only ones to be blamed for the relatively poor performance in these countries.

Punctuality is clearly an important quality factor for **transport**. Current differences in the frequency and length of **delays** of flights among airports and countries suggest that there is **room for improvements in a number of Member States**.

Two indicators for the quality of **electricity** have been analysed: the **reliability of supply** and **environmentally-friendly production**. For both, **no significant improvements** can be reported. The frequency and length of interruption of electricity supply vary considerably among Member States. No clear trend towards a reduction of this indicator could be observed for the most recent years for which data are available (1999-2001). The same holds true for renewable energy's share in total electricity consumption. Despite the 11% increase in renewable energy's share over the last 10 years, consumer surveys report that in many countries, citizens would like to have more environmentally friendly electricity production. Still, the share of electricity from renewable energy is only 15%.

4. CONSUMERS' VIEWS ON THE PERFORMANCE OF SERVICES OF GENERAL INTEREST¹⁰

4.1. Consumers' satisfaction

EU-15 consumers are, by and large, satisfied with the provision of services of general interest but there are several areas for improvement. This very general statement needs many qualifications to take into account the different national and sector particularities.

⁹ See "Contribution of Services of General Interest to Economic and Social Cohesion", study prepared by Ciriec for the Directorate General Regional Policy of the European Commission.

¹⁰ The following observations are based on a Flash Eurobarometer opinion poll (http://europa.eu.int/comm/internal_market/en/update/economicreform/index.htm) and from a qualitative study. A more detailed analysis of the findings of the qualitative study is attached (technical annex)..

Consumers' satisfaction with the quality of services of general interest they are provided with varies across countries and sectors. *Nevertheless, different surveys suggest that consumers' satisfaction is relatively lower in the railways and local transport sector*¹¹.

There are no clearly distinguishable patterns applicable to all sectors across countries. Southern countries show relatively lower levels of consumer satisfaction and Spain, Italy and Greece often lead the table of dissatisfaction. Finland, Luxembourg and the Netherlands show higher than average satisfaction levels but not always. For instance, Dutch consumers report the highest level of dissatisfaction with their railways service.

The reasons for consumer dissatisfaction are often the same for all countries. For instance, consumers complain in general about insufficient coverage of the mobile telecommunications network as the main problem they face in that sector. Problems understanding invoices are also commonly shared by consumers in several countries and insufficient punctuality is the main source of dissatisfaction in the three transport sectors. However, there are some problems reported by consumers that seem to have a distinctive national dimension. Country-specific problems seem to be present in **Spain** with repair in the gas sector, in **Ireland** with roaming charges for mobile telephony and in **Portugal** with the lack of continuity of electricity supply. It should also be highlighted that **Swedish** consumers report dissatisfaction concerning the effects of liberalisation, or the way it is managed, as regards electricity supply, fixed telephone and postal services.

There is some resistance or fears towards the development of competition in those markets where the role of the State was historically - or still is - strong. The idea that public authorities should retain a degree of responsibility and a substantial supervisory and regulatory capacity is seen as a statement of the obvious. The extent to which this holds true is different for services that do not have a "history" of public management in sectors such as mobile telephone services or air transport (except for safety issues). *However, the pressure of competition on service providers is seen as a positive element.*

Consumers' opinions do not seem to suggest a lack of compliance with public service obligations because the major consumers' complaints about service quality are not related to the dimensions of service quality on which public service obligations are defined. For example, punctuality in transport, the environmental friendliness of electricity generation or the quality of post-office service are not, as such, part of public service obligations defined at Community level. However, some reasons for dissatisfaction like the cost of new fixed telecommunications lines and the accessibility to metering devices are related to certain public service obligations in telecommunications and energy.

4.2. Consumers attach greatest importance to service, but price is the main driver for switching provider.

Consumers attach the greatest important to service quality when choosing service provider, but they currently show a higher propensity to switch provider for price rather than for quality reasons. In almost all sectors, the proposition of consumers ready to change service provider if they were offered lower prices exceeds the percentage of consumers that would do so to get better service quality.

¹¹ This sector includes urban and local transport by bus, metro or tramway.

However, there are significant differences across sectors, which might be linked to the relative importance of their share in households' budgets. Propensity to switch service provider if the price were lower, is greatest in fixed telephony and very high in energy, air transport and mobile telecommunications. The high share of consumers stating their readiness to change service provider for lower prices suggests that competition could transform market structures in electricity and gas markets quite remarkably if competition were effective. ***The importance of switching costs will therefore be a key element in encouraging consumers to change providers.***

75% of consumers are seemingly ready to use railways and local transport more often if performance were improved. While they are slightly more sensitive to price cuts in the case of railways, quality improvement is the key factor to increase the number of users.

Overall, the propensity to switch service provider is highest in air transport and lowest in postal services where 30% of users state that they would not change service provider either for price or for quality reasons. Among those willing to keep their current service provider more than one third are not ready to change because they are satisfied with their current provider in all sectors.

Although caveats should be made about possible differences between declared preferences and actual behaviour, it is also interesting to note that consumers seem to be willing to pay more to improve some of the qualitative dimensions of the services they get. Two thirds of surveyed consumers would be ready to pay more if electricity was produced by more environmentally friendly means. More than half of consumers would accept higher transport fares in exchange for faster train services, direct flights and better on-board service in trains.

4.3. Consumers' view on services

Consumers' need for clear information relates mostly to pricing modalities. Dissatisfaction is linked with the impossibility of comparing prices in markets open to competition. This leads to sizeable frustration among consumers and to a growing suspicion of possible concerted behaviour by service providers.

Customer service is a major element of the evaluation of services of general interest from the consumer's perspective. The automation of customer service (with call centres being the most emblematic example) and the more frequent charging of customer services – which were previously free of charge – are a source of massive dissatisfaction. Complaints handling is seen as an important element of customer service. But there is a large tendency among consumers to think that, under the present circumstances, lodging a complaint is useless and represents a waste of time, except for mobile telephony and air transport which seem to work better when it comes down to the handling of complains.

In most cases, consumers are not fully aware of the terms of contracts, except – to a limited extent – in fixed and mobile telecommunications services, as well as in air transport. Many consumers feel powerless in the face of providers on which they think they have no influence. Some consumers are even not conscious of the very existence of a contract.

4.4. Main sources of dissatisfaction

Consumers report the following elements as main sources of dissatisfaction across sectors:

- ***The image of postal services is declining*** among consumers: prices outside ordinary mail are seen as being high and the overall quality of service is seen at best as stable when not deteriorating. The “bureaucratic” style of postal services and poor customer service are sources of strong dissatisfaction. Postal services are the only sector where quality improvements could induce switching service provider more than price cuts. This confirms the importance of quality in this sector where markets will progressively open to competition.
- ***“Fairness” concerning some of the components of the telephone bill is questioned.*** The amount, and even the very principle of the line rental charge, is questioned by a majority of consumers. Consumers would appreciate a real competition especially as regards local access.
- For ***mobile telephone services***, there is a feeling that ***competition is not transparent***. Accrued benefits from competition as regards prices, choice and service are acknowledged but a further decrease in prices is expected. Consumers are more and more vigilant as regards mobile telephony despite its novelty and attractiveness.
- It seems that ***inter-city rail services*** have acquired, or are in the process of acquiring, the image of being ***an expensive form of transport***, which is not accessible to all, or at any rate not in all circumstances. The transformation of rail operators into private “profit-making” companies has led to changes which caused massive dissatisfaction in the Netherlands, in the United Kingdom and in Germany. In this latter country, it is interesting to note that consumers’ dissatisfaction towards the incumbent operator has led German consumers to regard positively the extension of competition to new entrants.
- Consumers have low expectations regarding the introduction of competition for ***urban transport***. They see a ***risk of confusion***, for example, as regards the pricing system or the organisation of the network. Therefore, they expect the activities of the various operators to be organised and strictly monitored by public authorities. However, some studies¹² have identified the integration of tariffs for several local transport modes as a key element favouring accessibility.
- ***In air transport, the development of competition leading to cheaper prices is widely acknowledged.*** Yet, for consumers in Southern Europe, France and Luxembourg, who do not have the feeling that prices have already decreased to a substantial extent, this remains an expectation for the future.

5. CONCLUSIONS

This evaluation report provides updated evidence of the performance of network industries providing services of general interest. Liberalisation of network industries usually starts by inducing a restructuring process in these industries, characterised by entries and mergers and acquisitions. This leads to employment and productivity changes. The productivity gains can be translated into price reductions, which benefit industrial users and households. Increased competitive pressures can also induce companies to be more innovative and this contributes to

¹² See CIRIEC study for the EC Commission, Regional Policy Directorate General.

additional productivity gains. Finally, price reductions and technological developments can stimulate demand, offsetting the initial employment losses due to the restructuring process. However, the net impact on employment can not be predicted.

The analysis of this report shows that network industries can be differentiated in this respect. On the one hand, a sector such as telecommunications, which has started its opening up several years ago and where this opening up has been accompanied by technological developments, records significant price reductions, productivity and employment gains. On the other hand, in the energy sector, where the liberalisation process has started relatively recently in most Member States, strong productivity gains are associated with employment losses, indicating that labour shedding has been the main engine for these gains. However, the restructuring process in the energy sector is still ongoing and it remains difficult to unequivocally link employment changes to the opening up of markets to competition.

The performance assessment seems more positive in terms of the evolution of prices and affordability of services than in terms of service quality and accessibility, subject to important qualifications by country and sector. Poor statistical information and insufficient precision in the definition of public service obligations makes it impossible to draw clear-cut conclusions about these two important aspects of performance.

As stated in the “Methodology” communication, Commission evaluation reports should evolve over time, expanding the scope of the evaluations and going deeper in the assessment of performance. So far, we have been able to report on the evolution of the regulatory framework, market structure changes and, as far as possible, the main performance dimensions of market outcomes such as prices, quality, employment or productivity. However, we cannot establish yet to what extent changes in market performance are due to changes in the regulatory environment. Next year’s report should look further into this matter. We also have to improve our assessment of the environmental impact and we need better data on service quality.

The Commission is already working to fill in these gaps in future reports. However, the cooperation of all actors involved in the EU-wide process of evaluation of the performance of services of general interest will be needed to improve the quality and amount of available information. As underlined by the White Paper on services of general interest, the provision of comparable data from the national level (Member States and/or national regulators) is key to enrich future reports.

– Technical Annex –

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1. INTRODUCTION

This is the first horizontal evaluation report produced in accordance with the Methodology adopted by the Commission in the June 2002 Communication (COM (2002) 331). It takes into account the report published in March 2004 (SEC (2004) 326) on the consultation on services of general interest launched in the Green Paper published in May 2003 (COM (2003) 270) and the European Parliament report on this Green Paper (PE 323.188). Taking into account all these documents, the evaluation report follows the logic established in article 16 of the Treaty: first an assessment of the evolution of the legislative framework and of the market performance of services of general interest is presented and then, the report considers to what extent this performance is contributing or hindering the fulfilment of public service obligations. The assessment of public services obligations is based on universal and public service obligations as defined at the EU level. Finally, to complete the analysis based on objective market indicators, the opinion of consumers regarding market performance and fulfilment of the social objectives attached to these sectors is presented.

The report covers the seven sectors initially identified in the 2002 “Methodology” Communication and the EU-15 Member States.¹³ The analysis is based on those indicators included in the 2002 communication which are currently available. Depending on data availability, the sectoral scope, country coverage and indicators will be extended in future editions of this horizontal evaluation report.

2. EVOLUTION OF LEGISLATIVE AND COMPETITION FRAMEWORK IN THE EU-15

A large number of Member States are late in transposing the new regulatory framework in telecommunications.

24th July 2003 was the deadline set for Member States to adapt their national legislation implementing the new regulatory framework in telecommunications¹⁴. This new regulatory framework includes six directives (including those on access and interconnection and on universal service), one regulation on local loop unbundling as well as guidelines and recommendations on market analysis and the determination of the relevant market to be regulated. Only eight Member States¹⁵ had taken action to transpose the package.

The new postal directive entered into force.

2003 also marked the entry into force of the new postal directive¹⁶ which provides, inter alia, for a reduction of the so-called reserved area to national mail weighing less than 100 grams and costing less than three times the basic tariff and for a full market opening of cross-border mail. However, despite these developments, competition in the postal sector is still hampered by

¹³ Electricity, gas, postal services, telecommunications, air transport, local transport, rail transport. The report covers the “old” EU-15. For some information on the market opening in the new Member States see Box 2.

¹⁴ See http://europa.eu.int/information_society/topics/ecommm/all_about/todays_framework/index_en.htm

¹⁵ Denmark, Spain, Ireland, Italy, Austria, Finland, Sweden, and the UK

¹⁶ See http://europa.eu.int/comm/internal_market/post/newdirective_en.htm. Only France has not yet implemented the Directive and has been referred before the European Court of Justice.

the persistence in many Member States of different VAT liabilities for postal services provided by the former monopolies and those provided by the new market entrants. The Commission has proposed to end the exemption currently applied to the former.¹⁷ For a presentation of the market opening in postal services see Table 28 in the annex below.

Major steps have been made to liberalise energy markets.

Further market opening also occurred in energy sectors with full electricity market opening in Denmark and Spain, and full gas market opening in Italy and Spain. The degree of market opening also improved in various Member States.¹⁸ In the same time, the European Parliament and the Council adopted in June 2003 Directives 2003/54/EC and 2003/55/EC concerning new common rules for the internal market in electricity and gas respectively. Those directives open the electricity and gas markets for all non-household customers by July 2004 and for all customers by July 2007. To ensure a consistent application across Member States of these new directives, the European Commission set up in November 2003 the European Regulators Group for Electricity and Gas, which will act as an advisory body.¹⁹ For a presentation of the market opening in energy see Table 27 in the annex below.

The first railways package has entered into force but a large number of Member States have not yet transposed it.

In transport, the main development occurred in railways as the first railway package²⁰ adopted in December 2000 entered into force on 15 March 2003. It opened up the trans-European rail freight network to international goods services, with the entire network following in 2008. In November 2003, the package had not yet been fully transposed in seven Member States. On 29 April 2004, the Council adopted the second railways package that allows for the full opening of international freight on January 2006 and of domestic freight on January 2007²¹. In addition, the Council reached a political agreement on the Guidelines for the trans-European networks²² and

¹⁷ The Commission's proposal would allow Member States to apply a reduced rate to standard postal services related to postal items up to 2 kg. The Parliament has proposed an amendment setting that limit at 10 kg.

¹⁸ Belgium (with full liberalisation of electricity and gas in Flanders), Denmark (gas), France (electricity and gas), Ireland (gas), Italy (electricity), Luxembourg (electricity and gas), and Portugal (electricity). Full liberalisation is foreseen in 2004 for the Dutch and the Portuguese electricity sectors, as well as for the Danish and the Dutch gas sectors.

¹⁹ This body will be complementary to the Florence and Madrid forums, respectively for electricity and gas, whilst it will have a more formal structure. The forums mainly focus on cross-border transactions issues and consist of national regulatory authorities, Member States, the European Commission, Transmission System Operators, electricity traders, consumers, network users, and power exchanges. They issued important guidelines such as the recent decision to remove all network access charges on electricity export.

²⁰ Directives 2001/12/EC, 2001/13/EC and 2001/14/EC (OJ L 75 of 15 March 2001) lay down rules on licensing, allocation of infrastructure capacity, and charging for use thereof. Note that the second railways package proposed by the Commission in 2002 aims at opening up the national freight markets by 2006 and cabotage by 2008. Discussions to adopt this proposal continue, including the suggestion put forward by the European Parliament to open up the international rail passenger market.

²¹ OJEC April 30, 2004.

²² The trans-European transport network represents an ambitious programme for the construction, modernisation and interconnection of Europe's major transport infrastructures. The challenge will be to connect the networks of the new Member States and to increase the concentration on selected real European priorities such as cross-border projects and the key land and sea routes needed for continent-wide cohesion and an expanded internal market.

on the airport slot allocation proposal. The Council and Parliament also reached agreement on the Regulations aimed at creating a “Single European Sky”. For a presentation of the market opening in railways services see Table 29 in the annex below.

The Altmark ruling has improved transparency and legal certainty in financing SGEI.

The Judgement of the Court of Justice of 24 July 2003, Case C-280/00, Altmark, clarifies the conditions under which public service compensations are considered state aids subject to a compatibility analysis. With this ruling and the subsequent publication of a package of Commission documents in February 2004²³, an important step was made to improve the transparency and legal certainty surrounding the application of Internal Market and competition rules. In addition to that the White Paper on SGI announces further efforts by the Commission to increase legal certainty in this area.

Quality of services and better regulation have attracted wide interest.

Quality has also been at the centre of the preoccupations of the EU legislator in 2003. For example, several regulations have been adopted to increase security in air transport and the second railways package contains a directive to reinforce security in railways. The sector of air transport has also been subject to new legislation to improve statistical reporting in order to better monitor its development. Such legislation is an essential element for evaluating the performance of the network industries providing services of general interest. The new electricity and gas directives also require the Commission to issue regular reports and to cover public services issues in detail every two years. In May 2003, the European Commission launched with its Green Paper a broad debate on the future of services of general interest in Europe²⁴. Finally, several Member States took actions to improve their regulatory frameworks, to improve regulators’ independence, or simply to set up new regulators or to achieve unbundling for transport or distribution system operators.

Box 1: The Green Paper and the White Paper on services of general interest

On 21 May 2003, the Commission adopted a Green Paper on services of general interest.²⁵ With this Green Paper, the Commission intended to stimulate a discussion on the promotion of the provision of high-quality public services in the European Union. The Green Paper therefore launched a broad public consultation on the overall role of the Union for defining the objectives of general interest that are pursued by those services and on the way they are organised, financed and evaluated. Thus, for the first time, the Commission initiated a full open review of its policies relating to services of general interest. The Green Paper seeks to address these issues by raising questions with regard to:

- (1) The scope of possible Community action that implements the Treaty in full respect of the subsidiarity principle,
- (2) The principles that could be included in a possible framework legal instrument concerning services of general interest such as a framework directive and the added value of such an instrument,
- (3) The definition of good governance in the area of organisation, regulation, financing and evaluation of services of general interest in order to ensure greater competitiveness of the economy and efficient and equitable access of all persons to high-quality services that are satisfying their needs,

²³ Press release IP/04/235 of 18/02/2004, “Commission proposes new rules to increase legal certainty for services of general economic interest”

²⁴ See infra.

²⁵ COM(2003)270, 21.5.2003, the Green Paper, the report on the public consultation and the White Paper are available at: http://europa.eu.int/comm/secretariat_general/services_general_interest/index_en.htm

(4) Any measures that could possibly be put in place in order to ensure a coherent and harmonious link between the objective of maintaining high-quality services of general interest and rigorous application of competition and internal market rules and in order to increase legal certainty.

The consultation on the Green Paper was concluded with the adoption of a Resolution by the European Parliament on 14 January 2004. The Green Paper consultation has confirmed a broad consensus on the importance of the subsidiarity principle, in particular in the area of local services. Contributions have also highlighted the need to ensure high quality standards for users and consumers and have stressed the importance of services of general interest for social and territorial cohesion. The consultation has also confirmed the need to create more legal certainty as regards the financing of services of general interest. In order to rapidly follow-up on this request, the Commission decided in February to consult on a draft decision that would exempt certain types of state aid (within certain thresholds) from notification under the state aid rules. The decision will cover in particular compensation granted to smaller providers, to hospitals and to providers of social housing.

The Commission services have recently published an analysis of the contributions received in the public consultation.²⁶ This analysis is a factual one and does not yet draw political conclusions from the Green Paper process.

The debate launched by the Green Paper met with considerable interest and was welcomed by many interested parties. The Commission received close to 300 contributions from a wide variety of respondents. Commission staff has prepared a Report on the public consultation which analyses the contributions submitted. The debate has revealed considerable differences of views and perspectives. Nevertheless a consensus seems to have emerged on the need to ensure the harmonious combination of market mechanisms and public service missions.

On 12 May 2004, the Commission has drawn its conclusions from the debate in a White Paper on services of general interest²⁷, in line with a request made by the European Parliament in a Resolution of 14 January 2004²⁸. The White Paper sets out the Commission's approach in developing a positive role for the European Union in fostering the development of high-quality services of general interest and presents the main elements of a strategy aimed at ensuring that all citizens and enterprises have access to high-quality and affordable services.

3. ANALYSIS OF THE COMPETITIVE FRAMEWORK

Opening up markets to competition should induce a restructuring process in these industries, characterised by entries, mergers and acquisitions. This should lead to changes in employment and productivity. Productivity gains can translate into price reductions, which will ultimately benefit users. Increased competitive pressure can also induce companies to be more innovative which contributes to additional productivity gains. Finally, price reduction and technological progress can stimulate demand, offsetting initial employment losses due to the restructuring process. However, which of these opposed effects will dominate cannot be predicted.

3.1 Evolution of supply

After massive market entry, the telecommunications sector entered a phase of consolidation.

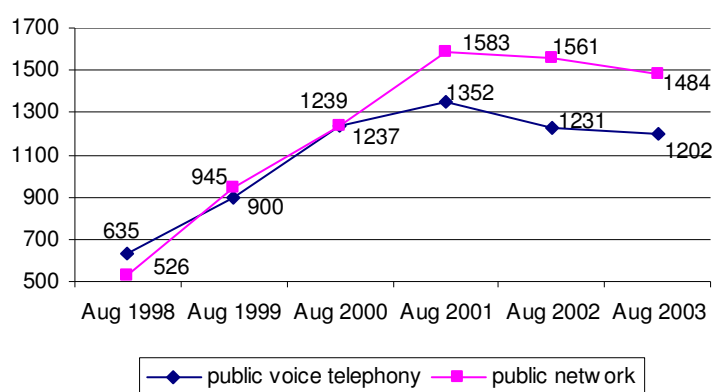
²⁶ SEC(2004)326:
http://europa.eu.int/comm/secretariat_general/services_general_interest/docs/comm_2004_0326_en01.pdf

²⁷ COM (2004) 374, 12.05.2004:

²⁸ T5-0018/2004

The first stage of liberalisation in network industries is usually characterised by massive market entry as newly created and foreign competitors receive a licence to provide services. At the same time, competitive pressures will force companies to rationalise and possibly to restructure. One way to restructure could be through mergers and acquisitions. In a second stage, when entry will return to normal levels, the number of competitors should stabilise and then decrease as competition will force the least efficient firms to exit the market.

Figure 1: Number of authorised fixed telecommunication operators in the EU



Source: European Commission, Directorate General Information Society.

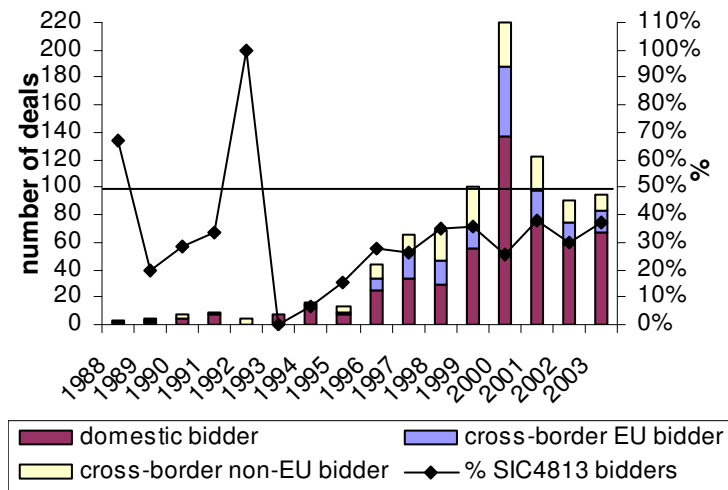
This is exactly what has been observed in the telecommunications sector. Between 1998 and 2001, the number of operators authorised to offer public fixed telecommunications services in the EU skyrocketed by an impressive 113% increase. The sector has seen an increase of mergers and acquisitions (M&A) activity in the second half of the 1990s, reaching a peak of 220 M&A deals²⁹ involving a target company located in the EU-15 and offering telephone communications services³⁰ in 2001. The number of authorised fixed operators in the EU peaked in 2001 and slightly decreased afterwards³¹.

²⁹ Deals here are confirmed deals.

³⁰ Classification SIC 4813.

³¹ It should however be noticed that among the 1,202 operators legally authorised to provide voice telephony services in 2003, only about half have started their operations and most of them operate only in local areas or for business users.

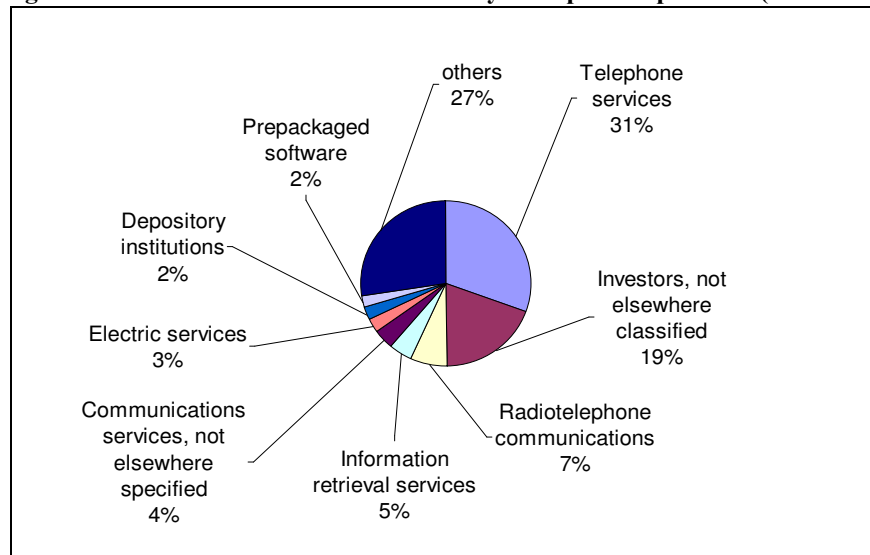
Figure 2: M&A in telephone services (EU-15 target)



Source: Thomson Financial Securities database.

Various elements are interesting to notice. First, the bulk of deals have been domestic, indicating either that markets remain widely domestic, or that merger and acquisition is not the preferred vector for companies to enter a foreign market. For example, contractual relationship or a minority participation in a local company might be favoured. Second, with some exceptions, a majority of mergers and acquisitions involving a target located in the EU-15 and offering telephone services are made by bidders active in another sector.

Figure 3: Sectors of bidders for Community's telephone operators (1988-2003)

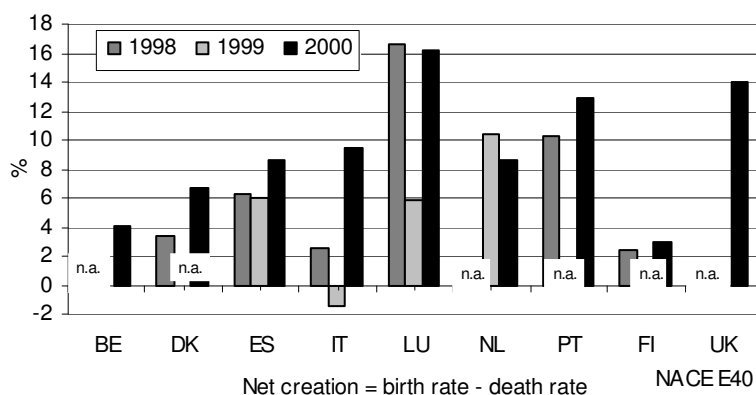


Source: Thomson Financial Securities database

The development of the number of operators in the telecoms market has been widely influenced by concomitant economic developments. Because the subsequent financial difficulties transformed some companies into easy targets, the burst of the telecommunications bubble in 2001 has probably triggered or accelerated the wave of restructuring and market exit.

The energy sectors have experienced two waves of M&A that were mainly domestic and confined to companies already active in these sectors.

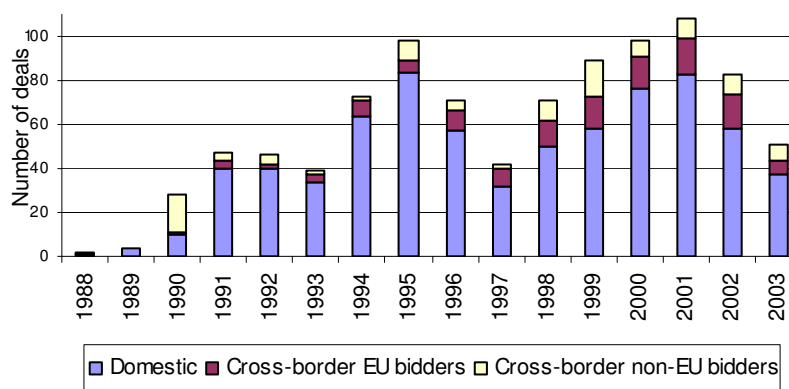
Figure 4: Net creation of companies active in energy and water



Source: Structural Business Statistics database and own calculations.

The few data available for energy and water supply also suggest a growth in the number of companies active in those markets between 1998 and 2000. Interestingly, these sectors display a high one-year survival rate (about 80%) and a low death rate (mostly 2-3%, except for the UK which stands over 10%). Here again, M&A activities have mainly involved companies active in the same domestic market. The majority of the deals in energy have concerned the electricity market, which has encountered two waves of M&A in 1994-1995 and in 1998-2001. For the gas sector, M&A activities have been more limited but occurred within the same two periods³². The fact that the vast majority of deals have been domestic and within the respective sectors could suggest that economies of scale are potentially high in the energy sectors or that more sector-specific knowledge is required.

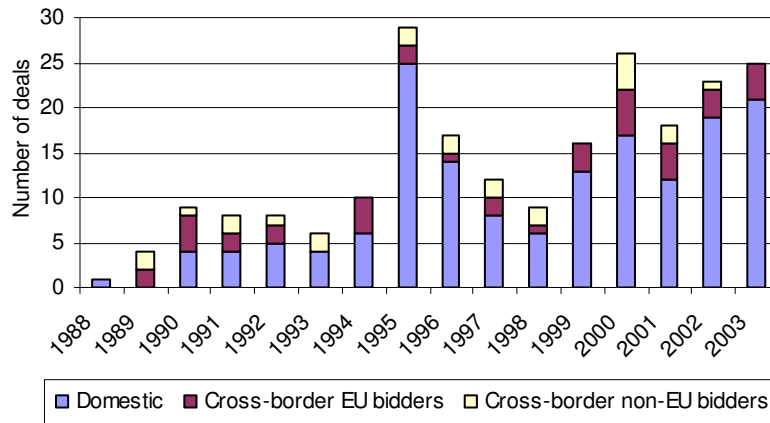
Figure 5: M&A in Europe involving electricity companies as targets



Source: Thomson Financial Securities database.

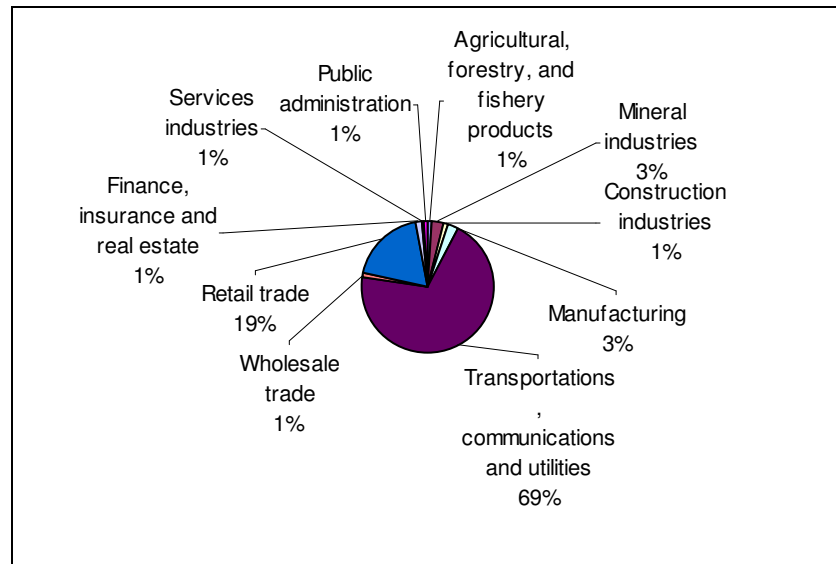
³² Interestingly, data for air transport also show that most of the M&A activities happened within the two above-mentioned periods, indicating that they may represent a general trend rather than a sector-specific timing.

Figure 6: M&A in Europe involving gas companies as targets



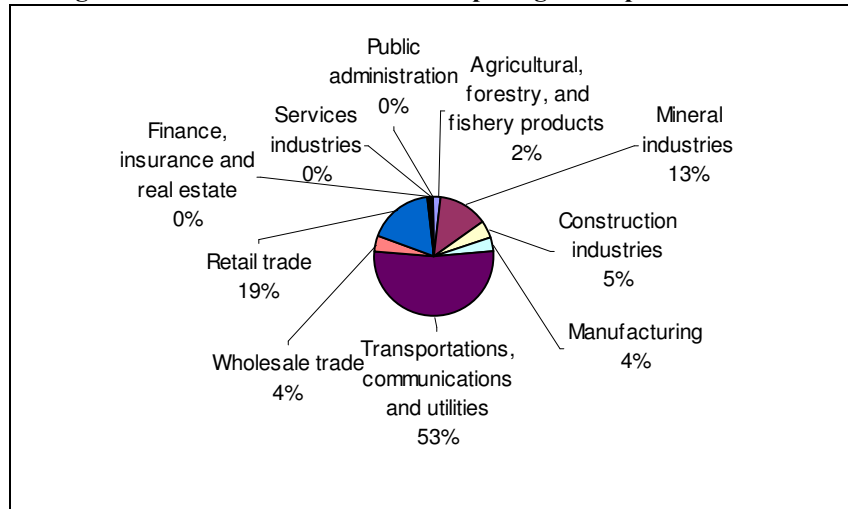
Source: Thomson Financial Securities database.

Figure 7: Sectors of bidders for European electricity companies 1988-2003



Source: Thomson Financial Securities database.

Figure 8: Sectors of bidders for European gas companies 1988-2003



Source: Thomson Financial Securities database.

Overall, a large share of M&A activities in telephone services and in energy has been conducted in Germany and the United Kingdom.

Table 1: Number of M&A deals per target country

Telephone services		Electricity		Gas	
United Kingdom	189	Germany	220	Germany	71
Germany	153	United Kingdom	190	United Kingdom	49
France	96	Sweden	126	Italy	27
Spain	89	Spain	123	Spain	25
Italy	73	Finland	106	Luxembourg	10
Netherlands	60	Italy	55	Netherlands	9
Finland	47	France	28	France	7
Portugal	32	Netherlands	25	Portugal	5
Ireland	31	Denmark	20	Denmark	4
Sweden	29	Austria	18	Austria	3
Denmark	25	Portugal	16	Belgium	3
Austria	23	Belgium	12	Finland	3
Belgium	18	Ireland	5	Greece	3
Greece	11	Greece	4	Ireland	2
Luxembourg	5	Luxembourg	2	Sweden	0

Source: European Commission, Thomson Financial Securities database.

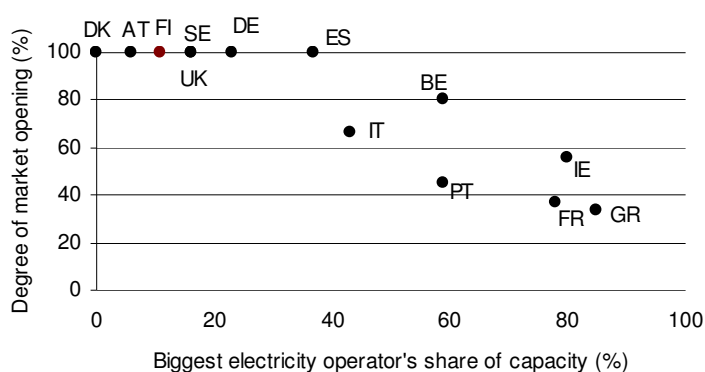
Incumbents retain large market shares, especially where liberalisation is slow.

Despite entry, most markets are still dominated by incumbents, indicating that new entrants have been so far unsuccessful in challenging them. This situation is not surprising and the reasons have been identified in the first horizontal assessment published in 2001³³. The presence of an essential facility and of network effects makes the entry for new firms often more

³³ European Commission (2001b), "Market performance of network industries providing services of general interest: a first horizontal assessment", *Annex to the Cardiff report 2001*.
http://europa.eu.int/comm/internal_market/en/update/economicreform/cardiff02enfull.pdf

difficult than in traditional markets. Hence, higher concentration could be expected. This situation is observed in telecommunications with high market shares for incumbents in most countries and segments. As expected, the more liberalised the market, the lower the market share of the incumbent. In this respect, levels of around 70% of retail revenues in the local calls segment³⁴ can be compared with market shares of incumbents of about 50% of subscriptions in mobile communications. In terms of evolution, the market share of the incumbent shows appreciable yearly changes, dropping sometimes by between five to ten percentage points in local and national calls segments. The market share of the incumbent also seems to be more stable in mobile and international calls segments, which may prove to be more mature markets.

Figure 9: Biggest electricity generator's share of capacity and degree of market opening (2003)



Source: European Commission, 3rd Benchmarking report on the implementation of the electricity and gas market.

The situation is comparable in the electricity generation market, although more complex in terms of cross-country comparisons because of possible local monopolies in production.³⁵ Nevertheless, one can spot a clear negative relationship between the degree of market opening and the market share of the largest electricity generator. In gas, the market share of the largest supplier remains even higher than in electricity, reflecting a lower degree of market opening.

³⁴ The unbundling of local loop remains problematic in that respect as about 95% of unbundled lines are concentrated in six countries (mostly Germany, then Italy, Denmark, Finland, the Netherlands, and Sweden).

³⁵ Local monopolies may not appear significant when translated in terms of national market share but they still constitute a barrier to competition.

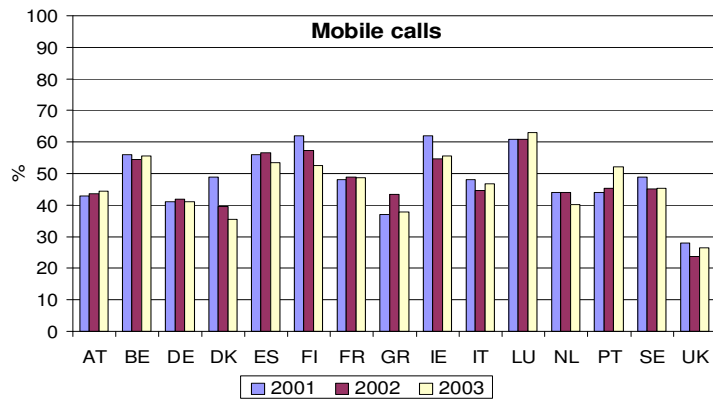
Table 2: Top gas supplier's market share (2003)

February 2003	Top gas supplier's overall market share
AT	75%
BE	39%
DE	6%
DK	73%
ES	78%
FR	unknown
IE	47%
IT	93%
LU	unknown
NL	unknown
SE	55%
UK	20%

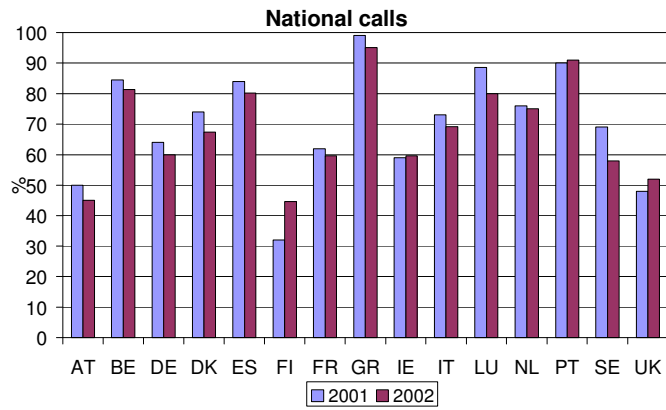
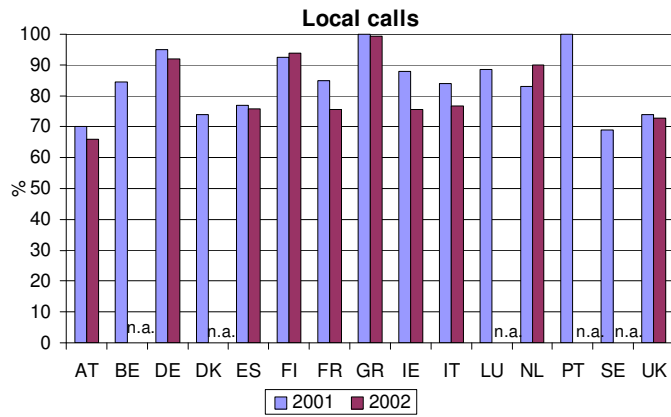
Source: European Commission, 3rd Benchmarking report on the implementation of the electricity and gas market.

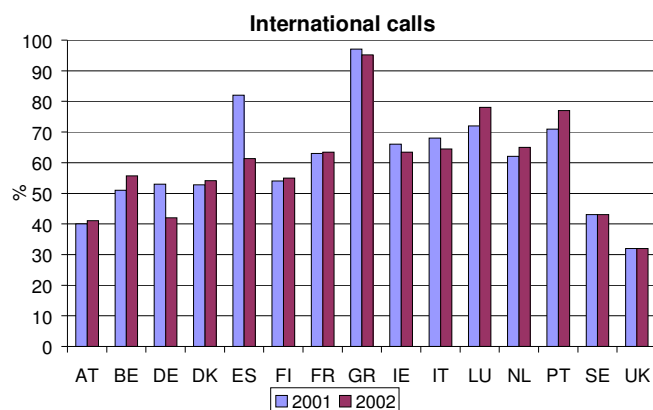
Figure 10: Market Shares of incumbents in telecommunications

(a) Mobile telecommunications (subscriptions)



(b) Fixed communications (retail revenues)





Source: Eurostat NewCronos database.

Table 3: Electricity production, consumption and exchange in electricity 2002

	Net production (TWh)	Structure of production %			Domestic consumption (TWh)	Physical electricity exchanges (TWh)		Degree of openness to trade %	Net import transfer capacity (Winter 2002/2003, peak hours)		Household price level EU=100
		Thermal	Nuclear	Hydro and other		Import	Export		MW	Theoretical (TWh)	
AT	60.8	34.2		65.8	61.5	15.4	14.7	24.5	no realistic limit	no realistic limit	90.2
BE	78.3	40.4	57.5	2.2	85.9	16.7	9.1	15.0	5350	46.9	110.1
DE	520.3	65.0	30.3	4.7	523.3	46.9	43.9	8.7	19380	169.8	122.1
DK	37.2	86.8		13.2	35.1	8.9	11.0	28.3	4230	37.1	83.8
ES	214.8	58.9	28.1	13.0	220.1	12.5	7.2	4.5	2450	21.5	83.2
FI	71.8	55.3	29.8	14.9	83.8	13.5	1.5	8.9	3020	26.5	67.5
FR	521.0	8.5	79.8	11.8	444.1	3.0	79.9	9.3	no realistic limit	no realistic limit	89.4
GR	50.5	91.9		8.1	53.4	4.6	1.7	5.9	1100	9.6	56.1
IE	24.1	96.7		3.3	24.6	0.6	0.1	1.4	170	1.5	85.5
IT	270.3	80.5		19.5	320.9	51.5	0.9	8.2	6780	59.4	134.6
LU	3.7	73.0		27.0	7.2	6.4	2.9	64.6	n.a.	n.a.	111.1
NL	88.3	94.9	4.0	1.1	104.7	20.9	4.5	12.1	5950	52.1	89.4
PT	36.4	80.8		19.2	38.3	5.3	3.4	11.4	750	6.6	118.4
SE	143.3	7.8	45.8	46.4	148.6	20.1	14.8	11.7	7030	61.6	67.9
UK	358.4	75.3	22.6	2.1	366.8	9.1	0.7	1.3	2070	18.1	99.9
EU-15	2479.2	53.2	34.3	12.6	2518.2	235.3	196.3	8.6			100

Degree of openness to trade is calculated as the ratio of import and export on twice domestic demand. Theoretical capacity is for 365 days/ year and 24 hours/day. Price levels for households come from Eurostat's structural indicators. Sources: ETSO, UCTE, IEA and own calculations.

Cross-border congestion problems in electricity continue to hinder competition.

Market integration obviously also depends on the degree of openness to foreign competition. In that respect, congestion problems in cross border capacity, be they due to effective shortage of

infrastructure or to its inefficient allocation, can create substantial hurdles for foreign competitors and keep prices at artificially high levels. Table 3 provides information in electricity production, consumption and exchange for the 15 current Member States. Market openness stands at 8.6% on average in the EU-15. France appears to be the largest exporter whilst Italy is the largest importer. Some markets are relatively closed such as the UK, Ireland, Spain, and Greece. It is however unclear how openness acts on price levels because (a) the presence of foreign competitors is not a sufficient condition to ensure that there is effective competition – in particular if foreign competitors do not sell at a lower price than domestic producers – , and because (b) prices of imported electricity are themselves function of the degree of competition taking place abroad and from physical and administrative possibilities to import. One way to assess whether, globally, a country suffers from congestion problems is to compare its actual level of import with its theoretical import capacity. In that respect, it is interesting to note that Italy and Portugal have both high prices and a level of actual import that is close to their potential import capacity.

Congestion is frequent in electricity markets. Recently, the second benchmarking report³⁶ on electricity and gas markets indicated that 12 interconnections out of the existing 24 were constantly or frequently congested, and stressed the lack of market-based methods to solve congestion³⁷, the weak information available on available capacities, and the poor reliability of the allocated capacity. In particular, the interconnections at the Italian borders, those between France and some of its neighbours, and the one between Spain and Portugal are considered to lack adequate mechanisms to fight congestion.

In conclusion, the gap between legal and effective opening up to competition is still large in several countries and sectors, as effective competition is still hindered by several legal, physical and technical barriers.

3.2 Evolution of demand

In telecommunications, market growth was sustained by the service segment.

According to the European Information Technology Observatory, the EU telecommunications market in 2003 amounted to about 292 billion euro in terms of revenues, up from about 250 billion euro in 1999. Although the rate of turnover growth decreased between 1999 and 2002, it rebounded in 2003 to a 2.7% annual growth rate. Most of the overall increase in revenues for the sector has come from the service segment. Its growth in 2003 is estimated to have reached 4%, mainly driven by mobile services and complemented by the continued expansion of broadband and internet services. In 5 years, the number of EU mobile subscribers went from about 69 million to 306 million, representing a penetration rate of 81%. Thanks to the availability of carrier (pre)selection, a third of EU subscribers used an alternative provider for their long-distance and international calls in August 2003, which corresponds to an annual increase by 12%. Although only about a quarter of EU subscribers were using an alternative operator for their local calls, this part showed the largest expansion rate with a growth of 39%.

Energy markets expand steadily and consumer switching develops slowly.

³⁶ European Commission (2003), “Third Benchmarking report on the implementation of the electricity and gas market”, page 74.

³⁷ E.g. auction procedures.

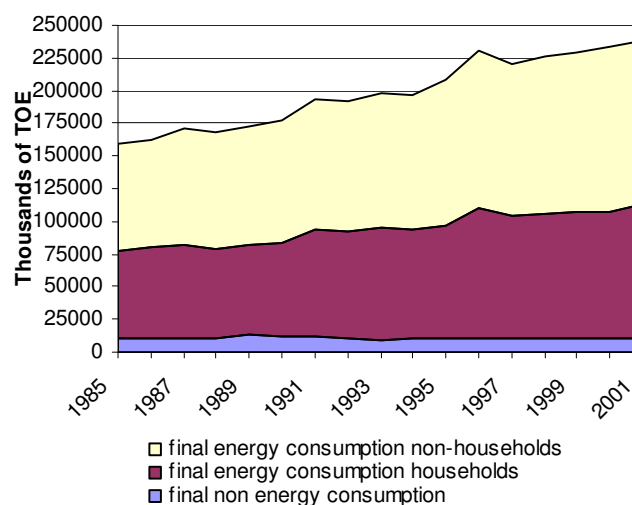
Between 1996 and 2001, electricity consumption in Europe has increased by an average of about 2.5% a year. Some small differences nevertheless appear across users. Industry, which holds the lion's share of electricity consumption in the EU-15 with a 42% share, grew slightly above an annual rate of 2.5%. The two other large consumers -households and services sectors, with market shares of about 30 and 25%, respectively- showed different patterns with respective annual average growth rates of 1.7 and 3.3%. Over the same period, the increase in consumption has been particularly high in Spain (36.5% in cumulative growth), Portugal and Ireland (32.1%), while it was most moderate in Denmark (2.6%), Sweden (5.3%) and Germany (7%).

In electricity, user switching has developed, especially for industrial users.

Users' switching in electricity has developed in parallel with freedom of choice of supplier. The Third benchmarking report of the European Commission on electricity and gas markets reveals that in Denmark, Germany, Ireland, the Netherlands, and Spain, at least 20% of large eligible industrial users have changed suppliers in 2002. Although not known precisely, this proportion may also be substantial in Finland and in Sweden. Consumer switching in households' markets is less impressive, not least because most households are not yet eligible. However, in markets that are liberalised such as in Finland, Sweden and the UK, the proportion of consumers having switched supplier in 2002 is not negligible, as documented in Table 4.

User switching is less developed for gas.

Figure 11: Final consumption of natural gas in the EU 15



Note: TOE: Tons of Oil Equivalent. Source: Eurostat, NewCronos database.

Between 1996 and 2001, final consumption of gas³⁸ in the EU-15 has increased by a modest 3.3%. It reflects a 2.7% increase in household consumption, which represents 43% of total final consumption, and a 4.5% increase in non-household energy consumption, which accounts for 52.7% of total final consumption of natural gas. Consumption of gas has increased at a relatively stable pace, in spite of the price volatility observed in recent years. In terms of user switching, the results are less impressive than for electricity, reflecting the less advanced state

³⁸ The figure does not include gas consumption for power generation.

of liberalisation. Small consumers are especially active in changing supplier in the UK, whilst Irish, Spanish and French industrial users have shown the highest propensity to change supplier.

Table 4: Users' switching in 2002

	<i>Electricity</i>		<i>Gas</i>	
	<i>Large eligible industrial users*</i>	<i>Small commercial/domestic</i>	<i>Large eligible industrial users**</i>	<i>Small commercial/domestic</i>
Austria	15%	5%	6%	0%
Belgium	5% [#]	Not available	Unknown	Not available
Denmark	45%	Not available	17%	Not available
Finland	^{##}	10%	Not applicable	Not applicable
France	15%	Not available	20%	Not available
Germany	20%	5%	5%	<2%
Greece	0%	Not available	Not applicable	Not applicable
Ireland	20%	2%	100% ^{###}	Not available
Italy	15%	Not available	10%	0%
Luxembourg	10% [†]	Not available	0%	Not available
Netherlands	20%	Not available	15%	Not available
Portugal	10%	Not available	Not applicable	Not applicable
Spain	20%	Not available	38%	1%
Sweden	^{††}	10% ^{†††}	0%	Not available
United Kingdom	15%	12%	16%	19%

* In general, this refers to clients consuming more than 1 GWh/year; ** In general, this refers to clients consuming more than 0.1 million m³ per year. [#] 40% have renegotiated their contract. ^{##} Most users in Finland and Sweden tender every year for a new supplier; ^{###} All large users (mostly power stations), self ship. [†] 15% have renegotiated their contract. ^{††} Most users in Finland and Sweden tender every year for a new supplier. ^{†††} Cumulative 40% since 1998. Source: European Commission. 3rd Benchmarking report on the implementation of the electricity and gas market.

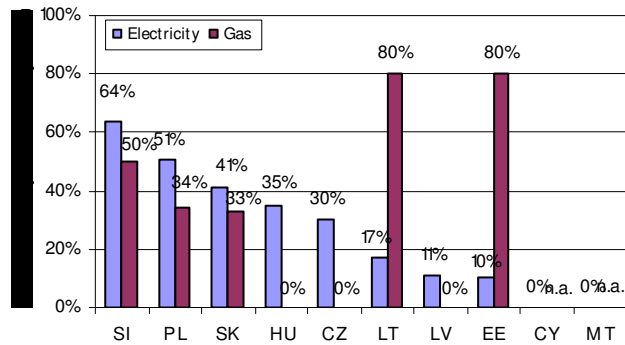
Box 2: Market opening of network industries in the new Member States

For most of the new Member States, the process of transition towards a free-market economy has been accompanied by first steps to open up network industries to competition. In telecommunications, although all new Member States have liberalised their markets by 1st January 2003, effective competition remained low in 2003, especially in local access. According to a recent report³⁹, alternative operators were active in all new Member States but Malta at the end of June 2003 and independent regulators were in place in most if not all countries. However, competition from alternative fixed lines operators was significant only in the Czech Republic and in Poland. One interesting feature of the new Member States is that, with the exception of Cyprus and Malta that have historically well-developed fixed lines markets, the mobile segment is dominating probably because of a lack of fixed lines infrastructure.

Energy markets are still relatively closed in the new Member States, with some countries that have not yet started liberalising their electricity or gas sectors. However, reforms are in progress to comply with the *acquis communautaire* in that field. In Postal services, Estonia has fully liberalised its market and Slovenia has already adopted the 100-gram threshold for eligibility. Other new Member States have set the eligibility threshold at 350 grams, with the exception of Latvia whose market is still a full monopoly.

³⁹ 4th report on monitoring of EU candidate countries (telecommunication services sector), IBM, December 2003.

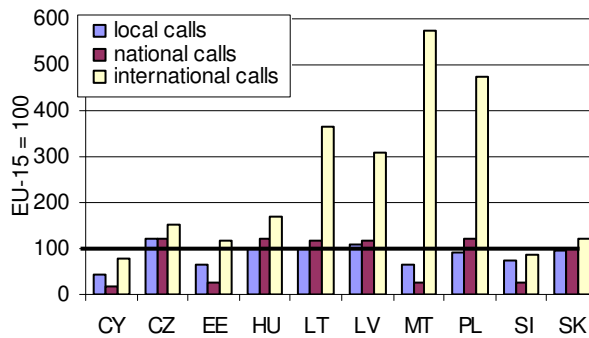
Market opening of energy markets in the new Member States



Source: European Commission, Structural indicators.⁴⁰

In terms of price levels, with the exception of telecommunications prices and in particular international calls, the new Member States display lower prices in network industries than the current Member States. However, most of these prices are still regulated.

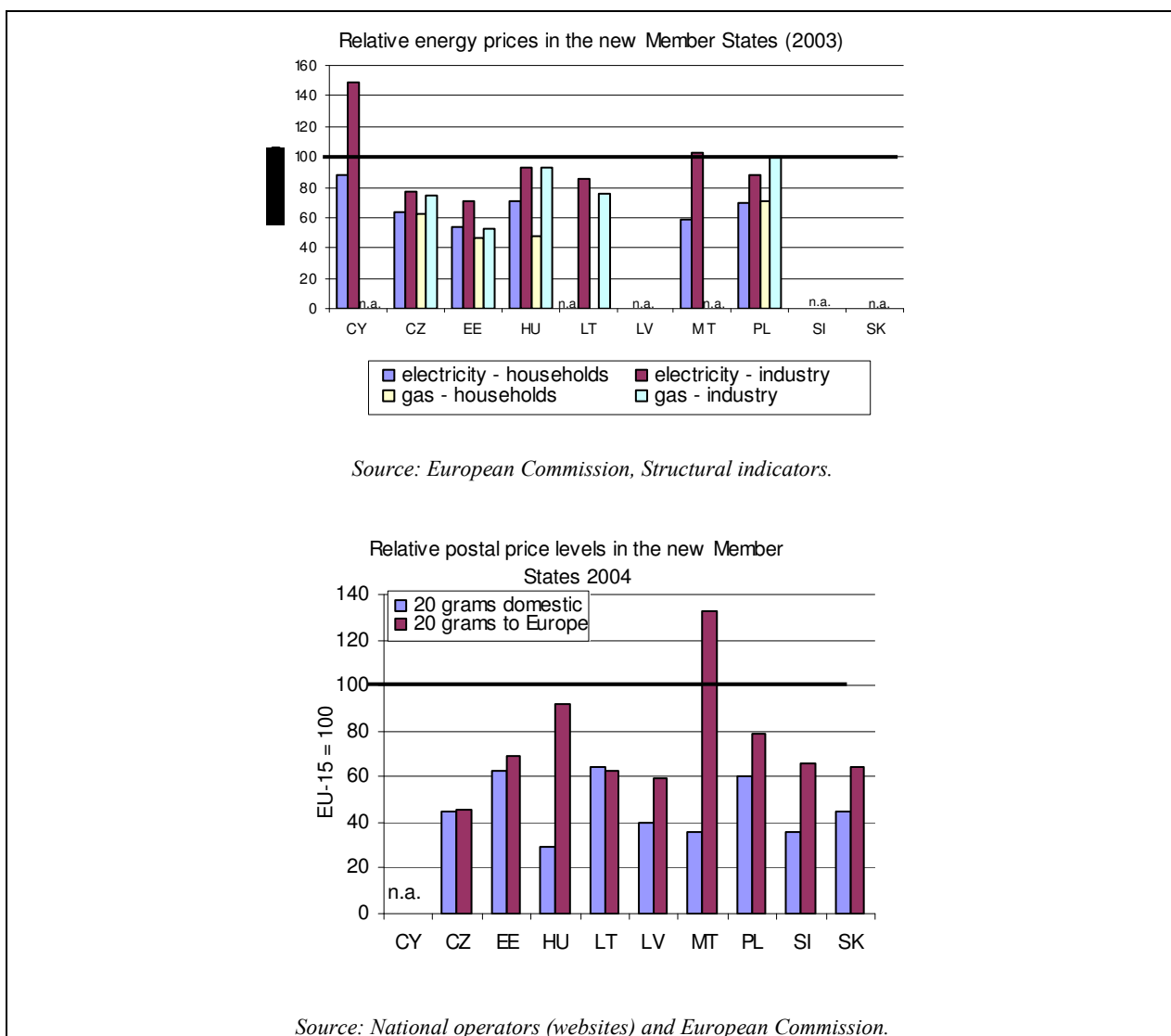
Relative telecoms price levels in the new Member States (2002)



Source: European Commission, Structural indicators.

⁴⁰

<http://europa.eu.int/comm/eurostat/Public/datashop/print-product/EN?catalogue=Eurostat&product=struct-EN&mode=download>



4. MARKET PERFORMANCE

4.1 Economic performance: employment, productivity

The opening up of network industries to competition has raised fears of massive cuts in employment that could represent a painful restructuring cost in the short-term. The 2001 horizontal evaluation presented data for the telecommunications sector that showed that on average the sector had enjoyed net employment gains between 1996 and 2000.⁴¹ The development of new segments and the emergence of new competitors had more than outweighed job losses at the incumbent and in traditional segments. However, the report also stressed some caveats. First, employment changes due to liberalisation are difficult to disentangle from those due to technological changes and changes in consumption habits. The telecommunications sectors enjoyed deep technological changes, such as the emergence of mobile telephony, which could be more difficult to see in other sectors such as electricity or gas. Second, analysing changes in employment in network industries misses the possible

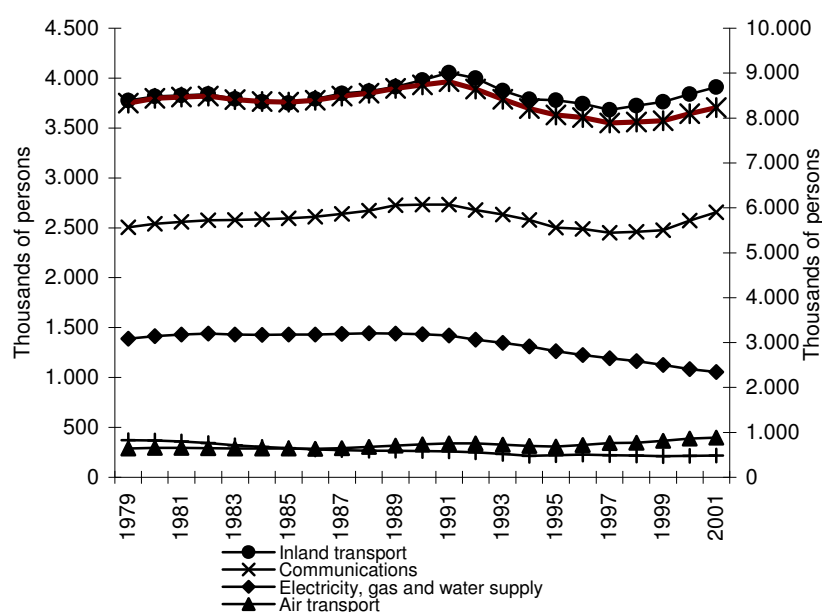
⁴¹ http://europa.eu.int/comm/internal_market/en/update/economicreform/cardiff02-01-1778.htm

consequences of liberalisation of network industries on job changes in other sectors. Finally, employment is highly dependent upon cyclical effects and therefore the high-growth period of 1996-2000 might not be representative of deeper structural changes in employment.

Employment in network industries expanded.

New sectoral data collected by the University of Groningen⁴² allow spotting the evolution of employment in a larger set of network industries. First, with about 8.2 million people, employment in network industries in the European Union in 2001 represented about 5% of total employment, a level similar to the US. Across Europe, that share varied in 2001 from 3.1% in the United Kingdom to 7.9% in Luxembourg. Interestingly, the number of people employed in network industries rose from 8.3 million in 1979 to 8.8 million in 1991. After the 1991 peak, the level progressively declined to 7.9 million in 1999 and recovered afterwards.

Figure 12: Employment in network industries



Source: University of Groningen (see footnote42)

In some network industries, employment changes are negative but it is difficult to univocally link the phenomena to the opening up of those markets to competition.

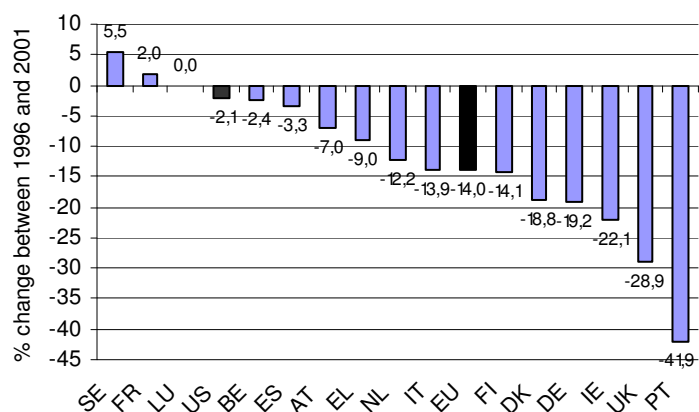
Looking more closely at sectors, it is clear that with 3.9 million jobs, inland transport⁴³ represents the lion’s share of employment in network industries in Europe, followed by Communications with almost 2.7 million jobs. Both sectors have experienced the same employment trend – i.e. a peak in 1991 and a recovery after 1998 - and are clearly driving the global results for network industries. In comparison, total employment in Europe rose until 1991, declined between 1991 and 1994 and rose again afterwards. This could suggest that the

⁴² Groningen Growth and Development Centre and The Conference Board, GGDC Total Economy Database, July 2003, <http://www.ggdc.net>

⁴³ Throughout this document, the sector of inland transport includes transport of persons and goods by road. The document will be explicit when it refers to local public transport.

continued decline in employment in inland transport and communications until 1997 could be attributed to a restructuring in those sectors. The situation is different in energy and water where employment steadily declined from 1988 onwards. In air transport, the 1997 liberalisation of the sector was followed by job creation, but one cannot determine whether this was driven by the opening up of markets to competitors and/or growth of the sector. More in-depth analysis is needed to see to what extent this evolution can be attributed to the progressive opening up of those markets to competition.

Figure 13: Employment changes in electricity, gas and water supply 1996-2001

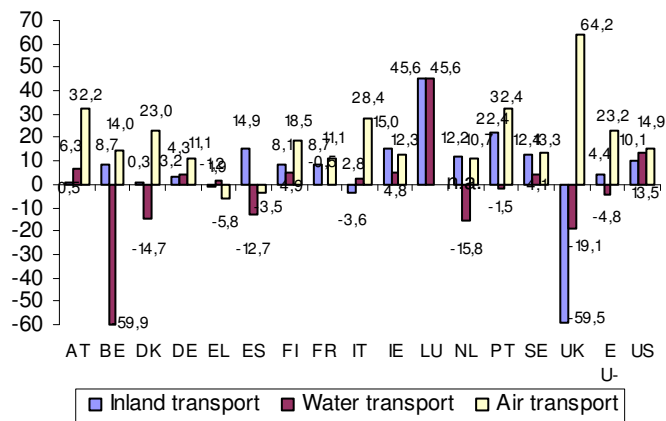


Source: University of Groningen (see footnote 42) and own calculations

Between 1996 and 2001, the sectors of electricity, gas and water supply - taken as a single entity - have lost about 14% of their jobs in the European Union. Job losses have been most dramatic in Portugal and in the United Kingdom with respectively about 42% and 29% decrease in employment. It is at first sight difficult to link job losses with the opening up to competition. For example, changes in employment in these sectors in the United Kingdom have usually widely been thought of as the result of the 1998 liberalisation in energy sectors. Nevertheless, Sweden, which opened its electricity market at the same time, shows a 5.5% increase in employment for the energy and water sectors⁴⁴.

⁴⁴ Of course, it should be acknowledge that there is a theoretical possibility that the employment patterns in Sweden have been different between electricity, gas and water during the period 1996-2001.

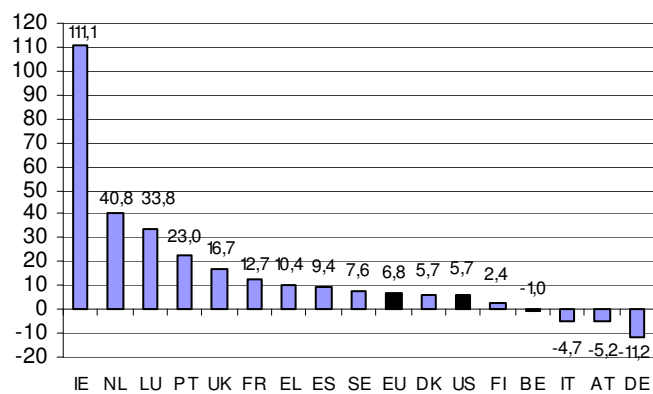
Figure 14: Employment changes in transport 1996-2001



Source: University of Groningen (see footnote42) and own calculations

The situation in transport sectors offers a more positive picture. While water transport showed a decrease of about 5% of its employment between 1996 and 2001, the inland and air transport segments respectively posted a 4.4% and 23.2% increase. Finally, the Communications sector, consisting of telecommunications and postal services, showed an increase of its EU-15 employment of 6.8% between 1996 and 2001. Once again, for both the sectors of transport and communications, more in-depth analysis should be done to disentangle the effects of liberalisation from the other factors influencing employment. Nevertheless, one element should be pointed out: there were no massive employment shedding across all countries and network industries. Several sectors even show an increase in employment. This indicates that the problem is more complex than just a liberalisation effect, and that country- and industry-specific factors are at play.

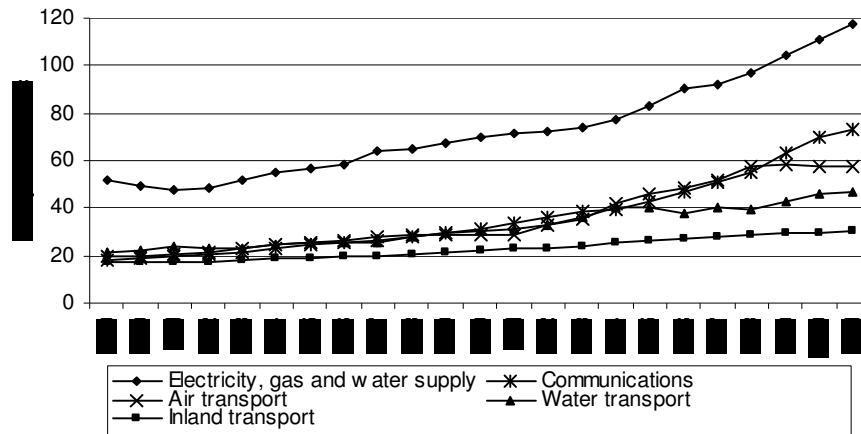
Figure 15: Employment changes in communications 1996-2001



Source: University of Groningen (see footnote42) and own calculations

Finally, it is interesting to see whether network industries have become more efficient. Reflecting larger capital intensity, the energy and water supply sectors present the highest productivity per hour across network industries.

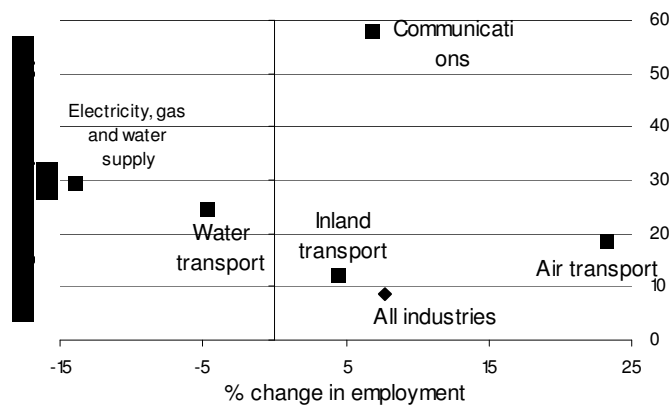
Figure 16: Labour productivity per hour



Source: University of Groningen (see footnote42)

Productivity per hour increased in all network industries throughout the 1980's and 1990's. However, productivity seems to have increased most rapidly in the communications, air transport, and energy and water supply sectors. Productivity growth in network industries appears strong, as their average growth of productivity per hour in the 1990's outpaced the average performance of the economy as a whole.

Figure 17: Changes in employment and labour productivity between 1996 and 2001



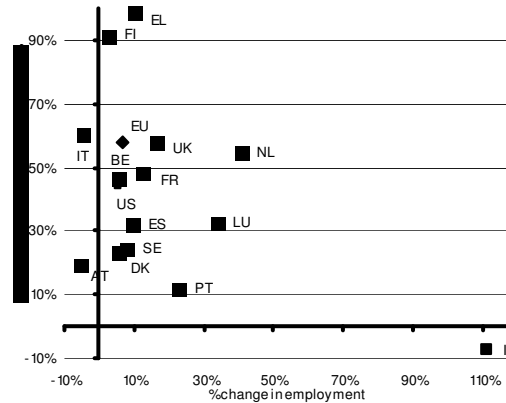
Source: University of Groningen (see footnote42) and own calculations

Following the results of a CEPR/IFS study⁴⁵, the positive changes in labour productivity in network industries are likely to be driven by cuts in labour force. This trend seems to be confirmed by Figure 18 that shows a negative cross-sector relationship between productivity growth and employment growth. Two sectors appear as exceptions. The liberalisation of air transport in 1997 seems to have boosted the number of active companies and hence employment in the sector. As the figures do not include the aftermath of September 11th 2001, job creation appears high for air transport. In Communications, job creation and productivity

⁴⁵ "The Link between Product Market Reform and Macro-economic Performance", CEPR/IFS, December 2003; http://europa.eu.int/comm/economy_finance/tenders/2004/2004_1/doc2en.pdf.

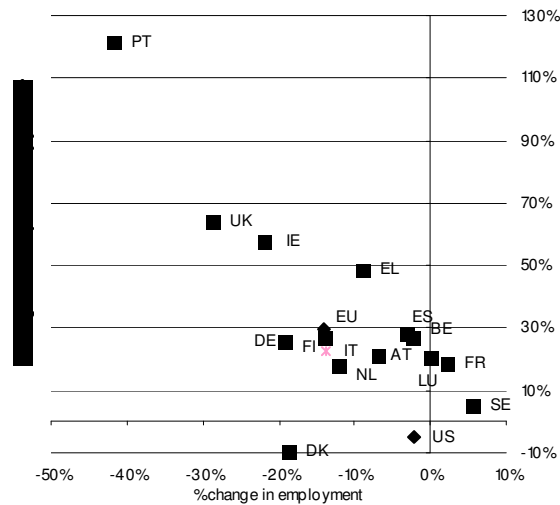
growth have developed in parallel. This feature probably owes to technological changes in the sector, such as the rapid development of mobile technologies. Finally, the energy and water sectors display a clear cross-country negative relationship between employment growth and labour productivity growth. Looking closer at within-sectors employment and productivity changes in the EU-15, one finds a significant negative relationship between those two variables for the sectors of electricity, gas and water supply and air and inland transport.

Figure 18: Changes in employment and labour productivity in communications 1996-2001



Source: University of Groningen (see footnote42) and own calculations.

Figure 19: Changes in employment and labour productivity in energy and water 1996-2001



Source: University of Groningen (see footnote42) and own calculations.

Table 5: Correlation between employment changes and productivity changes

Sector	Correlation (t-statistics)
All industries	-0,371 (1.926)
Electricity, gas and water supply	-0,540** (3.412)
Inland transport	-0,435* (2.399)
Water transport	-0,324 (1.621)
Air transport	-0,605** (4.272)
Communications	-0,029 (0.132)

Note: * and ** indicate that the estimated coefficient of correlation is significantly different from zero at 5% and 1% level respectively. More detailed distinctions within the above sectors was not possible because of data constraints. *Source: University of Groningen (see footnote 42) and own calculations*

Box 3: The link between structural reforms and macroeconomic performance

Starting in the 1980's, European network industries have been subject to an increasing wave of regulatory reforms. Progressively, the telecommunications, the energy, the transport and the postal services sectors have been opened up to competition. This development has been accompanied by new common regulatory frameworks to ensure that users have a real choice of supplier, to make sure that access to networks is offered on a non-discriminatory basis, that competition between suppliers is effective, and that services of general interest are provided. This process of liberalisation that leads to more competition is expected to decrease costs and prices. This issue has been recently studied by Rachel Griffith and Rupert Harrison (CEPR-IFS) for the European Commission (see footnote 45).

– In a specific section, the authors analysed the impact of liberalisation in network industries on their performance. Constrained by the level of breaking up of data, the authors specifically looked at two broad sectors - electricity, gas and water supply on the one hand, and telecommunications and postal services on the other hand – over the period 1986-1998. Overall, the results show that the movement towards greater competition was associated with an increase in the *level* of productive efficiency - through labour shedding - and of total factor productivity. Surprisingly, the authors found no significant impact of reforms on the *growth* of labour productivity or on total factor productivity. It seems therefore that deregulation and transfer of ownership were associated with one-off changes in the level of productive efficiency. However, dynamic effects may be important and it is possible that the sample period is too short to allow picking up these dynamic effects. Opening up network industries to competition also seems to have an impact on investment as the results suggest that liberalisation is associated with increases in gross fixed capital formation.

– The results should be considered with caution as the estimated impact of reforms on macroeconomic performance may in some cases just reflect the changes occurring in one or two specific countries. The small size of the sample does not allow controlling for other country-specific features that may influence the way liberalisation impact on the performance of network industries.

4.2 Price performance

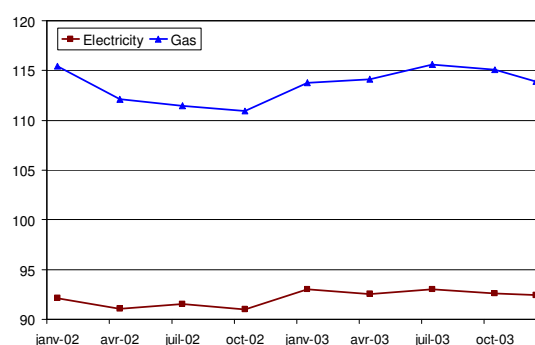
The harmonized consumer price index (HCPI) for the EU-15 increased by 1.8% between December 2002 and December 2003. At the same time the prices for only two of the large

industries providing SGEI increased by less: while the index for passenger air transport decreased by 1.0%, the index for telecommunications services remained almost unchanged (0.1%). The prices for all other large SGEI increased by more than 2%. Those for road transport (3.8%), gas (4.4%) and electricity (3.5%) rose even by more than 3%.

At EU-15 level, **electricity** prices increased almost twice as fast as the HCPI in 2003. The increase was considerably stronger in Sweden (+18.7%), Ireland (+13.7%) and Finland (+12.6%). On the other hand, electricity prices did even decrease in Italy and Belgium.

The price of **gas** increased the most in the EU in 2003. It increased by more than 10% in Sweden (11.9%) and the Netherlands (+11.0%). Prices decreased only in France (-2.6%). However, as can be seen from Figure 20, if measured against the consumer price index, prices of energy stayed fairly stable overall during the last two years.

Figure 20: Evolution of prices in energy sectors relative to the consumer price index 01/2002 – 12/2003

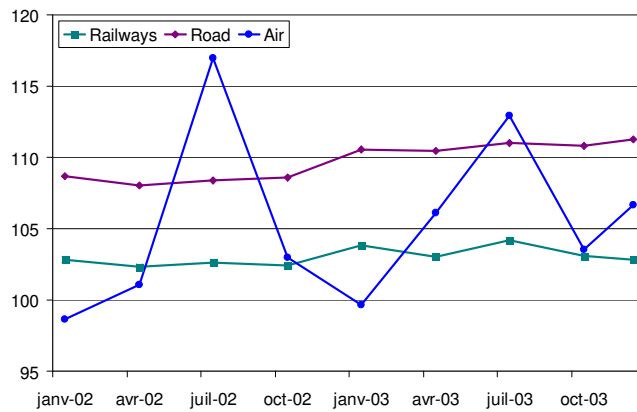


Note: HCPI of the respective period = 100, for values above 100 the price index of the respective sector is above the HCPI; base year of all indices: 1996; Source: Monthly data from Eurostat NewCronos database

A similar trend emerges for the prices for passenger transport by **rail** and **road**: while during 2002-2003 prices increased by up to 7.9% and 5.9% respectively, prices were very much in line with the changes in the HCPI. Price changes differed by less than 3.6 percentage points from the respective HCPI in the Member States. In the majority of Member States prices for passenger transport by rail relative to the HCPI varied by less than 2%. Only in Ireland and Portugal prices rose by more than 5%. While the prices of road transport continued their upwards trend during the last two years, the price of rail transport remained fairly stable (Figure 21).

Taking into account the seasonal characteristics of air transport prices, the price indices for **air transport** and **telecommunications services** declined in almost half of the Member States. At EU level, these prices declined or remained stable, respectively. Air transport prices declined by more than 7% in Finland, The United Kingdom, Austria and Belgium. They increased the most in Denmark (+3.5%). Telecommunications prices rose the most in Belgium (2.4%). Belgium was the only Member State where telecommunications prices rose faster than the HCPI. Figure 22 shows the steady decline in the prices of telecommunications services over the last two years.

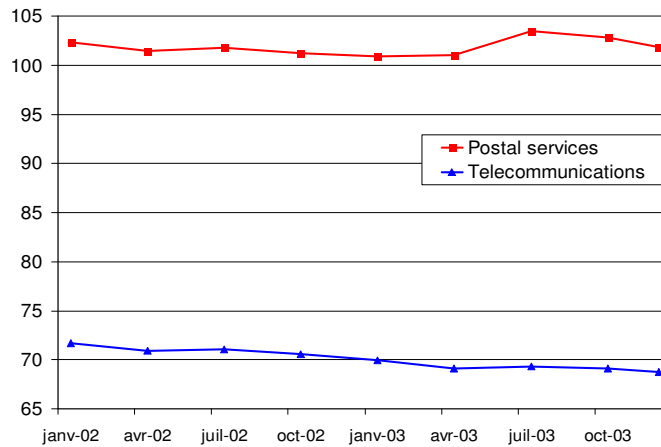
Figure 21: Evolution of prices in transport sectors relative to the consumer price index 01/2002 – 12/2003



Note: HCPI of the respective period = 100, for values above 100 the price index of the respective sector is above the HCPI; base year of all indices: 1996; Source: Monthly data from Eurostat NewCronos database

The prices of **postal services** increased in all Member States, or were at best stable. Extreme rises were recorded in Ireland and Luxemburg, where prices went up by more than 13%. However, prices decreased at least relative to the HCPI in Italy, Belgium, the Netherlands and Germany.

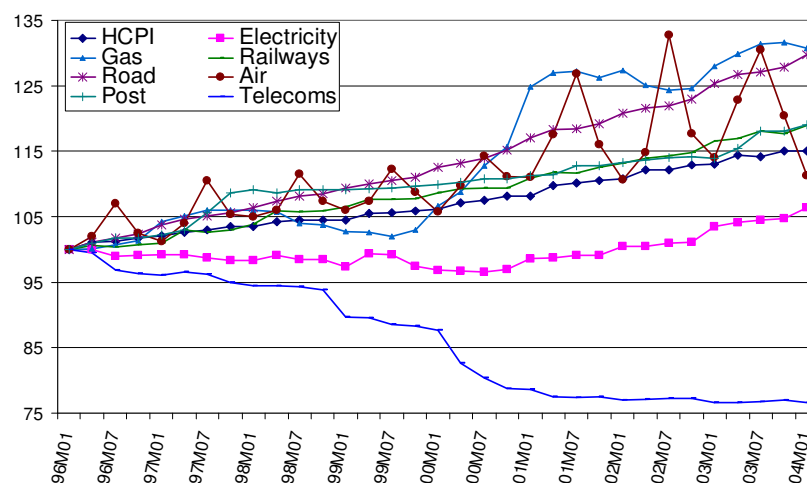
Figure 22: Evolution of prices in telecommunications and postal services relative to the consumer price index 01/2002 – 12/2003



Note: HCPI of the respective period = 100, for values above 100 the price index of the respective sector is above the HCPI, base year of all indices: 1996; Source: Monthly data from Eurostat NewCronos database

A long-term comparison of the changes in the annual indices at EU level over the last eight years reveals that the indices for gas and passenger transport by road increased almost twice as fast as the HCPI which went up by 15% (Figure 23). The indices for rail transport and postal services were very much in line with the development of the HCPI. The electricity index increased far less than the HCPI and the index for telecommunications services did even decline by more than a fifth during the period 1996-2003.

Figure 23: Evolution of prices of services of general economic interest and the consumer price index 01/1996 – 01/2004



January 1996=100; Source: Monthly data from Eurostat NewCronos database

4.3 Affordability of Services of General Economic Interest

The indicators of price affordability give us an idea of the evolution of the budgetary effort that households have to make to pay for some of the services of general economic interest. The analysis shows that over the last seven years, SGEI for the vast majority of sectors and countries have become generally more affordable.

Box 4: Calculation of affordability indices

Affordability is estimated using an index which gives the percentage of annual income a consumer has to pay to enjoy a year's fixed provision of a certain service. The indices are calculated for two representative consumers: the 'low income consumer' represents a consumer with an average household income of the lowest quintile of the national income distribution (0-20% income bracket); the 'average income consumer' represents a consumer with an average household income of the middle quintile (40-60% income bracket). The fixed provision of telecommunication services or energy assumed to be enjoyed by consumers are "standard" baskets of telecommunications services or fixed amounts of electricity and gas which are different for the two income groups. Further details are provided in the respective sub-sections, especially in the explanations to the figures.

Note that a decline in the index represents an improvement in affordability. As Eurostat continues constantly to revise both price and income data, results presented in this report may differ from those presented in last year's report.

a. Telecommunications services

Affordability in 2002

Average income consumers had to spend about 1% of their income to afford the respective telecommunications baskets in the EU-15. The share is lowest in Sweden (0.5%) (top of Figure 24). In all Member States, the affordability of telecommunications services improved in 2002.

Low income consumers had to spend about 1.6% of their income to afford the “standard” telecommunications basket for this consumer group. For such consumers, Denmark is the cheapest country: they need only spend 0.8% of their income (centre of Figure 24). In all Member States except the Netherlands, the affordability of telecommunications services improved. In the Netherlands, affordability remained almost unchanged.

Low income consumers using special tariffs were best off in Austria (0.6%) (bottom of Figure 24). Changes in the affordability were mixed. Affordability deteriorated in Portugal (+21%) and Germany (+11%), the result of substantial price increases (26% and 15% respectively), but also worsened in Belgium (+2%) and the Netherlands (+0.5%). It improved in Spain (-30%), Italy (-40%) and Austria (-60%). In the latter two countries this was due to changes in the low user tariff.⁴⁶

For all three types of consumer, *the most expensive Member State to buy telecom services in is Portugal*: consumers there spent considerably more of their income (between 2.7% and 4.6%) than consumers in any other Member State.

Long-term trend 1996-2002

Between 1996 and 2002, EU telecommunications services got much cheaper. On average, for the same telecoms services, consumers spent about 30% less of their income in 2002 than they had to in 1996. Over the 1996 to 2002 period, the affordability index for average income users in all Member States sank to a record low in 2002.⁴⁷

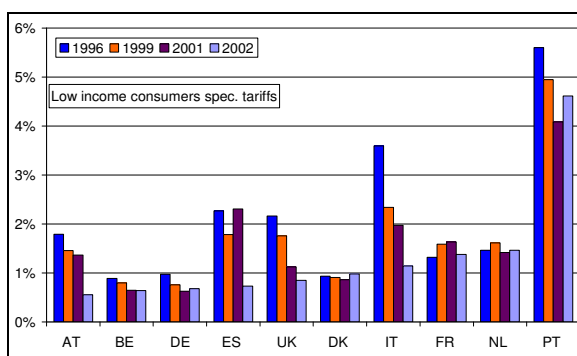
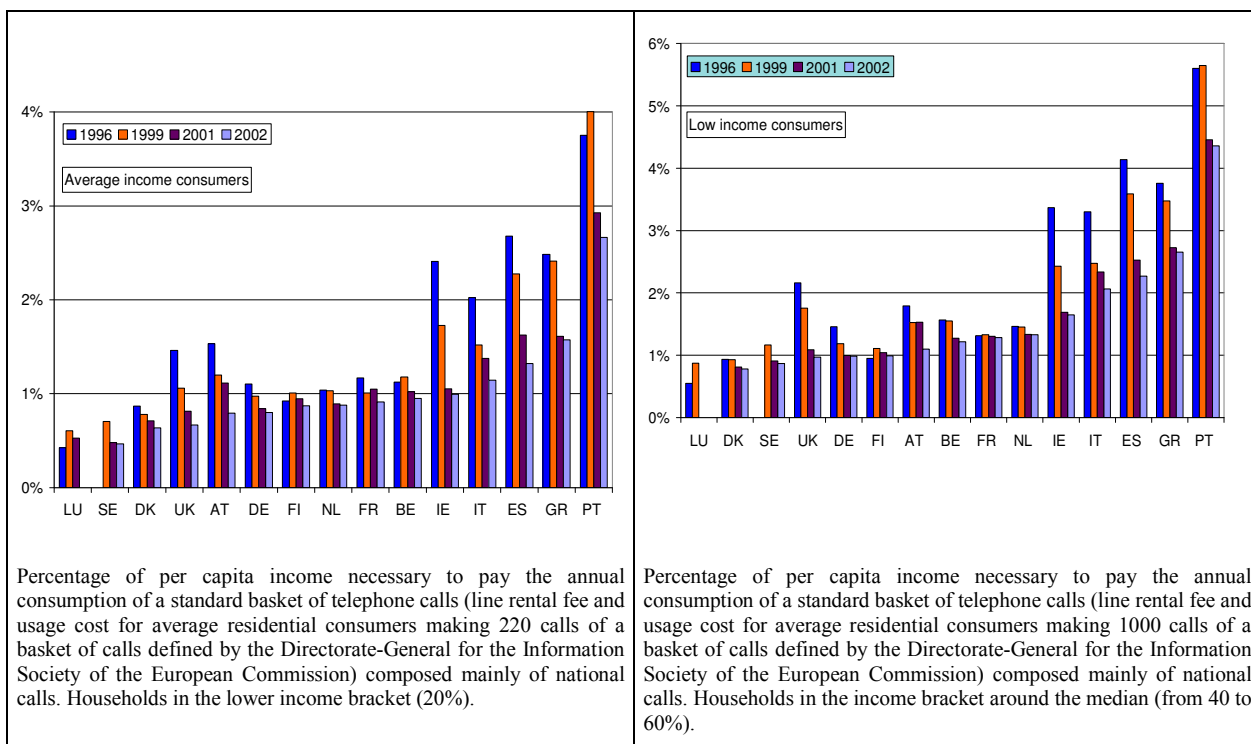
In 2002, for the same bundle of telecommunication services:

- **Average income users** in Spain, Ireland and the United Kingdom spent half what they had to spend in 1996;
- **Low income users not benefiting from special tariffs** in Ireland and the United Kingdom spent half what they had to spend in 1996, but 5% more in Finland;
- **Low income consumers using special tariffs** in Spain, Italy and Austria spent only a third what they had to spend in 1996. In Denmark and France they paid 5% and 4% more respectively, but still did not pay much: less than 1% of income in Denmark and less than 2% in France. Only Portugal gives cause for concern, because its index worsened even though Portuguese consumers of this type already have an elevated affordability index.

⁴⁶ As of 2002 a call allowance has been included in the monthly low user tariff in Italy. In Austria, instead of the “minimum” tariff a “social” tariff with no monthly rental fee has been used for the calculation of the cost of the “special tariff basket” in 2002.

⁴⁷ The data for telecommunication services for 2002 and 2001 refer to December of that year. Data for Luxemburg are only available up to 2000. 1996 data are not available for Sweden. Averages are non-weighted averages.

Figure 24: Affordability index for telecommunications services



Same as definition as for low income users but using special prices for small users. The figures present only those Member States for which data on income distribution and special tariffs are available. Source: European Commission with Eurostat data and the Teligen report on the telecommunication tariffs using the basket methods.

b. Electricity

Affordability in 2003

In 2003, affordability indices for electricity in the EU broadly continued to fall, though gently.

Average income consumers had to spend about 1.3% of their income to buy a standard quantity of electricity in the EU. Such consumers are best off in the UK, where the affordability index is only 0.7%. Electricity generally became more affordable but not in all Member States:

in Ireland and Sweden, such consumers had to spend 9% and 15%, respectively, more in 2003 than in 2002.

Low income consumers had to spend about 1.1% of their income. A low income basket of electricity consumption was most affordable in Finland (0.6%). Like average income consumers, low income consumers generally enjoyed more affordable electricity, while Irish and Swedish consumers had to spend about 14% and 16% more respectively.

Whether a consumer is on low income or average income, **Portugal is**, by some distance, **the least affordable Member State to buy electricity in** (affordability indices of 2.7% and 2.8% respectively).

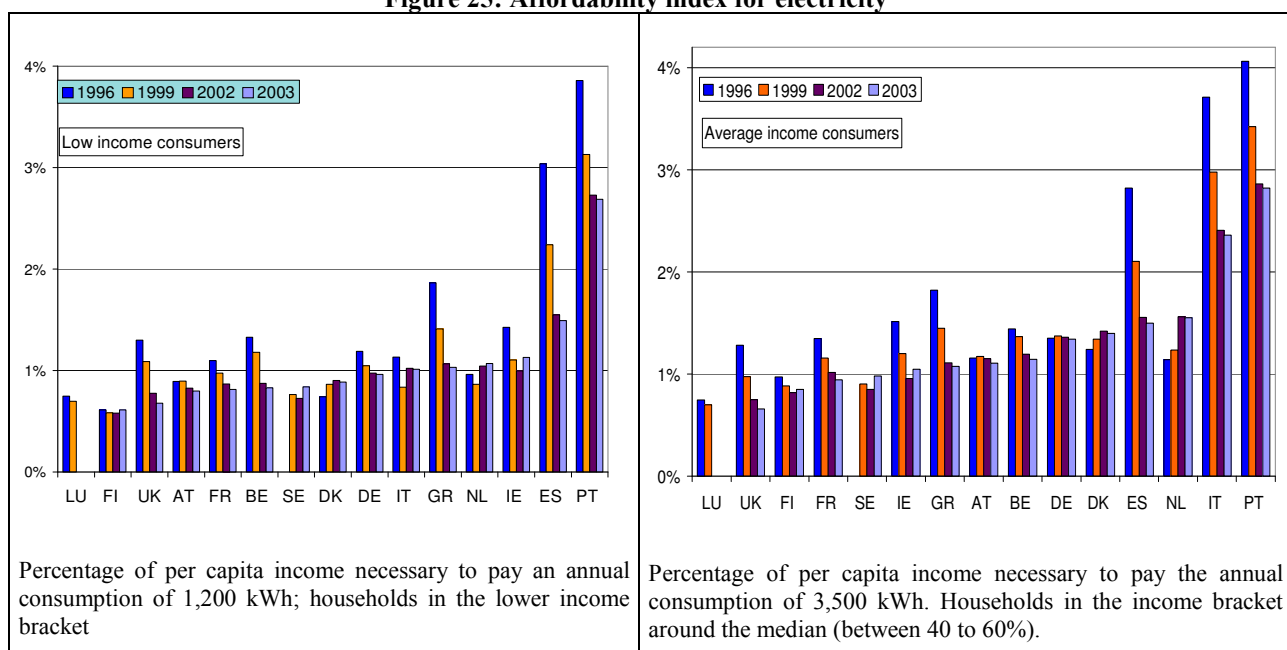
Long-term trend 1996-2003

The affordability of electricity in the EU markedly improved between 1996 and 2003, but less than it did in telecommunications services. Consumers in most Member States, whatever their income, enjoyed cheaper electricity in 2003 than in 1996. The affordability of electricity improved over 40% for all types of consumers in Greece, Spain and the United Kingdom. Only in Sweden, Denmark and the Netherlands did electricity become more expensive relative to income.⁴⁸

For average income consumers, the average share of income to be spent on an average income basket of electricity decreased by 27%. Bucking the trend, such consumers in the Netherlands had to spend a share of income on the electricity bundle in 2003 that was 36% higher than in 1996.

For low income consumers, the average share of income to be spent on an average income basket of electricity decreased by 21% .

Figure 25: Affordability index for electricity



Source: European Commission with Eurostat data.

⁴⁸ In the case of Sweden the comparison is 1997 – 2003 as no data for 1996 is available.

c. Gas

Affordability in 2003

Gas grew generally more affordable in 2003 (except in three Member States: Austria, Sweden and the Netherlands). The affordability of gas improved most dramatically in the United Kingdom. It worsened most dramatically in the Netherlands - the affordability of gas for low income consumers deteriorated by almost two thirds due to a 50% increase in the main gas supplier's standing charge. On the other hand, Dutch low income consumers still have the second most affordable gas in the EU-15.

Average income consumers in the EU had to spend about 3% of their income on gas (Figure 26). The United Kingdom is the most affordable gas supplier (a standard basket costing 1.1% of the average income of this group of consumers). Consumers in southern Member States - Italy, Spain and Portugal - pay the most: up to 6.8% of income in the Portuguese case.

Low income consumers in the EU had, on average, to spend about 0.7% of their income for the respective "basket" of gas (Figure 26).⁴⁹ Once again, the United Kingdom is the most affordable Member State (the standard gas "basket" costing just 0.4% of income). And, once again, it is consumers in the southern Member States - Italy, Spain and Portugal – who are obliged to pay most for gas; their affordability index rose to 2.2% (in 2002).

Long-term trend 1996-2003

The affordability of gas since 1996 has improved much less than the affordability of telecommunications services and electricity.

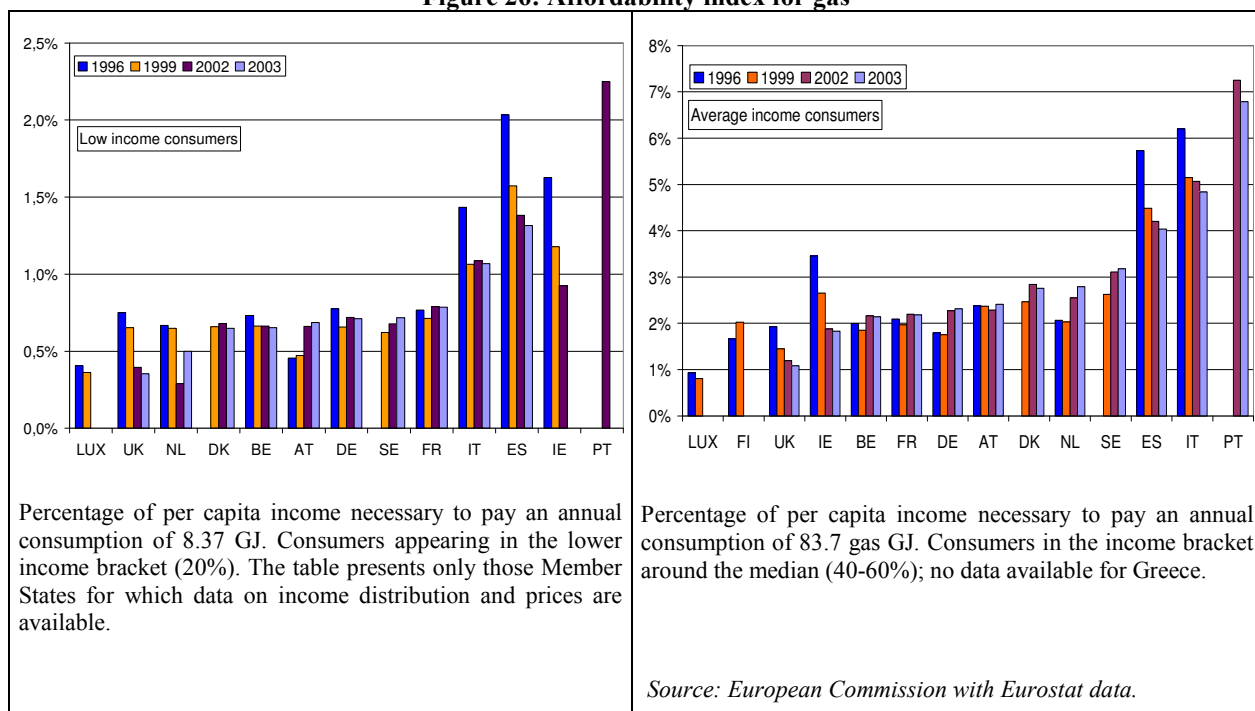
Average income consumers in the EU, on average, enjoyed only a small improvement in the affordability index for gas (-5%). The average trend, however, disguises some very different individual Member State experiences. In six Member States gas became less affordable, notably the Netherlands (+35%). In four Member States it became much more affordable, especially in Ireland (-47%).

Low income consumers in the EU had, on average, enjoyed a better improvement in the affordability of gas (-14%).⁵⁰ But once again, the overall trend masks some very different individual Member State developments. The index increased considerably for Austria (51%), but only slightly for France (3%) and Sweden (10%). It decreased the most in the UK (-53%).

⁴⁹ The sharp discrepancy between the affordability index facing an average consumer and the index facing a low income consumer is much explained by sample differences resulting from incomplete data sets.

⁵⁰ No or only very incomplete data is available on the affordability of gas for Greece, Finland, Denmark and Portugal.

Figure 26: Affordability index for gas



d. Summary

Long-term trend 1996-2003

By keeping constant the “standard” basket of telecommunications and energy services that households in these two income groups are supposed to buy we can see that price reductions have allowed for important savings.

In the case of low income consumers benefiting from special telecommunications tariffs, these savings added up to 3,8 percentage points of income in Spain; that represents a cut in the share of income necessary to buy the respective product bundles of more than 50% compared to 1996. The affordability indices for this type of consumer also halved in the United Kingdom and Italy. Irish and British consumers with average incomes could cut the share of income necessary to buy the bundle of services by almost 50%.

4.2 Accessibility of Services of General Economic Interest

The concept of accessibility to services of general economic interest is interpreted three ways in this section: by time, space and social dimension. Time – frequency, delays and opening hours – obviously matters for services like public transport or postal services. Geography is relevant to the infrastructure of services (e.g., the density of post offices, public payphones or airports). The social dimension is closely linked to affordability and comes into play when certain services are made available to certain categories of consumers through special conditions and tariffs.

a. Postal services

The Postal Directive 97/67/EC has established minimum characteristics of the Universal Postal Service, especially the level of accessibility required⁵¹:

⁵¹ Currently, the CEN is working on establishing a norm to measure the accessibility of postal services.

- the permanent provision of a universal postal service at all points in the territory,
- that the density of points of contact and of the access points takes account of the needs of senders and recipients,
- a minimum of one clearance and one door-to-door delivery every working day, and no less than five days per week

Whether the above requirements are met is open to interpretation as no threshold has been defined. *Across the EU, the frequency of provision is fairly uniform but the density of postal services varies considerably.*

The permanent provision of a universal postal service is mainly provided through mail delivery every working day of the week. All Member States comply with this requirement; six of them even deliver mail on Saturday. In all Member States, mail is delivered once per working day with the exception of the United Kingdom where there are two deliveries (see Table 6).

Table 6: Frequency of clearance in the Member States

	AT*	BE	DK	FI	FR	DE	GR	IE	IT*	LU	NL	PT*	ES	SE	UK*
Per working day															
1996	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2**
2000	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2**
Per week															
1996	5	5	6	5	6	6	5	5	5	6	6	5	6	6	6
2000	5-7	5	6	5	6	6	5	5	6	5	6	5	5	5	6

* No formal definition of the USO in 1996; ** Verified and corrected by PLS Ramboll
Source: PLS RAMBOLL *Employment trends, October 2002*

While there is information about the density of points of contact and of access points in the form of letter boxes and post offices, the absence of detailed regional information makes it impossible to tell whether the network meets the needs of senders and recipients everywhere. Table 7 below shows that the density of letter boxes varies considerably between Member States, ranging from one letter box per 244 inhabitants up to one letter box per 1000 inhabitants; or, expressed in terms of area covered by a letter box, between 1.5 and 43.5 square kilometre. It is, however, difficult to assess to what extent these figures (or the EU averages of 556 inhabitants per letter box or 4.9 square kilometre covered by a letter box) confirm compliance with the universal service obligation.

The second part of Table 7 gives some figures for individual Member States where available.⁵² The data show a dramatic decrease in the number of, and consequently a dramatic increase in the area and population served by, letterboxes in Finland between 1996 and 2000. On the other hand there was a considerable increase in the number of letterboxes in Spain over the same period.

⁵² Due to different sources used these figures differ from those presented in the previous table.

Table 7: Spatial and per capita density of collection letter boxes in 2000

	EU	Less urbanised MS (below EU average of 79%)	Highly urbanised MS (above EU average of 79%)
Average number of inhabitants served by a collection letterbox			
Max.		1000	833
Avg.	556	625	526
Min.		370	244
Average area covered by a letterbox in km²			
Max.		43.5	11.2
Avg.	4.9	6.7	3.3
Min.		4.0	1.5

Source: PLS RAMBOLL Employment trends, October 2002

	Letter boxes		Area/letter box		Population/letterbox	
	1996	2000	1996	2000	1996	2000
DK	10,349	9,806	4.2	4.4	512	540
DE		140,000		2.6		587
ES	32,319	37,812	15.7	13.4	1,216	1,055
IE		6,200*		11.3		613
IT	72,917	80,810	4.1	3.7	787	715
LU	1,158	1,171	2.2	2.2	345	342
PT	18,492	18,766	5.0	4.9	535	544
FI	14,000	8,000	24.2	42.3	364	650
SE	36,676	38,250	12.3	11.8	240	233

*Data for 2001. Source: Eurostat, own calculations.

The general conclusions concerning letterboxes are also true for the density of post offices, reported in Table 8. It is, however, remarkable that the average number of inhabitants served and consequently the area covered increased considerably mainly in the highly urbanised Member States between 1995 and 2000; the increase was much lower in less urbanised Member States with the exception of Portugal. Against this trend, the average number of inhabitants served in Greece and, especially, Spain actually decreased, indicating that accessibility in both Member States actually improved.

Table 8: Spatial and per capita density of permanent post offices, 1995 and 2000

	Average number of inhabitants served		Average area covered in km ²		Population density per km ²
	1995	2000	1995	2000	
<i>Highly urbanised MS (above EU average of 79%)</i>					
BE (97%)	6,150	7,143	18.6	21.6	338.2
LU (92%)	3,774	4,000	24.4	23.9	165.9
NL (89%)	6,986	7,143	18.6	18.7	377.4
UK (89%)	2,978	3,226	12.5	13.2	241.6
DE (87%)	4,179	5,882	18.3	25.8	229.8
DK (85%)	4,028	4,762	33.4	38.6	123
SE (83%)	4,922	6,250	251.9	285.7	21.8
<i>Average</i>		<i>4,762</i>		<i>30.1</i>	
<i>Less urbanised MS (below EU average of 79%)</i>					
ES (77%)	8,089	3,571	104.2	45.9	21.8
FR (75%)	3,413	3,571	32.6	32.3	109.8
FI (67%)	2,709	3,226	180	217.4	15.1
IT (67%)	3,970	4,000	21	21.4	191.2
AT (65%)	3,039	3,226	31.7	35.6	91.6
PT (63%)	1,394	2,857*	13.1	24.3*	117.3
GR (60%)	8,304	7,692	105.1	100	79.6
IE (59%)	1,832	1,923	36.1	36.6	52.9
<i>Average</i>		<i>3,704</i>		<i>39.1</i>	

* Portuguese statistics have been revised in 2000. Previous figures included stamps points of sale.
Source: PLS RAMBOLL Employment trends, October 2002

b. Telecommunications services

Directive 2002/22/EC specifies the universal service obligations with regard to accessibility as follows:

- A set of minimum telecom services available for all users, regardless of geographical location;
- All reasonable requests for connection at a fixed location to the public telephone network and for access to publicly available telephone services at a fixed location are met by at least one undertaking;
- A connection capable of allowing end-users to send and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit functional internet access⁵³;
- A comprehensive directory which is updated at least once a year and one directory enquiry service must be available to end-users, including users of public pay telephones;
- Public pay telephones meeting the needs of end-users (geographical coverage, number of telephones, accessibility to disabled users and quality of services);
- Users with disabilities must have access to a service that meets their needs.

Member States mostly comply with the universal service obligations for telecommunications, the only exception being special provisions for functional internet access. However, holes in the statistics available prevent a definitive final appraisal of the extent to which all Member States really do comply with the universal service obligations established by directive 2002/22/EC (Table 9). In addition, the public pay phone obligation is too fuzzily defined to allow a clear-cut conclusion.

Table 9: Telecommunications: Universal service obligations

	Access to fixed network	Special provisions for functional internet access	Public pay-phones	Availability comprehensive directory	Availability directory enquiry service	Special measures for disabled persons
AT				Yes	Yes	No
BE				Yes	Yes	Yes
DK				Yes	Yes	Yes
FI	Yes	No	No	Yes	Yes	Yes
FR	Yes	No	Yes	No	No	No
DE	Yes	No	Yes	Yes	Yes	Yes
GR				Not yet in practice	Not yet in practice	Yes
IE				Yes	Yes	Yes
IT	Yes	No	Yes	Yes	Yes	Yes
LU				Yes	Yes	Yes
NL				Yes	Yes	No
PT	Yes	No	Yes	Yes	Yes	Yes
ES	Yes	Yes	Yes	Not yet in practice	Yes	Yes
SE				No	Yes	Yes
UK	Yes	Yes	Yes	Not yet in practice	No	Yes

Note: The ways in which Member States comply with the obligations vary considerably, for further information consult the original sources.

Sources: First 3 columns: *Contribution of Services of General Interest to Economic and Social Cohesion, Study for European Commission Directorate General for Regional Policy. This study covered only seven Member States*; Last 3 columns: *European*

⁵³ The meaning of “functional internet access” is not further defined in the directive, nor does it specify data rates. This requirement is limited to a single narrowband network connection, the provision may be restricted to the primary location/residence, and does not extend to ISDN.

Table 10 below, for which there is only limited available data, shows that coverage of fixed and mobile telecommunications networks is almost complete, apart from the United Kingdom, where fixed network coverage decreased to just 92% of the area in 2002. Broadband coverage on the other hand varies considerably between Member States.

Table 10: Percentage of persons having access to telecommunications networks (in %)

	Fixed networks				Mobile networks		Broadband networks	
	Coverage of households		Coverage of population					
	1998	2002	1998	2002	2000	2002	2003	
							DSL	Cable
AT							86	31
BE							100	64
DK							95	50
FI	n.a.	97	99	99	99	100	90	30
FR	100	100	100	100	n.a.	99.3 ⁽¹⁾	79	26
DE	100	100	100	100	99	99	86	8
GR							n.a.	0
IE							76	4
IT	100	100	100	100	n.a.	100	82	0
LU							100	21
NL							94	82
PT	n.a.	100	n.a.	100	99	99	84	56
ES	100	100	100	100	98	99	85	38
SE							95	45
UK	96	92	n.a.	n.a.	n.a.	73 ⁽²⁾	85	44

Notes: ⁽¹⁾ 2001 data; according to reports of ART and the French Senate, the coverage of 99.3 % is based on a territorial coverage of 91.6 %, which is only 83% according to the most recent measurements.

⁽²⁾ The source below cited a value of 73% for the UK in 2002. However, this figure seems rather to refer the percentage of mobile users instead of to coverage.

Source: *Contribution of Services of General Interest to Economic and Social Cohesion, Study for European Commission Directorate General for Regional Policy; based on national statistics. Broadband networks: Study for the European Commission Directorate General Information Society (Data as of December 2003).*

The spread of mobile telephony might renders public payphones less important, but they still serve an essential function in the telecommunications infrastructure. However, as Table 11 indicates, the number of public payphones per capita seems to be continuously declining in most Member States.

Table 11: Number of public payphones per 1000 inhabitants

	1997	2002
DE	1.95	1.33
ES	1.6	1.5
FI	2 (2001)	1.2
FR	N/A	1.3
IT	N/A	4
PT	3.7	4.2
UK	N/A	N/A

Source: *Contribution of Services of General Interest to Economic and Social Cohesion, Study for European Commission Directorate General for Regional Policy; based on national data (NRAs and incumbents)*

c. Public transport

Defining the accessibility of public transport is difficult, so proxies – indirect indicators – have to be used to estimate it. These indicators focus on the density and the length of transport networks, on frequency, on the number of points of access and the capacity of supply. Interpretation of these indicators is difficult as there are no agreed reference or target values.

- Air transport

It is important to note, that no public service obligations are established at EU level. For air transport, indicators of accessibility available are scarce and very incomplete :

The geographical accessibility of air transport is measured by the number and density of commercial airports; The number of available seats gives an idea of the accessibility of supply. The availability of special tariffs gives an indication of the “social accessibility”. The only unambiguous result is that airport density is highest in Greece and Luxemburg. A second conclusion is that more systematic information gathering is needed.

Table 12 shows that Member States can be roughly grouped into two according to the density of commercial airports per inhabitant: one group consisting of Member States with less than 1 airport per million inhabitants; the other, comprising Ireland, Greece, Sweden, Luxemburg and Finland, with density values between 1.6 and 2.9.

With regard to geographical density, three groups can be roughly distinguished. The first group comprises ten Member States around the EU average of 0.06 airports per 1000 km². Denmark, the United Kingdom and Greece form the second group with density values above 0.1 airports per 1000 km². Finally there is Luxemburg with a density value of 0.38 airports per 1000 km².

Table 12: Air transport infrastructure: Main commercial airports 2001*

	EU-15	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK
Number	141	1	5	17	21	34	29	6	14	1	2	6	6	15	19	31
Per million inhabitants	0.6	0.1	0.9	0.2	2.0	0.9	0.5	1.6	0.2	2.5	0.1	0.7	0.6	2.9	2.1	0.5
Per 1000 km²	0.06	0.03	0.12	0.05	0.16	0.07	0.05	0.09	0.05	0.38	0.05	0.07	0.07	0.04	0.04	0.13

* Airports with a total volume of 100000 passengers or more per year. Source: Eurostat

For the second indicator - the availability of seats - three different indicators are available. Table 13 shows the development of total weekly departure seats from 1990 to 2003. Although the events of September 11, 2001 had a considerable short-term impact on the availability of seats (the number of available seats declined in 2002 compared to the previous year in all Member States but Ireland, Luxemburg and Portugal), the long-term trend of seat availability is still upwards.

In the EU-15 and in most Member States, the number of weekly seats almost doubled during the last thirteen years.

Table 13: Total weekly departure seats

	Weekly Seats Available			Change in %		
	1990	1996	2003	90-96	96-03	90-03
LU	12220	16947	23103	39%	36%	89%
AT	86790	165269	200062	90%	21%	131%
IE	87396	118492	214301	36%	81%	145%
PT	84568	136578	220909	62%	62%	161%
FI	152214	161650	220996	6%	37%	45%
BE	116523	196618	229934	69%	17%	97%
GR	156170	161361	240007	3%	49%	54%
DK	220293	266199	289959	21%	9%	32%
SE	221059	390680	381490	77%	-2%	73%
NL	200748	323696	455249	61%	41%	127%
IT	646702	817998	1246683	26%	52%	93%
ES	549229	731527	1363964	33%	86%	148%
FR	975265	1238355	1545836	27%	25%	59%
DE	901176	1271425	1643227	41%	29%	82%
UK	1039122	1394739	2070932	34%	48%	99%
EU 15	5449475	7391534	10346652	36%	40%	90%

Source: European Commission Directorate General for Transport and Energy

To assess social accessibility, restrictions on and conditions for fare prices have been analysed. As examined in a study commissioned by DG Regional Policy, all the public service obligation impositions fix a maximum fare (Table 14). For Germany and the UK, this is the only advantage stated. France, Italy, Spain and Finland have discounts for young persons, students and senior citizens (plus accompanying persons in Finland)⁵⁴; only Portugal indicates a PEX fare, France a family fare, Spain a sport team members fare, Italy a disabled fare and Spain a fare for passengers coming from islands in need of hospital treatment in regional capitals. France, Italy, Spain and Portugal indicate a resident tariff; Italy for emigrants resident outside the region also. Finally, Finland includes a weekend fare, while Portugal applies a freight fare.

⁵⁴

The difference is in the age to be considered as a member of each group.

Table 14: Air transport: Social accessibility

Reduced fares for different categories of passengers	FR	DE	IT	UK	ES	PT	FI
Maximum fare	X	X	X	X	X	X	X
PEX fare						X	
Young persons	< 25 yrs		< 25 yrs		< 22 yrs		X
Senior citizens	> 60 yrs		> 70 yrs		> 60 yrs		senior + accomp. pers.
Students < 27 yrs of age	X		X			X	X
Families*	X						
Sport team members					X		
Disabled persons			X				
Passengers from islands in need of hospital treatment in regional capitals					X		
Residents	X		X		X	X	
Emigrants resident outside the region			X				
Freight tariffs						X	
Week end trips							X

*: one or both parents travelling with at least one of their children who is a minor.

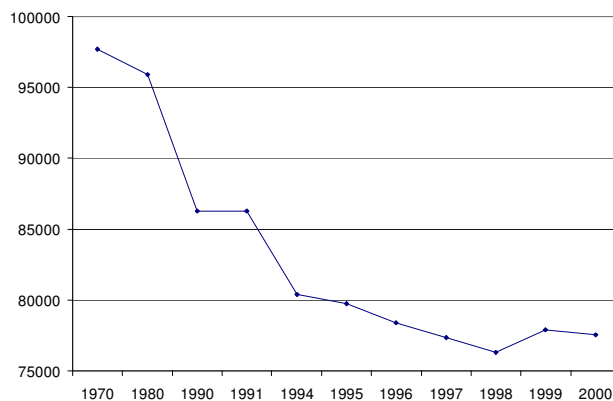
Source: *Ciriec*, Study for European Commission Directorate General for Regional Policy

- Railways transport

Like the number of available airline seats, the stock of vehicles and the length of lines provide two proxy indicators of the availability of railway transport. Both indicators have declined significantly in the EU-15 since 1990.

The stock of rail vehicles was 10% lower in 2000 than it was in 1990 and even 20% smaller than in 1970 (Figure 27). Stocks decreased particularly strong in Denmark, Greece and Sweden. In the latter it more than halved since 1990. Stocks increased on the other hand by about a third in Ireland and Luxemburg.

Figure 27: Stock of passenger transport vehicles EU-15

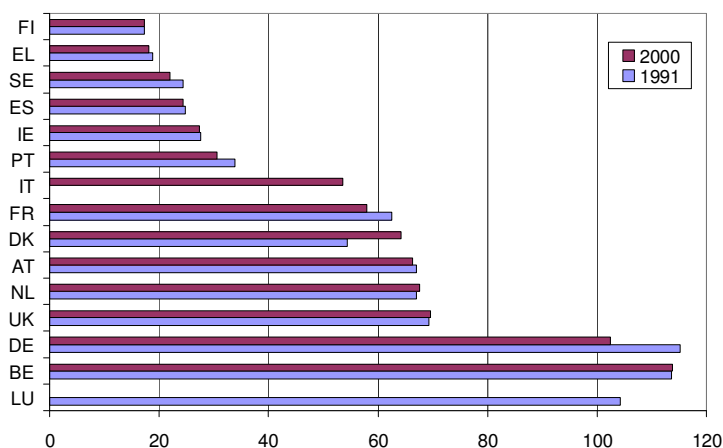


Source: "European Union – Energy and Transport in Figures 2003", European Commission Directorate General for TRANSPORT and ENERGY

Figure 28 shows that **the density of the railways network has been fairly stable in most Member States during the 1990s**. Nevertheless, there is a clear majority of Member States for which the network density declined. In Germany the density of the network decreased by 13%.

Denmark, on the other hand, is the only Member State where the density increased considerably by (10%) during that decade. This was not enough, however, to prevent an overall decline in the EU's network density.

Figure 28: Rail network density 1991-2000



Source: Own calculations based on Eurostat data

d. Energy

Member States have established some indicators for certain *universal service standards and vulnerable customers* of energy. As in the case of air transport, such standards can be interpreted as indicators of “social accessibility”. Table 15 and Table 16 show, however, that *Member States have only implemented few of these standards so far.*

Only five Member States actually provide special tariffs for electricity.⁵⁵ Furthermore, only Belgium, Ireland and the Netherlands provide a free amount of supply to vulnerable customers. On the other hand, restrictions to disconnections are frequently used.

⁵⁵ Italy is planning to do so.

Table 15: Public Service and Service Standards: Electricity

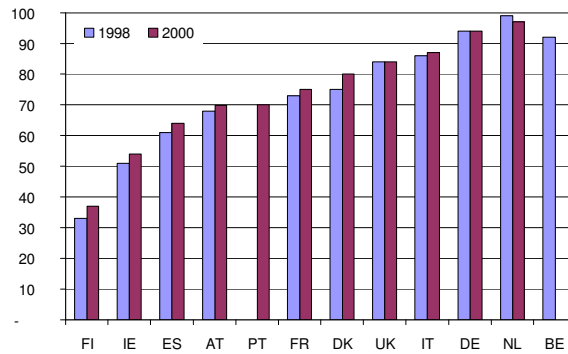
	Universal service			Vulnerable Customers				
	Default supplier	End user price controls	Perequation (uniform tariff)	Special tariffs	Pre-payment meters	Free supply amount	Restrictions on disconnection	Disconnections for non-payment
AT	P	No	No	No	Yes	No	No	n.k.
BE	P	All	Yes	Yes	Yes	Yes	Yes	0.15%*
DK	P	HH only	No	No	No	No	Yes	negligible
FI	P	HH only	No	No	No	No	Yes	negligible
FR	P	all customers	Yes	Yes	No	No	Yes	215,000
DE	P	No	No	No	Yes	No	Yes	0.02%
GR	P	all customers	Yes	No	No	No	No	n.k.
IE	P	all customers	Yes	Yes	Yes	Yes	Yes	7,000
IT	D	all customers	No	Planned	No	No	Yes	255,264
LU	No	all customers	No	No	No	No	Yes	n.k.
NL	P	households	No	No	No	Yes	No	n.k.
PT	P	all customers	No	Yes	No	No	Yes	n.k.
ES	P	all customers	Yes	Yes	Yes	No	No	n.k.
SE	P	No	No	No	Yes	No	Yes	n.k.
UK	P	No	No	No	Yes	-	Yes	995

I = financial incentives/penalties in price limit, C = direct compensation to customers; L = licence condition or other legal instrument; M = meter reading and billing standard; HH: Household; *: 2001 data; Default supplier: P – predetermined, D – designated by regulator if necessary; n.k.: not known

Source: Third benchmarking report on the implementation of the internal electricity and gas market, European Commission Directorate General for TRANSPORT and ENERGY

Because not all regions are connected, **there are no compulsory Universal Service Obligations for gas accessibility in the European Union**. As shown in Figure 29, access to gas supply varies considerably within the EU ranging from 37% in Finland to 97% in the Netherlands. The latter is the only country where the share of population with access to gas declined between 1998 and 2000; for the EU Member States for which data is available (non-weighted average) accessibility increased by 1,6%.

Figure 29: Share of population with access to gas supply (%)



Source: International Gas Union, IGU, Panorama – statistics data

Concerning “social accessibility”, there are even fewer of these standards in place for gas than for electricity: **No Member State provides special tariffs and only the Netherlands provide a free amount of gas supply to vulnerable customers.** The only measure that is frequently used is restrictions on disconnections.

Table 16: Public Service and Service Standards: Gas

	Universal Service				Vulnerable Customers				
	% connected to network	Default supplier	End user price controls	Uniform tariff	Special tariffs	Pre-payment meters	Free supply amount	Restrictions on disconnection	Number of disconnections
AT	17%	No	No	No	No	Yes	No	No	n.a.
BE	20%	Yes	No	Yes	-	Yes	No	Yes	n.a.
DK	15%	Yes	No	No	No	No	No	No	2,900
FR	n.a.	No	No	partial	No	No	No	Yes	n.a.
DE	51%	No	No	No	No	No	No	Yes	n.a.
IE	25%	No	Yes	Yes	No	Yes	No	n.a.	n.a.
IT	69%	Yes	Yes	Yes	No	No	No	Yes	25,499
LU	43%	No	No	Yes	No	No	No	Yes	n.a.
NL	98%	No	No	No	No	No	Yes	Yes	0
ES	30%	Yes	No	Yes	No	No	No	Yes	negligible
SE	<5%	No	No	No	No	No	No	No	15,000
UK	80%	Yes	No	No	No	Yes	No	Yes	21,780

Source: Third benchmarking report on the implementation of the internal electricity and gas market, European Commission Directorate General for TRANSPORT and ENERGY

4.5 Quality of Services of General Interest

Public service obligations often require quality of service standards to be met. How well are these obligations met?

a. Postal services

First class cross-border letter mail is the only mail item for which a Community-wide standard exists. This standard is met in about 85% of the bilateral cross-border mail streams. Greece, however, fails to meet these standards for all incoming mail and 6 out of 14 outgoing mail streams.

Postal Directive 97/67/EC establishes minimum characteristics for the Universal Postal Service. It states that the minimum and maximum dimensions for the postal items must be the same as those set by the Universal Postal Union, and that the universal service must cover both national

and cross-border services. Each Member State has to nominate a Universal Service Provider to ensure the service.

Table 17: Services provided within the universal service

	AT	BE	DE	DK	EL	ES	FI	FR	IE	IT	LU	NL	PT	SE	UK
1st class*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Parcels	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2nd class	N	Y	N	Y	Y	N	Y	Y	N	Y	N	Y	Y	Y	Y
Direct mail	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y
Newspapers, magazines	Y	Y	Y	Y	Y	Y		Y	Y	Y	Y		Y	Y	Y
Books, catalogues	N	Y	Y	N	Y	Y		Y	Y	Y	Y		Y	Y	N

*: domestic and cross-border; N: Service within the universal service, but not provided (1st class letter mail and parcel services are provided in all Member States. Although the service is within the universal service the Austrian, German, Spanish, Irish and Luxembourg's USPs do not offer domestic 2nd class mail. The Danish, the Dutch, the Luxembourgian and the Swedish USPs do not offer direct mail. These postal items are treated as 1st or 2nd class mail. As a country-specific feature, bulk mail heavier than 100g is not part of the universal service in the Netherlands. Like in Finland the delivery of newspapers, magazines and other publication is not within the scope of the universal service in the Netherlands as well. In Austria, Denmark and the UK there is no special service for books and/or catalogues. These items are delivered and priced as any other mail. In Finland, Greece and the Netherlands 2nd class letter services are available, but these services only encompass bulk mail in those countries) Source: *wik-Consult 2003, Study for the European Commission Directorate-General for Internal Market* http://europa.eu.int/comm/internal_market/post/doc/studies/200308-ups-report_en.pdf

The universal service obligation includes letters and parcels, but generally excludes value-added services such as express services, except for registered and insured items. Table 18 shows the weight limits for the universal service in the Member States.

Table 18: Postal Services: Weight limits in kg

	AT	BE	DE	DK	EL	ES	FI	FR	IE	IT	LU	NL	PT	SE	UK
Domestic letter items	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Domestic parcels	20	10	20	20	20	10	10	20	20	20	10	10	20	20	20
Cross-border parcels	20	20	20	20	20	10	30	20	20	20	10	20	20	20	20

Source: *wik-Consult, August 2003*

Concrete transit target times are set at the Community level by Directive 1997/67 for first class cross-border mail only: 85% of cross-border mail should be delivered three days after posting (D+3), and 97% five days after posting (D+5). These objectives only concern the fastest standard category of cross-border letter mail services and are the minimum to be transposed into national legislation. There is no Community regulation with respect to parcel services or non-priority letter mail services.

Transit target times have continuously improved over recent years (see Table 19). On average, the performance exceeds both objectives of the Postal Directive. In 2003, 93.7% of single piece intra-Community cross-border mail was delivered within three days, compared with only 69.1% in 1994. Moreover, 98.7% was delivered within five days, compared with 92.4% in 1994 (although, compared to 2002 that actually represents a slight deterioration). Average delivery times have gone down from 2.6 days in 1998 to 2.2 days in 2003, an improvement of 15%.

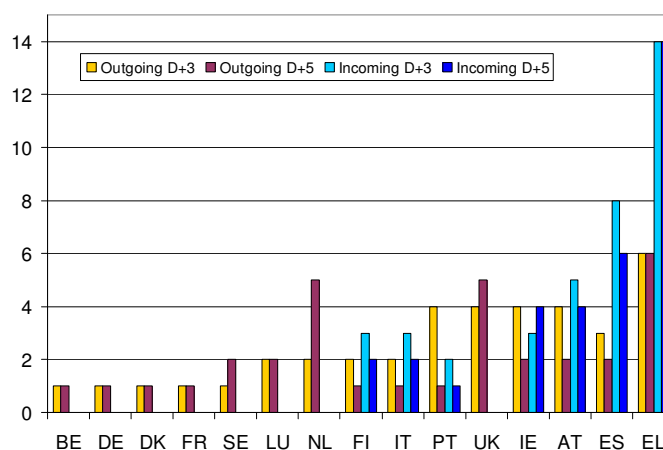
Table 19: Mail delivery: Intra-Community overall performance

Year	Performance D+3	Performance D+5	Average delivery days
1998	85.6%		2.6
1999	90.7%		2.3
2000	92.5%		2.3
2001	92%	98.4%	2.3
2002	93.5%	98.8%	2.2
2003	93.7%	98.7%	2.2
<i>EU objective</i>	<i>85%</i>	<i>97%</i>	

Source: IPC – Year Results 2003

Figure 30 illustrates for each Member State how many outgoing or incoming bilateral mail streams fail to meet the D+3 and D+5 objectives. The vast majority of bilateral relations clearly meet both performance objectives. However, Greece did not achieve the D+3 nor the D+5 objectives for six outgoing and all incoming flows respectively. But if recent significant quality improvements in Greece continue, Greece could meet the objective for most of its bilateral mail flows in 2004. Besides Greece, Spain is the only Member State where most incoming bilateral relationships (8 out of 14) did not meet the D+3 objectives.

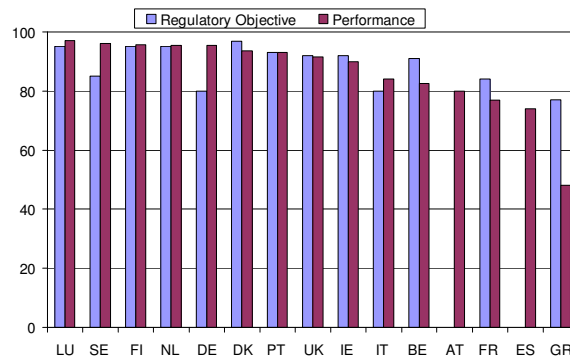
Figure 30: Country-specific number of bilateral relations missing the objective in 2002



Source: wik-Consult 2003, Study for the European Commission Directorate-General for Internal Market

A number of indicators are available to assess the domestic performance and objectives of Member States' postal services of the Member States. The D+1 indicator measures the share of first class mail delivered the next day. Figure 31 shows that both regulatory objectives and performances vary considerably among Member States. Objectives vary from 77% in Greece to 97% in Denmark. Actual performance in 2002 was even wider: from 48% in Greece to 97.2% in Luxembourg. It does not seem sensible to assess service quality by relating objectives directly to performance. It can, however, be asserted that performance in Italy, Belgium, Austria, France, Spain and especially Greece lies below the EU-15 average of 86.3%.

Figure 31: First class mail delivery: Regulatory objectives and performance 2002



No regulatory objectives for AT and ES, performance data for AT, ES, FR refer to 2001. *Source: wik-Consult 2003, Study for the European Commission Directorate-General for Internal Market*

Other Member State transit time objectives are summarised in the table below.

Table 20: Transit time objectives for other domestic postal items in 2003

	2nd class mail	Direct mail	Newspapers, magazines	Other publications
BE	82% distributed before 7.30 a.m.			
DE ¹	95% D+4		97.5% D+1; 99.1% D+2	
DK ²	97% D+3		100% D+1 (newspapers) 97% D+2 (periodicals) 97% D+4 (mass sending of magazines)	
EL ¹	100% D+5	100% D+5		
FR ³	97% D+4	97% D+7	planned	
IT	92% D+3, 97% D+4, 99% D+5			
PT ⁴	96% D+3	95% D+5	96% D+3	96% D+3
SE ⁵	97% D+3			
FI ⁶	96% D+3	85% D+3	98% on date of issue	
UK	98.5% D+3 99.9% D+6	91% D+1 97.5% D+3 97.5% D+7	90.5% D+1 97.5% D+3	

1. Voluntary objectives; 2. Objectives for newspapers and periodicals are regulatory but their levels are set by the operator; 3. Additionally, regional objective for 2nd class mail: 90% D+2 intra-departmental zone; 4. The objectives are regulatory except for the direct mail objective; 5. This objective is voluntary and applies only for 2nd class bulk mail; 6. Voluntary objectives. Delivery of newspapers and periodicals in Finland is not part of the universal service.

Source: *wik-Consult 2003, Study for the European Commission Directorate-General for Internal Market*

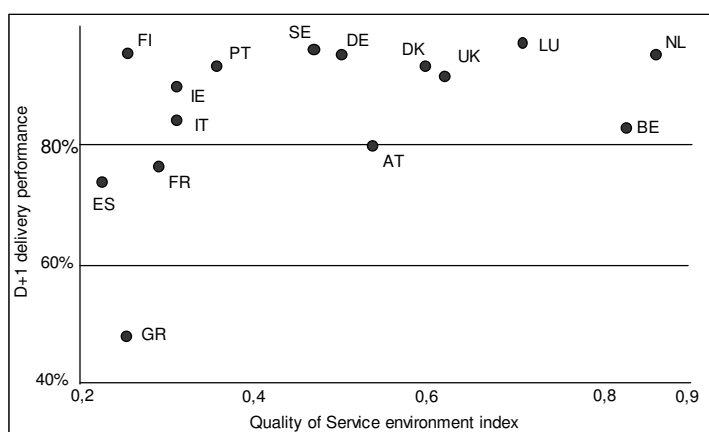
A “*Quality of Service environment index*” has been established for the European Commission to take into account factors like geography or population density that may have a direct influence on the performance of mail delivery but cannot be affected by the service provider. The index makes it possible to examine whether performance differences can be explained by such environment factors (see box below for the construction of the index).

According to the index, Member States can roughly be arranged into three groups. The first group comprises countries with index values below 0.4: Spain, Greece, Finland, France, Ireland, Italy and Portugal. The second group comprises countries with index values between 0.4 and

0.8: Sweden, Germany, Austria, Denmark, the United Kingdom and Luxemburg. The third group comprises Belgium and the Netherlands, Member States with index values above 0.8.

Figure 32 shows that performance varies considerably within the groups with relatively similar environment indices. The large numbers of Greek islands may constitute an additional challenge to the postal service, but this can hardly explain the discrepancy with countries like Portugal and Finland. The same holds – although to a lesser extent – for Spain and France. Performance of the Member States in the middle bracket is fairly homogeneous with the exception of Austria which is already substandard in the EU and even more so in this group. Finally, although consisting only of two Member States, the difference in performance given an almost identical environment hints at a certain scope for improvement in Belgium.

Figure 32: Quality of Service environment index and mail delivery performance



Source: *Quality of Service Objectives, Performance and Measurement in Relation to Community Universal Postal Service; wik-Consult 2003; Study for the European Commission Directorate-General for Internal Market*

Quality of Service environment index

Factors such as country size, population density, degree of urbanisation or mail volume per head obviously have an impact on the performance of the performance of the postal services with regard to mail delivery. It can be assumed that

- the larger the country
- the lower the population density
- the lower the degree of urbanisation
- the lower the mail volume per head
- the higher the requirements on the postal network in order to provide a high mail delivery performance.

A simply structured “Quality of Service (QoS) environment index” summarises these factors into a single variable. That variable indicates how realistic it is to expect a country to improve its domestic transit time.

Information on each of the above criteria is normalised to values between 0 and 1. Due to missing additional information, a simple average of the four figures has been calculated for each country. That means that each variable has a weight of 25% in the index.

The index ranges from 0 to 1: The closer to 1 the index is, the better conditions are to provide a D+1 postal service, i.e. high mail volumes per capita, small country, high degree of urbanisation and high population density in relation to other countries. Each country is characterised by an individual mix of conditions, therefore values near to 0 or 1 are not reached in practice.

b. Telecommunications services

The Universal Services directive 2002/22/EC specifies the following parameters for the quality of service which should be published by the designated undertakings. These parameters should allow for performance to be analysed at a regional level:

- Supply time for initial connection
- Fault rate per access line
- Fault repair time
- Unsuccessful call ratio
- Call set up time
- Response times for operator services
- Response times for directory enquiry services
- Proportion of coin and card operated public pay telephones in working order
- Bill correctness complaints

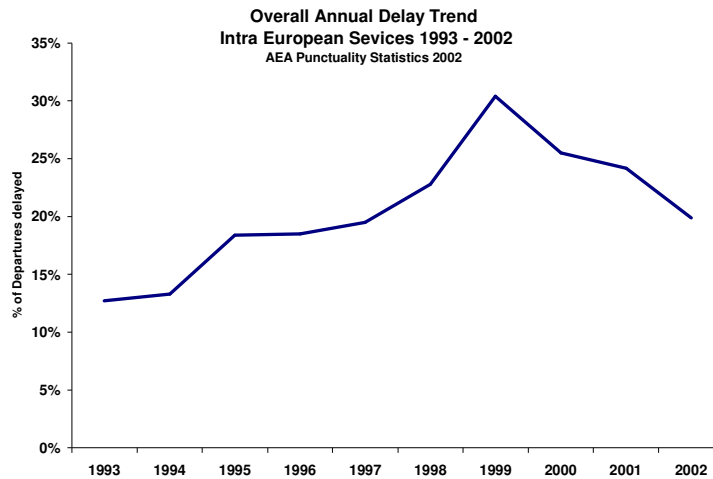
In addition, National regulatory authorities may specify additional quality of service standards to assess how well undertakings care for disabled consumers. The directive had to be transposed by July 2003, so a first set of ensuing data should be available for the next report.

c. Transport

Only air transport provides appropriate quality information for transport services. *The share of delayed flights and the average length of delays vary considerably across Member States. This indicates significant room for improvement in the underperforming countries.*

European air transport punctuality improved for the third successive year thanks to fewer flights and increased capacity. According to the Association of European Airlines (AEA) there was a slight reduction in the percentage of departures delayed by more than 15 minutes on intra-European services from 25.5% in 2000 to 24.2% in 2001. Figure 33 shows that the share of delayed departures in 2002 is back to the level of 1998 after a peak in 1999. Yet, the share is still much higher than it used to be 10 years ago.

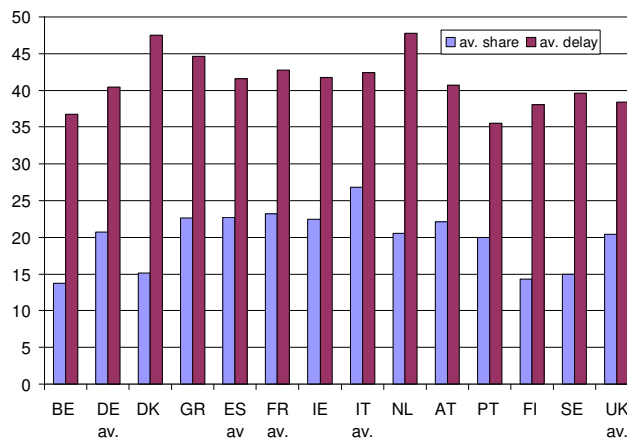
Figure 33: Overall annual delay trend 1993-2002



Source: Analysis of the European air transport industry 2001; study launched by the European Commission Directorate General for TRANSPORT and ENERGY

Statistics for intra-European flights from and to EU-airports for the first quarter 2003 reveal considerable differences between the airports. In Brussels and Helsinki less than 15% of flights were delayed more than 15 minutes on average; this average rises to more than 23% in France and Italy. Almost twice as many flights have been registered as being more than 15 minutes late in Italy than in Brussels. The non-weighted EU-average was 20%. The average delay of these flights ranged from 35 minutes in Lisbon to 48 minutes in Amsterdam. Given that an intra-European flight might on average take less than two hours an average delay of 40 minutes for 20% of these flights cannot be regarded as a reliable service.

Figure 34: Punctuality Statistics: Total intra-European flights, 1st quarter 2003



Notes: av. share: percentage of flights delayed more than 15 min. (non-weighted averages of the respective airports); av. delay: average delay in minutes, weighted by the shares of arrivals and departures. Source: Own calculations based on Association of European Airlines (AEA): AEA punctuality report.

d. Energy

Directives 2003/54/EC and 2003/55/EC concerning common rules for the internal market in electricity and natural gas, respectively, require Member States to impose at national level public service obligations that may relate to security, regularity, quality and price of supplies and environmental protection. The Directives require that such public service obligations are “clearly defined, transparent, non discriminatory, verifiable and do guarantee equality of access” (Art. 3 (2)). Furthermore, the Directives require Member States to protect final consumers, in particular vulnerable consumers and consumers in remote areas. In addition, the electricity Directive requires Member States to ensure that all household consumers enjoy universal service, “that is the right to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices” (Art. 3 (3)).

Two important features of the quality of the electricity service are the reliability of supply and the way in which it is produced. For both these aspects no great improvements have been recorded.

The availability of data on interruptions has unfortunately not improved significantly since last year. Relevant information is still not available for all Member States and the data available does not give a clear picture across countries. Minutes of interruption vary between 15 in Germany and more than 500 in Portugal. Between 2000 and 2001 the duration of interruption increased in most of the Member States for which complete data is available. The non-weighted average duration of interruption stayed almost constant in this period. However, these indicators are not yet fully standardised and changes in the registered values may be influenced by changes in the methodology used for their calculation.

The increasingly delicate supply-demand balance for electricity in certain regions (e.g. the Nordic countries, Greece, Ireland, and Italy) shows that these interruptions are not isolated events. The Commission presented proposals relating to the issue of security of supply on 10 December 2003.⁵⁶

Table 21: Electricity: Duration and frequency of unplanned interruptions by user and year

	1999	2000	2001
AT*			43 / n.a.
BE*			< 60 / n.a.
FI	188 / 3.3	161 / 4.2	199 / 4.7
FR	55 / 1.2	46 / 1.2	59 / 1.2
DE*			15 / n.a.
IE	254 / 1.1	256 / 1.5	197 / 1.4
IT	228 / 4.2	209 / 3.8	171 / 3.5
NL	26 / 0.4	27 / 0.4	34 / 0.7.
PT			531 / 7.5
ES			179 / 3.3
SE*			192 / n.a.
UK	70 / 0.7	63 / 0.8	78 / 0.8

*Source: Council of European Energy Regulators, Working Group on Quality of Electricity Supply: Second benchmarking report on quality of electricity supply, September 2003; * Data for these Member States comprises planned and unplanned interruptions, Source: European Commission Directorate General for TRANSPORT and ENERGY*

⁵⁶

http://europa.eu.int/comm/energy/electricity/infrastructure/com_proposal_2003_en.htm

The second benchmarking report on the quality of electricity supply prepared by the Council of European Energy Regulators (CEER) sheds light on the distribution of interruptions by population density as well as by region for some Member States.⁵⁷ Although based on sparse data, Table 22 seems to suggest a negative relationship between the density of population and the length and the frequency of interruption of electricity supply. This is supported by a regression analysis of regional data in the same report. However it must be said, that the coefficients of correlation were fairly low.

Table 22: Unplanned interruptions per customer per year by density level, 1999-2001

	Urban		Semi-urban		Rural	
	<i>Minutes lost</i>	<i>Number of interruptions</i>	<i>Minutes lost</i>	<i>Number of interruptions</i>	<i>Minutes lost</i>	<i>Number of interruptions</i>
Finland	73	1.2	140	2.3	509	7.6
France	26	1	53	1.3	93	1.3
Italy	80	1.9	188	3.5	250	5.2
Ireland	118	0.9	n.a.	n.a.	233	1.6
Portugal	155	2.5	256	4.4	638	8.4

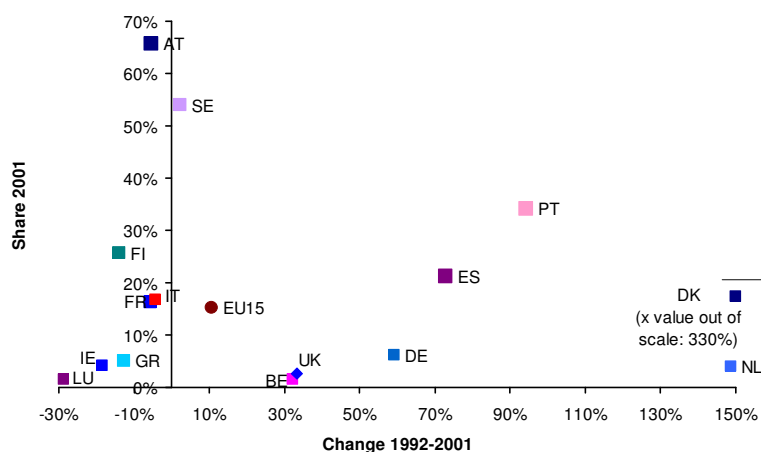
Source: Council of European Energy Regulators: Second benchmarking report on quality of electricity supply, 09/2003

Many consumers perceive electricity produced from renewable resources as an indicator of quality. This report therefore looks into the share of renewable energy in total electricity consumption. As can be read on the vertical axis in Figure 35, this share varies widely between Member States. In 2001 the share was below 10% in seven Member States and only Austria and Sweden covered more than half of their electricity consumption through renewable energy.

The changes in the share of renewable energy during the period 1992 to 2001 (horizontal axis) are also very diverse: whilst the share actually declined in seven Member States over this period, it increased by more than 50% in five Member States. There is no clear pattern in the correlation between the share of renewable energy in total electricity consumption in 2001 and the change during the 10 previous years. The Member States with initially low shares do not catch up with those who renewable share started quite high, nor do these leading countries increase their head start.

⁵⁷ This report only takes interruptions of more than 3 minutes into account. www.ceer-eu.org

Figure 35: Share of renewable energy in total electricity consumption (%)



Source: Eurostat, NewCronos database

For the EU as a whole an 11% increase in the share of renewable energy over the last 10 years may be regarded as unsatisfactorily given consumers' preferences. This is all the more true given that the absolute share of 15% is still fairly low. Exceptions at Member State level are Portugal and Spain which belong both to the Member States with the strongest increase in the use of renewable energy and to the Member States with the highest shares of renewable energy in the EU. Another noteworthy exception is Denmark which increased its' share by 330%, going from a position well below the EU-average to an above-average level during these 10 years.

As Table 23 shows a *considerable reinforcement of efforts in all Member States* is necessary not only to satisfy consumer demand but also *to achieve the indicative targets set in Directive 2001/77/EC*.

Table 23: Share of renewable energy in total electricity consumption: actual and targets

	Target 1997*	Share 2001	Target 2010*
AT	70.0%	65.7%	78.1%
BE	1.1%	1.6%	6.0%
DE	4.5%	6.2%	12.5%
DK	8.7%	17.4%	29.0%
ES	19.9%	21.3%	29.4%
FI	24.7%	25.7%	31.5%
FR	15.0%	16.4%	21.0%
GR	8.6%	5.1%	20.1%
IE	3.6%	4.2%	13.2%
IT	16.0%	16.8%	25.0%
LU	2.1%	1.5%	5.7%
NL	3.5%	4.0%	9.0%
PT	38.5%	34.2%	39.0%
SE	49.1%	54.1%	60.0%
UK	1.7%	2.6%	10.0%
EU-15	13.9%	15.2%	22.0%

Reference values for the fixing of national indicative targets for electricity produced from renewable energy sources. Source: Eurostat, Directive 2001/77/EC

Annex to section 4:

Main results from the CIRIEC study on the “Contribution of services of general interest to economic, social and territorial cohesion”

The Commission wanted to study in more detail the question of services of general interest and social cohesion. To this end, a study was entrusted to a consortium led by the International Centre of Research and of Information on the Public, Social and Co-operative Economy (CIRIEC), aimed at understanding the capacity of services of general interest to contribute to economic, social and territorial cohesion.

This involved carrying out comparative analyses, considering the diversity of the national and local experiences, in four major sectors - postal services, telecommunications, energy and transport (split between air, railway and local public transport) in nine countries of the enlarged European Union (Germany, France, the United Kingdom, Finland, Spain, Italy, Portugal, Poland and Hungary). Taking into account the fact that a uniform evaluation grid could not be applied in a cross-sectoral way to all the services, the following criteria have been evaluated:

- - Universality and general accessibility;
- - Tariff accessibility for the users, in particular those with lower incomes;
- - Social accessibility (elderly people or disabled persons);
- - Territorial accessibility (territorial density of the network, serving rural areas and areas in difficulty);
- - Continuity/quality (breakdowns, safety etc.); and
- - Territorial cohesion and development.

As far as **universality** is concerned, the coverage of services is very high in the sectors studied, although the general picture in terms of the development of access to the sectors is mixed. There are positive developments in air transport, resulting from new modes of service delivery (e.g. “low cost” aviation serving regional airports have a particularly positive effect on cohesion); in local transport, due to the modernisation of existing services (e.g. investment in new buses or lines); and in telecommunications, due to the development of mobile networks and services, broadband and the internet.

On the other hand, there have been negative changes in the rail⁵⁸ and postal sectors because of the closure of stations and post offices in sparsely populated and remote areas. There has also been a failure to develop a comprehensive telecommunications network in Poland, where some communities in remote rural and sparsely populated areas are still not connected to a fixed telecommunications network.

In regard to **affordability**, it is difficult to make generalisations about recent price trends, as experience varies across different sectors. Moreover, some price changes can often not be attributed to structural features of the sector (e.g. the influence of fuel prices on electricity

⁵⁸ Although the development of high speed lines is a positive element in terms of decreasing transportation time between cities, it is limited to a few cities; generally at the expense of links between smaller cities; and at a higher price than previous existing services. This is particularly true for cross-border rail lines that are no longer offered under normal service.

prices). For telecommunications, most of the prices are falling and affordability indices are moving slightly upwards; tariff rebalancing compensates for the loss of revenues in long distance and international calls by increasing subscription and fixed costs and in most cases also the tariffs for local calls. In the energy sector, prices have fallen in recent years, but possible future environment-related price increases may raise social cohesion problems.

In the electricity and telecommunications sectors, disconnected consumers appear to be the most severe problem. Solutions developed by providers such as pre-payment metering prevent formal disconnection, but this conceals rather than solves the problem of affordability, since consumers then choose to disconnect themselves when they cannot afford to buy electricity. However, it is very difficult to collect precise data on this phenomenon.

In rail transport, there is a great diversity between countries in price accessibility and affordability. Prices per 100 km show a wide range, with a ratio, adjusted for purchasing power parities, of 1 (Italy) to 5 (UK) for regional transport, and 1 (Italy) to 6 (Germany) for inter-city transport. In the postal sector, due to historic or geographical reasons, the prices for inland consignments of letters weighing up to 20 grams are very different between the Member States of the Union.

The criterion of **territorial accessibility**, is directly linked to territorial cohesion among regions of the European Union. Especially sparsely populated and remote areas need to be connected to the main centres of economic and social activity. There have been divergent trends in relation to territorial cohesion, and also a range of measures for dealing with this issue. The development of low cost aviation involving much greater use of regional airports, appears to be the most positive development in terms of territorial cohesion and inter-regional connections, since it allows large numbers of people to use air transportation covering a large range of destinations, also contributing to the attractiveness of some less favoured territories.

In rail transport, with a continuous decrease of the length of network (excepted for high speed trains) and of lines in border regions, the trend is clearly in the opposite direction. For local public transport, due to the widespread practise of relocating residential and commercial settlements toward the metropolitan outskirts, efforts to better integrate land use planning with transportation policy is observed, together with a trend toward an inter-municipal management of services, even in minor centres. The postal network features a reduction in coverage in rural and sparsely populated areas, but partial substitutes to traditional post offices exist depending on the countries. In telecommunication, there is a divergence between fixed networks and mobile ones: the development and modernisation of fixed networks lags behind in remote areas while mobile networks appear as a potential substitute to ensure coverage of remote areas.

Finally, it can be seen that it is easier to introduce cohesion measures into sectors which are growing (mobile telecommunication) and thus benefiting from economic expansion rather than those which are shrinking (rail and more recently postal services).

5. CONSUMERS' OPINIONS

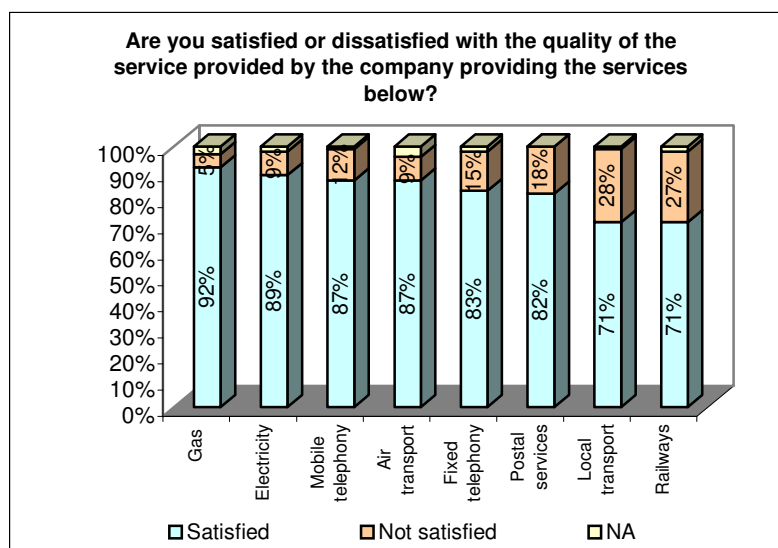
Previous horizontal evaluations of services of general economic interest have considered qualitative aspects of market performance. In this evaluation report, a more in-depth analysis of

consumers' opinions is presented. First we present the results of an opinion survey on the quality of services⁵⁹ giving a picture of consumers' views on the quality of services of general economic interest they use. Then, the main findings of a recent "in-depth" qualitative study on consumers' opinions as regards services of general economic interest are presented.

5.1 Consumer satisfaction and the reasons behind

There are significant differences in consumer satisfaction regarding the quality of services of general interest across sectors. Satisfaction is highest in the gas sector where 92% of consumers are satisfied while only 5% are not. Electricity, mobile telephony and air transport come next with satisfaction percentages between 89% and 87% (correspondingly, between 9 and 12% consumers are dissatisfied with service quality). Fixed telephony and postal services show intermediate levels of satisfaction (83-82% of consumers satisfied and 15-18% dissatisfied). At the bottom of this ranking, local transport and railways show the lowest results with only 71% of consumers satisfied and a sizeable 28 and 27% of consumers expressing their dissatisfaction.

Figure 36: Satisfaction with quality of services



NA: no answer; Source: Eurobaromètre flash "La qualité des services", 2003

This ranking shows some remarkable features with respect to previous results. Although comparing survey results with different samples presents some difficulties, it is clear that local and railways transport remain bottom of the list in the surveys carried out so far, while the ranks of the other services show some volatility. For instance postal services were top of the list in 2002⁶⁰ whilst this sector ranks in 6th place in the most recent survey. On the other hand, this year's leading quality service, gas, ranked fifth in 2002. Consumers' opinions on service quality seem to be more consistent as regards relatively low performing sectors than with respect to high performing sectors.

⁵⁹ Eurobaromètre flash "La qualité des services", 2003;

http://europa.eu.int/comm/internal_market/en/update/economicreform/index.htm.

⁶⁰ See Eurobarometer survey 58 on consumers' opinions on services of general interest, December 2002. Details available at: http://europa.eu.int/comm/consumers/cons_int/serv_gen/cons_satisf/index_en.htm

There seem to be some differences in satisfaction levels across countries, although no clear patterns emerge. In general, Southern Europeans show higher percentages of dissatisfaction with the quality of service provided. For instance, Italians show higher than average dissatisfaction percentages in four out of the eight sectors. It is worth mentioning the 40% of dissatisfaction in local public transport. In Spain, dissatisfaction is higher than average in five sectors. On the other hand Finland, Luxembourg and the Netherlands have relatively higher satisfaction records.

The survey has shed new light onto the reasons behind dissatisfaction. We have to distinguish between those sectors where there seems to be a relatively common reason for dissatisfaction and those where there are country specific reasons explaining consumer dissatisfaction with service quality.

In five sectors, there is a main cause of dissatisfaction common to most countries: insufficient coverage of the network is cited most often as the cause of dissatisfaction in mobile telephony; unclear invoices seem to be the common major problem in gas; and delays and lack of punctuality are the main reasons for dissatisfaction in the three transport sectors.

There is also consistency across Member States as regards the second main reason to complain in gas and mobile telephony. In the gas sector, the second main cause of complaint relates to difficulties in accessing metering devices and readings; for consumers of mobile telephony, the problem is poor after sales services.

Country-specific problems seem to prevail in fixed telecommunications, postal services and electricity. In the three remaining sectors, the main reasons explaining dissatisfaction are more diverse. In electricity, consumers would like to have more environmentally friendly electricity generation in Italy and Spain. Frequent blackouts of and insufficiently clear invoices for electricity are the reasons behind the dissatisfaction expressed by Swedish, Greek and Finnish consumers.

Table 24: Consumer satisfaction

Sector	EU percent of satisfied consumers	Countries registering satisfaction levels below EU average	Country % of satisfied consumers	Country % of dissatisfied consumers	First cause of dissatisfaction	Second cause of dissatisfaction	Main cause of dissatisfaction for this sector
Electricity	89	SE	74	16	Problems with invoices	Envir. considerations	Envir. considerations
		EL	76	24	Problems with invoices	Black outs	
		PT	82	15	Black outs	Repairs	
		IT	83	17	Envir. considerations	Problems with invoices	
		ES	85	12	Envir. considerations	Metering	
		FI	87	8	Problems with invoices	Metering	
Fixed telephony	83	IT	69	29	Problems with invoices	After sales service	Cost of new line
		ES	73	25	Cost of new line	After sales service	
		EL	78	22	Problems with invoices	Repairs	
		PT	80	18	Cost of new line	Repairs	
		FR	82	17	After sales service	Cost of new line	
Mobile telephony	87	ES	76	22	Coverage	After sales service	Coverage
		FR	81	17	Coverage	After sales service	
		IE	83	16	Coverage	Roaming	
		IT	84	15	Coverage	After sales service	
Gas	92	ES	88	7	Repairs	Metering	Problems with invoices
		DK	88	2	Problems with invoices	Repairs	
		IT	90	7	Problems with invoices	Metering	
		DE	91	5	Problems with invoices	Metering	
Postal services	82	IT	72	27	Post office service	Delays	Post office service
		BE	74	25	Delays	Post office	
		SE	77	21	Post office	Proximity post office	
		FR	78	22	Post office service	Delays	
		ES	80	18	Delays	Proximity Mail box	
Local transport	71	IT	60	40	Punctual service	Ticketing	Punctual service
		EL	64	36	Frequency	Punctual service	
		IE	64	35	Frequency	Punctual service	
		ES	66	33	Clean buses	Punctual service	
		NL	69	30	Punctual service	Clean buses	
		DE	70	28	Punctual service	Employees ser.	
Air transport	87	ES	68	28	Punctual service	Direct flights	Punctual service
		FR	83	13	Punctual service	Airport accessibility	
		AT	86	3	Airport accessibility	Punctual service	
Railways	70	NL	63	35	Punctual service	Information service	Punctual service
		DE	63	37	Punctual service	Information service	
		UK	63	33	Punctual service	Clean trains	

Source: Eurobaromètre flash "La qualité des services", 2003

Italian consumers report difficulties in understanding invoices of fixed telephone services as the main problem encountered in this sector. Poor after sales service and long waiting time for repairs are often mentioned in other countries. However, the cost of a new line is the most commonly alleged reason for disagreement with service quality in this sector for European consumers in general.

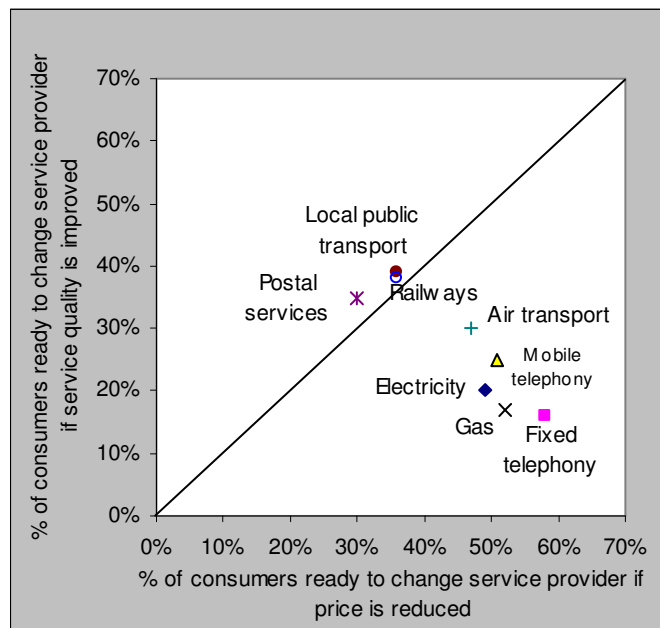
In postal services, poor post-office service is the main cause for complaint but delivery delays and the distance to post offices and mailboxes are also mentioned.

Even in sectors where the main quality problems are common to most Member States, some country-specific problems can be detected. For instance, in the gas sector, country specific problems seem to arise in Spain. In a sector where the major cause for complaint is common to

most consumers across countries, Spanish gas consumers (who have the lowest satisfaction rate in this category) mention problems with repairs as the major source of difficulty. In local transport, Spanish consumers would like to have cleaner buses. Roaming problems in mobile telephony in Ireland, ticketing in Italian local transport and the cleanliness of trains in the UK appear also as country-specific problems in sectors where common causes explain most of dissatisfaction among consumers.

In most cases, a majority of consumers are not ready to pay more to increase service quality. But there are some exceptions. Exceptionally, 66% of electricity users would be willing to pay a higher price if a significant share of their electricity came from renewable sources. There are only a few cases where more than 50% of consumers would be willing to pay more for higher quality services; 51% of consumers using air transport frequently would be ready to pay for direct flights to their destinations; 55% of railways passengers interviewed would pay more for better on-board service and 53% for faster train services. It is worth noting that in none of these cases consumers would be willing to pay to compensate for the qualitative aspect of the service mentioned as the main cause of dissatisfaction. This may be explained by the fact that consumers expect a certain standard of quality in the provision of services of general interest and refuse to pay more if this standard is not met.

Figure 37: Consumer sensitivity to change service provider for price or quality reasons in the EU-15



Source: Eurobaromètre flash “La qualité des services”, 2003

5.2 Service quality versus price as reasons to change supplier

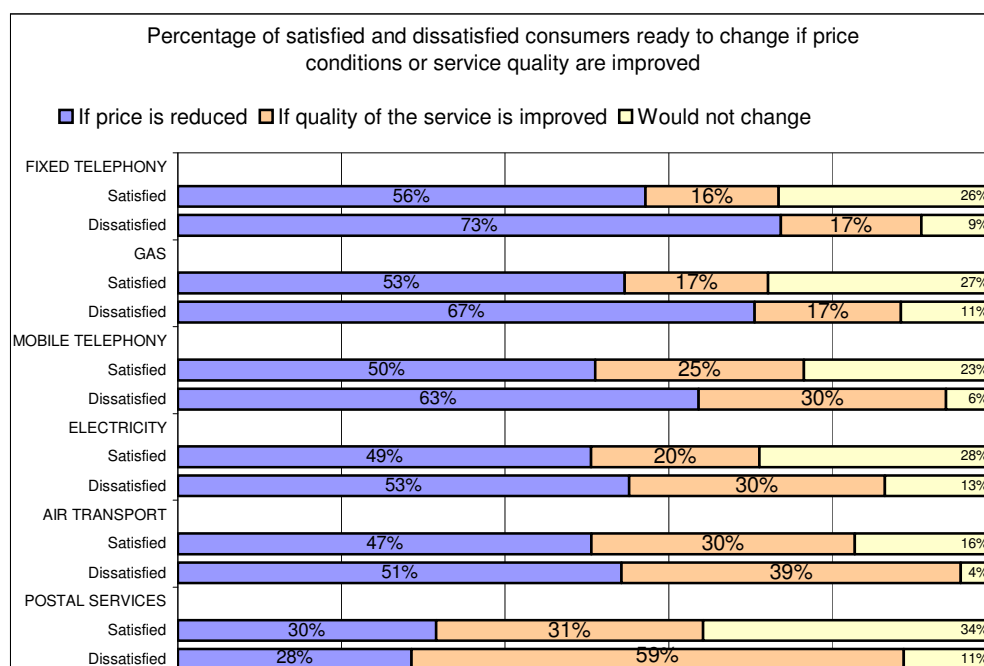
It is often argued that service quality is a key argument for consumer choice in these markets. Service quality can therefore become an important factor for competition in markets for services of general economic interest. In the survey, consumers were asked to what extent service quality was important for the selection of service providers.

In principle, service quality does not have the same influence on the choice of service provider across all sectors. Apparently, quality is a decisive factor for the choice of service provider in postal services, local, air and railways transport. Only fixed telephony users consider price the determinant variable for their choice of service provider. In electricity, mobile telephony and gas, a more balanced consideration is given to price and quality when choosing service provider.

However, when confronted with the possibility of changing supplier, price reductions seem to matter more than quality improvements in most sectors. More than half of the consumers using fixed (58%) and mobile telephone services (51%) and gas (51%) would change suppliers if prices were reduced, while only a minority (between 16 and 25%) would change service provider if the quality improved. Only postal service users were clearly more prompt to switch service provider in exchange for an increased service quality than for a lower service price (see Figure 37).

Given the limited choice of supplier, local transport and railway passengers were asked about their propensity to increase their usage of each transport mode if confronted with price reductions or quality improvements. In local and railway transport, quality improvements are slightly more important than price cuts while the opposite applies to air transport.

Figure 38: Consumers ready to change if quality or price conditions are improved



Source: Eurobaromètre flash "La qualité des services", 2003

Even most consumers who are satisfied with their current service seem to be ready to change service provider if this meant that they would pay lower prices. For instance, up to 56% of satisfied fixed telephone users would change service provider in exchange for lower prices (see Figure 38).

It is important to compare these results with those mentioned above about the reasons for the choice of service provider (see Table 25 below). For instance, while mobile telephone users seem to give the same importance to price and quality when choosing service provider (43% for each aspect), 51% would be willing to change service provider if tariffs were reduced and only 25% would be willing to change service provider in exchange for an increased quality of service. Another example: 46% of air transport passengers claim to consider service quality more important than price when choosing their airline; however, 47% would change airline if prices were cut and only 30% would be willing to use another airline for an improvement in service quality.

Table 25: Motivation to switch supplier

		When selecting a service provider, what is more important to you price or quality?	Would you be more willing to change service provider if prices are reduced or if quality is improved?
Electricity	Price	46%	49%
	Quality	47%	20%
Fixed telephony	Price	51%	58%
	Quality	44%	16%
Mobile telephony	Price	43%	51%
	Quality	43%	25%
Gas	Price	36%	52%
	Quality	39%	17%
Postal services	Price	27%	30%
	Quality	65%	35%
Local public transport	Price	34%	36%
	Quality	51%	39%
Air transport	Price	32%	47%
	Quality	46%	30%
Railways	Price	34%	36%
	Quality	49%	38%

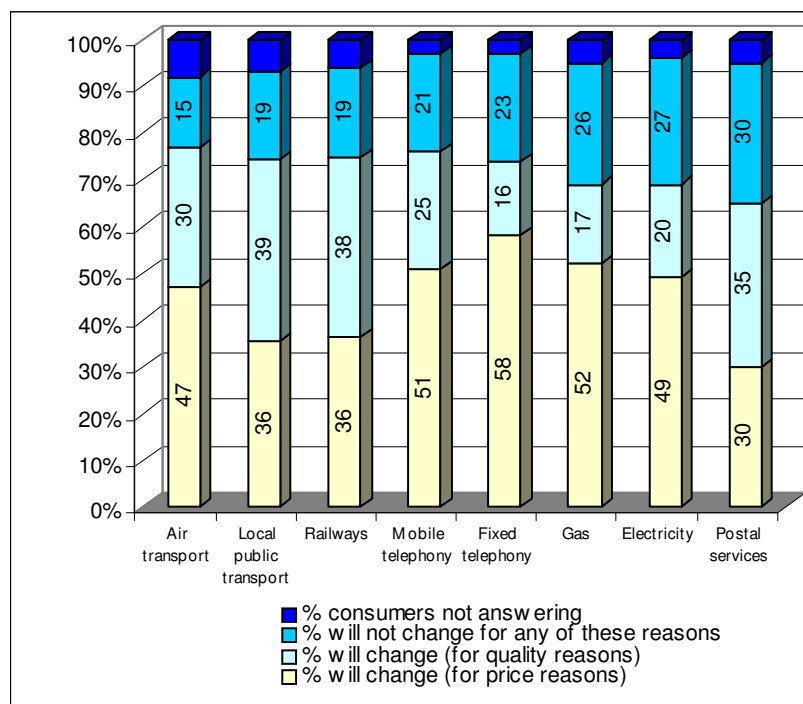
Source: Eurobaromètre flash "La qualité des services", 2003

Many consumers seem to be ready to change their airline and mobile telephone service provider, whilst readiness to change supplier is lowest in postal services (see Figure 39). This is another interesting result from the survey because it may have a significant influence on the future market structure in these sectors as markets are open to competition. While 30% of consumers would not be willing to change their postal service provider even if price or quality conditions were improved, only 15% of consumers would remain loyal to their current airline.

In view of the few alternative service providers, railway and local transport users were asked about their propensity to use that transport mode more frequently and the results are similar in both cases: only 19% of consumers would not be ready to use it more often if prices fell or quality improved. Local and rail transport would be used more often if prices were lower (36% of consumers) and if quality was improved (39 / 38%).

There are important differences across countries in the readiness to change service provider. In general, Danish, Swedish, Austrian, Italian and Greek consumers show a higher propensity to change operator than the average European consumer. On the other hand, British, Belgian, Finnish, French, Irish, Portuguese, Spanish, Dutch and German consumers are more loyal to their service providers and would be less inclined to change service provider.

Figure 39: Consumer readiness to change by sector



Source: Eurobaromètre flash “La qualité des services”, 2003

Table 26: Countries with lower than EU average propensity to change service provider

Electricity	Fixed telephony	Mobile telephony	Gas	Postal services	Air Transport	Local public transport	Railways
BE, ES, IR, NL, PT, FI, UK	BE, ES, DE, PT, FI, UK	BE, DE, NL, PT, FI, UK	ES, FR, IR, NL, PT, UK	BE, ES, NL, PT, FI, UK	BE, DE, FR, NL, PT, FI, UK	BE, FR, NL, PT, FI, UK	BE, ES, FR, NL, PT, UK

Source: Eurobaromètre flash “La qualité des services”, 2003

The reasons to keep the current service provider vary across sectors, but in all cases, overall satisfaction with the standard of service provided by the current operator is the dominant reason. Uncertainty about the quality of service provided by an alternative service provider is the second main cause for not wanting to change service provider.

These figures suggest some interesting conclusions:

- if this propensity to keep or change service provider is maintained in the future, the gradual opening of postal services will not result in significant losses of market share for traditional operators unless they reduce the quality of the service they provide or entrants compete aggressively in quality terms;

- price is a key competition variable in air transport and price cuts may prevail over quality considerations in the future;
- there seem to be good prospects for more frequent use of local public and railways transport, but quality will have to be considerably improved without raising prices;
- consumer loyalty to current service providers is relatively high in the energy sectors, although approximately 50% of consumers seem to be ready to change if prices fall; and
- in telecommunications, slightly less than 80% of consumers seem to be ready to change operator but quality competition is relatively more important in mobile than in fixed telephony.

5.3 Comparing consumers' views with policy objectives and market data

Whilst consumers report some dissatisfaction with regard to the qualitative aspects included in public service obligations, the main reasons for consumer dissatisfaction are not part of the EU definition of public service obligations. Looking back at the definitions of public service obligations and consumers' sentiment about the quality of the service they get, some dissatisfaction regarding some quality aspects of public service obligations can be detected.

For instance, in gas and electricity, public service obligations require that end users control prices and have good information about the price they actually pay. However, 20% of electricity users and 17% of gas consumers report some dissatisfaction with access to and the reading of metering devices. However, the main reason for dissatisfaction with service quality in electricity, the environmental friendliness of electricity production (cited by 29% of dissatisfied consumers), is not part of the public service definition.

In fixed telecommunications, network density is relatively high and there are no apparent coverage problems but consumers consider a related aspect –the cost of a new line- as the major reason for dissatisfaction.

Finally, in postal services, the proximity of post offices and mail boxes that enter into the definition of the public service at EU level are the third and fourth most important reasons for consumer dissatisfaction reported by consumers in this sector.

Propensity to change provider is directly proportional to the market share of the dominant operator and there is evidence of an inverse correlation between propensity to switch service provider and satisfaction with service quality, but they are not statistically significant. Countries where consumers are particularly dissatisfied with service quality tend to show a higher propensity to switch service provider in all sectors as one might have expected. In addition, the propensity to switch service provider is higher in countries where the traditional operator has a higher market share. This latter relationship is tested only in mobile and fixed telecommunications, where competition has been present for long enough to allow for significant changes in market share. However, data quality prevents the confirmation of these data as statistically significant.

5.4 Qualitative study on consumers' opinions on services of general interest⁶¹

Evaluation of electricity supply services

Few European consumers see problems with respect to their access to electricity supply. If some regard **access** to this service as “difficult”, this is chiefly because they include an economic dimension in this concept, in particular people living in precarious socio-economic conditions in Portugal and Greece.

The **quality** of the supply is only rarely a genuine factor when it comes to making an assessment. **Information** is a more controversial matter. A majority state that they find the information obtained from the operator to be clear in nine out of fifteen countries (but always with a sizeable minority of opposite opinions). Cases of dissatisfaction focus on bills and price information. However, a good number of people (particularly in the more well-to-do social groups) admit to not really reading their bills, or to merely glancing over them.

Whilst the feeling of paying a “fair” **price** dominates (with varying majorities) in seven out of fifteen countries, it is counterbalanced by a similar proportion of negative opinions in four countries (the Netherlands, Austria, France and Spain), whilst the latter prevail in four others (Sweden, Italy, Portugal and Greece). In several Member States, dissatisfaction is clearly correlated to low social status (although this is not borne out in all cases).

The notion of a **contract** with the electricity supplier is abstract and vague for many people, who do not know the terms and conditions applicable to them. The very idea of a contract is often a cause for surprise when applied to relations with a single monopolistic supplier, whose operating conditions are regarded as being determined or strictly controlled by the State, and where there is no choice.

Customer service seems at first sight to be satisfactory. In some countries, however, there are a relatively large number of negative opinions, representing 1 in 5 or 1 in 4 respondents. Sweden, the United Kingdom, the Netherlands, Austria, Spain and Portugal are the countries where this trend is most apparent. Reasons for dissatisfaction relate either to shortcomings in respect of technical aspects, or the poor quality of the reception given to the customer, in all its forms – there is a severe criticism in several countries of the growing “automation” of customer service (call centres, pre-recorded “press button” replies, etc., and sometimes the fact that physical agencies or contact points have been done away with altogether).

Price reductions constitute the main or only consumer expectation when they consider the prospect of the market being opened up to **competition**. However, attitudes here are far from unambiguous. In those Member States where the process is most advanced (United Kingdom, Germany, Finland, Sweden) but still rather recent, these attitudes are characterised by an

⁶¹ This study covered consumers' opinions on 11 sectors in the EU-15 and in the 10 acceding countries by using group discussion (or “focus groups”) techniques and some individual interviews. An abstract of the main findings for the EU-15 Member States as regards the sectors covered by the present evaluation report, is presented here. The group discussions and interviews took place between the end of August and mid-October 2003. The study follows a similar one carried out in 2001 and whose results were presented in the first horizontal report on services of general interest published in December 2001. More details on opinion surveys on consumer satisfaction on services of general interest are available at:

http://europa.eu.int/comm/consumers/cons_int/serv_gen/cons_satisf/index_en.htm

More details on the 2001 qualitative study are available at:

http://europa.eu.int/comm/internal_market/en/update/economicreform/sig_report_en.htm

interest in principle, which is tempered by the view that consumers will not obviously benefit from the profits (this is the case in Sweden where consumers do not see the price cuts they expected), or by the development of negative side effects such as commercial harassment from rival operators or the difficulty to compare prices. In Member States in which the process is only just beginning, attitudes are receptive to varying degrees, depending on the country. Consumers hope for a reduction in prices but do not expect them to be huge.

The idea that the **public authorities** should retain a degree of responsibility and a substantial supervisory and regulatory capacity is seen as a statement of the obvious. This concerns virtually all the aspects under discussion within the European Union, and very often includes even “control” or a “supervision” of prices, which is deemed necessary to deal with the risks of undesirable increases introduced by private operators.

► In comparison with the qualitative study carried out in 2001, there are, in several countries, increased criticisms of customer service departments and their growing “automation”. This distrust is particularly expressed in the two countries which were the first to open household consumers markets to competition: Germany and Sweden.

Evaluation of gas supply services

Access to the gas supply service is considered to be “easy” in all the countries surveyed where this form of energy is available, at least by consumers living in areas served by the gas network. As regards people living in areas not served by the network, for the most part they do not voice an opinion, and seem to accept this situation as an objective reality that does not give rise to any expression of dissatisfaction.

The **price** of gas is regarded as “fair” by a majority of the consumers, except in Italy, where there is an even balance between positive and negative opinions. As is the case for electricity, a correlation between a consumer’s impression of high cost and a low social status is noticeable in several Member States. Broadly speaking, however, gas is considered as a relatively inexpensive form of energy, in comparison with other forms, including electricity, and one that has a more stable price.

The service **quality** is deemed to be “fairly good” or even “very good” by practically all users. As in the case of electricity, the main reason for positive evaluations stems from the absence of problems. The **information** provided by the gas supplier is generally rated as clear in most Member States – opinions being more mixed in four countries (Austria, the Netherlands, the United Kingdom and Portugal). **Customer service** is generally rated well. Terms and conditions of **contract** are a notion that is often not properly understood. If they have not had any specific problems, respondents tend to answer that the terms and conditions of contract “must be” fair.

Interest in the possibility of **choosing from among several suppliers** is expressed much less unambiguously than in the case of electricity. This is because more people regard it as a reasonably-priced form of energy and one that, for the majority, weighs much less heavily on the household budget. Safety considerations also play an important role in counterbalancing any hopes of financial savings.

The expectations of **guarantees from the public authorities** first relate to the maintenance of very strict safety standards and, second, to the security and continuity of the supply (or its corollary of rapid intervention in the event of a failure or an incident) Although less strongly

than for electricity, respondents voice the concern that the authorities should make sure that they prevent, and crack down, on any excessively high prices that private operators may be tempted to apply.

- ▶ There is no noticeable change in comparison with the qualitative study carried out in 2001.

Evaluation of fixed telephone services

Access to fixed telephone services is rarely perceived as difficult. Difficulties mentioned generally relate to the poor quality of the customer services of the operator or the economic aspect of access to the service (the overall cost of using the telephone, or the specific cost of the rental or of the initial connection). The latter prevents some – in the less well-off sectors of the population – from becoming users of the service, or can prompt users to replace their fixed-line telephone with a mobile phone. Furthermore, some respondents cite difficulties they have in identifying the contact details of an alternative operator, whom they might like to switch to.

The **quality** of the service is generally considered to be good except in Ireland and Spain, where there is a sizeable minority who criticise it. This includes the notion of **customer service**. **Information** is considered clear by a majority of approximately 2 in 3 consumers – more so in some countries (Austria, the Netherlands and the United Kingdom), and less so in a few others (Luxembourg, Sweden and Italy) where the feelings of clarity are counterbalanced by a more or less equal number of conflicting views.

The terms and conditions of **contract** are deemed to be “fair” by a majority of consumers in most of the Member States. However, contrary opinions are also expressed, with a larger minority in some countries (Germany and Ireland), and predominantly unfavourable opinions in France, Italy and Spain. The grievances mainly relate to: price conditions; price components; rental; the impression of having services forced upon you that you do not use; or the operators’ practice of unilaterally altering their prices. Generally, there is a feeling of being at the mercy of a supplier who dictates its own terms and conditions. This notion of unilateral terms and conditions is even occasionally present among those who do not express any dissatisfaction, and who, at the same time, acknowledge their ignorance of the contractual provisions.

The **price** is viewed predominantly (but not unanimously) as “fair” only in the United Kingdom and Austria. The impressions of a fair and unfair price are equally balanced in Sweden, Denmark, the Netherlands and Portugal; whilst the view that the price is unfair holds sway in the nine remaining countries. The favourable opinions are linked above all to the perception that the cost of calls has fallen since the market was opened to competition. However, in some of these countries there is still the marked impression that the cost of calls is high. The amount of the line rental charge, or even its very existence, is the subject of generalised, and sometimes even very fierce, criticism.

The continued obligation to go through the traditional operator is not understood and often gives the impression that “genuine” competition has not yet been introduced. The high cost of calls between a land-line telephone and a mobile phone and the more or less disguised development of ancillary services that have to be paid for can also lead to dissatisfaction.

Finally, there is the widespread impression that the cost of access to the internet is high – something that seems to be condemned in particular by users in Germany, Luxembourg and the United Kingdom.

Attitudes towards the introduction and development of **competition** in fixed telephony markets are generally positive. Expectations everywhere are of lower prices. In ten out of fifteen countries, the first stage of opening up of the market to competition is considered to have already contributed to an improvement in prices, without no deterioration in quality. However, in four other Member States, reservations are strong, either due to a major disillusionment with respect to the effects of the first stage of liberalisation, or on account of fears of negative consequences for the quality of the service (Belgium, Spain, Ireland and the Netherlands). Finally, in Sweden, the prevailing impression is that there have been virtually no benefits for consumers, if any at all, and the very idea of competition between several operators is viewed with distrust.

Calls for **guarantees from the public authorities** vary in nature and intensity. They generally entail demands for basic access to the emergency services and complete territorial coverage. In many countries, they go much further, including a request for close supervision of this market by the authorities, including prices; Such demands are voiced very strongly in Sweden, the Netherlands and Spain.

► Consumers' attitudes seem to have evolved since 2001 in several areas. There is a new trend among a number of consumers to consider giving up a fixed telephone service and replacing it with a mobile phone – although this trend is thwarted by the increasing use of the internet. Few have actually changed (although more have in Finland), but these are clear signs of dissatisfaction. This dissatisfaction is linked to prices and frustration concerning the way competition is operating. The amount and the very principle of a line rental charge are increasingly being challenged, as is the surreptitious introduction of “pseudo-services” that have to be paid for. Lack of price transparency, which was already being questioned two years ago, is now being increasingly called into question.

Evaluation of mobile telephone services

Access to mobile telephone services appears “easy” to a very large majority. The few reservations relate to economic constraints (in particular among economically vulnerable persons), and to some “gaps” in the cover or poor reception. The quality of the service is predominantly considered to be good, sometimes even “very” good – with the Irish and the Spaniards being a bit more doubtful.

Whilst there is a tendency for the **price** to be regarded as “fair” by a majority of Finnish, Danish, Portuguese and Greek consumers, the impression of high prices dominates in France, Belgium, and Ireland, and even more markedly in Luxembourg, the United Kingdom and Spain. In the other countries, favourable and unfavourable opinions are more or less balanced. Impressions of high prices may stem from the importance of this expense in the household budget, the large number of additional services and other price terms and conditions that do not seem legitimate. More generally, they are linked to the idea of imperfect or, in any case, non-transparent competition (there is a deliberate lack of price transparency according to the view of some respondents).

The terms and conditions of **contract** are regarded as “fair” by a majority in most of the Member States, although less markedly in some of them, and not in France, Belgium and the United Kingdom where half or more of the consumers questioned replied with “unfair”. Generally speaking, the notions of contract and terms and conditions of contract are rather better understood than for other services - because of the fact that the possibility of choice

exists. Criticisms largely relate to price aspects (length of time one is committed by a fixed-price contract; limited period of validity of pre-paid cards; tacit renewal clauses; etc.) – with some people going so far as to denounce some offers as misleading.

The **information** on mobile telephone services is deemed by most to be “clear”, except in France where opinions are mixed. On the other hand, the flood of advertising and information about new offers is questioned. Information can be seen as false or misleading, which causes confusion and does not enable a clear comparison of prices. The **customer service** is most often judged to be “fairly” good or even “very” good. By and large, complaints handling appears to be regarded as better than for other services.

For mobile telephony, the benefits to the consumer of **competition** are recognised – in terms of price, choice and service. The reservations expressed relate to the limits and imperfections of the way competition operates e.g. the difficulty in comparing prices.

The expectations of **guarantees from the public authorities** vary in scope from one country to another, but they are less important than for fixed telephone services. One might conclude that this is both because there is no history of a public monopoly and because (in some countries, at least) mobile telephony is not currently viewed as a service of primary need, to the same degree that fixed telephone services are. However, some such expectations do exist.

► Since 2001, there have been some changes in consumers’ attitudes. In particular there is an emergence of a more critical attitude among consumers, aware of the high prices that are still applied, and irritated by the lack of price transparency which is limiting the benefits they expect from competition. They also have the impression that they are receiving offers which are misleading or bordering on fraud.

Evaluation of postal services

Access to postal services is not regarded as “easy” by a majority of consumers in five Member States. Indeed, there is a split between positive and negative opinions in Belgium and Luxembourg, whilst opinions tend slightly towards the negative in Germany and France, and are clearly negative in Sweden.

The **quality** of the service is given a mixed evaluation. While the initial assessments are predominantly positive in most of these countries, this is only with a relatively small majority in four of them (Sweden, Germany, Belgium and Luxembourg). Two countries (Austria and France) give negative ratings. The assessment criteria include the reliability and speed of mail deliveries, which are sometimes criticised, but above all the manner with which the staff and the institution greet, attend to and behave towards the customers are criticised. The general image is poor, and the idea of deterioration (or at least lack of improvement) is more frequent than the opposite. It is only in Ireland, Portugal and Greece that improvements are noted (modernisation, greater reliability in deliveries, or availability of new services). The perception of quality includes primarily the quality of **customer service**. The “administrative” or “bureaucratic” mentality of the Post Office and its employees is often criticised. The handling of **complaints** seems to be more unsatisfactory than satisfactory; scepticism as to the probability of complaints being brought to a satisfactory conclusion is even greater than for other services.

Regarding **price**, there is general agreement on the evaluation of the price charged for ordinary letters as fair (or “very” fair), and the assessment of prices charged for other services - such as

priority mail with guaranteed fast delivery, registered letters, money orders, parcel post – as excessive.

As regards **information** on postal services, this is predominantly considered to be “clear” in most countries (though less so in Germany, France and Sweden).⁶² For postal services, the notion of **contract** is not understood by the consumers questioned.

As regards the prospect of postal services being opened up to **competition**, a theoretical interest is expressed in some Member States. On the other hand, opposition is immediately very strong in Denmark, the Netherlands, Ireland, Greece (countries which consider the quality of the service as rather better than elsewhere), Sweden and Germany (where the initial experience of liberalisation or privatisation is not viewed favourably). In fact, very few people imagine private players operating in a field that falls within the province of an “egalitarian public service” and which entails a social function (combating the isolation of the elderly or the destitute).

The expectations of **guarantees from the public authorities** in this case concern all the “public service” aspects under discussion within the European Union, and sometimes even go further. Doubt is often expressed as to the possibility of finding any private-sector candidate willing to accept these constraints.

► It is worth noting, since the previous study carried out in 2001, the very marked increase in dissatisfaction in Sweden regarding the process of liberalisation. More widely, a growing dichotomy seems to be developing in many countries between the recognition of the fairness of the price of ordinary mail and the impression that other postal services have been subject to hefty price increases.

Evaluation of inter-city rail transport services

Inter-city rail transport is considered as being “easy” to **access** by a sizeable majority of consumers in most Member States. However, less people are satisfied in Austria and Germany, and less still in Ireland, Italy and Greece. It should be noted that very large numbers of Portuguese respondents did not give an opinion. In several countries, people living in isolated rural areas feel that access to inter-city rail transport is difficult. The proximity of a station is not the only factor. Other important factors are: facility of access to the station (public transport, car parks); frequency of the services or convenience of the timetable; the various means of booking and paying for tickets as well as the affordability of prices.

The **price** of inter-city rail transport is only considered by a majority as “fair” in three of the Member States: Denmark, Portugal and Greece. Favourable and unfavourable opinions are equally balanced in Luxembourg and Spain, whilst unfavourable opinions are predominant in the other countries, and, particularly, in Austria, Germany and the Netherlands. The impression of high prices may stem from comparisons with other means of transport as well as from associations with a level of quality which is criticised (in particular in Austria, Germany, the Netherlands, the United Kingdom, Ireland and Italy), or the fact that there were sizeable or repeated price increases that are fresh in the memory. In any case, it seems that rail transport is

⁶² This is a general statement which does not identify consumers’ satisfaction as regards specific services such as, for example, registered and insured items. These latter services are important as they fall within the scope of the Universal service obligations.

acquiring the image of being an expensive form of transport, which is not accessible to all, or at any rate not in all circumstances.

The **quality** of the service gets a mixed appraisal in the six countries, where respondents' evaluation of the price is also the most negative (and particularly in the Netherlands). In the other countries, people expressing dissatisfaction are in the minority (particularly in Denmark, Finland, France, and Luxembourg). Continuity and regularity of the service is the main quality criterion. Comfort and the state of rolling stock and, in certain countries, speed of transport are the other assessment criteria. Criticism of delays and cancellations is frequent in the United Kingdom, Ireland, Italy, Germany and the Netherlands, whilst the closure of stations and discontinuation of services is mentioned in Germany and Austria, and the persistence of strikes is cited in France. Safety is only mentioned spontaneously – in a negative light – by large numbers of consumers in the United Kingdom and by some in Spain. Provision of **information** clearly forms part of the quality of the service. Overall it is considered to be “clear” by a majority. However, this is less true in some countries: a smaller majority in Sweden and the Netherlands; negative judgements given as often as positive ones in France, the United Kingdom and Ireland, and negative judgements even outweighing positive ones in Germany.

The quality of **customer service** is assessed positively by a majority in ten Member States (and also, although less clearly, in Italy), with positive and negative views balanced in the United Kingdom and in Ireland, and with markedly negative evaluations in Germany and the Netherlands. There is a widespread impression that lodging **complaints** will probably not result in anything, or if they do, the process is very slow.

Many consumers have difficulty perceiving what the notion of **contract** actually means when they purchase a train ticket – except as regards price conditions and, sometimes, the compensation in case of delay or cancellation (which is quite often considered to be low or “theoretical”).

Attitudes towards the market being opened up to **competition** differ according to country. Consumers seem receptive in Germany (where there is considerable dissatisfaction with the current operator), France (where there is a call for continuity of a service unaffected by strikes), and in Ireland and Greece (where expectations are that the rather poor quality of service would be improved). In four other countries (Austria, Luxembourg, Italy and Denmark) attitudes are ambiguous: people are not unreceptive in principle but raise many issues. People are very sceptical in three countries: Portugal (where the State is expected to continue to play a major role), the Netherlands (where there has been a negative experience of “privatisation” of the railway company) and the United Kingdom (where a negative assessment is given by a majority following the developments that occurred after privatisation). In the other Member States, a very substantial majority of the people simply opposes the prospect of opening the market, i.e., in Finland, Spain, Sweden and Belgium (where there is either current satisfaction, strong attachment to the notion of a public service, or fears of deterioration in the event of private management).

The expectations of **guarantees from the public authorities** include first and foremost safety, all aspects of which should remain under public control (the United Kingdom being cited in many other countries as a negative example of the consequences that can be expected if extremely strict conditions are not imposed on private operators). Second, there is a frequent demand to have national coverage maintained or improved and to have unprofitable lines kept on, along with the request for guaranteed service continuity and minimum service levels. The

expectation of affordable prices, or maximum prices imposed on the operators, is also explicitly or implicitly present in the minds of many.

► Since the qualitative study carried out in 2001, it seems that the perception of high costs in inter-city rail services by consumers is growing and spreading through wider segments of the population, even into relatively well-off social classes.

Evaluation of urban transport services

Access to urban transport services is acknowledged as being “easy” by a large majority of people living in the European cities chosen as points of study – with reservations in Italy.

The **quality** of these services is given a favourable rating in the three Nordic countries and Austria, and a fairly favourable one in Germany, the Benelux countries, Ireland and Spain. Positive and negative opinions are more evenly balanced in France, Italy, Portugal and Greece, whilst negative views predominate in the United Kingdom. The evaluation criteria are partly those relating to ease of access, speed and punctuality; passenger comfort; the modernity or state of repair of the rolling stock; the conduct of the staff; as well as safety and security. Safety and security are mentioned with varying degrees of emphasis: safety from a technical point of view (particularly in the United Kingdom) or considering the style of driving; security with reference to the increase in crime.

Clear **information** on urban transport services is a basic expectation (on routes, timetables, sometimes prices). Broadly speaking it is regarded as satisfactory in most of the European countries. However, there is a majority of negative opinion in the United Kingdom, and opinions are divided in France and Italy. **Customer service** is rated favourably in many Member States (although less so in Germany, Ireland, Italy and Greece) – with the exception of the United Kingdom and Portugal. Very few **complaints** are made regarding this service; as is the case with inter city rail transport services, the prevailing impression is that lodging complaints is useless.

As regards the **price** of urban transport services, opinions vary widely. In nine Member States, it is regarded as fair by a majority, with opinions being mixed in the Netherlands, and negative views predominating in Germany, the United Kingdom, Italy, Portugal and Greece. The criticisms relate either to the prices as such, to certain price terms and conditions, or to the view that the service offers poor “value for money”. The terms and conditions of **contract** are judged as “fair” by a majority in most of the Member States (except France, the United Kingdom, Italy and Portugal where adverse opinions are numerous). As for other services, the notion of contract is abstract for many people except on terms and conditions of the pricing system.

The possibility of urban transport services being opened up to **competition** gives rise to mixed reactions. These range from blunt rejections to doubtful expectation of benefits for consumers. The United Kingdom, the Netherlands and Greece are the only countries where attitudes are not very hostile to the idea. Expectations of improvement of the service are generally accompanied by fears of confusion and chaos, even in countries where there is already a high level of dissatisfaction. In any case, there is scarcely any weight of opinion envisaging private operators intervening other than within the framework of strict **public supervision**, be this in regard to: safety; organisation and co-ordination of routes and frequency of services; places where stops and connections are made; uniformity of prices and of the ticketing system – and often explicitly price control, to ensure that prices remain within the reach of all.

- ▶ There is no noticeable change in comparison with the qualitative study carried out in 2001.

Evaluation of air transport services

Access to air transport services is considered “easy” by varying majorities of consumers (and accompanied by numerous non-replies in certain countries). This concerns the physical ease of access to airports or the ease of booking and purchasing flight tickets. Of course this does not mean that all the respondents are users of air transport and have had a specific experience of it – far from it. For the majority air transport remains, if not a luxury, at least a service that is only used occasionally.

The **price** of air transport gives rise to extremely divergent assessments. It is regarded as “fair” by a majority of the interviewees in most of the countries in the North of the European Union (with the exception of Sweden where opinions are divided). This is much less the case in Southern countries, in France and in Luxembourg. In those countries where consumers regard price as being fair, it is the major price cuts of recent years that are uppermost in minds (even if, at the same time, some point to the existence of “hidden costs” in the offers made by low-cost carriers).

The **quality** of the service is considered to be good by large majorities everywhere. This may simply reflect the existing image of a reliable “top-of-the-range” mode of transport, especially among non frequent users of this service. A frequently voiced concern is about the carriage and delivery of luggage. **Information** on air transport services is primarily considered to be “clear” by a sizeable majority in most countries – albeit with substantial minorities of adverse opinions in the Netherlands, Ireland, France and Spain, and mixed opinions in Sweden and Luxembourg.

The replies given to the question concerning the “fairness” of the terms and conditions of **contracts** are predominantly positive, except in Ireland, Italy and Spain where they are mixed, and in France where they are negative. Opinions are not always argued, since consumers are generally unaware of the content of contract terms and conditions, although in this case the notion of contract seems to have a slightly more precise meaning than for other services.

Customer service is rated favourably by a large majority in most countries, except in Ireland where a sizeable minority expresses an adverse opinion and in Spain where opinions are mixed. **Complaints** seem to be handled better and end with a satisfactory result to a greater extent than for other services.

The development of **competition** is recognised in the majority of Member States as a major change, which has brought undeniable price reductions despite the “hidden costs”. In some of the countries, however, the competition seems to be regarded as still rather limited (France, Luxembourg, Italy and Greece) but there are high expectations that the extension of competition will result in lower prices.

- ▶ In comparison with the qualitative study carried out in 2001, the development of activities of low-cost airlines has heightened the acknowledgement of the benefits of competition. At the same time, vigilance in respect of the “hidden costs” in the prices offered by these airlines seems to be increasing.

Box 5: Consumers' opinions in the new Member States

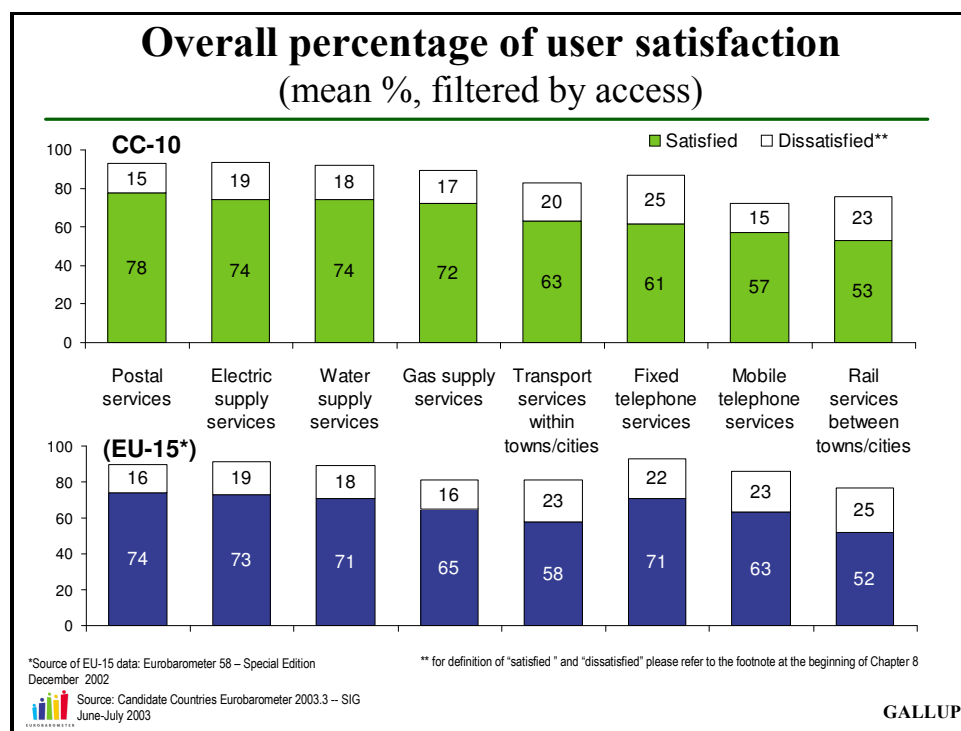
Following the Eurobarometer opinion poll 58⁶³ on consumers' opinions on services of general interest carried out in 2002 in the EU-15 countries, a similar opinion poll was carried out in June and July 2003, to survey consumers' opinions in the ten countries that acceded to the European Union on 1st May 2004. Again, the eight services surveyed were: electricity, gas and water supply, postal services, fixed and mobile telephone services, inter-city rail transport and transport within towns/cities (or urban transport) and the five satisfaction criteria used were: price, quality, information, contracts and customer service.

It appears that access to most of the services surveyed is generally easy for consumers, with the exception of fixed telephone.

Overall, consumers in the new Member States are fairly or very satisfied with the service they receive from providers of services of general economic interest. However, levels of dissatisfaction are noticeable in all sectors and, in particular, for inter-city rail services and fixed telephone services. Taking the five satisfaction criteria into account, postal services score the highest level of satisfaction among the services surveyed. Consumers in the Baltic and Central European countries are much less satisfied with the contract conditions, price and, in relative terms, with the service quality of their fixed telephone providers.

The following chart presents, under "CC-10", an averaging of consumers' opinions in the ten new Member States taking into account the five satisfaction criteria and with the corresponding figures for the EU-15 countries, taken from the 2002 Eurobarometer opinion poll.

Figure 40: Overall percentage of user satisfaction



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More details are available at: http://europa.eu.int/comm/consumers/cons_int/serv_gen/cons_satisf/index_en.htm

Annex Summary tables

Table 27: Market Opening Basic Data in Energy (1st January 2004)

	Electricity						Gas					
	Market opening	size of open	eligibility	Unbundling		Network	Market opening	size of open market bcm	eligibility threshold	unbundling		Network
				TSO	DSOs	Access				TSO	DSOs	Access
Austria	100%	55	-	leg.	acc.	Reg.	100%	8	-	leg.	leg.	Reg.
Belgium⁶⁴	80%	60	10GWh	leg.	leg.	Reg.	83%	9	5mcm	leg.	leg.	Reg.
Denmark	100%	33	-	leg.	leg.	Reg.	100%	5	12mcm	own.	leg.	Reg.
Finland	100%	77	-	own.	acc.	Reg.						
France	37%	140	7 GWh	man.	acc.	Reg.	37%	15	8 mcm	acc.	acc.	Reg.
Germany	100%	490	-	leg.	acc.	Neg.	100%	90	-	man.	acc.	Neg.
Greece	34%	15	1kV	leg.	acc.	Reg.						
Ireland	56%	12	0.1 GWh	leg.	man.	Reg.	85%	4	0.5 mcm	man.	man.	Reg.
Italy	66%	182	0.1 GWh	leg.	leg.	Reg.	100%	69	-	leg.	leg.	Reg.
Luxembourg	57%	3	20 GWh	acc.	acc.	Reg.	72%	<1	15mcm	man.	man.	Reg.
Netherlands	63%	64	3*80 A	own.	leg.	Reg.	60%	25	1 mcm	man.	leg.	Hybrid
Portugal	45%	18	1kV	own.	man.	Reg.						
Spain	100%	205	-	own.	leg.	Reg.	100%	20	-	leg.	leg.	Reg.
Sweden	100%	135	-	own	leg.	Reg.	51%	<1	15mcm	acc	acc	Reg.
UK	100% ⁶⁵	335	-	own.	leg.	Reg.	100%	105	-	own.	own.	Reg.
Estonia	10%	<1	40GWh	acc.	acc.	Reg.	80%	<1	'industry'	none	none	Reg
Latvia	11%	<1	40GWh	leg.	leg.	Reg.	0%	0	-	leg.	leg.	Neg
Lithuania	17%	<1	9GWh	leg.	leg.	Reg.	80%	2	15mcm	acc.	acc.	Reg
Poland⁶⁶	51%	48	10GWh	man.	acc.	Reg.	34%	4	25mcm	acc.	acc.	Reg
Czech R	30%	15	40GWh	leg.	acc.	Reg.	0%	0	-	acc.	acc.	Hybrid
Slovakia	41%	4	40GWh	leg.	leg.	Reg.	33%	2	25mcm	leg.	leg.	Reg. ⁶⁷
Hungary	30%	9	6.5GWh	acc.	acc.	Reg.	0%	0	-	leg.	acc.	Reg
Slovenia	64%	6	41kW	leg.	acc.	Reg.	50%	<1	25mcm	acc.	acc.	Neg
Cyprus	33%	1	0.5GWh	man.	none.	Reg.						
Malta	-	-		derog.		S. Buyer						

Source: European Commission, 3rd benchmarking report on the implementation of the internal electricity and gas market, March 2004.

⁶⁴ The lower thresholds and earlier opening dates refer to the Flanders region only

⁶⁵ In Northern Ireland the electricity market is only 35% open and the gas market only to very large users

⁶⁶ Currently open for domestic production only

⁶⁷ Negotiated for transit

Table 28: Market Opening Basic Data in Postal Services*

	Universal Service Provider	Regulator	eligibility threshold	Stamp price for economic national standard 20 grams letter (€)	Stamp price for economic standard 20 grams letter to Europe (€)
Austria	Die Österreichische Post AG	Ministry for Transport and Communications	100 grams 3 x stamps	0.55	1.00
Belgium	De Post / La Poste	Institute for Postal services and telecommunications.	100 grams 3 x stamps	0.41	0.52
Denmark	Post Danmark	Postal Supervisory Department	100 grams 3 x stamps	0.57 (4.25 DKK)	0.77 (5.75 DKK)
Finland	Suomen Posti Oy	Finnish Communications Regulatory Authority	100 grams 3 x stamps	0.65	0.65
France	La Poste	Ministry of Economics, Finance and Industry		0.50	0.50
Germany	Deutsche Post	Regulatory Authority for telecommunications and Post	100 grams 3 x stamps	0.55	0.55
Greece	Elta	National Telecommunications and Post Commission	100 grams 3 x stamps	0.42	0.60
Ireland	An Post	Commission for Communications regulation	100 grams 3 x stamps	0.48	0.65
Italy	Poste Italiane	Ministry for Communications	100 grams 3 x stamps	0.45	0.45
Luxembourg	Entreprise des Postes et Communications	Luxembourg Institute for Regulation	100 grams 3 x stamps	0.50	0.60
Netherlands	TPG Post	Independent Post and Telecommunications authority	100 grams 3 x stamps	0.39	0.57
Portugal	CTT Correios	National Communications Authority	100 grams 3 x stamps	0.30	0.53
Spain	Correos	Ministry of economics.	100 grams 3 x stamps	0.27	0.52
Sweden	Posten	Swedish National Post and Telecom Agency	100 grams 3 x stamps	0.40 (3.68 SEK)	0.70 (6.40 SEK)
UK	Royal Mail	Postal Services Commission	100 grams 3 x stamps	0.29 (0.20 £)	0.53 (0.37£)
Estonia	Eesti Post	Estonian National Communications Board	0 grams 0 x stamp	0.28 (4.40 EEK)	0.42 (6.50 EEK)
Latvia	Latvijas Pasts	Public Utilities Commission	No limit	0.18 (0.12 LVL)	0.36 (0.24 LVL)
Lithuania	Lietuvos Pastas	Communications Regulatory Authority	350 grams 5 x postage	0.29 (1.00 LTL)	0.38 (1.30 LTL)
Poland	Poczta Polska	Office of Telecommunications and post regulation.	N/A.	0.27 (1.25 PLN)	0.48 (2.10 PLN)
Czech R	Ceska Posta	Ministry of Informatic.	350 grams 0.88 EUR (nat.) 1.47 EUR (int'l)	0.20 (6.50 CZK)	0.28 (9.00 CZK)
Slovakia	Slovenska Posta	Postal Office	350 grams 5 x stamp	0.20 (8.00 SKK)	0.39 (16.00 SKK)
Hungary	Magyar Posta	Communication Authority	350 grams 5 x stamp	0.13 (36.00)	0.56 (150.00)
Slovenia	Posta Slovenije	Telecommunications, broadcasting and post agency	100 grams 3 x stamp	0.16 (38.00)	0.40 (95.00)
Cyprus	Dept. of Postal Services	Commissioner of Telecommunications and postal regulation	350 grams 5 x stamp	n.a.	n.a.
Malta	Maltapost	Malta Communications authority	350 grams 5 x stamp	0.16 (0.07 MTL)	0.81 (0.35 MLT)
Romania	Posta Romana	National Regulatory authority for Communications	350 grams 5 x stamp	0.10 (4,000 ROL)	0.38 (16,000 ROL)
Bulgaria	Bulgarian Post	Communications regulation Commission	350 grams 5 x stamp	0.18 (0.36 BGN)	0.33 (0.65 BGN)
Turkey	PTT General directorate	None	No limit	0.17 (300,000 TRL)	0.34 (600,000 TRL)

Tariffs as in January 2004 for EU-15; for exchange rates, see table X. Postage rate: rate for the corresponding weight. Stamp rate: basic rate. Sources: National operators and regulators' websites, Wik-Consult (2003), "Survey of some main aspects of postal networks in EU adhesion candidate countries".

* Exchange rates to the euro:

Exchange rate to Euro	1 unit of national currency in Euro (January 8, 2004)
Denmark (DKK)	0.1343
Sweden (SEK)	0.1095
United Kingdom (GBP)	1.4363
Estonia (EEK)	0.0639
Slovakia (SKK)	0.0245
Czech Rep. (CZK)	0.0309
Latvia (LVL)	1.4812
Romania (ROL)	0.000024
Bulgaria (BGN)	0.5114
Lithuania (LTL)	0.2897
Cyprus (CYP)	1.7076
Malta (MTL)	2.3235
Turkey (TRL)	0.00000057
Poland (PLN)	0.2131
Hungary (HUF)	0.0037
Slovenia (SIT)	0.0042

Table 29: Market Opening Basic Data in Railways transport

Market Segments	Opening up to competition (done or foreseen)	EU Legislation	State of play
International Freight transport	15 March 2003	« First Railways package » among which directives 2001/12, 2001/13 et 2001/14 (<i>JO L 075 , 15/03/2001</i>)	Transposition deadline was 15 March 2003. In November 2003, 7 Member States had not yet transposed all measures (AT, DE, GR, IE, LU, SE, and UK).
Domestic freight transport	2008 or 2006	« Second Railways package » in particular the plan to modify directive 91/440, already modified by directive 2001/12	These proposals are currently at the Parliament and the Council for a second reading. Their adoption early 2004 seems likely.
Passenger transport	2008-2010	« Third railways package »	Depending on the adoption of the 2 nd railways package, the Commission could issue a proposal early 2004.

Member State	Legal Opening	Effective opening
DE	Access to the network is theoretically possible for any operator established in Germany and for all types of services (freight and passengers).	Generally, conditions for access to network are good. There are many independent operators and competition is effective on all segments, bar long-distance passenger transport where competition is still marginal. The incumbent's market share is still at 90%. However, the process to allocate capacities remains problematic as its independence is not guaranteed.
AT	Access to the network is theoretically possible for any operator licensed in Austria and for all types of services (freight and passengers).	Many barriers limit competition (e.g. attribution of licences, market dominance of ÖBB as infrastructure operator allocating routes). Some small regional companies have been active for a long time on passenger and freight segments.
BE	Only international freight transport is opened to licensed operators.	On the segment opened to competition, rules remain unclear because of a lack of established institutional framework. The SNCB has a dominant position. One independent competitor is active on the market.
DK	- Freight is opened to competition for any operator holding a license in Denmark. - With regards to passenger transport, up to 15% of services (with the exclusion of urban services) may be tendered.	- Transport of goods is still dominated by the incumbent (owned by DB AG) but is effectively contestable.
ES	Only international freight transport is theoretically opened to competition for licensed operators. However, the legislation has not yet been fully adopted.	Numerous informal barriers to entry exist resulting from a lack of institutional framework. There is no active independent operator.
FI	For the time being, only international freight transport is liberalised, and Finland has announced that it would not go beyond what is imposed by directives.	Besides rail gauge (Russian measures), barriers to entry in terms of information and the low attractiveness of the market considerably reduce effective competition. VR is currently the only operator.
FR	Only international freight transport is theoretically opened to licensed operators.	Institutional framework not fully operational yet. No other operator than SNCF.
GR	As soon as the law transposing the railways package will enter into force, international freight on the TERFN will be opened to licensed operators.	So far, competition is non-existent.
IE	The provisions of the first railways package have no impact on the Irish railways system but domestic freight may be soon opened to competition	Besides the connection Belfast-Dublin, there is no other effective or potential form of competition.
IT	Access to the network is theoretically possible for any operator licensed in Italy and for all types of services (freight and passengers). However, these provisions are subordinated to reciprocity for some services.	Numerous companies received a license in 2002-2003 and still have to obtain a certificate regarding security. Some railways companies are successfully active in freight in Northern Italy on regional and international segments
LU	Only international combined transport of goods is theoretically opened to competition.	Competition is quasi non-existent.
NL	International freight transport and regional passenger transport are opened to competition.	Procedures to access the network are correctly functioning and numerous independent operators are active on the freight and on some regional passenger segments.

PT	<p>International freight and international passenger segments are opened to competition. Tenders may be used for domestic transport.</p>	<p>Effective competition remains limited. Because of the situation in Spain and France, interest for operating in Portugal is still limited.</p>
SE	<p>- Freight transport is opened for domestic services, as well as for international services made on international corridors.</p> <p>- Local authorities issue tenders for local passenger transport as well as for long-distance (“Rikstrafiken”) passenger transport.</p>	<p>The liberalisation process is well-established. Competition among operators is relatively intense, especially on the segment of passenger transport. The incumbent SJ enjoys a monopoly on profitable lines and there is competition elsewhere.</p>
UK	<p>Railways transport is liberalised for all types of services. Passenger transport is organised via franchising.</p>	<p>Competition among the 25 passenger transport operators for obtaining franchises is intense. The regulatory authority reflects on decreasing the number of franchises. Freight is dominated by one operator but competitors are increasingly emerging.</p>

Source: European Commission. Situation as of December 2003.