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# How Much Postal Reform in Japanese Postal Privatization?

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# Topics

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- ➔ 1. Postal law in Japan pre-2005
- 2. Postal services in Japan
- 3. Postal privatization package (2005)
- 4. Postal reforms in perspective
  - A. Commercialization of the post office
  - B. Definition of universal service
  - C. Repeal of the postal monopoly
  - D. Independent regulation
- 5. Conclusion

# Major Postal Laws

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Japan Post established 1871

- Postal Law, 1947
- Japan Post Law, 2002
- Correspondence Delivery Law, 2002

# National Post Office

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- Department of Ministry of Communications, 1947
- Public corporation, 2002
  - 100% owned by Government
  - Staffed by civil servants
  - Close supervision by MIC (Ministry of Internal Affairs and Communications)


# Postal Monopoly

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- Monopoly over "correspondence"
  - Defined as "writings that express the intentions of the sender, or notify facts, to a specified recipient."
- 2002 Correspondence Delivery Law
  - Special Correspondence License
    - Price limit about \$8.25 (€ 6.10) or other special services
  - General Correspondence License
    - National service, 6 days/week, uniform rates
    - Regulated by MIC

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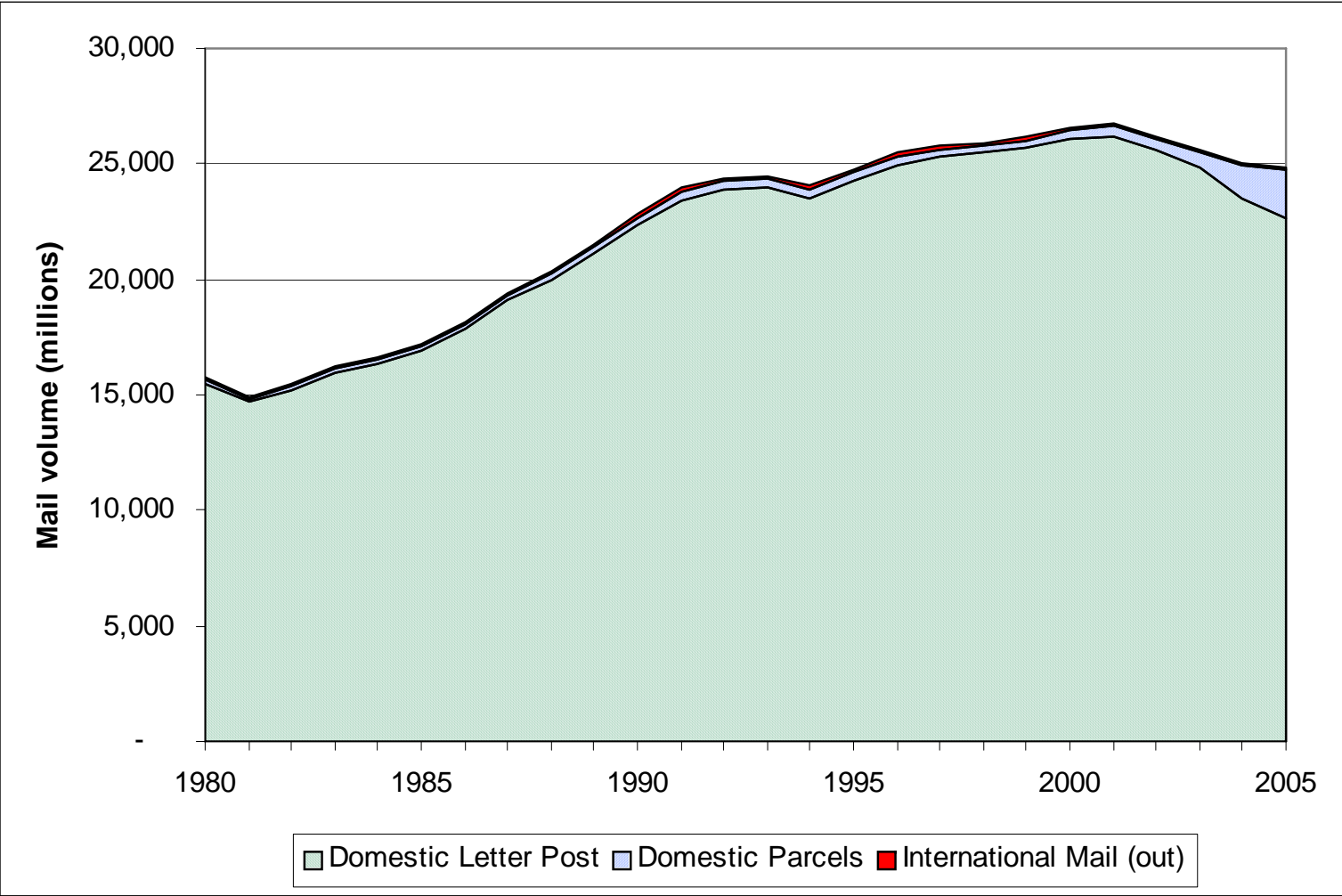
# Domestic Mail Per Capita

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United States	714
United Kingdom	334
France	291
Germany	218
European Union	197
<b>Japan</b>	<b>178</b>

# Total Mail Volume, 1980-2005

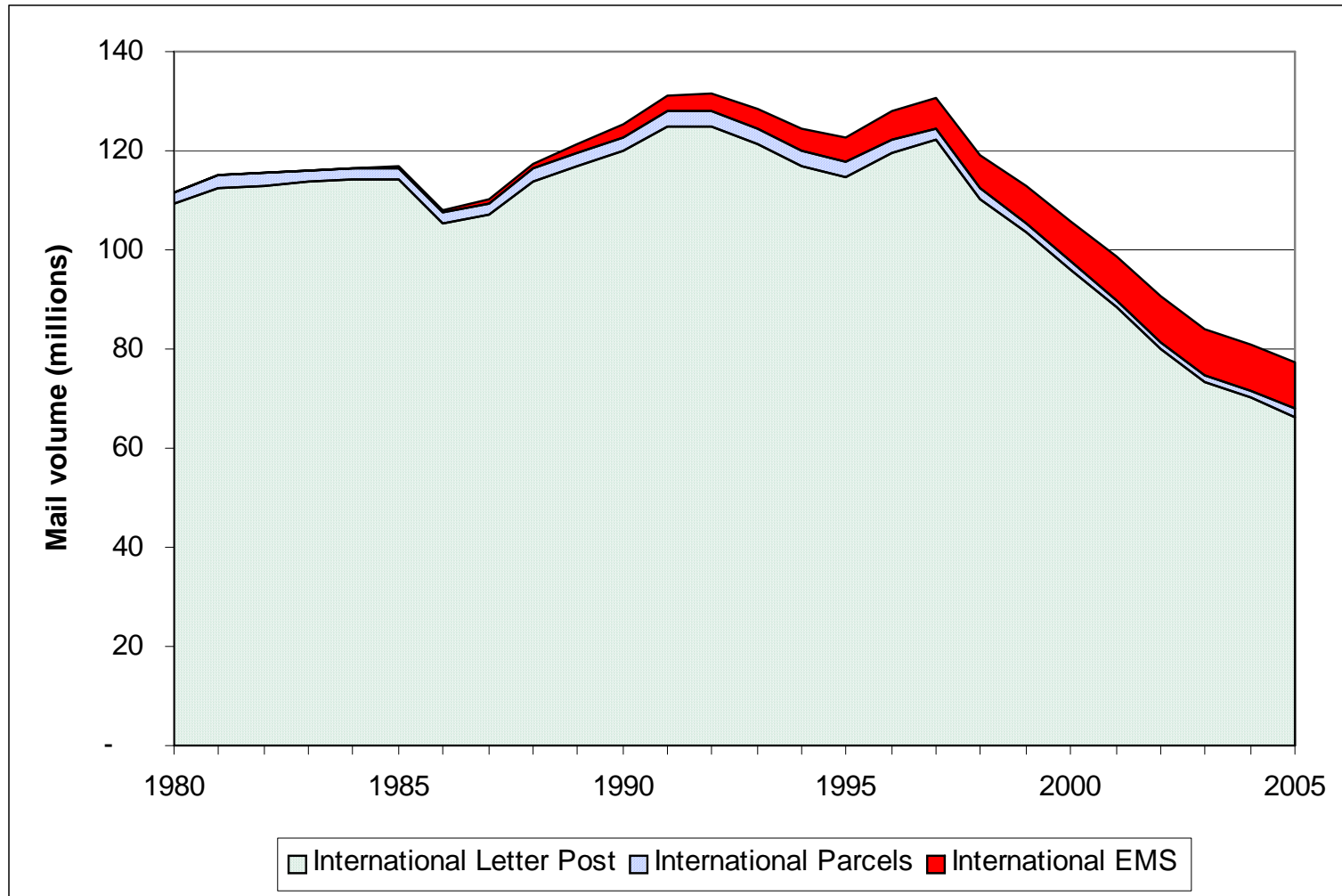
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# International Mail Volume, 1980-2005

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# Postal Privatization Package (2005)

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- Postal Privatization Law
- Japan Postal Services Corporation Law
- Postal Delivery Corporation Law
- Post Office Corporation Law
- Law on the Independent Administrative Agencies to Manage Postal Savings and Life Insurance
- Adjustments Law

# The Goals

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The basic principles of Postal Privatization are to contribute to the advancement of the public welfare and sound development of the national economy

- by responding rapidly to internal and external changes in socioeconomic circumstances,
- by promoting fair and free competition while improving the independence, creativity, and productivity of business management through establishing a new system in place of Japan Post, and
- by splitting the functions of Japan Post, turning the organizations succeeding each function into corporations, and taking measures to ensure equal conditions for competition with business operators . . .

in order to improve the level of convenience in the lives of the citizens through providing diverse and high-quality service and to revitalize the economy through freer management of capital while taking into consideration of the effects that such activities may have on the sound development of regional societies and the market.

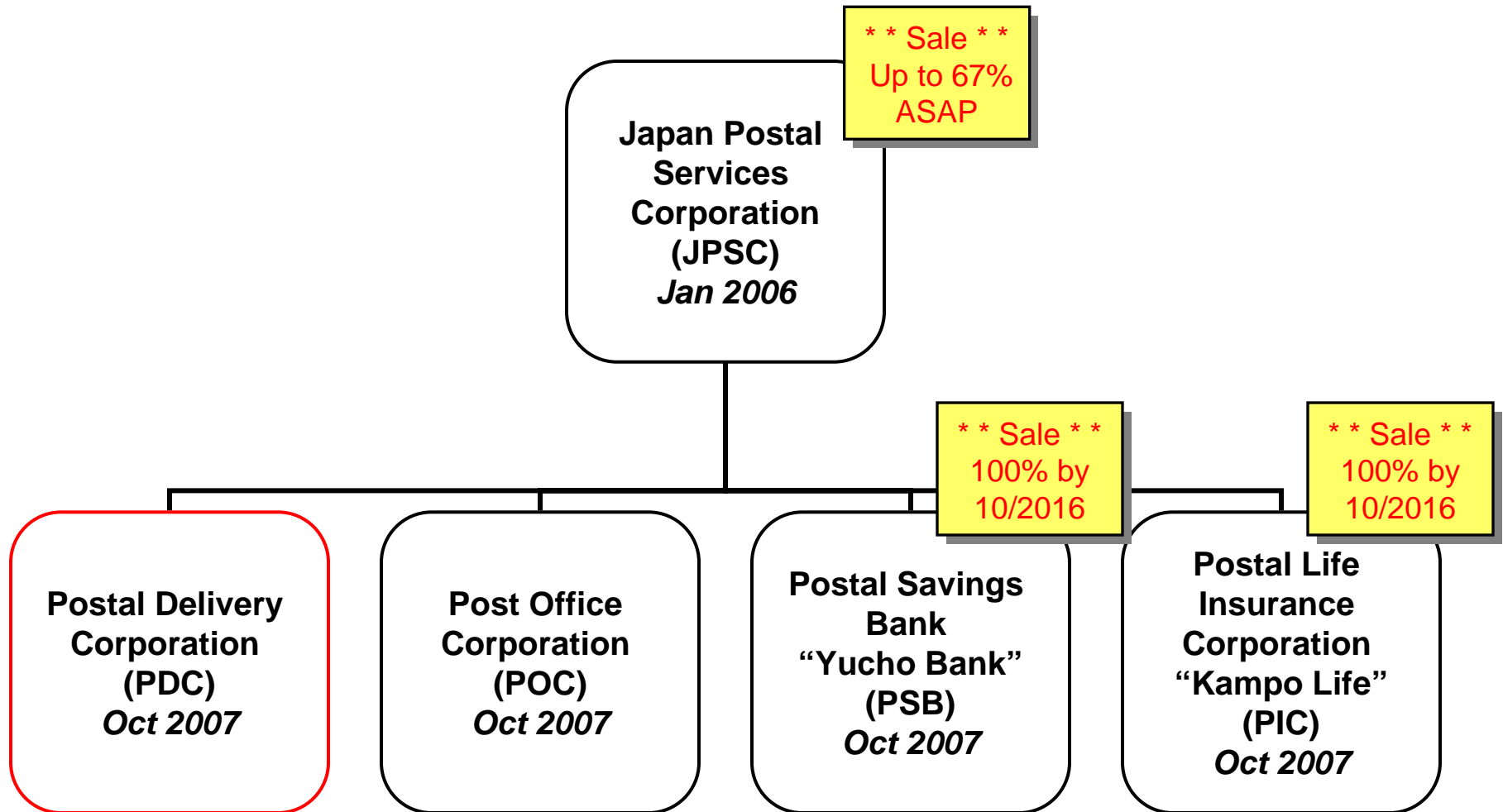
# Reform Steps

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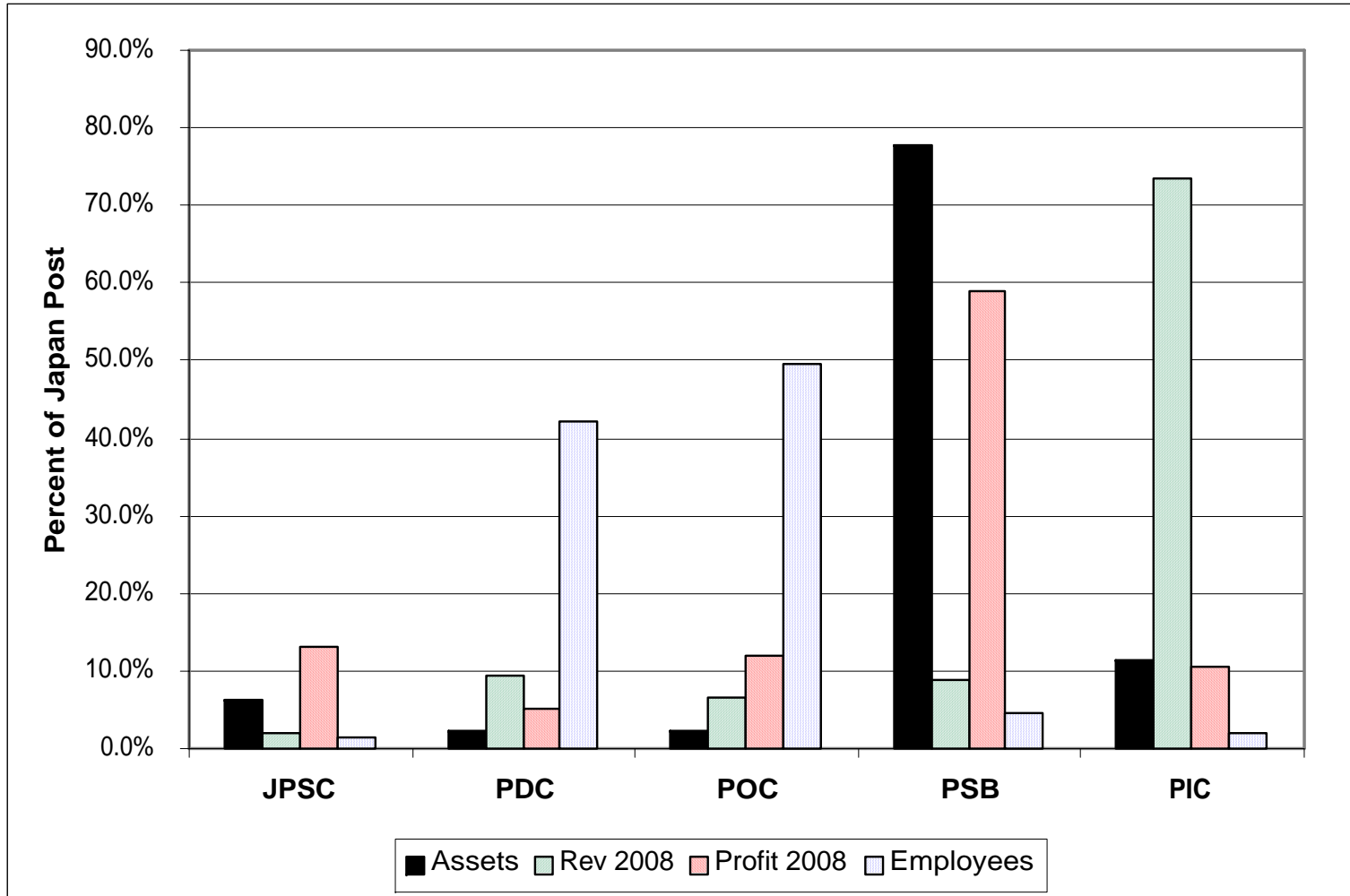
Sep 2004	Cabinet decision
Oct 2005	Privatization package adopted
Jan 2006	Basic Plan
Jul 2006	Framework of Implementation Plan
Apr 2007	Implementation Plan
Oct 2007 to Oct 2016	Transition Period

# New Organization

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# Division of Japan Post



Based on Framework of the Implementation Plan (Jul. 2006) – to be revised

# Dual Regulatory Framework

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- Postal Law limited to letterpost
  - Parcel post services excluded from Postal Law

## Letterpost

Ministry of Communications  
(MIC)

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Postal Delivery Company:  
("postal delivery service  
provided under the  
provisions in the Postal  
Law")

## Parcels

Ministry of Transport  
(MLIT)

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Postal Delivery Company  
(non letterpost)  
Private companies  
(express, parcel)



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# Unclear Nature of Corporation

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- Re-corporatized as PDC (and POC)
- But MIC controls
  - 25-gram letter rate
  - Articles of incorporation of PDC
  - Annual business plan of PDC
  - Postal regulations
  - Management guidelines for PDC
  - Subcontracts of PDC
  - Disposition of PDC assets
  - Entry into new business by PDC

# Division of Japan Post Assets

	Japanese Yen (billion)			U.S. dollars (bil) (\$1 = ¥ 117.69)			% total
	Assets	Liabilities	Net	Assets	Liabilities	Net	
JPSC (w/o subsidiaries)	¥535	¥168	¥367	\$5	\$1	\$3.1	4.3%
Postal Delivery Corp.	¥2,553	¥2,353	¥200	\$22	\$20	\$1.7	2.3%
Post Office Corporation	¥1,522	¥1,322	¥200	\$13	\$11	\$1.7	2.3%
Postal Savings Bank	¥226,991	¥220,191	¥6,800	\$1,929	\$1,871	\$57.8	79.4%
Postal Life Ins. Corp.	¥114,589	¥113,589	¥1,000	\$974	\$965	\$8.5	11.7%
Total	¥346,190	¥337,623	¥8,567	\$2,942	\$2,869	\$72.8	100.0%

*Based on Framework of the Implementation Plan (Jul. 2006) – to be revised*


# Uncertain Process of Privatization

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- Oversight for the division of assets?
  - *“Given the sufficient net assets held by the Japan Postal Services Corporation, it is considered possible to increase assets as necessary after privatization”*
- How can JPSC stock be sold “asap”?
  - 91% of JPSC value is unvalued PSB/PIC stock
  - Disposition of money from PSB/PIC stock is unclear
  - Minister controls commercial fate of PDC and POC?

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# Skeletal Definition of USO

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- Broadly defined by MIC with limits:
  - “To promote public welfare by provision of postal services at the lowest possible charges, on a nationwide scale and in a manner fair to all.”
  - Uniform rate for letters and cards
  - 6 day per week delivery / routing time of 3 days
- MIC Study Groups
  - On Reserved Area (Jun 2006): No clear USO
  - On Reexamining Postal and Correspondence Mail System (current)

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# No Change in Monopoly

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- Formally open to competition
  - But General Correspondence License is illusion
    - No applicant since 2002
    - Monopoly over letters < \$ 8.25
- MIC Study Groups
  - On Reserved Area (Jun 2006): Opposed revision
  - On Reexamining Postal and Correspondence Mail System (current)



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# MIC: More Operator Than Regulator

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- MIC is effectively the top management of PDC and is not independent
- Strange case of international EMS and parcels
  - MIC concludes that these services are “letter post” and not “parcel” services

# Postal Privatization Comm: Advisor

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- Advisory committee attached to Cabinet
  - 5 members appointed by PM for 3 years
  - MIC must consult before key decisions
  - May investigate matters deemed important
  - Provides transparency in postal policy
  - Review of implementation every 3 years
  - Terminates at end of Transition Period
- No regulatory authority


# Fair Trade Commission: Antitrust Only

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- Administers competition law
  - Strengthened in 2006
- July 2006 report on postal privatization
  - Concludes “equal footing” critical to law
- Little regulatory authority
  - No authority to require PDC accounts
  - Cannot prevent cross-subsidization or ensure correct allocation of assets

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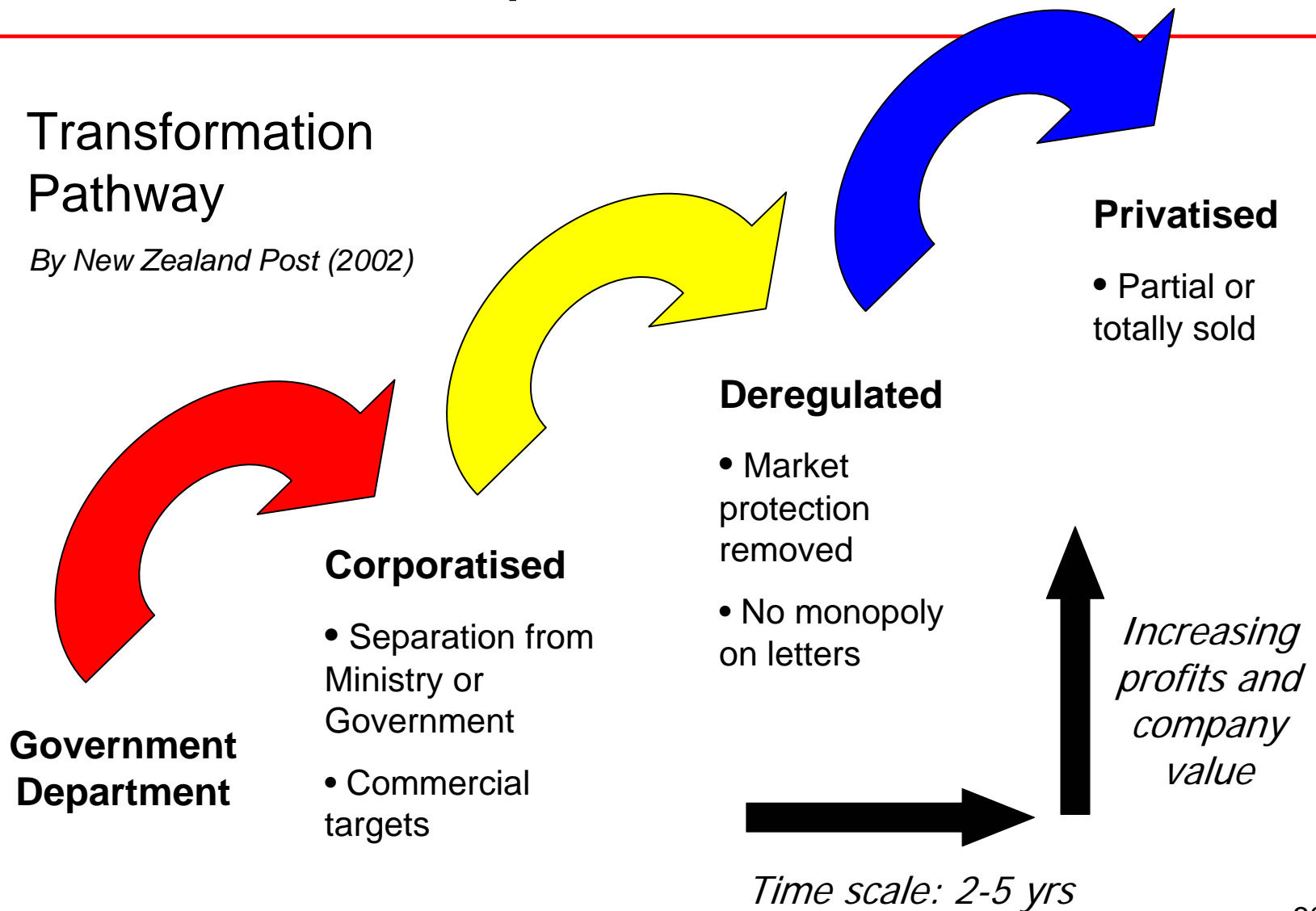
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# “Main Sequence” of Reform

## Transformation Pathway

*By New Zealand Post (2002)*



# Conclusions

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- Japan has entered the final phase of modern postal modernization, privatization, without the normal preparatory steps
- Significant risks
  - Market distortion
  - Failure to prepare Japan Post for competitive market
  - Problems in privatization