

# **Liberalisation and Precarisation - Employment Conditions of the New Letter Service Providers in Germany**

## **Summary**

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**The complete study is available in German:  
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Beratungsgesellschaft  
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1.

In 2007, European and German postal policy stands before important transitions. The planned elimination of the remaining monopolies in the letter market will not only have consequences for the quality of postal services, but also for employment conditions in the letter sector. This study therefore deals with the question of whether and to what extent precarious employment can be ascertained among the new letter service providers that have entered the market since liberalisation commenced – in particular looking at the dimensions of “employment stability,” “income” and “participation.”

2.

The possibility that liberalisation might cause a surge in precarisation in the letter market was already intensively discussed in Germany in the course of the debate on the Postal Law (“Postgesetz” - PostG) in the second half of the 1990s. The concerns were dealt with primarily by the so-called “Social Clause” of § 6 paragraph 3 No. 3 of the Postal Law. According to this clause, a license for offering letter post services must be rejected “when ... facts justify the assumption that the applicant substantially falls below the crucial labour conditions common in the licensed area.”

3.

Between 1998 and 2005, turnover achieved in the letter market in Germany increased by 3.8%; this is a very moderate growth rate of, on average, 0.54% per year. The majority of prognoses for coming years anticipate stagnation, or, at best, exceedingly modest growth in the German letter market. In 2005, 704 million euro of the total turnover of 10.2 billion euro in Germany were accounted for by new providers (“licensees”) competing with Deutsche Post AG, which were able to continually increase their market share from 0.8% in 1998 – the year the Postal Law came into force – to 6.9% in 2005.

4.

On the German letter market, besides Deutsche Post AG, we can presently perceive three different groups of actors:

- Subsidiaries of foreign postal enterprises (e.g. TNT),
- Subsidiaries of newspaper publishers (e.g. PIN Group),
- Independently operating letter service providers (e.g. Jurex).

In the run-up to and following complete liberalisation, we can expect consolidation of the market through takeovers and the entry of more foreign competitors. A study made by Pricewaterhouse Coopers for the European Commission presumes that the new providers will

considerably expand their positions after successful market opening and will be able to collectively attain market shares in the magnitude of approximately 20% by 2011.

5.

A total of 34,410 workers were employed by the roughly 950 active licensees competing with the Deutsche Post AG in the German letter market in 2004. Based on 17,650 employees in the year 1999, this means their numbers have nearly doubled. Nevertheless, the 28,908 jobs cut in the letter sector of Deutsche Post AG between 1999 and 2004 due to extensive rationalization measures, electronic substitution and market share losses could not be compensated for by the 16,760 jobs newly created during this same period by the licensees. Altogether, the number of jobs in the German letter market dropped by 6.2% or 12,148 jobs from 1999 to 2004. Converted into full-time jobs, the balance of jobs in the German letter market is even considerably worse: while Deutsche Post AG arithmetically cut 22,063 full-time jobs from 1999 to 2004, the number of jobs, converted to full-time, provided by the licensees only increased by 7,006. Overall, seen this way, the loss of employment – minus 15,057 jobs (-9.9%) – is far more critical than purely taking a head count can express.

6.

The dimension of “employment stability” reveals that long-term employment subject to social insurance contributions have become a largely atypical pattern among the licensees in the letter market. With 62.3% (2004) of “mini-jobs”<sup>1</sup> and a broad distribution of temporary employment contracts, the new letter service providers are dominated by types of employment that are characterised by a high degree of uncertainty, instability and dependency. The percentage of employment subject to social insurance contributions among the licensees dropped from 45.9% in the year 1999 to 37.7% in the year 2004. Therefore, while nearly two-thirds of the workforce of the market entrants in the course of liberalisation is marginally employed, Deutsche Post AG operates in this area almost entirely with employees subject to social insurance contributions. At 62.3%, the share of mini-jobs in the total number of employees is now higher among the licensees on the letter market than in trades traditionally characterised by marginal employment such as the cleaning sector (56.3%) or gastronomy (52.8%).

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<sup>1</sup> The remuneration of „mini-jobs“ (“marginal employment”) is limited to 400 Euro per month. The employer pays flat-rate charges amounting to 25 % (12 % statutory pensions insurance, 11 % statutory health insurance and 2 % taxes). The mini-jobber do not have to pay any social insurance contributions and income tax (For more information: Federal Ministry of Labour and Social Affairs, <http://www.bmas.bund.de/Englisch/Navigation/Social-Security/400-euro-mini-jobs.html>)

7.

According to our surveys, the average hourly wage (median) paid by the new letter service providers to their employees is 7.00 euro in western Germany and 5.90 euro in eastern Germany; the average attainable monthly gross wage (median) based on these hourly wages in the case of a 38.5 hours work week is 1,169 euro in western Germany and 985 euro in eastern Germany including Berlin. Therefore, the dimension of “income” shows that the average pay attainable from the licensees

- lies 40.9% below the starting salary for deliverers of Deutsche Post AG in western Germany and 50.2% in eastern Germany;
- lies 31.5% below the respective regional low wage threshold (two-thirds of the median wage) in western Germany and 19.9% below in eastern Germany;
- must be classified in this respect as below the subsistence level, since it is 11.0% lower for western Germany and 16.7% lower for eastern Germany than a working wage with which the minimum requirement can be covered according to the provisions of Social Code II (“Sozialgesetzbuch II” – SGB II). Relevant quantities of the employees of the new letter service providers therefore fulfil the criteria for persons in need of social assistance under Social Code II, even when employed full-time, and are entitled to supplementary unemployment benefits II.<sup>2</sup>

8.

The “participation” dimension shows that the large majority of employees of the new letter service providers are not given the opportunity to represent their vocational interests through the use of institutionally safeguarded participation options – e.g. through the election of or work in works councils – or to shape their working conditions with the aid of collective exertion of influence – e.g. through wage agreements. The human resource management methods that appear to be typical for many of the letter service providers are characterized by hierarchies and authoritarianism and not uncommonly by methods that calculate with the anxieties of the employees. Therefore they are largely refused any options for individual and informal participation in the decisions that affect them.

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<sup>2</sup> “Unemployment benefit II (basic security benefits for job-seekers): Book Two of the Social Code (so-called ‘Hartz IV Act’) entered into force as on 1 January 2005. Basic security benefits for job-seekers, which replace the former unemployment assistance and social assistance for those who are capable of earning, provide to anyone who is capable of earning but is in need of assistance and who is not entitled to unemployment benefit I access to standard benefits to meet basic needs. Unemployment benefit II is funded by taxes. The amount is needs-based. The benefit can be received by all who are capable of earning if they have insufficient income to cover their living expenses. Unemployment benefit II is also paid if the person in need of assistance has not paid contributions to social insurance. It is paid if and as long as the need exists, in other words including for long periods of unemployment.” (Source: Federal Ministry of Labour and Social Affairs, <http://www.bmas.bund.de/Englisch/Navigation/Labour-market/unemployment-benefit.html>)

9.

The findings of this study overall make clear that the jobs created by the new providers on the German letter market possess a pronounced potential for precariousness where employment stability, income and participation are concerned. With the decisive prerequisite of liberalisation, the following five factors in particular have allowed a structure of conditions to arise in which providers could establish themselves on the letter market whose business models are based chiefly on the cost advantages of precarious employment:

- High unemployment with pronounced regional emphases;
- Labour market policy's facilitation and subsidising of marginal employment;
- Governmental aid payments to low-wage earners, which already essentially have the effect of a combined wages model;
- The lack of trade union organisational powers among the new letter service providers;
- The regulatory restraint of the regulation authority ("Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway") in application of the instrument of social licensing obligations.

It is beyond justifiable doubt that the precarisation problem will further intensify if these conditions remain unchanged in the case of further competitive opening of the letter market.

10.

Precarisation leads to a number of problematic implications

- for the affected employees,
- for competition in the letter market,
- for the social security systems.

11.

Typical negative by-products of precarious employment for the affected employees include

- a blockade of subjective demands on the quality of one's own work, chiefly in so far as income and employment security are concerned;
- the inability to plan one's life over longer periods;
- existing near or even below the poverty risk threshold;
- inadequate social safeguarding in the case of illness, unemployment or age-related retirement from working life.

12.

In their competition with Deutsche Post AG, the new letter service providers base their strategy on underselling prices by emphasising their cost advantages compared with the market leaders. Hardly any other market has such comparatively large wage cost differences

between one dominant provider and its competitors as in the German letter market. The chief problematic fact in this case is that the licensees largely arrive at their cost advantages based on the precarious working and income conditions of their employees. As long as this business model remains functional and successful, there will be no incentives for the new providers to leave the “low road” and make efforts towards differentiating themselves in other aspects from the Deutsche Post AG – for instance with regard to quality, service or innovations.

13.

Precarious employment, as widespread as it is among the licensees in the German letter market in the form of insecure and marginal employment with low wages, has problematic consequences for the financial architecture of social security. In particular, forced precarisation is cause for “fears that this change impairs not only the social security of the individual employees (specifically pension insurance), but also undermines the (chiefly contribution-funded) social security systems” (Keller / Seifert 2006, p. 235). These fears involve both at the funding side of the social security systems and at the public expenditure side for tax-financed social aid payments.

14.

The negative implications of precarious employment give rise to the need for suitable countermeasures. In the letter market sector, the following five action options – without any claims to completeness – appear fundamentally possible and potentially effective:

- Suspension or deceleration of the planned market opening;
- Accompanying further liberalisation with effective application of the regulatory instrument of social licensing obligations;
- Increased consideration of social standards in the awarding of contracts by public authorities through wage loyalty clauses;
- Wage agreement regulation of the employment conditions of the new letter service providers;
- Enforcement of a general or sector-specific minimum wage.

*Translation: Faith Gibson-Tegethoff*