

*Japan - United States Symposium on
Postal Reform and the Express Delivery Services
9 June 2009 - Tokyo*

International Postal Reform: Overview and Best Practices

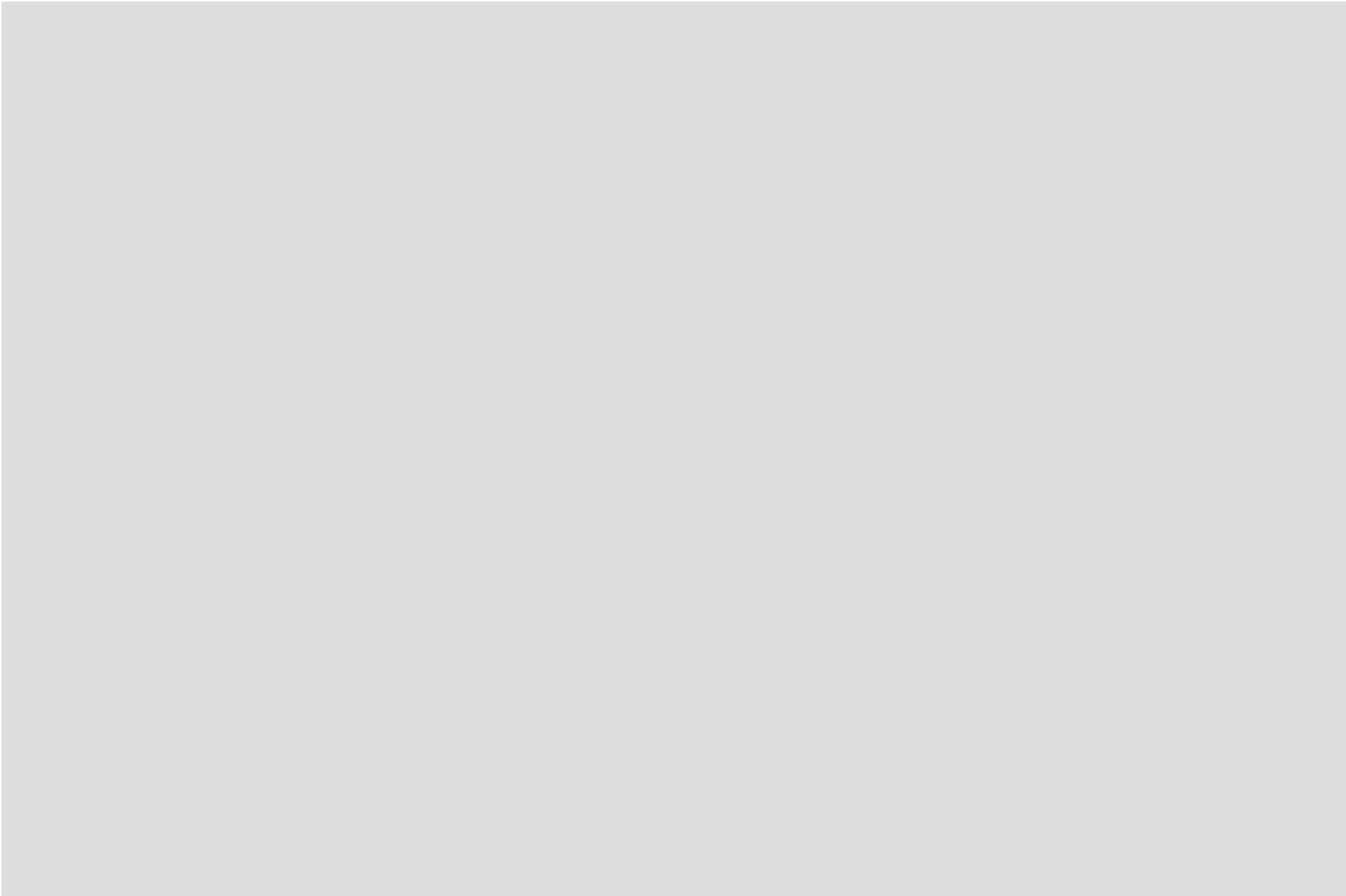
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[Caveat: This is a presentation intended to stimulate discussions in the context of an exchange of views at this seminar. This presentation does not reflect final conclusions about the subjects addressed and should not be quoted as such.]

Topics

- 1. Modern Postal Reform Movement**
- 2. Key Features of Reform and Best Practices**
- 3. Conclusions**

1. Modern Postal Reform Movement



Reasons for Postal Reform

- **Changing technology**
 - Post has become a commercial service; social communications are shifting to other media
 - Letters, news media, (some) advertisements are migrating to other media
 - Private companies are developing innovative delivery services.
- **Need for improved Post Office efficiency and capacity for change**
- **Balance public and commercial incentives for Post Office**
- **Improve Post Office's ability to adapt to changing market so it and government finances can respond to increasing efficiencies**

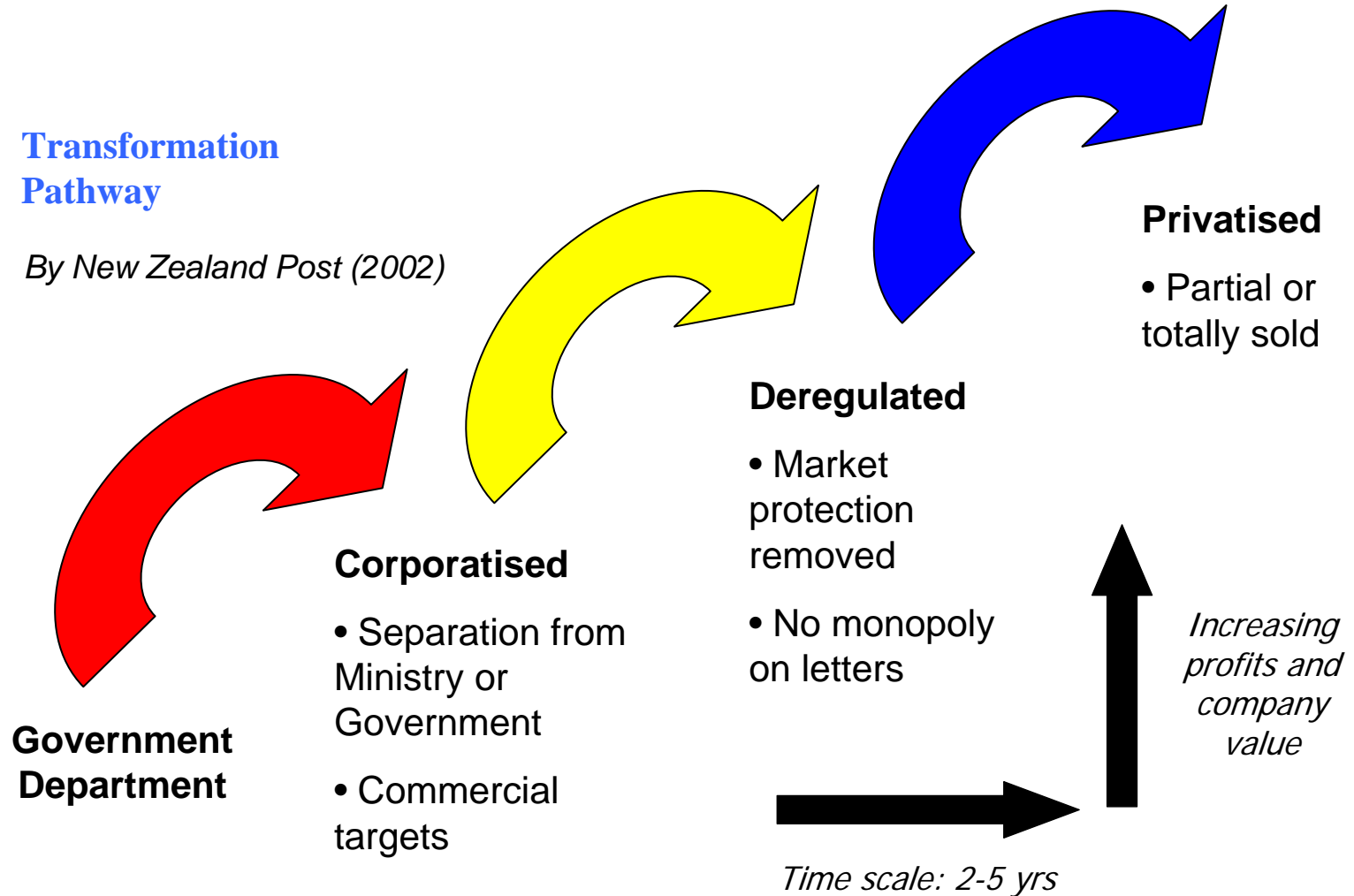
Global Postal Reform Movement

- **1988: Reform begins (NZ, EU)**
- **1992: Major reports (EU, Australia)**
- **1992: TNT- Postal joint venture**
- **1993: Sweden ends monopoly**
- **1997: EU First Postal Directive**
 - **German Postreform 3 ends monopoly**
- **2000: UK Postal Service Act ends monopoly**
- **2002: 2d EU Postal Directive**
- **2006: United States begins postal reform**
- **2008: EU Third Postal Directive ends all EU monopolies**

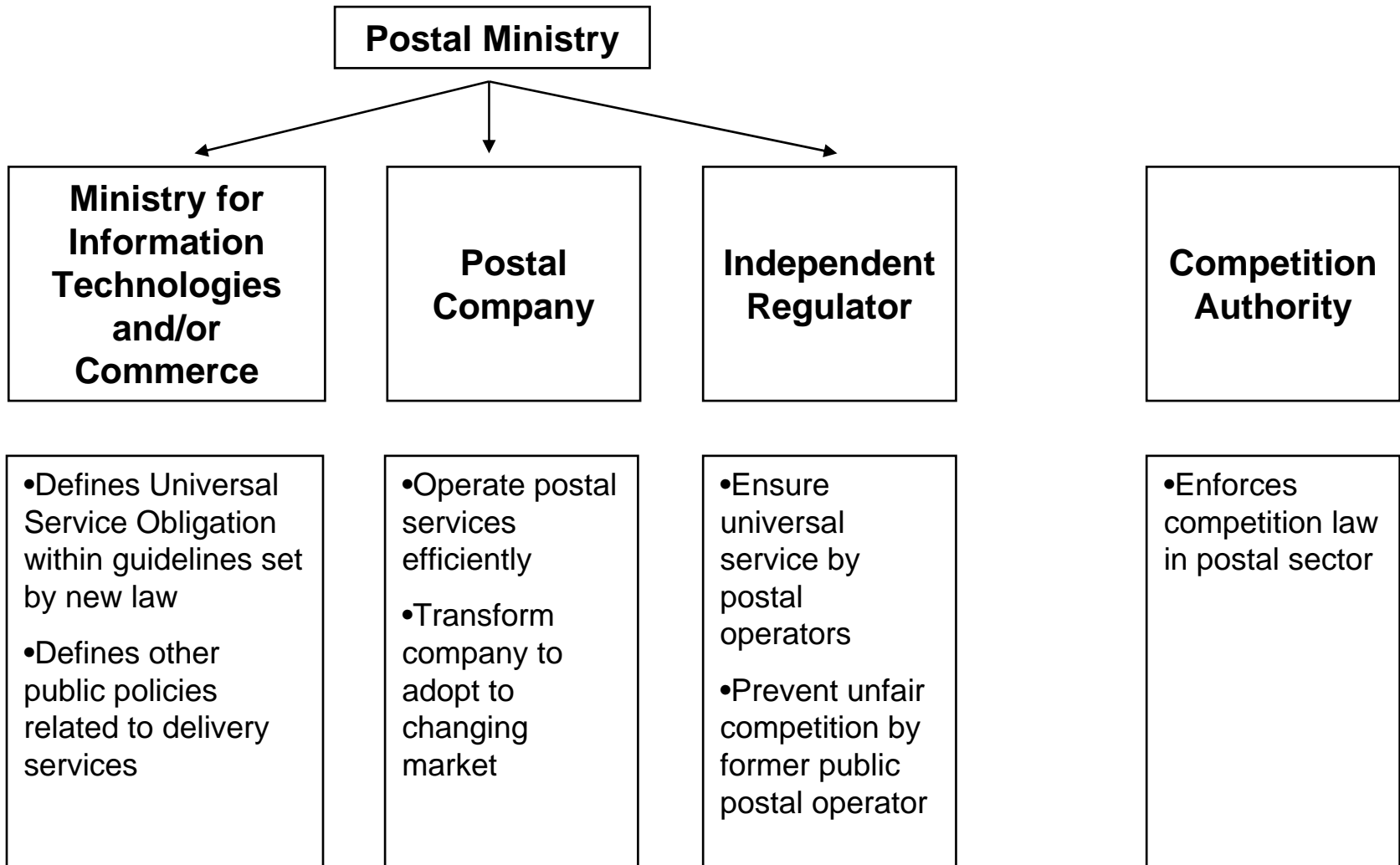
“Main Sequence” of Postal Reform

Transformation Pathway

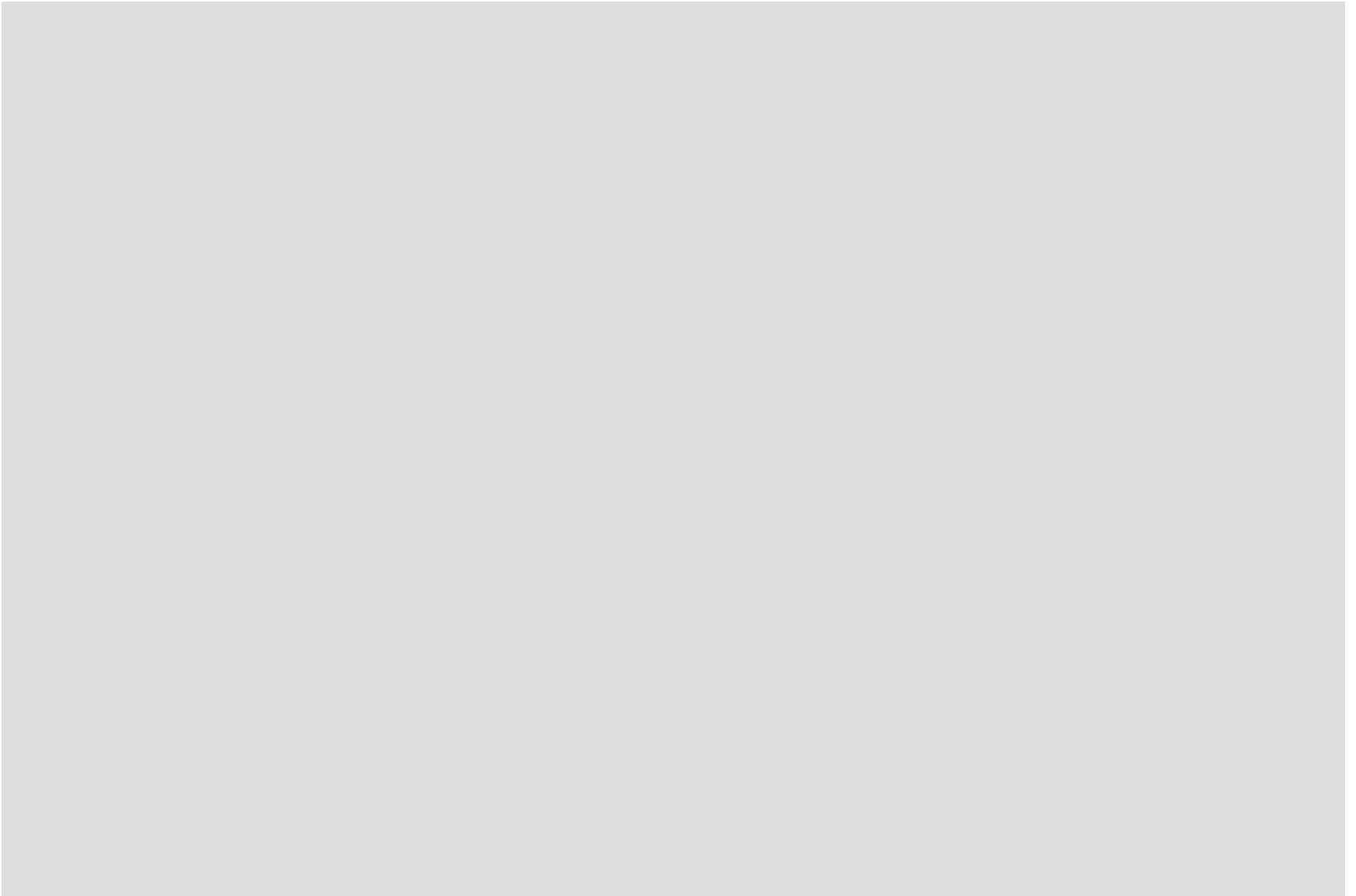
By New Zealand Post (2002)



Institutional Reforms



2. Key Issues and Best Practices



Key Legal Issues

- **How to define a Universal Service Obligation?**
- **How to reorganize the PPO (public postal operator)?**
- **How to organize Postal Regulator?**
- **How to regulate and ensure provision of universal service?**
- **How to reform the postal monopoly law?**
- **How to prevent unfair competition?**

Principles of “Best Practice”

- 1. Regulation should generally be clear, objective, non-discriminatory, transparent, and proportional.**
- 2. A basic, efficient universal postal service should be ensured that meets the objective needs of society.**
- 3. Where there is effective competition the PPO and private companies, the law should “ensure equal conditions for competition”.**
- 4. Abuse of dominant position should be prevented.**
- 5. PPO managers and employees should have fair opportunity to transform the organization into a competitive entity.**
- 6. Reserved area should be abolished in manner consistent with above principles.**

How to define a Universal Service Obligation? (I)

- **Range of services guaranteed in USO**

- *Best practice*: Netherlands.

- Limits USO to retail letter post and parcels. Recognizes de facto competition in bulk letter post and parcel markets. Limits burden of regulation on both PPO and Postal Regulator. Appears to be setting direction for EU.

- *Good practice*: Sweden (excludes parcels, effectively excludes bulk products); Australia (limited to monopoly items); Germany (licensed area).

- *Note on EMS*:

- EMS is not required or regulated by the UPU Convention. (Art. 14: “Postal administrations may agree with each other to participate in . . . EMS”.)

- EMS is not regarded as a “universal service” under the European Postal Directive. (“essentially different from universal postal services”. (EU Commission, 2007).

- EMS is not entitled to customs treatment as a postal service under the Revised Kyoto Convention. Annex J2.

How to define a Universal Service Obligation? (II)

- **Price/service standards for USO**

- *Best practice*: Sweden.

- USO is set in the license for Sweden Post. Simple and transparent. Informed by annual survey of users' needs. (Flexibility limited by EU Postal Directive).

- *Good practice*: New Zealand (USO set in contract between government and NZ Post); Germany (USO set in ministerial regulation); United Kingdom (transparent and objectively justified, but too restrictive).

How to Reorganize the PPO (public postal operator)?

- **Organization of PPO**

- *Best practice*: Netherlands, Germany.

- PPO has been allowed freedom to transform into a viable and efficient commercial entity with new lines of business.

- *Good practice*: New Zealand, Norway, Sweden. Commercially viable organizations but 100 percent owned by government.

How to organize Postal Regulator?

- **Independence and impartiality**

- *Best practice*: United States, United Kingdom.

Multi-member commission with fixed terms of service. Members are truly independent of both the PPO and general government. Commission is assisted by expert staff. Transparent procedures.

- *Good practice*. Ireland, Sweden (independent and transparent).

- **Allocation of authority between Law/Ministry/Regulator**

- *Best practice*: None.

Ideally, law should embody permanent values. Ministry should administer social policies which require flexibility while maintaining political unity. Regulator should apply policies to facts objectively and impartially.

- *Good practice*. United Kingdom (clear statement of social goals and Regulator authority); Sweden (fairly strong regulator); Germany (strong ministry has wide authority with fairly strong regulator).

How to regulate/ensure provision of universal service? (I)

- **Continuity of universal service**

- *Best practice*: Germany

German law ensures universal service by giving Regulator authority to compel service and/or procure service by contract without introducing unnecessary regulation of competitive markets or unfairly burdening former PPO.

- *Good practice*: Sweden, United Kingdom (strong license regimes are flexible and powerful); New Zealand (contract between government and PPO).

- **Regulation of accounts of PPO**

- *Best practice*: United States

In U.S. accounting controls are transparent, specific, objective. Methodologies have informed other countries.

- *Good practice*: France; Norway; Sweden; Ireland (generally good analysis with knowledgeable Regulator).

How to regulate/ensure provision of universal service? (II)

- **Control of prices**

- *Best practice*: None

No country has developed a clearly satisfactory way of ensuring that prices are fair and reasonable.

- *Good practice (in part only)*: United States: clear distinction between market dominant and competitive markets; impartial but flexible and reasoned allocation of common costs.

European Union: limitation of uniform rate to single piece mail; distinction between bulk and single-piece regulation.

- **Control of service quality**

- *Best practice*: None

No country has developed an objective standard for determining and ensuring the basic quality of service needed for the long term good of society.

- *Good practice*: United Kingdom (transparent and careful analysis, disaggregated service standards); European Union (transparent measures of cross border services by country pair).

How to regulate/ensure provision of universal service? (III)

- **Calculation and financing of USO net cost**

- *Best practice*: None
- No country has developed and implemented a clearly superior approach to estimating and financing the net cost of universal service, if any.
- *Good practice*: United Kingdom, Norway, Germany
 - Norway: simple, practical approach based on likely reductions in delivery frequency. Actually implemented with public financing. Appears to be leading example in EU.
 - Germany: straightforward and transparent funding procedures established by law but not needed in practice.
 - United Kingdom: transparent, detailed, expert analysis.

- **Facilitation of multi-operator environment**

- *Best practice*: United Kingdom.
- Code of conduct for all operators. Sharing of address files, etc.
- *Good practice*: Sweden, European Union

How to regulate/ensure provision of universal service? (IV)

- **Relationship between Postal Regulator and Competition Authority**
 - *Best practice*: France
 - Complementary regulatory jurisdictions. Regular consultation and mutual right to require an opinion from the other agency.

How to reform the postal monopoly law?

- **Orderly phase-out of the monopoly**

- *Best practice*: United Kingdom.

- Thorough, transparent review of costs and benefits of postal monopoly, 2000-02.
 - Controlled procedure designed to replicate likely breakdown of the monopoly under market pressure.

- *Good practice*: Germany (statutory timetable, D-license).

How to prevent unfair competition? (I)

- **Level playing field**

- *Best practice*: New Zealand

NZ law treats all postal operators in almost identical manner with respect to domestic markets.

- *Good practice*: Sweden, Netherlands

- **Analysis of conditions of fair competition**

- *Best practice*: United Kingdom

Comprehensive survey of barriers to entry, 2004-06

- *Good practice*: United States (FTC, 2007)

How to prevent unfair competition? (II)

- **Accounting controls**

See How to regulate/ensure provision of universal service? (I)

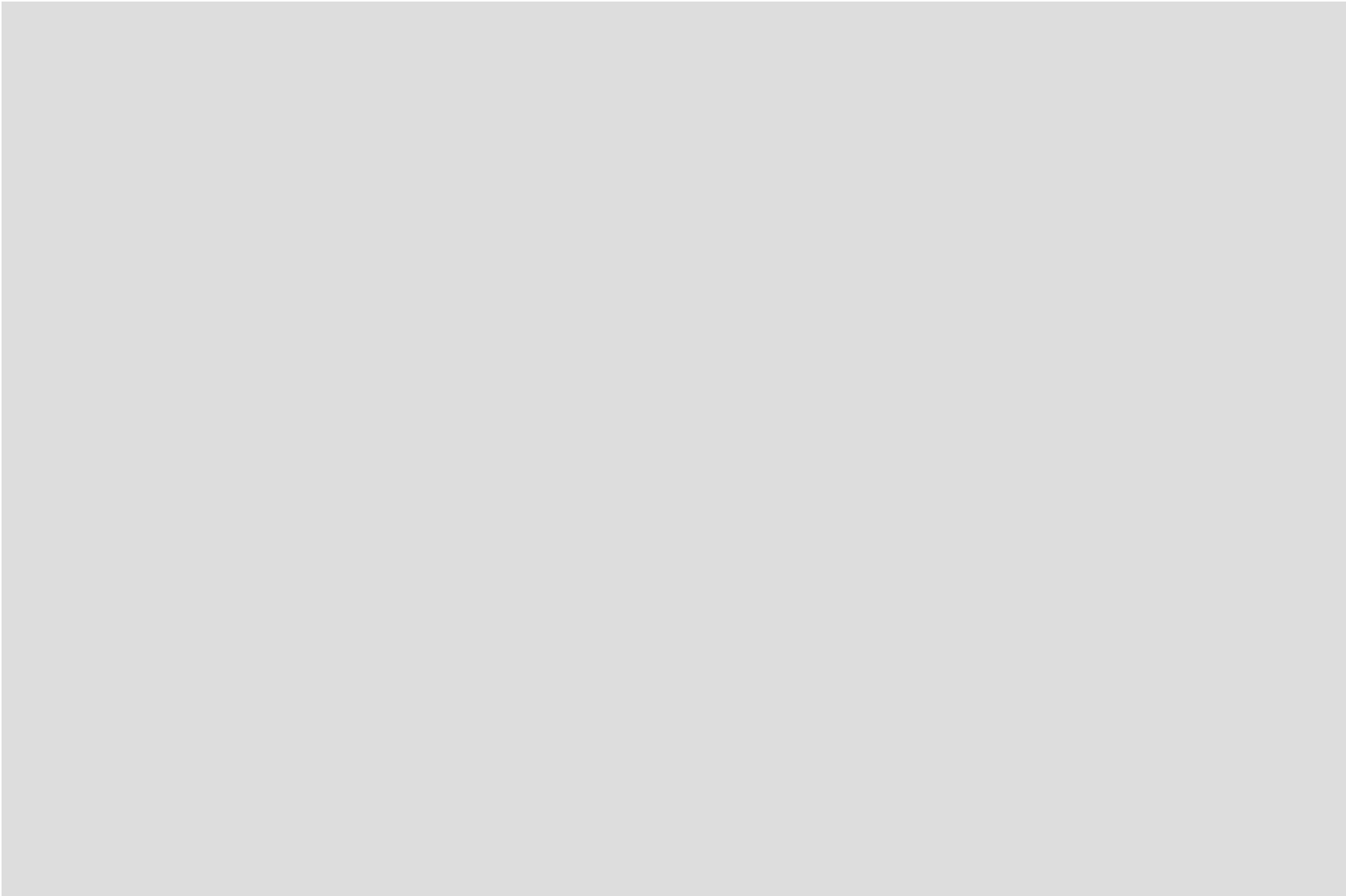
- **International postal policies**

- *Best practice*: None

No country regulates international postal service in an objective and proportional manner designed to provide efficient services suited to the needs of its citizens.

- *Good practice*: United States (overall policy, customs law); European Union (terminal dues).

3. Conclusions



Conclusions (I)

- **Postal reform is necessitated by fundamental changes in postal market comparable those of Industrial Revolution.**
- **Postal reform among industrialized countries have been ongoing for about 20 years.**
- **There is broad consensus among industrialized countries on the main elements of reform:**
 - Repeal postal monopoly
 - Reorganize PPO to grant commercial flexibility to transform business model
 - Separate policy making, regulation, and commercial operation.
 - Ensure basic universal service
 - Ensure fair competition and legal equality in competitive markets

Conclusions (II)

- **Successful postal reform depends upon resolution of many complex legal, economic, and political issues.**
- **While no country has solved all problems and not all reform issues have been addressed completely, there are many “best” and “good” practices to draw upon.**