# Appendix H

# APPENDIX H — Postal Transformation — The International Experience†

## Executive Summary

The regulatory and competitive landscape of the postal sector in most of the industrialized world has changed irreversibly over the past fifteen years. As postal operators have become corporatized, even privatized, and national postal monopolies have been reduced or repealed, the old industry atmosphere of cozy cooperation has given way to one of fierce competition of regional and global scale. Over the next decade, regulatory reforms and an expansion of competitive freedoms will likely continue. Successful privatization of the Dutch and German postal services will exert a powerful influence on debates in other countries about appropriate models for postal transformation.

Although there are significant differences across countries and postal operators, most postal transformation efforts have followed similar paths and depended on three fundamental elements—corporatization, a reduction in the scope of the letter mail monopoly, and independent regulation.

**Corporatization.** Six of the seven postal operators included in this study have been transformed into postal corporations. The seventh, Japan's Postal Services Agency (PSA), is due to be corporatized by 2003, although details are undecided. Corporatization has allowed postal operators to use many traditional private sector management tools to improve productivity and profitability, while fulfilling their universal service obligations. By taking steps, ranging from the reduction of job protection to pay-for-performance programs, corporatized postal operators have been able to improve productivity dramatically. Similarly, the freedom to employ competitive pricing practices or to divest unprofitable business units or outlets has materially improved the bottom-line for many operators.

With corporatization has come an increasing opportunity for postal operators to leverage their assets and experience to expand product and service offerings. All the postal operators discussed, except Canada Post Corporation (CPC) and the PSA, are able to borrow private capital without government approval; and all except the PSA are free to participate in joint ventures and form subsidiaries.

**Reduction in the scope of the letter mail monopoly.** Monopoly reduction has been a key element of transformation. Governments in most of the countries included in this study have reduced the postal monopoly; three (the United Kingdom, Sweden, and New Zealand) have abolished the postal monopoly.

**Independent regulation.** Each government in this study has continued to regulate the postal market, usually through an independent regulator, to ensure a level playing field in markets previously dominated by an incumbent postal operator.

† This appendix was prepared for the United States Postal Service by PricewaterhouseCoopers' Mail, Package, and Freight industry group, Washington, DC.

In response to corporatization and changes in postal regulation many postal operators have expanded both their geographical presence and service offerings. They have done so while improving operational efficiency and maintaining a universal service obligation.

**Strategic reexamination.** The most successful transformation stories have been initiated by a major strategic reexamination and subsequently marked by committed adherence to resulting long-term strategic plans. In this respect, Deutsche Post World Net (DPWN) and TNT Post Group (TPG) represent particularly successful examples of reform.

**Regional/Global expansion.** Through aggressive acquisition strategies, DPWN and TPG have expanded internationally to become dominant regional and global logistics operators. Sweden Post (SP) and Consignia are also looking to expand their logistics presence.

**Service diversification.** SP has explored financial services and e-commerce activities. While not corporatized, the PSA operates the world's largest savings bank and Japan's largest life insurance company. Both CPC and New Zealand Post (NZP) provide postal consulting services internationally.

**Cost reduction.** Cost reduction has been a significant factor in transformation. Common means of reducing costs include automation of operations, as found most conspicuously at CPC, DPWN, NZP, and TPG, and staff reductions, as experienced at CPC, DPWN, NZP, SP, and TPG. Most of the postal operators discussed have been largely successful in avoiding conflict with organized labor (CPC and Consignia being notable exceptions). By working closely with labor through the transformation process, NZP reduced its workforce by 40 percent with minimal disruption, SP by 30 percent, and DPWN by 38 percent—primarily through attrition.

Transformational changes, as described above, have dramatically altered the legal and commercial environment for a number of postal operators. As evidenced by examples such as DPWN and TPG, it appears that postal operators who prepared for change have gained the most from postal transformation.

## Objective and Scope of Study

The objective of this study is to describe the transformation paths taken by seven postal operators: Canada Post Corporation, Consignia (United Kingdom), Deutsche Post World Net (Germany), New Zealand Post, Sweden Post, The Postal Services Agency (Japan), and TNT Post Group (The Netherlands). The report discusses nine aspects of structural change: legislation and transformation, finance, universal services, regulation, reserved services, products and services, pricing, operations, and human capital.

## Approach

Data collected for this study are based on secondary research, confirmed by PwC consultants and/or postal employees in each country. Transformation highlights for each operator are graphically depicted in the Legislation and Transformation section. The seven postal operators are presented in alphabetical order. All figures are in U.S. dollars unless otherwise stated. Exhibit A on the following page summarizes key findings.

## EXHIBIT A – TRANSFORMATION OVERVIEW

| | Canada Post Corp. | Consignia (UK) | Deutsche Post World Net (Germany) | New Zealand Post | Sweden Post | The Postal Services Agency (Japan) | TNT Post Group (The Netherlands) |
|---|---|---|---|---|---|---|---|
| Revenue [1,2,3] | $3.7B | $11.7B | $29.4B | $412M | $2.5B | $17.9B | $10.1B |
| Net Income | $53M | $95M | $1.4B | $9M | $-136M | $-80M | $500M |
| Year of Last Major Reform | 1981 | 2000 | 1997 | 1998 | 1997 | 2001 | 1998 |
| Corporatized | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Owner | Government | Government | Private and Government | Government | Government | Government | Private and Government |
| Borrows Private Capital Without Government Approval | No | Yes | Yes | Yes | Yes | No | Yes |
| Pays Federal Income Tax | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Joint Ventures | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Subsidiaries | Yes | Yes | Yes | Yes | Yes | No | Yes |
| Financial Mandate | Profit | Profit | Profit | Profit | Profit | Break-even | Profit |
| Scope of Monopoly | 3 x standard rate, 1.8 | No monopoly [4] | Exclusive license replaces monopoly [5] | No monopoly | No monopoly | Mail delivery services [6] | 3 x standard rate, 3.5 oz. |
| Price Cap – Reserved Area | Yes | No [7] | No | Yes | Yes | No | Yes |
| Mail Box Monopoly | No | No | No | No | No | No | No |
| Right to Strike | Yes | Yes | Yes | Yes | Yes | No | Yes |

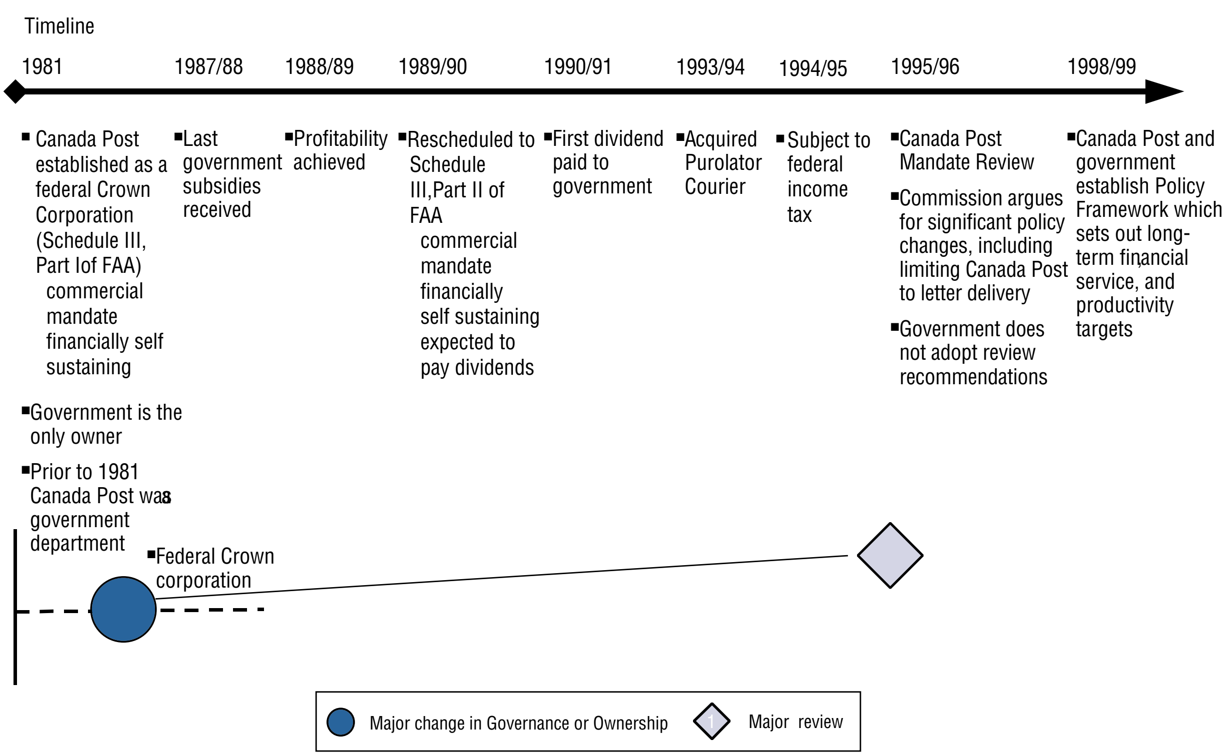
1 Revenue and net income data are most recent available. 2001 data are presented for Canada Post Corporation, Consignia, New Zealand Post, and TNT Post Group. 2000 data are presented for Deutsche Post World Net, Sweden Post, and The Postal Services Agency.
2 Throughout the document, conversions of financial data to U.S. dollars are based on foreign exchange rates as of 12/13/2001.
3 Revenue and net income data are based on varying national accounting standards.
4 Universal service is ensured by administration of a "licensed area." No person may operate a business for delivery of "letters" without a license unless, for each letter transported: 1) the price of service is at least £ 1.00 ($ 1.44); or 2) the weight of the letter is at least 350 grams. The new regulator has issued a number of postal licenses, including to Consignia.
5 In 1997 a licensed area replaced the postal monopoly. Deutsche Post was granted an exclusive license for a portion of the licensed area until the end of 2002. The exclusive license was later extended to 2007.
6 There is no monopoly on parcel services.
7 The application of a potential price-cap system is pending a 2002 review by Postcomm, the UK postal regulator.

# Canada Post Corporation

## Legislation and Transformation

Canada Post Corporation (CPC) is a federal Crown corporation whose only shareholder is the government of Canada. In 1981, the Canada Post Corporation Act created CPC, replacing the former Post Office Department and its government administration with today's corporatized entity. CPC retains its universal service obligation and monopoly protection, but only for basic letter services. The figure below highlights transformational events since 1981.

**CANADA POST TRANSFORMATION HIGHLIGHTS**




CPC reported its first annual profit in 1989 and paid its first dividend to the government in 1990. In 1993, CPC purchased 75 percent of Purolator Courier, the largest overnight delivery company in the country.

In 1995, the government of Canada launched a review of CPC's mandate, hiring an independent reviewer to recommend long-term transformation strategies for the postal service. The resulting report recommended a fundamental reorientation of CPC. CPC was to focus on its public policy mission, withdraw from most competitive services, return to a break-even financial mandate, and significantly reduce its labor force. The report also recommended that the government consider implementing general taxes and specific levies on courier companies to offset the resultant lost postal revenues.

After much debate, and strong objections from CPC, the government rejected this approach to postal transformation. Instead, the Minister of Public Works and Government Services reiterated Canada Post's current status as a government owned corporation with a public policy mission. The Minister confirmed that CPC would:

- Continue to have a mission to provide affordable universal service for all Canadians;
- Remain a federal Crown corporation and not be privatized as long as it fulfilled a public policy role;
- Maintain its primary focus on letter service;
- Continue to earn profits, pay dividends, and compete in delivery services markets;
- Retain its ownership of Purolator;
- Not be subsidized by taxpayers;
- Continue the moratorium on closing rural post offices; and,
- Withdraw from the delivery of unaddressed advertising mail where alternate capability exists.

The government also called for creation of a multiyear Policy Framework defining CPC's financial, service, and productivity targets and a formula for determining future increases in the basic letter mail rates. In December 1998, this framework was established. It defined business targets for operating income, return on equity, dividend payments, and capital structure and leverage. The framework also defined the price-cap formula, which limits increases to the basic domestic letter mail rate to two-thirds the rate of inflation as measured by the Consumer Price Index.

CPC continues to compete aggressively in nonmonopoly markets. As CPC has gained share in some markets, competitors have complained about a possible cross subsidy. Government and antitrust authorities' inquiries have rejected these complaints.

Today, CPC's mission remains to maintain the universal service obligation (USO), broadly defined, "to establish and operate a postal service for the collection, transmission and delivery of messages, information, funds and goods both within Canada and between Canada and places outside Canada." CPC has explicit authority to "extend its products and services in the light of developments in the field of communications." There are no plans to revise the postal monopoly or change CPC's business model.

## Finance

CPC has received no direct government funding since 1988, has paid a dividend since 1990, and has paid federal income tax since 1994. CPC is required to prepare annual reports and to adhere to generally accepted accounting principles as if it were a publicly traded company. In 2001, CPC experienced its sixth straight year of profitability, with increasing profits for the past four years.

In 2000/2001, CPC's financial objectives were operating profits of C$104 million ($65.5 million), a Return on Equity (ROE) of 4 percent, productivity of 98.2 percent, a debt to capital ratio of 12 percent, and a dividend payout ratio of 25 percent.[8] The corporation achieved its ROE, productivity, and debt to capital objectives and paid its 25 percent dividend to the government but missed the operating profit target.[9]

## Universal Services

CPC is responsible for providing universal postal service under the direction of the government. Universal service is not strictly defined, but is understood to mean nondiscriminatory service. Some addressees (approximately 35 percent in 2001) receive mail at community mailboxes or other centralized points while the rest receive mail at their residences.

## Regulation

Canadian law does not provide for a third-party regulator for CPC or for the delivery services sector generally; however, CPC is subject to direct government supervision. Compared to the United States, there is no organization in Canada with the role and responsibilities of the Postal Rate Commission. CPC is managed by a Board consisting of nine directors appointed by the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations (Minister), and a Chairman and President who are appointed by the Governor in Council. CPC is subject to such directives as the Minister deems appropriate.

As a federal Crown corporation, CPC is subject to the provisions of the Financial Administration Act (FAA). Under the FAA, CPC is obligated to submit annually to the Governor in Council, for approval, a five-year corporate plan and a one-year capital budget. CPC also submits its operating budget for review. The Treasury Board is a specialized committee of the cabinet that administers the FAA. The Treasury Board scrutinizes the corporate plans submitted by CPC and considers the reasonableness of the plans and business strategies. CPC's borrowings are subject to the approval of the Minister of Finance and the Treasury Board. Approval by the Treasury Board of CPC's corporate plans and budgets is typically subject to explicit conditions.

CPC is subject to the Competition Act, Canada's antitrust law. The Act is administered and enforced by the Bureau of Competition Policy.

## Reserved Services

CPC has a monopoly over "collecting, transmitting and delivering letters to the addressee thereof within Canada." There are several exceptions. The most important exception permits private carriage for all letters charged more than three times the domestic postage rate for a 50-gram (1.8 ounce) letter. There is no mailbox monopoly.

## Products and Services

CPC provides products and services in four principal markets: communications, physical distribution, advertising, and publications, respectively accounting for 52 percent, 21 percent, 14 percent, and four percent of sales in 2001.[10] In addition, CPC generates revenue from other sources including terminal dues from incoming international mail,

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8 2000/01 to 2004/05 Corporate Plan Summary, Canada Post Corporation.
9 2000/2001 Annual Report, Canada Post Corporation.
10 Ibid.

money orders, retail and philatelic products, and consulting. CPC provides worldwide postal consulting services through a wholly owned subsidiary, Canada Post International Limited (CPIL). More than one hundred projects have been completed in fifty countries since CPIL was established in 1990. CPIL has, for example, a five-year contract for the administration and operation of postal services in Guatemala, a twelve-year contract to rebuild and operate Lebanon's post, and a strategic alliance with the government of the Dutch Antilles for the transformation of its postal system.

In 1991, CPC, along with the postal operators of France, Germany, the Netherlands, and Sweden, formed a joint venture, GD Express Worldwide, to purchase one half of TNT, a worldwide courier service. In 1993, CPC acquired Purolator Courier to provide domestic express service. The post has also formed several alliances to develop hybrid and e-commerce services. In 1998, CPC launched Electronic Bill Payment through epost, an Internet-based secure electronic messaging service. epost recently concluded agreements with Yahoo.ca and msn.ca, two of Canada's leading Internet portals, to broaden access to its services. In partnership with certain Canadian banks, CPC offers financial services to customers living in remote areas and in specific locations where no financial institution currently operates. CPC plans to invest in areas of significant potential growth, particularly distribution, integrated logistics, and e-commerce.[11] In 2001, CPC acquired a majority interest in Progistix-Solutions, Inc. and Intelcom Courier Canada, Inc.

## Pricing

CPC is not subject to direct price regulation as is the case in the United States. It must, however, demonstrate that revenues from monopoly products are not subsidizing competitive services. In 1989, CPC's unaddressed advertising mail services were deregulated, allowing for new and flexible rate structures, like volume discounts. By 1996, CPC was granted authority to set prices for all products and services except letter mail and some publications.[12] Prices for monopoly products (50 percent of CPC revenues) may only be increased once a year. The basic letter rate is subject to a price cap equal to two-thirds the rate of inflation. Through its annual submission of a five-year corporate plan, CPC advises the government of its rate plans for all mail services.

## Operations

In the late 1980s and early 1990s, CPC sought to increase efficiency through greater mechanization, automation and cost-cutting measures. It invested significant capital in mail processing equipment. CPC also introduced community mailboxes to service new suburban housing developments. It adopted independent auditing and quarterly public reporting of its letter mail delivery performance. It cut back rural mail service, closing unprofitable post offices and shifting services to outlets in retail stores.[13] (However, in 1994 the government imposed a moratorium on CPC's program of converting corporate rural post offices to franchised outlets; this moratorium continues today). By 1996, many non core operations were outsourced, including long-distance transportation and information technology.[14] In 1996, CPC built a national control center

11 2000/2001 Annual Report, Canada Post Corporation.
12 Congressional Testimony, “Changes in Foreign Postal Service,” Michael E. Motley, 01/25/1996.
13 Christian Science Monitor, “Profits May Bring Other Problems to Canada's Post Office,” Fred Langan, et. al., 06/28/1990.

that allowed postal executives to monitor the condition of the network and the movement of mail through the network.

### Human Capital

Including wages and benefits, labor costs accounted for 64 percent of CPC's operating costs in 2000-2001, up from 62.4 percent in 1999-2000.[15] CPC has a history of difficult labor relations with its unionized staff (95 percent of the workforce in 2001). Since 1967, CPC has experienced twelve national postal strikes—an average of one every two and two-thirds years.[16] However, over the past five years, CPC has been virtually strike-free. Mediation, arbitration and back-to-work legislation have been imposed to help resolve labor disputes.

To improve the work culture and productivity, CPC increased training for its employees significantly in the 1990s, tripling the training budget between 1994 and 1996. CPC funded the Canada Post Learning Institute, a 'virtual' university for training courses. CPC is also working with its largest union to develop a more competitive operating model for collection and delivery activities.

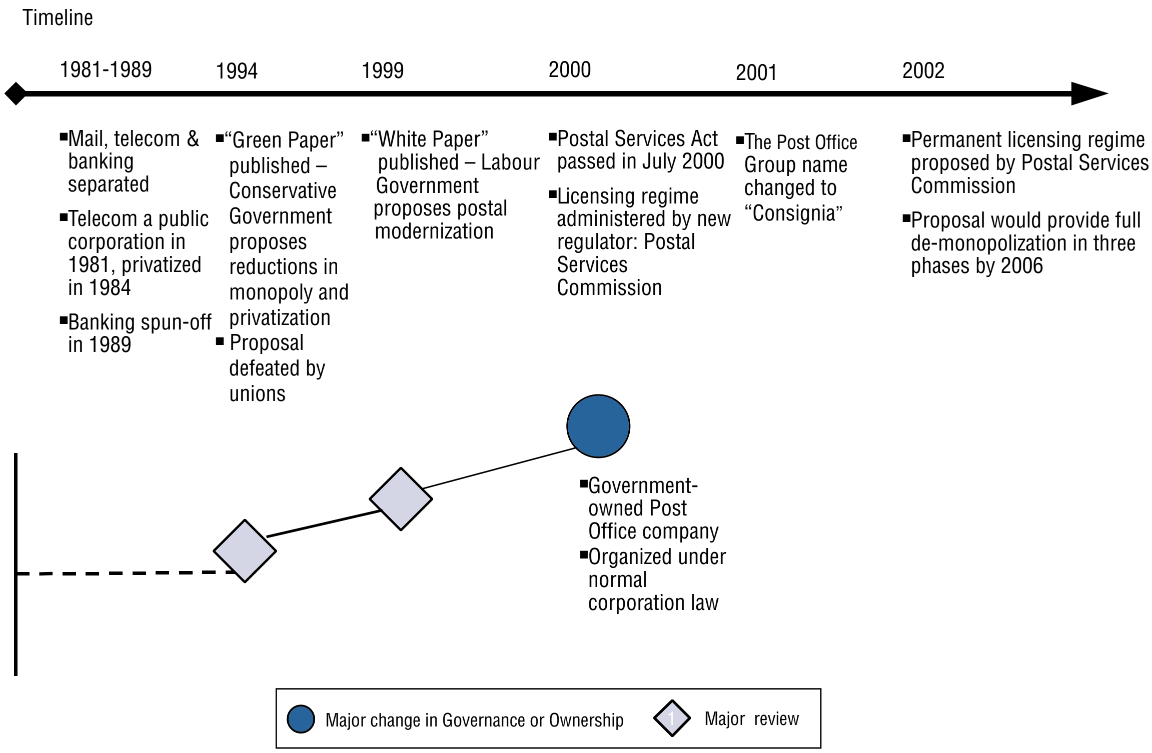
## Consignia (United Kingdom)

### Legislation and Transformation

Postal reform in the United Kingdom followed an eight-year public discussion. In June 1994, after two years of study and public debate, the Conservative government published a "green paper" on postal services that proposed reductions in the monopoly and privatization of 51 percent of The Post Office. Although supported by The Post Office, this proposal was narrowly defeated by postal unions and by parliamentary "backbenchers" concerned over the future of rural retail and delivery services. In July 1999, as highlighted in the graphic below, the new Labour government published a white paper proposing a modified plan for postal modernization, followed by draft legislation announced the following January.

14 Congressional Testimony, "Changes in Foreign Postal Service," Georges C. Clermont, 01/25/1996.
15 2000/2001 Annual Report, Canada Post Corporation.
16 USPS Future Vision, "Review of Eight Progressive Postal Administrations," PricewaterhouseCoopers Report, 10/15/1998.

## CONSIGNIA TRANSFORMATION HIGHLIGHTS




In July 2000, the Postal Services Act 2000 was enacted. The Act dissolved The Post Office and transferred its assets to a government-owned postal company organized under normal corporation law. The postal monopoly was replaced by a licensing regime administered by a new regulator, the Postal Services Commission (Postcomm). Responsibility to ensure universal service was transferred to Postcomm, which is authorized to attach conditions to licenses to accomplish three goals: maintenance of universal service, promotion of competition, and promotion of efficiency, in that order of importance.

In March 2001, The Post Office Group changed its name to Consignia but maintained its existing business brands—Royal Mail for letter services, Parcelforce Worldwide for parcel services, and Post Office for the retail network.

Since its creation, Postcomm has issued seven licenses, including one to Consignia. To date, these have produced only limited competition. In January 2002, Postcomm proposed a permanent licensing regime that would provide for complete phase-out of the monopoly in three stages by March 2006:

- Phase one, April 2002 – March 2004: Eliminate the monopoly on bulk mail above 4,000 items per shipment, consolidation services, and certain niche services—around 30 percent of Consignia's market by value.
- Phase two, April 2004 – March 2006: Open up a further 30 percent of the market by lowering the bulk mail threshold as appropriate—probably between 500 and 1,000

items per mailing. Plus a review of restrictions on consolidation licenses with a view to enabling consolidators to tender destination entry mail to delivery providers other than Royal Mail.

- Phase three, no later than March 31, 2006: All restrictions on market entry abolished.[17]

## Finance

By 1995, The Post Office was obligated to pay taxes. In addition, the government relaxed limits on capital spending and the level of government scrutiny on individual investment projects and gave The Post Office greater scope to enter new markets, for example, through joint ventures. The Post Office was also required to prepare financial statements equivalent to those of a commercial company.

During the 1990s, the Post Office felt burdened by long-standing agreements with the government to return a large percentage of its profits to the Treasury. The Post Office has taken the position that it was thus deprived of capital for much-needed investments. Up to 80 percent of the post's annual profits have been diverted to the Treasury. In 2000, the government reduced The Post Office's annual Treasury payments to 40 percent of post-tax profits and approved acquisitions totaling £600 million ($864 million). With corporatization in 2000, Consignia won greater commercial freedom but the state remains its single shareholder and the Treasury still exercises tight control over its balance sheet and borrowings.[18] Consignia has asked that dividends paid to the government be waived for 2002, but that decision remains solely in the hands of the government.[19] Consignia cannot make large acquisitions or borrow more than £75 million ($108 million) without government consent.

From the mid-1970s through the late 1990s, The Post Office earned surpluses each year. In 1998–1999, The Post Office earned £493 million ($710 million)—its 24th consecutive year of profit.[20] In the fiscal year ending March 25, 2001 The Post Office returned a post-tax profit of £66 million ($95 million) on revenues of £8.1 billion ($11.7 billion), reversing the previous year's losses of £264 million ($380 million), but earnings before taxes and exceptional items declined from £474 million ($682 million) to £103 million ($148 million). It appears, however, that Consignia returned a profit in 2000/2001 only because it received £106 million ($153 million) in interest on previous dividends held by the government.

## Universal Services

The Postal Services Act defines universal service to mean delivery each working day of "relevant postal packets" to each address in the country except in "exceptional circumstances." Service must be provided at "affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom." "Relevant postal packets" refers to documents and parcels weighing up to twenty kilograms.

17 Postcomm press release, 01/2002.
18 The Guardian, "It's deliver or die time…," David Gow, 04/12/2001.
19 The Sunday Telegraph, "Last Post for Consignia?" Mary Fagan, 12/16/2001.
20 The Guardian, "Out of sorts," Andy Beckett, 01/23/2002.

To ensure universal service, Postcomm has made continuation of universal service a condition of Consignia's license. In March 2001, Postcomm issued the first postal license to Consignia. Twenty conditions are attached, addressing issues such as prices, universal service obligations, standards of service, complaint handling, free services for the blind, provision of information to users, integrity of mail, access to postal facilities, prohibitions against unfair commercial advantage, mergers, accounting rules, financial resources, and reports to Postcomm.

The universal service obligations set out in the Consignia license are detailed. For example, Consignia must make delivery to each address point at least once each working day. It must establish collection boxes so that "in each postcode area where the delivery point density is not less than two hundred delivery points per square kilometer not less than 99 percent of users or potential users of postal services are within five hundred meters of a post office letter box." Postcomm has required Consignia to make its address database available to all operators. Postcomm will review which of Consignia's products should be considered universal services before the summer of 2002.[21]

## Regulation

The basic task of Postcomm is to ensure continued provision of universal service by administration of a "licensed area." Under the act, no person may operate a business for delivery of "letters" without a license unless, for each letter transported: 1) the price of service is at least £1.00 ($1.44), or 2) the weight of the letter is at least 350 grams.

Postcomm is obliged to grant licenses to serve the "licensed area" pursuant to three goals. First, Postcomm is directed to exercise its discretion "in a manner which it considers best calculated to ensure the provision of universal service." Second, subject to the first goal, Postcomm is directed to "further the interests of users of postal services, where appropriate by promoting effective competition between postal operators". Third, subject to the first two goals, Postcomm is directed to "promote efficiency and economy on the part of the postal operators". To accomplish these goals, Postcomm is authorized to grant licenses for service in the licensed area, and to attach virtually any type of condition. In order to enforce conditions attached to a license, Postcomm may seek a judicial injunction, or levy a fine. It may also, with concurrence of the Competition Commission, modify a license to cure an anticompetitive practice. Postcomm is authorized to request searches and seizure of private property by competent police authorities. The regulator also has broad responsibility to keep under review all aspects of the postal services sector in the United Kingdom and around the world. Postcomm has no regulatory jurisdiction over service providers operating wholly outside the licensed area.

In addition to Postcomm, the Postal Services Act establishes a regulatory role for three other bodies: 1) the Secretary, 2) the Consumer Council for Postal Services ("Postwatch"), and 3) the Competition Commission. The Secretary is authorized to modify the list of exemptions from the licensed area on recommendation of Postcomm. The Secretary may also designate one or more postal operators as "universal service

21 Postcomm Web site, www.postcomm.co.uk, "Competition and Regulation Framework".

providers" if they provide all or part of the universal service. Designation as a "universal service provider" gives the designee certain rights, including: 1) protection from defacement of post offices and letter collection boxes, 2) protection from obstruction of activities, 3) exemption from tort liability, and 4) authority to require carriage by ship or aircraft.

The Consumer Council for Postal Services (CCPS) is a users group appointed by the Secretary on terms established by the Secretary. The CCPS is authorized to advise Postcomm, the Secretary, and others on postal issues, and to investigate complaints. In its duties, the CCPS is authorized to use legal process to obtain information.

The Competition Commission is a separate regulatory body whose advice and concurrence is required before Postcomm can modify a license.

## Reserved Services

The 2000 Postal Act did not provide a reserved service area, ending the 340-year old British postal monopoly law. Initially, Postcomm has been cautious about granting licenses for activities that would compete with Consignia's main business. It has issued seven temporary licenses (including the license for Consignia), which resulted in only limited competition. However, as mentioned earlier, in January 2002, Postcomm proposed a permanent licensing regime that would provide for full de-monopolization by March 2006.

Based on figures from Consignia's 2001 Annual Report, it is estimated that the market open for competition from April 2002 accounts for as much as 34 percent of Consignia's revenue.[22] There is no mailbox monopoly.

## Key Products and Services

Consignia's core services are mail and parcels, through Royal Mail and Parcelforce. In addition, Consignia provides counter services through its post office network, and is working to expand its global distribution services.[23] Until 1994, The Post Office could not implement even small changes in services without government approval. Beginning in 1995, the government permitted The Post Office greater commercial flexibility, and it began to pursue non core products, such as hybrid mail, wire transfer services, travel insurance, and currency exchange. While expanding its product range, The Post Office also sought to improve efficiency of retail operations by installing an automated system for welfare disbursement. This plan, however, was stopped by the government and was the major cause of losses in 1999–2000. In 1997, The Post Office entered the insurance market. During 1999 and 2000, The Post Office made thirteen acquisitions, most involving express parcels operators and international mail firms, including two in the United States.[24]

## Pricing

Consignia is required to maintain a tariff for relevant postal packets that is "a public tariff that is uniform throughout the United Kingdom." Prices for letter services within the licensed area (about 66 percent of revenues) may not be increased without approval by

22 Postcomm Forward Work Programme and Business Plan, January 30, 2002.
23 Annual Report 2000-2001, Consignia.
24 Traffic World, "Applying Postal Breaks," John Parker, 01/08/2001.

Postcomm. Prices for postal services outside the licensed area but lacking effective competition (about 24 percent of revenues) may not be increased more than inflation.

To increase prices, Consignia must demonstrate to Postcom that its ability to finance its licensed activities will be jeopardized without the price increase.[25] It must also demonstrate that no other course of action, for example improving efficiency, will work. Postcomm will judge the necessity of the price increase in accordance with criteria in Consignia's license and, if necessary, will consult with all interested parties before deciding whether to allow all, part, or none of the requested price increase.[26] Consignia's license imposes controls on the prices it can charge for most of its products and services. [27]

Postcomm was not able to complete a detailed price and efficiency review by March 26, 2001, and has therefore adopted a relatively neutral stance towards Consignia's prices pending results of such a review. The review will consider the interrelationship between prices and service standards and will in particular examine price cap regimes. Postcomm intends to complete this review by the summer of 2002 and have a full price control regime in effect by April 2003.[28]

## Operations

In 2001, all but 600 of Great Britain's 17,500 post offices were privately owned franchises, paid by Consignia for the volume of work they handled. The network of post offices has recently been operating at a loss, due to increases in operating costs.

Consignia is now developing plans to save £1.2 billion ($1.73 billion) through measures such as contracting out support services including vehicle maintenance, construction, and information technology; reducing the workforce by up to 15 percent; and stopping the second daily delivery to households.[29] Consignia has also shaken up its management team, replacing senior level executives with executives that have private sector experience, and has plans to increase the proportion of middle management from the private sector to 10 percent. Consignia hopes the new managers will be catalysts for change.

## Human Capital

Labor relations remain difficult for Consignia. More days are lost through strike action at Consignia than at any other company in Europe. Wildcat strikes are still called without ballot, and branch union officers still wield a great deal of power. In 2000, there were 340 individual strikes, accounting for 63,000 lost days.

In 2001, Royal Mail and the Communication Workers Union, which represents most postal workers, commissioned an independent review of labor relations. The report concluded that "(t)he perception of Royal Mail as strike ridden and unreliable makes it deeply vulnerable to competitors and to action by the regulator." Further, the report stated, "(w)e have no doubt that unless the problem of industrial action, and the

25 Financial Times, "Consignia withdraws request for stamp price rise," Alan Pike, 06/20/2001.
26 M2 Presswire, "Consignia's application for a price increase," 04/11/2001.
27 Ibid.
28 Postcomm Forward Work Program and Business Plan, January 30, 2002
29 Sunday Times-London, "Consignia to cut 30,000 jobs in drive for mail efficiency," John Waples and Rory Godson, 01/13/2002.

underlying state of industrial relations which it reflects, is effectively resolved there is little hope for the future success of Royal Mail." The report recommended adoption of alternative dispute-resolution methods, including the creation of a special arbitration panel to provide a rapid ruling to help resolve disputes.[30]

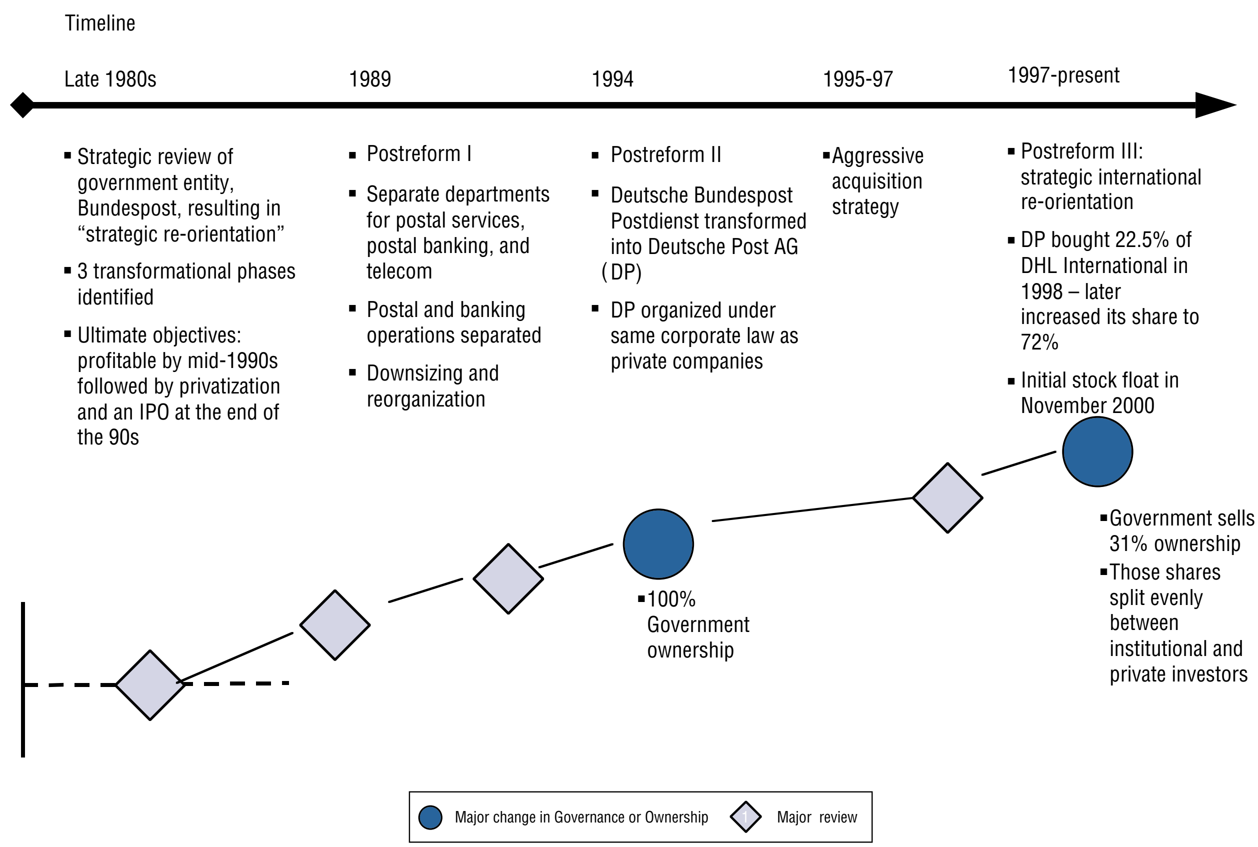
In 2001, approximately 70 percent of Consignia's costs were for in-house labor.[31] It has recently announced plans to cut up to 30,000 workers, 15 percent of the workforce, through a variety of outsourcing and productivity-enhancing initiatives.[32]

# Deutsche Post World Net (Germany)

## Legislation and Transformation

Germany reformed its postal market in three legislative stages, all highlighted in the graphic below.

**DEUTSCHE POST WORLD NET TRANSFORMATION HIGHLIGHTS**




30 UK Communication Workers Union website, www.cwu.org: Independent Review of Industrial Relations between Royal mail and The CWU.
31 The Sunday Telegraph, "Last Post for Consignia?" Mary Fagan, 12/16/2001.
32 Ibid.

In 1989, “Postreform I” created separate departments for postal services, postal banking, and telecommunications within the Ministry for Posts and Telecommunications. A new Board of Directors introduced a greater degree of private sector management and accounting practices. The Deutsche Bundespost Postdienst was reorganized into four business sectors: letters, parcels/express, post offices, and new business segments.

In 1994, “Postreform II” transformed Deutsche Bundespost Postdienst into Deutsche Post AG, a company organized under the same corporate law as private companies and having the government as the sole shareholder. At the same time, the German Constitution was amended to make explicit a governmental obligation to ensure maintenance of “appropriate and adequate” universal postal services offered on a private enterprise basis by Deutsche Post AG and private operators.

In 1997, “Postreform III” substituted a licensed area for the postal monopoly and granted Deutsche Post AG (DP) an exclusive license for a portion of the licensed area until the end of 2002. Responsibility for maintenance of universal service and regulation of the postal sector was committed to the telecommunications regulator, Reg TP. At the start of 1999, Deutsche Post AG began to operate under the name Deutsche Post World Net (DPWN). Recently, the government extended the exclusive license to the end of 2007, delaying total de-monopolization.

Over the last five years DPWN has made numerous acquisitions around the world, including a 72 percent stake in the largest global courier company, DHL, and a takeover of one of the largest global logistics companies, Danzas. On November 11, 2000, the German government sold 31 percent of the ownership of DPWN to the public. The company is listed on all eight German stock exchanges, including the primary stock exchange in Frankfurt. Further sales are planned, but no date has been set.

## Finance

Since 1995, DP has been able to act as though it were a private company, in terms of procurement, mergers, and acquisitions, although most of these freedoms were not utilized immediately by the organization. Beginning in about 1997, DP began an aggressive buying spree, making acquisitions in all the main European markets and in all of the big postal sectors. Prior to its Initial Public Offering in 2000, DP raised capital, independent of the government, in order to finance its assertive acquisition strategy. DP spent €5.8 billion ($5.2 billion) on acquisitions during 1999 and 2000—€5 billion ($4.5 billion) of that during 1999 alone.

In accordance with European and German legislation, DP is exempt from paying Value Added Tax on revenue generated in the universal service area. The justification for the exemption is that universal service is intended to serve the common good and should therefore not be made more expensive through taxation.[33]

In 2000, DP achieved revenues of €32.7 billion ($29.4 billion), up from €22.4 billion

33 Deutsche Post website, www.deutschepost.de, Press Release, “Deutsche Post World Net Response To Handelsblatt Article “Deutsche Post Faces Threat Of Higher Tax Bill,” January 24, 2002

($20.1 billion) in 1999, representing a 46 percent increase. Net income for 2000 increased 48 percent to €1.5 billion ($1.4 billion), up from €1 billion ($926 million) in 1999. In 2000, DP's largely domestic mail business, including its first class letter monopoly, provided 74 percent of the profits, while accounting for 35 percent of revenues. Remaining revenues were split approximately evenly between DP's three other business units: logistics, express, and financial services. International revenues in 2000 were €9.6 billion ($8.6 billion), equal to 29 percent of total revenue.[34]

## Universal Services

The Postal Act guarantees provision of universal service defined as "provision throughout the Federal Republic of Germany of basic postal services (universal service) at affordable prices." The term "postal services" is defined to include for-profit delivery services for: 1) "letter post" items, 2) addressed parcels up to twenty kilograms, and 3) books, catalogues, newspapers or magazines, insofar as such conveyance is provided by companies providing letter post or addressed parcel services. "Letter post" items are, in turn, defined to mean "addressed written communications."

The definition of universal service is further refined in the Postal Universal Service Ordinance. The Ordinance specifies, for example, the maximum level of stamp prices (real price on December 31, 1987), minimum quality of service (80 percent of letter post items shall be delivered one day after posting), the minimum number of post offices (12,000 of which 5,000 shall be operated by company staff), and the rules on letter box location (no more than one kilometer from any urban resident), and delivery frequency (once per working day). The Universal Service Ordinance also requires DP to maintain a uniform tariff for nonbulk licensed services.

## Regulation

The Postal Act designates the regulatory authority for the telecommunications sector, Reg TP, as regulator of the postal sector. Reg TP is an agency within the Ministry of Economics. Its presiding committee is composed of three members designated by the government on proposal of a committee composed of members of the German Parliament. Reg TP may hold hearings and compel production of evidence. Responsibility for ensuring universal postal services is vested in Reg TP. To accomplish this objective, Reg TP is authorized to administer a licensing scheme for certain postal services and to impose certain standards on all providers of postal services.

Under the Postal Act, no person may, without a license, operate a business for delivery of "letter post items" weighing up to one kilogram. The 1997 Postal Act provided that, until the end of 2002 (recently extended to 2007), DP shall have an exclusive license for a portion of the licensed area (see Reserved Services, on the following page).

Regulation is imposed most strictly on licensed operators with a "dominant position." All rates in the licensed area by a licensee with a dominant position are subject to prior approval by Reg TP. Rates must be based on "the costs of efficient service." A licensee with dominant position is also generally obliged to provide users and other operators of

34 Deutsche Post Annual Reports, 1998, 1999, 2000.

postal services access to "downstream" delivery services and post office boxes at cost-based rates and, in case of disagreement, such rates may be imposed by Reg TP.

After expiration of DP's exclusive license, Reg TP may, if it deems universal service to be inadequate in a given area, require licensed operators with "dominant position" to provide the necessary universal services, subject to compensation for losses incurred. Large licensed operators, having annual licensed revenues greater than Deutsche Marks 1 million ($460,000), may be required to contribute to a universal service fund to compensate licensed providers obliged by Reg TP to provide universal services.

Reg TP may also require a provider of postal services outside the licensed area to respect certain principles of fair competition if that provider has a "dominant position" in the market.

## Reserved Services

The Postal Act does not provide for reserved services per se. However, until December 31, 2007, the Postal Act grants DP an exclusive license to provide licensed services for letter post items and catalogs which: 1) weigh not more than two hundred grams each (fifty grams for identical printed items sent in batches of fifty or more), and 2) cost not more than five times the basic stamp price on December 31, 1997. The exclusive license applies only if both conditions are met. In return for the exclusive license, the Postal Act provides that Reg TP may impose the obligation to provide universal service on DP and only DP until the end of the exclusive license. No such obligation has been imposed yet.

There are other exemptions from the exclusive license. In particular, the exclusive license does not apply to document exchanges nor to "special services," that is, "services distinct from universal services, having special features and higher quality." Reg TP has issued more than 2,500 special services licenses to about 630 licensees. DP sued Reg TP and competitors in more than 600 cases to block these special services licenses. German courts have ruled that the majority of the suits were unfounded. Nevertheless, legal action delayed new market entry, helping DP retain almost 100 percent of the market.[35]

## Products and Services

Much of DP's product and service expansion has come through an aggressive global acquisition strategy based on three objectives: 1) development of a European parcel network, 2) acquisition of an international express system, and 3) development of logistics and value-added freight services.[36] DP entered the financial services market through the purchase of Postbank. While DP continues to pursue acquisitions and alliances, in 2001 it shifted its focus to global integration of its many recent acquisitions. This period of integration is designed to "leverage the full potential within the group" and realize DP's stated goal of becoming "the number one global player" in its markets.[37] DP has been active in e-business, focusing on the development of e-commerce, electronic communications, digital franking, and on line brokerage services.

35 OECD Economic Surveys – Germany, "A review of progress in structural reforms," 05/01/2001.
36 Congressional Testimony, "International Postal Policy," Uwe R. Doerken, 03/09/2000.
37 Deutsche Post Annual Report, 2000.

DP is viewed as being ahead of most of its EU peers in planning for a phase-out of its monopoly, as evidenced by its balanced portfolio of products and services. In 1997, mail accounted for 75 percent of DP's revenue, with express parcels making up the rest. In 2000, mail accounted for only 35 percent of revenue and express parcels accounted for 18 percent. The rest–almost half–was split between the logistics and financial services divisions. As stated earlier, however, the majority of DP's profits (74 percent) come from its mail business. In 2001, DP held a two-thirds share of the domestic postal market, with 50 percent in those segments open to competition and 98 percent in the letter market.[38]

## Pricing

DP has limited ability to set its prices for letter mail within the licensed area.[39] Rate increases must be vetted with Reg TP.[40] In fact, Reg TP is responsible for setting the stamp price, but the Ministry of Economics plays a role in such changes. Recent studies by the German Association of Post Customers (DVPT) and Reg TP have compared postage rates for standard letters in Germany with rates in other countries. After allowing for differences in products and service levels, these studies have concluded that DP's tariffs are among the highest in industrialized countries.

After 1994, DP began to offer discounts to its biggest parcel shippers. This practice has resulted in numerous lawsuits under European competition law. In 2001, one was decided against DP when European competition authorities ruled that DP had "abused its dominant position" and "engaged in predatory pricing in the market for business parcel services." As a result the European Union fined DP $21.8 million and ordered it to separate its private parcel business from its letter monopoly.[41]

## Operations

In 1990, the German post office was a money-losing service with little in the way of marketing or sales departments. Seventy-five percent of all letters were sorted by hand. After reunification, the post office had to absorb the postal system of the former East Germany – a system so archaic that its conveyors were actually designed for Russian coalmines.[42]

In response, DP instituted a series of radical initiatives and changes. DP reorganized into four groups: letters, freight, post offices, and new business segments, and reclassified products to simplify letter service offerings. The BRIEF2000 program was launched, aimed at dramatically improving the distribution and processing of letter mail. In 1992, DP began building a parcel network to consolidate hundreds of small sorting stations at train stations into thirty-three mammoth distribution centers located near airports and highways.[43] DP also appointed a Board of Directors with members from the private sector to initiate movement toward financial accountability, with private sector management and accounting practices.

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38 OECD Economic Surveys – Germany, "A review of progress in structural reforms," 05/01/2001.
39 The Financial News, "Deutsche Post IPO scoops a clear win," 01/01/2001.
40 Wall Street Journal Europe, "Deutsche Post Aims to Raise the Price of 1st-Class Stamps…," Alfred Kueppers, 03/21/2000.
41 Economic Strategy Institute, "Dealing with Deutsche Post's Well-funded Foray into the U.S. Express Delivery Market, 04/2001.
42 Wall Street Journal Europe, "Deutsche Post Delivers a Message About Capitalism," Neal E. Boudette, 11/20/2000.
43 Ibid.

The BRIEF2000 program oversaw the closure of more than 1,000 postal depots by 1998, replacing them with eighty-three high-tech sorting centers that operate twenty-four hours a day. As a result, at least 12,000 of DP's 26,000 post offices were closed. The results have included substantial cost savings and service improvements. In 1994, 83 percent of domestic letters were delivered the next day; by 2000, that number had increased to 95 percent.[44]

### Human Capital

DP has faced many human capital challenges on the road to privatization. Initially, culture was a problem due to inherent differences between the former East and West German postal workers.

A hurdle that Germany was required to overcome in order to develop postal sector privatization plans was the issue of DP's unfunded pension liability, estimated in 1995 at over DM 60 billion ($28 billion). As a solution to this problem, DP was required to contribute payments to the pension fund at a rate comparable to those found in the private sector; the government agreed to fund any shortfall.

In 1997, DP agreed with the postal union to bar forced redundancies until 2001 in exchange for a reduction of breaks for employees. The agreement allowed DP to renegotiate job protection if competition from expected liberalization became too intense. At the time, DP employed 262,000 persons but expected to eliminate 110,000 jobs as a result of liberalization and to shed another 13,500 through attrition.[45] In all, the workforce was reduced from 379,000 in 1990 to 235,500 in 1999 (a decrease of 143,500) without layoffs.[46]

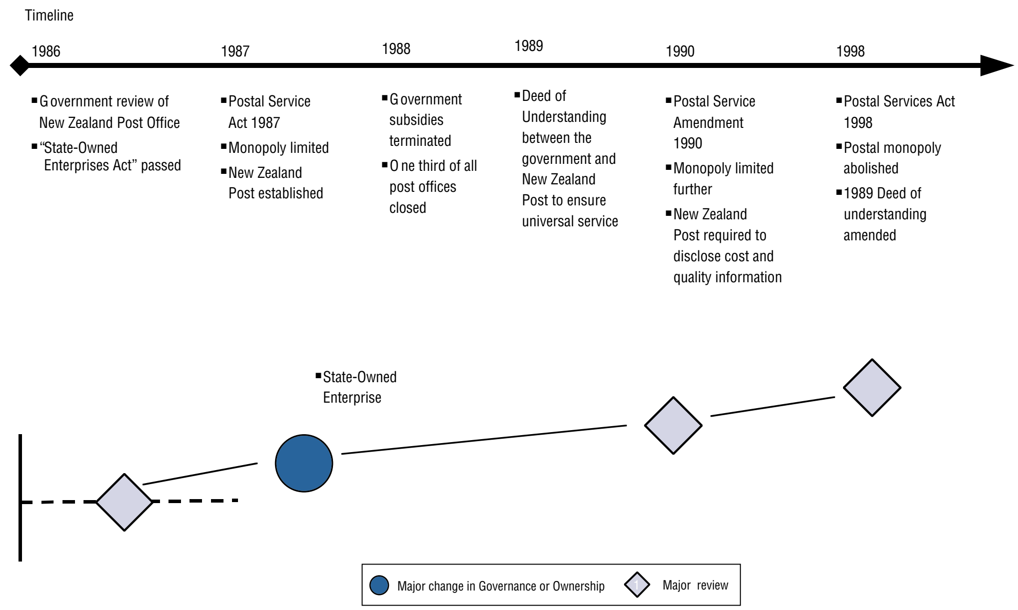
## New Zealand Post

### Legislation and Transformation

In late 1986, the New Zealand government initiated a two-year review of the long-term future of the New Zealand Post Office. As first steps towards reform, the 1986 State-Owned Enterprises Act and the Postal Service Act of 1987 transformed the Post Office into a "State-Owned Enterprise," New Zealand Post (NZP). The 1987 act limited the postal monopoly to letters weighing 500 grams or less and transported for NZ$ 1.75 ($0.74) or less.

44 Forbes, "The Yellow Machine," Christopher Watts, 09/18/2000
45 AFX News, "Deutsche Post union agree to bar forced redundancies until 2001," 12/23/97
46 Congressional Testimony, "International Postal Policy," Uwe R. Doerken, 03/09/2000

## NEW ZEALAND POST TRANSFORMATION HIGHLIGHTS




The 1987 act also terminated the government subsidy for the Post Office after one year.

Faced with an end to its subsidy and the likelihood of competition, in February 1988 NZP closed one-third of its post offices and increased its annual fee for rural delivery. A public outcry followed, but a Parliamentary inquiry concluded the only major problem posed by the closures was difficulty in maintaining rural banking services and recommended non postal remedies.

In November 1988, a committee of senior officials studying the long-term future of the post office recommended repeal of the postal monopoly despite strong opposition from NZP. In October 1989, the government moved to ensure continuation of public services by means of a contractual agreement with NZP called a "Deed of Understanding," which is subject to review every three years. A change in the party in power postponed repeal of the postal monopoly. Nonetheless, the Postal Service Amendment of 1990 lowered the weight limit for the postal monopoly from five hundred grams to two hundred grams and reduced the price limit to NZ$ 1.25 ($0.53). Further reductions lowered the price limit to NZ$ 1.00 ($0.42) in December 1990 and NZ$ 0.80 ($0.34) in December 1991, less than two times the stamp price of NZ$ 0.45 ($0.19). The 1990 amendment also required NZP to provide more public disclosure about the quality and cost of services.

The Postal Services Act of 1998, a comprehensive postal reform act supported by NZP, abolished the postal monopoly and imposed certain obligations on private operators. In 1998, a new Deed of Understanding was concluded between the government and NZP.

## Finance

Prior to reform, NZP incurred major financial losses and needed substantial capital investment. During the first year as a State Owned Enterprise, the government paid a one-time subsidy to keep small rural post offices open, and NZP became profitable after that.[47] In the year before corporatization, NZP set up a sound commercial structure. Properties were assessed and valued; assets were identified and assigned to the business. The government determined a postage rate to get the company closer to profitability.

NZP is free to invest in and acquire other companies, although shareholder (i.e., government) approval is required to buy more than 20 percent of another company. NZP is also free to enter into joint ventures and operate subsidiary companies. NZP may raise capital and borrow at commercial rates, on commercial terms. It has lines of credit with four banks and can issue equity bonds. After 1987, the government was barred from issuing debt to raise capital for NZP.[48] NZP pays the government a dividend and pays the same taxes as any other company.[49] The full Value Added Tax is applied to postage. From the outset of reform, success was defined as profitability and became the driving force of the business. NZP became more vigilant about collecting accounts receivables; it reworked terms of payment and implemented new automated processes to bill customers.

In 2001, on revenues of NZ$ 982 million ($412 million), NZP reported net earnings of NZ$ 21 million ($8.8 million). While this represents a revenue increase of seven percent compared with 2000, net earnings decreased by 31 percent during the same period.

## Universal Services

The Postal Services Act neither defines universal postal service nor imposes on the government or postal operators a duty to ensure universal service. The government has decided to ensure universal service by means of an agreement with the dominant postal operator, NZP. The present “Deed of Understanding” was concluded in February 1998. Under the terms of the Deed, NZP agrees:

- To provide delivery service six days per week to more than 95 percent of delivery points;
- To maintain the stamp price below NZ$ 0.45 ($0.19);
- Not to introduce a rural service fee; and
- To maintain a specified number of post offices (some operated by NZP and some franchised to others).

In addition, The Postal Services (Information Disclosure) Regulations of 1998 introduced a new requirement for NZP to disclose certain information to the public. This includes for example, access agreements NZP has with other postal operators and information about products and services.

47 Congressional Testimony, “Changes in Foreign Postal Service,” Elmar Toime, 01/25/1996
48 Investor’s Business Daily, “Postal Reform,” Daniel J. Murphy, 08/28/1995
49 Investor’s Business Daily, “Postal Reform,” Daniel J. Murphy, 08/28/1995

## Regulation

The Postal Services Act regulates the activities of "postal operators" primarily to protect the interests of consumers. The Act states that "A person carries on business as a postal operator if that person's business consists, wholly or partly, of the carriage of letters" (as defined in the Act) delivered for a charge of NZ$ 0.80 ($ 0.34) or less.

"Postal operators" are required to file a simple registration with the Chief Executive of the Ministry of Economic Development. Under the Postal Services Act, "postal operators" are required: 1) to mark each postal article with that operator's postal identifier, 2) to respect the privacy of postal communications, 3) to report to the government a postal article or letter posted in contravention of law, 4) to keep a record of postal articles detained or opened and notify addressees, and 5) to assist in carrying out the provisions of the Trade in Endangered Species Act. A "postal article" includes any letter, parcel, or other article carried by a postal operator. Postal operators may also be obliged to comply with additional regulations adopted by the government "for the purposes of ensuring the orderly efficient operation of the New Zealand postal system."

## Reserved Services

The Postal Act of 1998 does not provide for reserved services. There is no mailbox monopoly.

## Key Products and Services

NZP offers mail, express, and financial services, electronic business tools, and international consulting through its subsidiary, Transend.[50] In the year ending March 31, 2000, total mail volumes increased five percent to 1.6 billion pieces, with package and courier volumes increasing ten percent and letter mail volumes unchanged.

Half of the revenue increase in 2000 came from the purchase of Ansett Express, a courier service. The strong performance of the international business consultancy branch also fueled revenue growth. NZP is expanding its existing financial services by creating Kiwibank to provide online banking services through a partnership with Bank of New Zealand.

## Pricing

Since 1987, NZP has been largely free to set prices without regulatory interference, bound by the Deed of Understanding only to hold basic letter mail postage increases to the Consumer Price Index minus one percent.[51] In 1987, NZP immediately cut the 50-percent publications discount on the grounds that costs depend on weight, not content. In 1988, NZP adopted shape-based prices. Profit enhancement achieved through new pricing strategies and operational efficiencies allowed NZP to reduce postage rates in 1995 from NZ$ 0.45 ($0.19) to NZ$ 0.40 ($ 0.17). In the eight years between 1987 and 1995, the real price of letter postage fell by almost 30 percent.[52]

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50 New Zealand Post website, www.nzpost.co.nz, "About Us," 02/11/2002.
51 Congressional Testimony, "Changes in Foreign Postal Service," Michael E. Motley, 01/25/1996.
52 Congressional Testimony, "Changes in Foreign Postal Service," Elmar Toime, 01/25/1996.

In 1995, NZP also abolished an annual rural delivery fee it had been charging rural mail recipients annually since 1924 (a NZ$5 million [$2.1 million] reduction in revenue). In addition, NZP began offering a number of presort discounts for bulk mailers. NZP did not offer discounts to consolidators who combined mailings from more than one source.

## Operations

In 1987, NZP was operating inadequate mail processing facilities, lacked financial and management systems, and needed substantial capital investment. Since corporatization, NZP has modernized its technology, transportation network, and retail facilities, and invested in subsidiary businesses, all funded by retained earnings and the sale of surplus assets. By 1995, with 30 percent more mail to deliver, costs had been reduced by 30 percent, and labor productivity had doubled.[53]

Over the past fifteen years NZP has changed its management structure four times: 1) initially NZP employed a functional structure, with four geographic regions reporting to a head office, giving prominence to new areas of strategic and business planning, finance, and marketing; 2) later NZP switched to a divisional structure, by product, to assist during the main phase of rationalizing the property portfolio; 3) later a matrixed structure was used, with three cost centers (letters, sales and retail, couriers and parcels) and two marketing groups; and, most recently, 4) NZP is organized by profit centers, with five business units: letters, consumer (retail), distribution (parcels), international, and post plus (electronic services).

In 1995, the government appointed a Board of Directors with considerable autonomy in operational decision-making and a biannual reporting requirement to the government. Fifty percent of senior management came from the private sector.

## Human Capital

Prior to reform, NZP was overstaffed and had inadequate management systems. Recognizing the magnitude of imminent changes in the human capital area, NZP brought organized labor into the reform process to avoid misunderstandings and disputes. With the help of the unions, NZP reduced the workforce by 40 percent with minimal disruption.[54] NZP has avoided disputes by providing incentives for early retirement and other attractive redundancy packages. Part-time and shift work became major elements of parts of NZP. Overall, however, some union officials felt that deregulation occurred at the expense of postal unions; the NZ Post Office Union went bankrupt and is now represented by another union.

Wages for most employees are negotiated annually. NZP surveys market rates, comparing wages of its employees to employees in similar jobs in other firms and aims to adjust salaries to these market rates. NZP also provides incentives for superior performance, including a company-wide profit-related bonus. Senior managers have individual contracts that are generally below private sector levels. Bonus schemes are tied to a formula. There is no job protection. In 1998, 52 percent of costs were for in-house labor.[55]

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53 Ibid.
54 Investor's Business Daily, "Postal Reform: Do Not Forward," Daniel J. Murphy, 08/28/1995.
55 USPS Future Vision, "Review of Eight Progressive Postal Administrations," PricewaterhouseCoopers Report, 10/15/1998.

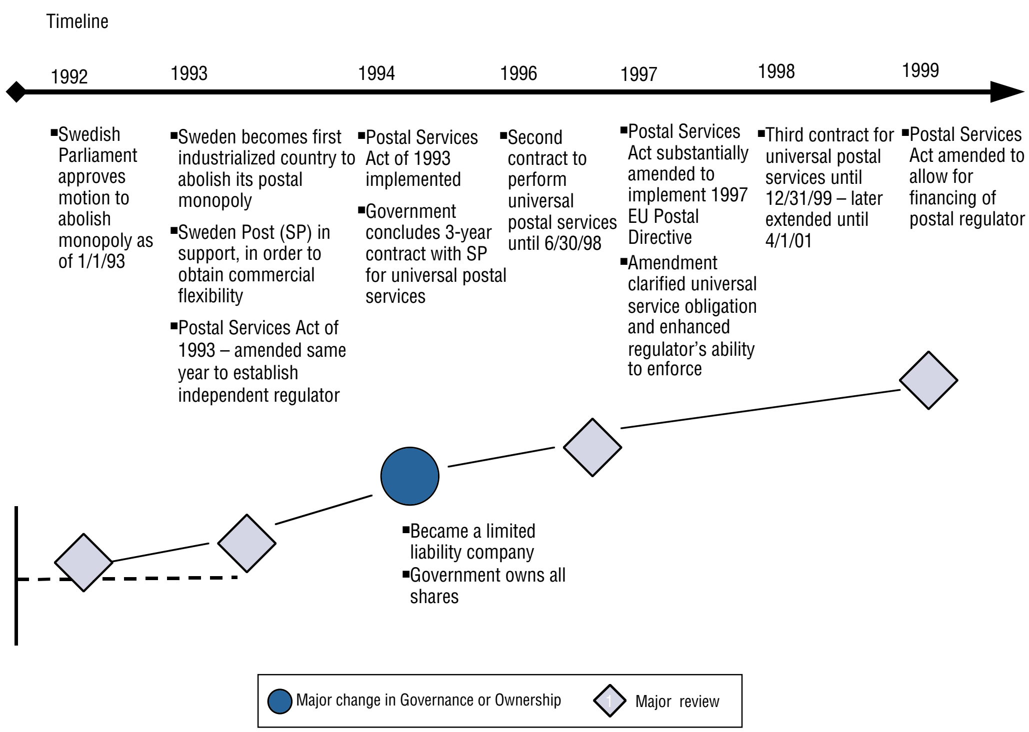
# Sweden Post

## Legislation and Transformation

In December 1992, the Swedish Parliament approved a motion stipulating that Sweden Post's exclusive right to letter deliveries should end, effective January 1, 1993. Consequently, on that date, Sweden became the first industrialized country to abolish its postal monopoly. The Swedish Post Office supported termination of the postal monopoly because it concluded that it could not otherwise obtain from the government the commercial flexibility necessary to adapt to a changing market. The Post Office was especially concerned with the market entry of a private company, CityMail. In 1991, CityMail pioneered a low-price, twice-per-week delivery service for computer generated mail in Stockholm, Sweden's largest city. Applicability of the postal monopoly law to CityMail was considered unclear.

The Postal Services Act of 1993, which came into effect on March 1, 1994, followed de-monopolization. This act created a new legal framework for delivery services and established an independent regulator. At the same time, the Swedish Post Office was transformed into a limited liability company, Posten A.B. ("Sweden Post" or SP), with all shares owned by the government. Details of the legal framework were set out in an administrative order, the Postal Services Ordinance of 1993. Pursuant to the 1993 Act, the government concluded a three-year contract with SP for provision of universal postal services until December 31, 1996. A second contract was agreed between SP and the government for universal services until June 30, 1998.

**SWEDEN POST TRANSFORMATION HIGHLIGHTS**



The legal framework for postal services in Sweden proved uncertain in some respects. CityMail repeatedly complained to Swedish competition authorities about SP's commercial tactics. At the same time, the government and SP found it difficult to agree on details of universal service.

In 1997, Swedish postal law was substantially amended to implement the 1997 EU Postal Directive and strengthen the ability of the regulator to ensure provision of universal services. In this new environment, SP and the government concluded a third contract for universal services for the period July 1, 1998, to December 31, 1999, later extended to April 1, 2001. Provisions of this agreement were also attached as conditions to SP's license to provide "postal operations."

Since April 1, 2001, no new contract for universal service provision has been concluded between SP and the government. SP continues to provide universal service in accordance with the conditions set out in SP's postal operations license.

## Finance

Even prior to corporatization, SP was required to finance its own investments and survive on its own resources. SP has no access to government funds or capital for operating shortfalls.[56] It cannot be taken over, but is free to acquire and invest in other companies, invest in joint ventures, and form subsidiaries. As part of corporatization, SP was required to charge Value Added Tax (VAT) on letter, newspaper, and parcel deliveries. SP is subject to income tax and pays the government dividends when its equity/assets ratio allows. An internal management objective is a 5 percent return on sales to cover future investments.

In recent years, SP's financial performance has deteriorated significantly. In 2000, on revenues of SEK 24.5 billion ($2.5 billion), SP reported total consolidated negative earnings of SEK -1.4 billion ($-136 million). This represents an improvement on financial results achieved in 1999 when SP, based on revenues of SEK 23.9 ($2.4 billion), reported consolidated negative earnings of SEK-4.1 billion ($-407 million). SP primarily sees this performance as a result of diminishing volume growth rates that have not been met with corresponding cuts in fixed costs.

## Universal Services

The Postal Services Act defines universal service to include delivery of parcels up to twenty kilograms and requires uniform nationwide rates for single piece mail: "There shall be a nationwide postal service whereby everyone can receive letters and other addressed mail weighing at most twenty kilograms. Postal services shall be of good quality and the possibility shall exist for everyone to have such mail delivered at reasonable prices. Furthermore, single items of mail shall be delivered at uniform prices." The Postal Services Act also mandates a national system of post offices: "nationwide counter service throughout Sweden whereby everyone has a possibility of effecting and receiving payments at uniform prices." Provision of universal service is an obligation attached to the license of SP but not, so far, other licensed operators.

56 Precision Marketing, "International operators show liberalisation benefits," 11/14/1994.

## Regulation

The Postal Services Act vests responsibility for universal service in "the government or an authority appointed by the government." The government has authorized the National Post and Telecom Agency (PTS) to "issue the implementation regulations necessary to apply the Postal Services Act as regards delivery of letters, nondeliverable letters and supervision as the regulator of the postal sector" and to administer the licensing scheme established by the Act.

The Act provides that no person may, without a license, engage in "postal operations," defined as "regular delivery of letters for a charge." The term "letters" is, in turn, defined as "addressed mail that is enclosed in an envelope or other wrapping weighing at most two kilograms."

PTS may attach conditions to a license granted for "postal operations," including a requirement to provide "universal service" in a prescribed manner, and PTS has been directed to do so by the government. The Postal Services Act further provides that any license holder obliged to provide universal service by its license shall provide "service at prices that are geared to costs," provide annual reports, establish public procedures for handling complaints, and abide by other conditions established by PTS, including limits on postage rates.

Today, there are about fifty licensed providers of "postal operations" in Sweden. SP (94.8 percent of the market) and CityMail (4.8 percent) are the only large providers; others are small regional companies. PTS has attached universal service obligations to the license of one provider of postal operations, SP. The SP license thus sets out the details of the universal service requirement. SP's license requires it to provide collection and delivery of postal items up to twenty kilograms on all business days, Monday through Friday.

The licensing system for "postal operations" is the only form of postal regulation in Sweden. Providers of other delivery services, including express services and parcels within the universal service area, are neither regulated nor required to register with PTS.

## Reserved Services

The Postal Act does not provide for reserved services. There is no mailbox monopoly.

## Key Products and Services

In 1995, SP provided delivery of letters and parcels, banking, and electronic messaging services. By 1996, SP was developing home banking products as an integrated part of its financial service offerings and progressing toward the goal of becoming a financial supermarket. By 1998, Postnet, SP's e-commerce unit, had created one of Europe's most popular online shopping malls—and in the process, created new business for itself—delivering thousands of e-commerce goods daily and settling payments for the purchases.

In 1999, however, SP decided to withdraw from the financial business and focus its operations on message forwarding and logistics. In 2001, as a result of its focus on core operations, SP also reduced its ownership in the online shopping mall.

However, SP continues to develop electronic products aimed at both the consumer and business markets. In 2001, SP introduced a new electronic postal delivery infrastructure. This service processes mail electronically, giving recipients a choice of delivery to a regular mailbox or an electronic post box: the "ePostbox." It enables bills, pay slips, forms and information from business and government sources to be forwarded electronically to private individuals who can receive, respond to, and administer their mail at any time or place.

Given the increased focus on core operations, SP is working to expand its geographic coverage in the Nordic and Baltic regions. According to SP's 2000 Annual Report, international operations and alliances are imperative in the near term.

## Pricing

The Postal Services Act stipulates that a postal operations license holder shall provide "service at prices that are geared to costs." Based on that requirement SP is free to set all its prices except for that of the standard domestic letter, on which the government and SP have agreed to a price cap equal to the consumer rate of inflation.[57]

Discounts are available to bulk mailers on an individual basis. Under Sweden's competition law, discounts must relate to explicit criteria even if unpublished. SP's prices were below the European average until the VAT was added after liberalization.[58] As a result, in 1997 SP raised postage for a single letter by 30 percent, arguing that the price increase was needed to cover costs.[59]

## Operations

Over the past decade, SP has gone through a number of organizational changes. In 1989, SP was reorganized into five strategic business areas, which were set up as independent business units in 1992. By 1995, SP was composed of six business units: Postgirot, SP Banking and Counter Services, SP Letters, SP Parcel, Postnet, and SP International. Each business area was responsible for products, sales, operations, and profitability within its area of accountability. That year, the government appointed a Board of Directors that consisted of a chairman, three union representatives, a civil servant, and five members from the private sector.

SP also restructured its sales organization in order to serve the needs of large corporations that require centralized staff to tailor services as well as private citizens and small companies who prefer decentralized staff to quickly address local problems. The new decentralized sales unit began to operate from retail sites rather than from central headquarters.

By 2001, SP replaced its former business areas with six new business units in order to address the different messaging and logistics processes of its customers more directly.

57 Congressional Testimony, "Changes in Foreign Postal Service," Tommy Persson, 01/25/1996.
58 Ibid.
59 Direct, "Turning Up the Heat," David Reed, 12/30/2000.

## Human Capital

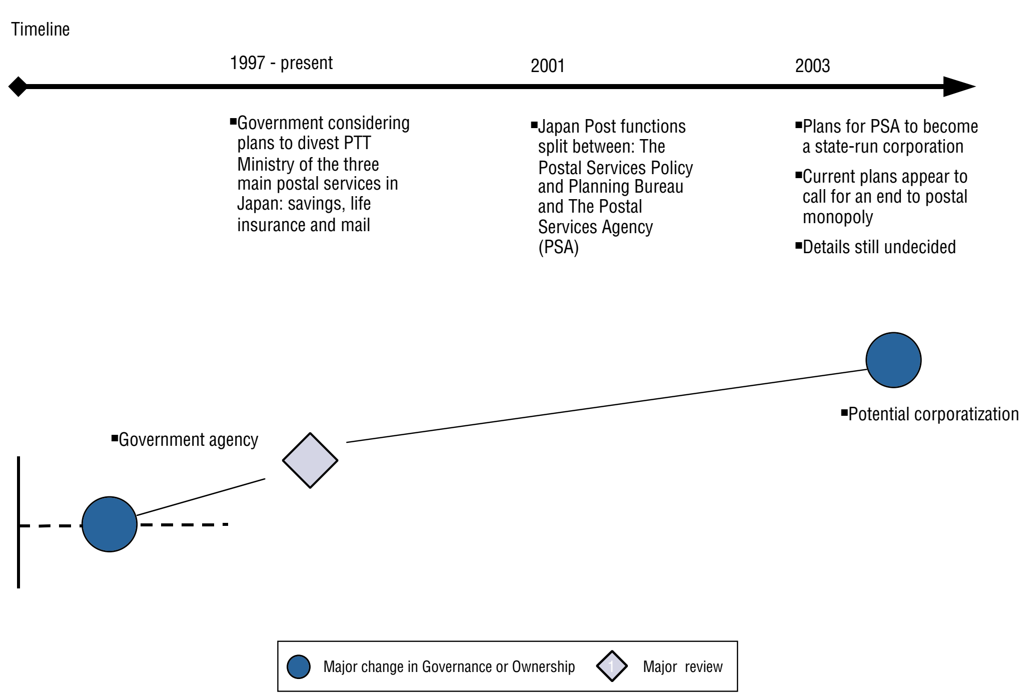
Between 1990 and 2000, SP eliminated approximately 21,900 positions, a 30 percent reduction in its workforce.[60] SP worked closely with the unions to accomplish these staff reductions without a strike. Wages are negotiated annually between SP and the unions. In line with industry norms, employees do not have job security and pay and incentives are tied to performance. SP estimates that its employees earn 5 to 10 percent above the market average. Pension plans, previously administered by the government, have been taken over by SP in return for not having to pay the government a dividend for several years. In 2000, labor costs represented 52 percent of SP's consolidated operating expenses.

# The Postal Services Agency (Japan)

## Legislation and Transformation

In January 2001, after three years of debate, the Japanese government reorganized its structure for managing postal services. The Ministry of Posts and Telecommunications was repositioned within the newly formed Ministry of Public Management, Home Affairs, Posts and Telecommunications (Ministry). The Postal Services Policy and Planning Bureau was placed in charge of development of plans and the management of postal services. The Postal Services Agency (PSA), an independent agency, provides postal services.

### THE POSTAL GROUP SERVICES AGENCY TRANSFORMATION HIGHLIGHTS




60 Sweden Post Annual Reports: 1991 and 2000.

As depicted in the graphic on the previous page, under present plans, the PSA may become a state-run corporation in 2003. Should this change be enacted, the government plans to introduce an independent, autonomous, and flexible financial and commercial management system for the PSA. It plans to adopt budget and accounting practices that are based on corporate accounting principles, eliminating the need to obtain approval from the Japanese Diet, or parliament, for each annual budget. In addition, there are to be performance reviews based on management objectives, business plans, and full disclosure of financial, business, and other information. It is also possible that Japan will abolish the postal monopoly in 2003, although the conditions for new entry are still under discussion.

The postal service plays a myriad of roles in Japanese culture. Politicians see the postal service as a political tool, through the tightly networked system of Special Post Offices. Business leaders see the agency as the biggest but most stagnant pool of savings in the world (the PSA is the largest private savings bank in the world with $2.1 trillion in deposits)—one that, if used well, could reinvigorate the lackluster Japanese economy. Many citizens see the government-run post as a pillar of stability and fear complications that change might bring. Despite the strong opposition, Japan's Prime Minister, Junichiro Koizumi, is strongly pushing reform as a key component of an economic stimulus and reform package.[61]

## Finance

Currently, the PSA's revenues, derived from sales of stamps, postcards, and other postal materials, must cover all of its operational costs.[62] The PSA is not taxed[63] and, although it receives no financial support from the government,[64] closing, merging, and opening post offices, and buying and selling property currently requires the approval of the Diet. The proposed corporatization in 2003 would transfer these powers to the PSA. Further, the PSA is to adopt commercial budget and accounting practices. Full financial disclosure will be required.[65]

Three separate accounts are used to manage the financial condition of each of Japan's three key postal service areas: mail, savings, and life insurance. Each business account is required to breakeven on its own.[66] In 2000, the PSA's mail delivery and savings divisions incurred losses for the third year in a row. These losses were increased primarily due to increased competition in areas like parcel delivery.[67]

In 2000, based on revenues of 2,242.4 billion yen ($17.9 billion), the PSA reported consolidated negative earnings of -10 billion yen ($ -8 million). This represents an improvement on financial results achieved in 1999 when the PSA, based on virtually the same revenues, reported consolidated negative earnings of 55.3 billion yen ($-44 million).

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61 The Globe and Mail, "Dismantling the pillar of security in Japan…," Joji Sakurai, 05/19/2001.
62 Japan 2001 Report, www.210.142.46.154\japan2001\index_e.shtm.
63 Kyodo News, "Gradual opening of mail service draws support at study panel," 10/31/2001.
64 Japan 2001 Report, www.210.142.46.154\japan2001\index_e.shtm.
65 PostCom Bulletin, "Japan Plans to Transfer Postal Power," 09/07/2001.
66 Japan 2001 Report, www.210.142.46.154\japan2001\index_e.shtm.
67 Daily Yomiuri/Yomiuri Shimbun, "Anachronistic 'special post office'…," 08/23/2001.

## Universal Services

The PSA is required by statute "to promote the welfare of the people by the provision of postal services at the lowest possible charges, on a nationwide scale and in a manner fair to all."

## Regulation

There is no independent regulator or general regulation of the delivery services sector. The PSA is subject to direction by the Postal Services Policy and Planning Bureau, within the Ministry. This bureau is in charge of the development of plans and the management of postal services.

## Reserved Services

The PSA maintains a monopoly on letter mail delivery services and guarantees universal service. As stated above, plans presently exist to remove the monopoly after 2003; however, new entrants may be required to provide nationwide service, a condition that may effectively preclude entry. The final fate of the monopoly has not yet been decided.

## Key Products and Services

In addition to providing traditional mail services, the PSA operates the largest savings bank in the world and the largest life insurance company in the country. The savings bank has $2.1 trillion in deposits—more than three times the amount deposited in the world's largest private bank, Mizuho Group.[68] The insurance plan has over $700 billion in assets.[69] The PSA has been losing market share annually in competitive sectors like parcel delivery.[70]

In 2001, the PSA made agreements with thirteen domestic and foreign financial institutions to handle their 401(k)-style investment products at post offices across Japan, and may begin collecting commissions for brokerage services.[71] Agreements between private financial institutions and the PSA allow customers to use the institutions' ATMs and cash dispensers interchangeably.[72]

## Pricing

The PSA cannot currently establish its own tariffs. Basic charges for postcards, letters, and other mail services are regulated by the Mail Law. Diet approval is needed to change postal rates. Deregulation in 2003 is expected to transfer pricing authority to the PSA.[73]

The PSA offers discounted postage rates for newspapers and magazines published at least four times a year that are recognized by the Director General of the PSA as

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68 The Globe and Mail, "Dismantling the pillar of security in Japan…," Joji Sakurai, 05/19/2001.
69 Chicago Tribune, "Japan in Furor Over Postal Service Privatization Proposal," Michael A. Lev, 11/16/1997.
70 Daily Yomiuri/Yomiuri Shimbun, "Privatization could be key to saving nation's post offices," 08/24/2001.
71 Dow Jones International News, "Japan Post Offices to Offer 401K Products," 10/26/2001.
72 Daily Yomiuri/Yomiuri Shimbun, "Customers benefit as banks, post offices integrate services," 11/23/1999.
73 Dow Jones International News, "Japan To Sharply Deregulate Postal Sector," 12/18/2001.

playing a “salient role in enhancing society and culture.” PSA also offers preferential postage rates for correspondence course materials, academic journals, and seeds and saplings used for agricultural purposes.[74]

Other pricing incentives include discounts for local mail with preprinted barcodes.

## Operations

The PSA introduced a new seven-digit postal code system in 1998 to improve efficiency of mail processing through automation. By February 2001, mailers used the new codes on 97 percent of mail. By the end of March 2001, 858 new sorting machines for handling the seven-digit codes were in place. Between 1997 and 2001, the PSA purchased and installed over 5,500 advanced letter sorters that increased the speed of sorting substantially. In 2001, the PSA became the first Japanese government entity to become ISO 9001 certified.[75]

About 75 percent of the nation’s 25,000 post offices are Special Post Offices. At Special Post Offices, postmasters provide the land and facilities required for post offices, which they lease to the government. They also receive an annual salary, as well as an annual lump-sum payment for discretionary spending. More than half of the Special Post Offices are staffed by three or fewer workers who provide all three key services: mail, savings, and life insurance.[76]

The Ministry has predicted a revenue loss in 2002. To make the PSA financially viable before corporatization in 2003, the Ministry aims for PSA to make a profit in 2002 through aggressive cost cutting.[77] In January 2002, the administrative evaluation bureau within the Ministry drafted a report urging the Ministry to streamline state-run postal services through large job cuts and consolidation of post offices, in addition to revamping or cutting money-losing operations like express courier services, which suffered losses in 2000 that totaled more than $3 million.[78]

The planned corporatization of the PSA in 2003 calls for some safeguards against post office closures in under-populated areas in order to maintain a universal postal service. Business benchmarks, like return on assets, are expected to be used to gauge performance.[79] After corporatization, PSA is expected to contract out some operations to private companies.[80]

## Human Capital

Postmasters of Special Post Offices occupy prized government positions which are usually passed hereditarily and do not require the civil service exam required of most public employees. There are increasing complaints of corruption and collusion with political parties.[81] Postal employees are civil servants. Salaries are generally lower than those of workers employed by private-sector credit unions.

74 Japan 2001 Report, www.210.142.46.154\japan2001\index_e.shtm.
75 Ibid.
76 Daily Yomiuri/Yomiuri Shimbun, “Anachronistic ‘special post office’ system should be reviewed,” 08/23/2001.
77 Jiji Press English News Service, “Japan to Make Postal Services Profitable,” 02/01/2002.
78 Dow Jones International News, “Japan Postal Job Cuts…,” 01/10/2002.
79 PostCom Bulletin, “Japan Plans to Transfer Postal Power,” 09/07/2001.
80 Dow Jones International News, “Japan To Sharply Deregulate Postal Sector,” 12/18/2001.
81 Daily Yomiuri/Yomiuri Shimbun, “Anachronistic ‘special post office’ system should be reviewed,” 08/23/2001.

Between 1996 and 2001, the post laid off about 4,100 postal employees and cut bonuses. The PSA has been negotiating with unions over cutting an additional 15,000 jobs over the next five years.[82] In 2000, personnel costs made up about 62 percent of total costs.[83] Even after the planned corporatization in 2003, PSA employees are expected to remain public sector employees.[84]

Japanese labor law, applicable to state-run enterprises such as the PSA, prohibits certain activities for public officials and unions, including the right to engage in labor disputes. As part of labor union activities, civil servants are entitled to engage in collective bargaining with regard to wages, salaries, work hours, holidays and vacations, and other benefits. After the planned transition to a state-run corporation, PSA workers are expected to retain their right to unionize and bargain collectively. They are not expected to gain the right to engage in labor disputes, i.e., the right to strike.

## TNT Post Group (The Netherlands)

### Legislation and Transformation

The Postal Act of 1988 transformed the Dutch post and telecommunications administration into Royal PTT Nederland NV (KPN), a government-owned limited liability company. PTT Post, the postal subsidiary of KPN, was obliged by the 1988 Act to maintain universal postal service in the Netherlands in return for a monopoly over the carriage of letters weighing up to five hundred grams. The Act also provided for a price limit on the monopoly.

In 1994, the Dutch government sold 30 percent of KPN to the public. Subsequent sales have reduced the holdings of the government to 35 percent. Nonetheless, the government retains a “golden share” that allows it to disapprove certain types of fundamental corporate transactions. (The European Commission is looking into the competitive implications of “golden shares” held by Member States in partially privatized companies).

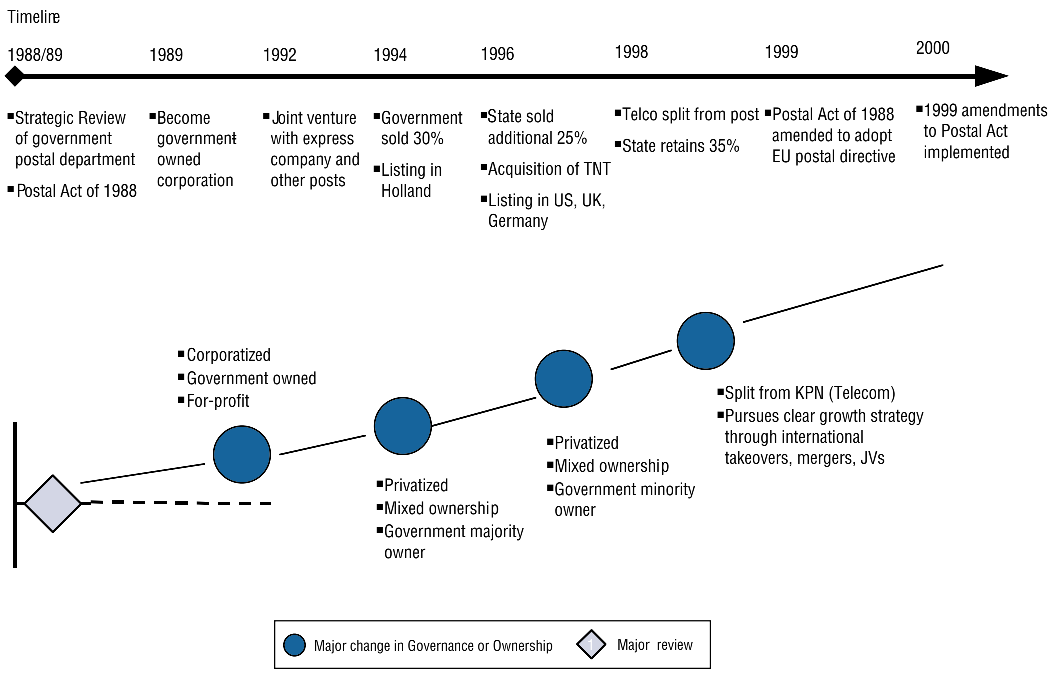
Between 1996 and 1998, in a series of acquisitions and divestitures, such as the 1996 acquisition of global courier company TNT, PTT Post transformed itself into TNT Post Group (TPG), a global mail, express, and logistics operator. In June 1998, KPN “de-merged” into two separate companies, KPN (the telecommunications company) and TNT Post Group (TPG). TPG retained all of the operations of PTT Post.[85]

### Finance

Since the 1994 privatization of KPN, TPG has been able to pursue an aggressive and innovative commercial strategy in the postal sector, a result of which was the $1.6 billion[86] acquisition of Australia’s global courier company TNT Worldwide Express in 1996. TPG experienced a revenue growth rate of 16 percent and an average profit growth rate of 22 percent from 1996 through 2000 as a result of its prolific acquisition

82 Agence France-Presse, “Japan’s postal services soon to see first profits in five years,” 08/28/2001.
83 Japan 2001 Report, www.210.142.46.154\japan2001\index_e.shtm.
84 Voice, “Postal Services Will Not Work as a Public Corporation,” February 2002.

## TNT POST GROUP TRANSFORMATION HIGHLIGHTS




activity. In 2000, its mail business represented only 37 percent of its revenues but 70 percent of its profits.

Today TPG is publicly traded on the New York, London, Frankfurt, and Amsterdam stock exchanges and is one of the largest global postal operators. As a public corporation, TPG pays all applicable taxes, does not need government approval to access capital, and is free to enter joint ventures.

In 2001, based on revenues of €11.2 billion ($10.1 billion), TPG reported net income from continuing operations of €555 million ($500 million), an increase of 21.2 percent over the previous year. In 2000, TPG achieved revenues of €9.9 billion ($8.9 billion) and a net income of €458 million ($412 million).

## Universal Services

Under the Postal Act, the obligation to provide universal service is imposed on a single public postal operator, a “concessionaire” designated by law in return for a concession (i.e., revenues from a reserved area). The obligation to provide universal service extends to “postal items which have been deposited in letter boxes of the public postal operator that are intended for the public or which have been tendered at premises of the public postal operator that are intended for this purpose.” This definition of universal service excludes bulk mail collected at the business premises of the mailer.

85 Congressional Testimony, “International Postal Policy,” Simone Bos, 03/09/2000.
86 Traffic World, “Applying Postal Breaks,” John Parker, 01/08/2001.

As a result, postal services for bulk mail are considered commercial services and are outside the special considerations of the postal regime including the universal service obligation.

The Postal Decree provides that universal services shall include letters and printed matter up to two kilograms and parcels up to ten kilograms. The Minister of Transport, Public Works, and Water Management (Minister) is authorized to issue regulations determining the quality and tariffs of universal service.

## Regulation

The Postal Act does not provide for a general framework for registration, licensing, or regulation of postal services. Regulation is generally limited to defining and enforcing obligations of the public postal operator. For this purpose supervisory authority is divided between the Minister and the regulator of the telecommunications and postal sectors, the Independent Post and Telecommunications Authority (OPTA).

The Minister, in addition to determining details of universal service, may regulate accounting practices, establish a consultative users group, create a board to resolve certain user complaints, issue guidelines relating to unfair competition, establish limits on increases in basic postage rates, and issue orders on placement and dimensions of letter boxes.

The public postal operator is required to offer other delivery services access to its post office boxes at reasonable fees. OPTA is responsible for resolving disputes about appropriate fees. OPTA is also responsible for regulatory tasks delegated by the Minister or not committed to him. OPTA may investigate violations of law within its jurisdiction and issue orders or impose fines of up to NLG 1 million ($410,000) to enforce its decisions.

## Reserved Services

The Postal Act provides that only the public postal operator may carry a “letter” which weighs one hundred grams or less and is conveyed at a postal tariff lower than that determined by administrative order. The Postal Decree sets the price limit at three times the basic stamp price of NLG 0.80 ($ 0.33). The Postal Act defines “letters” as “written communications and other documents, whether in envelopes or not, with the exception of those of which a number of identical copies have been produced by means of printing or other duplicating techniques for the purpose of distribution and which have not been altered by additions, deletions or indications other than the address.” Under this definition, the term “letters” does not include identical printed advertisements.

The public postal operator has the exclusive right to establish letter collection boxes along public highways. There is no mailbox monopoly.

87 TPG Annual Report, 2000.

## Key Products and Services

TPG operates three main divisions: Mail, Express, and Logistics, with Mail representing 37 percent of revenue in 2000, Express 41 percent, and Logistics 22 percent.[87] TPG has worked to become a key European provider of cross-border mail services and to develop both domestic and international mail products.

TPG's current product and service portfolio is the result of a series of acquisitions and divestitures. As a corporate entity, before the 1998 de-merger, KPN diversified into security services, venture capital subsidiaries, and value-added services like database management, response handling, warehousing, and financial services.[88] In 1991, PTT Post joined the public postal operators of France, Germany, Sweden, and Canada to form a consortium, GD Express Worldwide, which bought half of TNT Express Worldwide, then the second largest international express company in the world. In July 1996, PTT Post and Sweden Post bought the shares of the other public postal operators of GD Express Worldwide, and PTT Post became the majority shareholder. In October 1996, PTT Post, through KPN, initiated a purchase of TNT, the Australian company that owned the remaining portion of TNT Express. This acquisition gave KPN majority ownership and complete control of TNT Express. Prior to the acquisition, PTT Post generated 90 percent of its revenue in Holland; afterward that number dropped to 40 percent.[89] As a result of the TNT acquisition, TPG now offers express services to and from more than two hundred countries.

TPG's logistics division is the result of many acquisitions and alliances, such as the $650 million purchase of CSX Corp.'s CTI Logistics in 2000.[90] As a result, TPG has become one of the world's largest international logistics providers.

## Pricing

TPG's rates are governed by a price cap regime. Accordingly, the price that the average user pays for services under the postal concession is linked to price indices published by the government's Central Planning Office. Price changes may not exceed increases in these indices. For mandatory services of TPG, the relevant index is wage costs per employee in the private sector.

This system is used to control the overall development of charges that apply to the complete range of postal services. TPG has the freedom to change its prices for individual services on the basis of market considerations by varying percentages within the limits set by the price cap.[91] OPTA audits the application of the price cap system.

88 Precision Marketing, "International operators show liberalisation benefits," 11/14/1994.
89 Congressional Testimony, "International Postal Policy," Simone Bos, 03/09/2000.
90 Traffic World, "Applying Postal Breaks," John Parker, 01/08/2001.
91 TPG Annual Report, 2000.
92 Business Week, "Posts With the Most," William Echikson, et. al., 08/17/1998.

## Operations

In the early 1980s poor service, dissatisfied business customers, rising labor costs, declining employee productivity, and increasing prices characterized the Dutch postal service. Business clients began shifting parcel deliveries to private carriers. To improve performance, PTT Post moved to overhaul the infrastructure. In the mid-1990s TPG franchised out most of its small post offices to a retail newsstand chain and built ten large automated sorting facilities. The sorting facilities increased mechanized handling from 30 percent in 1996 to 90 percent in 1999, for estimated annual savings of over $300 million.[92]

To reduce costs, PTT Post restructured its distribution network. To ensure greater transparency and accountability, the company was split into separate business units, each responsible for a single product/market combination and its own profit and loss statements. Overall, TPG was able to reduce overhead costs, reduce the head count at headquarters, implement a new management philosophy, delegate more responsibility to business units, involve managers more in daily business, and develop a new appraisal system tying management to financial performance. Management policy stresses decentralization, management targets, accountability, delegation of authority, and a results orientation.

## Human Capital

To prepare for privatization, the Dutch post was required to restructure many of its human capital practices and polices. Compared with other companies, the existing salary structure was too high in the lower pay scales and too low in the higher pay scales, and the appraisal system rewarded seniority rather than performance. PTT Post brought in outside management that started a cultural change. Knowledge that jobs were no longer secure increased the willingness of personnel to cooperate in the change process. In cooperation with the unions, PTT Post established various human resource initiatives, such as training and financial incentives. PTT Post convinced the unions to accept short-term job losses in order to ensure the long-term growth and financial health of the company. Although the company did suffer a strike among postal workers in 1989, TPG has had no major labor disputes since privatization. In 2000, in-house labor costs were 33 percent of total costs.[93]

Following the 1998 de-merger, TPG offered Dutch employees working under a collective labor agreement a one-time opportunity to participate in a stock option plan. Approximately 26 percent of employees chose to participate. Stock options are also offered to TPG's Board of Management, as well as other senior managers.

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93 TPG Annual Report, 2000.