

Privatisation and Liberalisation of the Post and Telecommunication Sector –
its Impact on Employees and Trade Unions

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**The Privatisation and Liberalisation of the Post
and Telecommunication Sector – its Impacts on
Employees and Trade Unions**

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The privatisation of former state operations and the liberalisation of major key sectors have characterised economic policy worldwide for more than 20 years. On the basis of the neoliberal economic theories of Milton Friedman, which were put into political practice under US President Reagan and British Prime Minister Thatcher, the removal of the economy from state influence and the opening up of former monopoly markets is now also a goal of the economic policy of left-wing governments. Furthermore, with the foundation of the World Trade Organisation (WTO), market structures which previously enjoyed national protection have been broken down to permit global competition in international trade. In Europe, where privatisation and liberalisation have for several years determined the real situation in the post and telecommunication sector, the consequences for employees and their trade unions are already

visible. I would therefore like to attempt to outline below the previous development lines of the privatisation and liberalisation of the post and telecommunication sector, and the primary impact on workers and their trade unions.

1. Privatisation

I would like to start with the trend that causes the most heated discussions in the political debate and that most disturbs and concerns the trade unions of the post and telecommunication sector. I am talking about privatisation.

The term and the political concept of privatisation call for a variety of different measures. The binding factor, however, is the respective aim of pushing back government control in relevant economic sectors in favour of private market-economy control - privatisation is, therefore, a central element of neoliberal ideology and practice.

Privatisation: Basic forms

- Functional privatisation
 - „Contracting out“
- Organisational privatisation
 - „Civil-law Partnerships“
- Privatisation of task and capital
 - „Selling out“

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Three basic forms of privatisation can be roughly distinguished:

- Firstly, the functional privatisation by "contracting out" government tasks to private companies - the tasks remain the responsibility of the government but are carried out by private companies.
- Secondly, the privatisation of the organisation and management by setting up civil-law partnerships. Also in this case, the task remains with the government but is fulfilled under civil law and according to commercial criteria.
- Thirdly, the privatisation of the task and the capital by the partial or full sale of public property to private investors or by going public - in this case the government withdraws from its responsibility for an until-then-public task as well as from its position as proprietor.

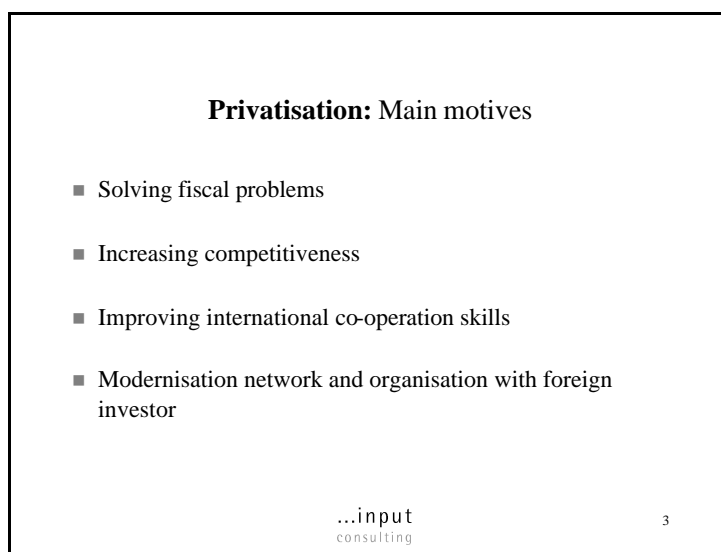
In practice, of course, there are many mixed forms among these variants and often all three stages run simultaneously. First, public companies are dismantled and "made slim" and afterwards made marketable through transformation and rationalisation. In the third step they are sold.

Privatisation has been intensively discussed in the post and telecommunication sector since the end of the 70s. In the middle of the 80s, the first privatisation wave occurred - I remember the first partial sales of British Telecom in 1984 and of NTT in 1985.

The trend towards privatisation in telecommunications has become much more dynamic since the mid-nineties, and has now transferred to the post sector. Whilst the third wave of privatisation is already concluded in telecoms within the EU by virtue of the many IPOs of former telecommunications authorities that have taken place, the privatised postal enterprises in the vast majority of countries are still owned by the state. One example is formed by two ex-monopolists who have now grown to become global players on the post and logistics market:

- The Dutch KPN went public in 1994, and has assumed a major position on the courier, express and parcel market under the name TNT-Post-Group (TPG), after taking over the worldwide express service TNT.

- The second example is the Deutsche Post World Net, which has been quoted on the stock exchange since November 2000, and has grown to become a European and worldwide logistics group after many acquisitions, including DHL International Express, the international forwarders DANZAS and the Dutch freight service Nedlloyd.



There are four factors that are especially influential for the privatisation dynamics that I have described:

- Firstly, many governments appear to prefer the sale of state assets as a solution to their fiscal problems - at present in Europe the privatisation of telecommunication enterprises serves mainly the aim of achieving the difficult convergence criteria for the European Economic and Monetary Union in the area of public debt.
- Secondly, privatisation is often justified with the argument that government enterprises or administrations would not have a long-term chance in the harsh competition of the telecommunication markets - only private companies could successfully compete with private companies. This per-

spective considers privatisation almost an inevitable result of liberalisation - a trend I will soon comment on in detail.

- Thirdly, privatisation is intended to increase the enterprises' ability to cooperate at international level. Take-overs and holdings are made easier or made possible in the first place if the partner enterprises are compatible as to their legal form. Additionally, take-overs are, not funded in cash as a rule, but frequently with own shares as "acquisition currency" – which makes independent quotation on the stock exchanges a prerequisite.
- In the telecommunication sector in the countries of Central and Eastern Europe, as well as in many states of the Third World, privatisation is being pursued with the aim in mind of speeding up the modernisation of the telecommunications network, as well as of the state telecoms, by selling capital shares to strategic foreign partners. Against the background of the current financial problems faced by major telecoms, international capital holdings are now primarily decided upon along profitability lines, and are characterised less by long-term strategic considerations. The hope placed in big foreign investors is likely to be disappointed in many countries.

Ownership and Privatisation of Public Telecommunication Operators (PTOs), 1998

PTO		State Shareholdings (%)		Year of privatisation
		1992	1998	
Australia	Telstra	100	67	1996 - 97
Canada	Stentor	0	0	-
Czech. Republik	SPT Telecom	100	51	-
Germany	Deutsche TelekomAG	100	61	1996
Denmark	Tele Danmark	89	0	1992
France	France Télécom	100	62	1997
Greece	OTE	100	65	-
Hungary	MÁTÁV	100	6,5	1993
Italy	Telecom Italia	>50	5	1998
Japan	NTT	>66	65	1986
Mexico	Teléfonos de Mexico	0	0	1990
Spain	Teléfonica	35	0	1997
United Kingdom	British Telecom	22	0	1984
United States of America	Baby Bells	0	0	-

Source: O. Boyland / G. Nicoletti : Regulation, Market Structure and Performance in Telecommunications, Economics Department Working Papers No. 237, OECD, 2000, p. 30

Regardless of which factor may be decisive, fact is that the privatisation strategists have gained world-wide control over the post and telecommunication sector.

- All of the twenty most successful telecommunication companies in the world are totally or partially be in private - the only exception is China Telecom.
- All of the fifteen Member States of the European Union have totally or partially privatised their traditionally public telecommunication enterprises (overhead). The government capital shares are often under 50% and are still sagging.
- As to the posts, the number of enterprises with a private legal form is increasing. With the exception of TPG and Deutsche Post, I only know of the Argentinean Correo Argentino S.A. (CASA) where private shareholders play a major role.

That does not mean that everything that is happening must necessarily be right. Of course it still makes sense to critically reflect upon privatisation policy concerning its ideological assumptions as well as its consequences for employees, trade unions, and customers, and not least for the State's economic and political power to act. There is a lot of reason to do so. Privatisation has not always turned out to be the ideal way: The neoliberal promises have often not been fulfilled. There is no reason yet for the trade unions to throw their traditional scepticism towards privatisation overboard.

An analysis of the real processes, as well as of the balance of power, leads to the conclusion that the battle for privatisation seems to be over. Of course, there are still fierce discussions, but these relate less to the "if" than to the "how" of privatisation. The political spectrum hardly shows any relevant counter forces against this trend. Whereas the neoliberals have always considered the privatisation of the postal service and telecommunication the traditional core element of their denationalisation policy, this approach has long since become agreeable to the (social democratic) Left, as demonstrated in Europe by France, Portugal, Greece and also by Great Britain under Tony Blair.

This transition from a public service to a private economy poses a serious endurance test to the employees concerned and their trade unions.

Privatisation: Consequences for Employees and Trade Unions (1)

- Reorganisation
 - Concentrating on core business areas
 - Dividing the in enterprise in partially independent business units
 - Closing unprofitable locations (for example rural post offices)
 - New management methods
 - Cost reduction
 - Performance-orientated pay structure

Firstly, the privatisation of posts and telecoms entails a comprehensive reorganisation. This includes above all

- concentrating on core business areas,
- dividing the enterprise into partially independent business units,
- closing unprofitable locations,
- introducing new, performance-orientated personnel management and management methods,
- comprehensive cost reduction measures, in particular with regard to staff costs, and
- introducing a performance-orientated pay structure.

Privatisation: Consequences for Employees and Trade Unions (2)

- New framework on industrial relations and working conditions
 - Public service law / labour law
 - Civil servant / employee
 - Pay structure
 - Qualifications
 - Industrial relations

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In addition, the former state enterprises are completely catapulted from the framework of the "public service" in the course of this process, with major effects on industrial relations and working conditions in the privatised enterprises:

- Whilst the organisation of the postal authorities was characterised by the law concerning civil servants and public service law, individual and collective labour law determines employment in privatised enterprises.
- Civil servant status with life tenure is replaced by an employment contract.
- The pay structure in the public service is mostly linked to career paths and formal qualifications, and also has a number of social components, such as age and civil status. Payment in the private sector, in contrast, is in line primarily with the value of the function carried out, frequently in combination with a variable, performance-related pay element.
- The qualifications possessed by the staff of an authority are devalued by the new professional requirements. In private enterprises, in many cases commercial skills and a strong customer-ori-

entation are required, attributes which are not widely available to the degree now demanded among the staff of a former authority.

- Whilst industrial relations within authorities are largely governed by statutes and ordinances, most working conditions are now negotiated or disputed contractually between the partners in collective bargaining.

2. Liberalisation

Just as in the case of privatisation, the second political trend I would like to outline has completely changed the world map of post and telecommunication within a few years. We are talking about liberalisation. Regardless of all national and sectoral variety in shaping this trend, there is – without giving a detailed definition - a common denominator. Liberalisation aims to dissolve monopolistic offer structures that traditionally have characterised the telecommunication sector, and to establish market relations that are characterised by a competitive economy.

Opening the markets should improve the efficiency and user orientation of post and telecommunication services, and reduce customer prices, without at the same time requiring the goal of providing blanket coverage to be renounced.

The opening of post and telecommunication markets has enjoyed high political priority since the mid-nineties. The telecommunication sector has now been completely opened to competition in the Western industrialised states, and the stage has largely been set for further liberalisation on the postal services market. With the foundation of the World Trade Organisation (WTO) in 1995 and the multilateral GATS trade agreement, the post and telecommunication sector is increasingly included in the agreements on free international trade.

Liberalisation: „Milestones“

- Telecommunication
 - Telecommunications Act USA, 1996
 - Opening of EU markets, 1998
 - Geneva WTO-Agreement, 1998

- Post
 - Different levels of market opening in USA, EU, ...
 - EU - Postal Service Directive, 1997
 - EU - further liberalisation, 2004
 - WTO – „General Agreement on Trade in Services (GATS)“ - GATS 2000 negotiations

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Liberalisation and Foreign Investment in the Telecom Sector, 1998

	Year of liberalisation			Foreign Investment	
	Trunk	International	Mobile	Numbers of foreign competitors	Restrictions concerning PTO
Australia	1991	1991	1992	4	Yes
Canada	1990	1992	-	5	-
Czech Republic	2000	2000	-	3	State control
Denmark	1996	1996	1992	-	No
France	1998	1998	1989	3	State control
Germany	1998	1998	1991	4	State control
Greece	2001	2001	1993	1	State control
Hungary	2002	2002	-	6	Yes
Italy	1998	1998	1994	3	Yes
Japan	1986	1987	1987	9	State control
Mexico	1996	1996	-	7	-
Spain	1998	1998	1994	2	Yes
United Kingdom	1985	1986	1984	7	Yes
United States of America	1984	1984	1983	6	-

Source: O. Boyland / G. Nicoletti: Regulation, Market Structure and Performance in Telecommunications, Economics Department Working Papers No. 237, OECD, 2000, p. 28

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I would like to use the following milestones to illustrate this trend towards liberalisation in the post and telecommunication sector:

- Firstly, for the telecommunication sector, the "Telecommunications Act" passed in the USA on February 8th, 1996. This act dismantled the existing barriers between local and long-distance traffic and removed the former monopolies of the regional "baby bells" and of the cable television companies. This act opened up all areas of technical communication to competition,

whereby at first it remains open whether and how quickly this ideal competition may occur. For the time being, the Telecommunications Act has caused a gigantic wave of concentration above all amongst the "baby bells". Nevertheless, the US role-model of total liberalisation is likely to take on a model character worldwide and should have good export chances - with the additional help of the foreign trade policy pressure exerted by the Washington Administration -.

- Secondly, the telecommunication markets in the European Union have been fully open to competition since 1998, and have led to fierce competition in Germany, as well as to a drastic fall of about 90% in prices for long-distance and international calls.
- The liberalisation of the postal markets has been pushed forward to a much lesser extent world-wide. With a few exceptions, in all countries the lion's share of the turnover is made by postal services in the monopoly area.
 Whilst, for instance, in the home of free trade, the USA, the markets for international mail items, express items, periodicals ("second-class mail"), advertising ("third-class mail") and parcels have been liberalised, the area with the highest turnover, letter mail ("first-class mail"), remains part of the monopoly area of the United States Postal Service (USPS).
- Liberalisation of the posts is a central element for the realisation of the European Single Market within the European Union. The letter mail market was opened to competition in a first step taken in 1997, and at the same time the Member States were obliged to ensure a standard universal service with the aim of improving the quality of postal services. In order to fund the universal service, in accordance with the EU directive, so-called "reserved areas" may be established as monopoly rights of the universal service provider. Accordingly, the Member States can retain letter mail items below a weight limit of 350 g within the monopoly area until 2004. According to a proposal by the EU Commission, a further liberalisation phase is to follow this, prescribing the opening of the letter mail market above a weight limit of 150 g. The EU Member States may however restrict the reserved area further:
 Thus, for instance, Germany, Denmark and the Netherlands have defined the reservable area much more narrowly than is required as yet under the EU directive. The postal market in Swe-

den has been completely liberalised since 1993, and the postal monopoly was abolished in Finland in 1994. Local postal traffic has been open in Spain for many years. In spite of these partial liberalisations, the previous monopolists have a market share average of more than 90% in the open market segments.

- As a last milestone of liberalisation, I would like to mention the agreements of the World Trade Organisation. The telecommunication sector has been placed within the area of application of the "General Agreement on Trade in Services (GATS)" since 1997. In the Geneva WTO agreement dated 15 February 1997, 68 states undertook to open their "basic telecommunications" markets to foreign providers from 1998 onwards, to keep to specific regulatory principles (major buzz-word here "interconnection") and to give expanded rights to invest in local enterprises. With the aim in mind of expanding the service sectors falling within the area of application of GATS, negotiations have been underway since May 2000 regarding the liberalisation and regulation of the post sector at international level. All services provided by the states as sovereign tasks or within the framework of a state monopoly are explicitly removed from the GATS provisions. There are now sub-markets in many countries on which state enterprises compete with private enterprises as a result of the liberalisation tendencies. In this context we can mention in particular courier, express and parcel services. Against this background, especially large multinational enterprises such as UPS, DHL or Federal Express are pressuring their governments to include these sub-areas of the post sector in the new liberalisation round. By creating a classification based on the product group for courier, express and parcel services, the liberalisation of the sub-markets that are important for the large express multinationals are to be pushed ahead. If the international market opening is to be restricted only to express and parcel services, this will nevertheless impact the rest of the post sector, for instance, by the prohibition of any cross-subsidisation between monopoly and competition markets, and the risk arises that by means of appropriate measures the multinationals will move higher and higher item volumes into the liberalised area, and the posts will hence lack the necessary income to fund the universal service. I would like to refer to the homepage of Union Network International for further information on the new GATS round.

One need naturally not expect the new GATS 2000 negotiations to liberalise the post sector worldwide. It would also be wrong to presume that the 1997 Geneva Agreement has solved all trade policy conflicts in the telecommunication sector and opened all markets overnight. However, there are highly positive signs suggesting that the impact of the liberalisation trend will increase considerably worldwide through these WTO initiatives, and that it is likely to become increasingly difficult to maintain national monopolies on relevant markets. Now, Asian and Arabic countries are also expressing clear reservations about this further round of liberalisation by the WTO. According to a recent newspaper report, the Governments of India, Pakistan and Nigeria are pointing out that the liberalisation steps which have been carried out since the conclusion of the Uruguay Round in 1994 have done them more harm than good.

Liberalisation: Consequences

- Telecommunication
 - Competitive Sector
 - New Players
 - Losses of Market Shares

- Post
 - Weak competition
 - New players are largely regional or niche suppliers
 - Low losses of market shares in newly liberalised markets

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I will mention some further consequences of forced liberalisation:

A consequence of opening the market is the introduction of new players and the loss of market shares of the dominant carriers. As far as the new players are concerned, two typical groups of players have crystallised internationally in the telecommunication sector:

Firstly, the big energy and railway companies, which, backed up by their specific infrastructure and mostly in alliance with strong foreign telecommunication companies, install competitive telecommunication networks and position themselves as "full-service carrier" in competition with the former monopolist.

Secondly, a range of regional and sectoral niche suppliers who concentrate on the profitable market segments and who put massive competitive pressure on the "incumbents" are establishing themselves on liberalised telecommunication markets.

These niche suppliers are coming under increased pressure because of falling profit margins.

The telecommunication sector is in difficulties worldwide in spite of free competition. A number of enterprises, such as British Telecom or the Dutch KPN, are now in a debt trap because they have lost sight of the long-term profitability of their investments in a blind fight over market shares.

In the post sector, in contrast, the former monopolists have been able to assert their market position in spite of initial steps that have been taken towards liberalisation because new competitors must initially provide considerable investment in order to enter the market. New competitors are largely niche suppliers in most cases so far. The following examples demonstrate this development:

- Sweden Post has a market share of 95% in the letter mail market although the postal market in Sweden is completely open. The largest competitor, CityMail, has specialised in delivering pre-sorted letter mail items in a small number of conurbations.
- In Germany, it is in particular newspaper publishers so far, with their own delivery organisations, and courier, express and parcel services, which are in competition with Deutsche Post. Their market share in the liberalised sub-market is less than 1% so far. The situation is similar in the most highly liberalised postal markets in New Zealand, Finland, Spain and the Netherlands. However, further steps towards opening the market are likely to lead to increasing competition and to larger market shares for the competitors. One may expect further liberalisation to mean in particular that foreign posts will enter the market.

As with the privatisation of enterprises, the liberalisation of the markets has affected the staff of the former monopolists:

Liberalisation: Consequences for Employees and Trade Unions (1)

- Transformation and compensation strategies
 - Customer orientation
 - Cost orientation
 - Downsizing strategies
 - Internationalisation

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Losses of market share and growing competitive pressures force the ex-monopolists to adopt transformation and compensation strategies - frequently and primarily these consist of "downsizing" concepts and efforts to internationalise in order to compensate on foreign markets for the turnover shares which they have lost on their home markets.

Here, the resultant impact on workers can naturally not be attributed solely to privatisation or liberalisation. Both strategies have an interdependent effect and are the causes of a number of rationalisation measures. If one takes the example of Germany and the changes which have taken place at the successor enterprises of Deutsche Bundespost in relation to the level of employment, the following can be shown:

- More than 60,000 jobs have been eliminated at Deutsche Telekom AG since 1995, the year when Deutsche Bundespost was transformed into three PLCs, in other words one-quarter of jobs have fallen foul of rationalisation within a seven year period.
- Deutsche Post AG still had a staff of 307,000 in 1995, in comparison with fewer than 240,000 today. Almost one-third of the staff has been eliminated within seven years.
- The consultancy firm PriceWaterhouseCoopers, which has drawn up a study of employment trends in the EU post sector on behalf of the EU Commission, has forecast that a total of 450,000 jobs will be eliminated at former postal monopolists between 1995 and 2005. This is a share of about 30%.
- All studies relating to the impact of liberalisation and privatisation on employment ultimately reach the conclusion that because of the increasing productivity of work, the increase in employment among new competitors will only make up for a fraction of the jobs lost with the former monopolists.

Liberalisation: Consequences for Employees and Trade Unions (2)

- Challenges for unions
 - Safeguard jobs
 - Maintain workers' vocational perspective
 - Elimination of jobs means losses of union members
 - Transformation from „company union“ to „industrial union“

The trade unions in the telecommunication sector are confronted with serious challenges in the light of these strategies of transformation and compensation. The most important tasks facing the trade unions in this transitional phase are to safeguard jobs and to maintain workers' vocational perspective. In Germany, it has been possible with the assistance of a strong DPG to structure both this system change and the drastic reduction in the number of jobs without redundancies for operational reasons and with a number of collective regulations largely in line with a social plan.

I would like to close with another comment on the impact on trade union structures:

The trade unions in the post and telecommunication sector had been organised in many countries in a comparably "comfortable" form of big company unions, and they now have to cope with the organisational task of changing telecommunication from monopoly structures to competitive structures and to become industrial organisations. The employees of the "new players" are often not unionised at all or a member of another union. In this area, the traditional telecommunication trade unions can often, if at all, only establish themselves using big parts of their financial and personnel resources. These resources are, however, known to be limited and their transfer to the organisation of the employees with the "new entrants" is often a burden on the classical clientele. The combination of five trade unions in the service sector to form the "Vereinte Dienstleistungsgewerkschaft" (United Services Trade Union) "ver.di" in Germany should also be regarded from the viewpoint of the need for a sector-wide trade union for the post and telecommunication sector.

I have now reached the end of my talk. I hope that we can now find the opportunity for an animated discussion of privatisation and liberalisation strategies and their impact on the trade unions.

Thank you for your attention!

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(Englische Übersetzung/ English Translation: Neil Mussett)