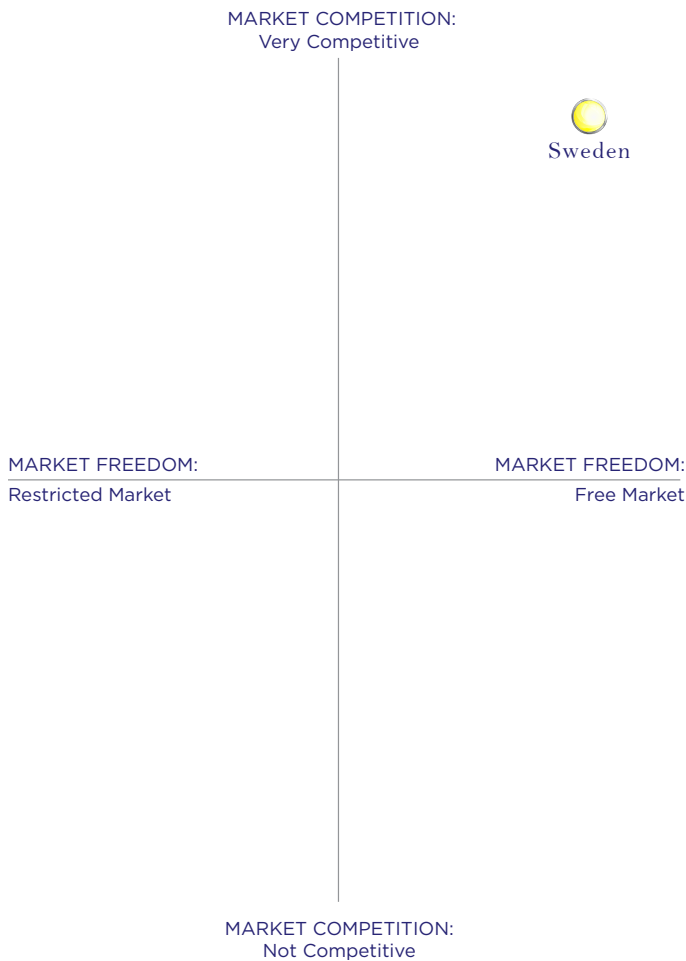


SWEDEN





OVERVIEW

The Swedish postal system operates is one of the most liberalized mail markets in the world. Sweden’s national post -- or “Posten,” as it is known in Sweden -- lost its monopoly privileges on letter mail in 1993, well before all of its European counterparts, with the exception of Finland. Before then, the Swedes already allowed competition in parcels and bulk mail. However, as of 2007, Posten has retained roughly 91% of the light letter market.

Compared to other EU countries, Sweden is in the middle of the pack when it comes to stamp prices for basic domestic letters. Sweden’s prices are just slightly higher than average, according to the Free and Fair Post Initiative.

Swedish Posten is one of the oldest postal services in the world, founded officially in 1636 but with origins that extend still further back. The service has one of the most venerable brand identities in any national culture.

Posten is also known for its efficiency. It’s important to note, however, that the Swedish population is highly concentrated around just a few major cities. The EU minimum standard calls for 85 percent of domestic letter mail to be delivered overnight. Posten far exceeds that standard, with about 95 percent of its mail arriving the next day.

PRIVATIZATION

Posten was officially “privatized” in 1994, but the privatization was more formal than real. The new entity -- a limited liability company titled Posten AB -- remains entirely owned by the Swedish government and there are, as yet, no immediate plans to sell the company off to private investors.

Until this privatization, Posten functioned as an organ of the state -- the Postal Administration. The restructured Posten AB, in turn, owns a group of subsidiaries providing different postal and other related services. In distinction to most other countries, the national postal service in Sweden earlier had only a very limited legal monopoly on the mail -- basically just for letters. Parcels and bulk mail were officially open to competition. However, Posten had an effective monopoly, enjoying government status and paying no taxes.

LIBERALIZATION

In 1993, legislation was passed that, in measured steps, began transforming Posten into a “private” corporation and eliminating the sole postal monopoly in light letters.

Home and business post office boxes were opened to competition completely, and initiatives were begun to make core elements of postal infrastructure accessible to every new, duly licensed postal operator that sought to deliver the mail.

Postal codes and change of address processes were opened up to competitors and, within political and practical limitations, made available at cost.

Prior to liberalization, Posten was “profitable.” At the time, critics claimed that upstarts would cherry pick Posten’s most lucrative markets, leaving Posten to provide “universal delivery” to the less profitable areas. This concern proved to be unfounded, as Posten has remained profitable without explicit state subsidies and has retained 91% of the delivery market, despite 33 licensed competitors. Posten’s network of post offices and logistical operations, built over decades, continues to give it a formidable competitive advantage.

UNIVERSAL SERVICE

Sweden is slightly larger than the state of California and is sparsely populated. Some 75% of residents -- about 9 million -- live in or around just a few cities. That makes for a relatively compact postal delivery problem. A small minority of residents, scattered across the largely inaccessible North, are the only major obstacle in fulfilling the Universal Service Obligation.

In Sweden, the USO requirement applies only to addressed letter mail. According to the EC models, providing universal service is ultimately the responsibility of the government itself. In Sweden, the government has contracted with Posten AB to fulfill this obligation. Posten AB’s 1998 agreement with the Swedish government makes it the sole provider of USO service. The government’s National Post and Telecom Agency (PTS) regulates the entire postal marketplace, including monitoring and supervising Posten AB’s fulfillment of Sweden’s USO.

Posten AB is not subsidized for maintaining the USO. Government investigating bodies decided that the advantages Posten AB derives from being the sole (required) universal service provider are sufficient to fund USO. Only a few tiny state subsidies are given for providing timely mail service to the visually impaired, elderly and disabled in very rural areas.

Universal mail delivery is thought to provide significant commercial advantage vis-à-vis any potential competitors, especially since Posten’s excellent speed of service does not give alternative mail companies much of an opening to skim off a separate “overnight” market. Moreover, any shipper wishing to use a nonuniversal competitor may be faced with expensive splitting of its mail processing operation.

UNIVERSAL SERVICE (CONTINUED)

Sweden's Universal Service Obligation can be roughly divided into three components:

- 1) Delivery "from all to all" Monday through Friday.
- 2) Single letters must be conveyed at uniform and reasonable rates. Price increases are officially capped at CPI (although prices have exceeded CPI due to tax increases and "rebalancing" of mail costs).
- 3) As the official provider of the USO, Posten AB is required to maintain a network of physical postal counters. Many of the services provided by these counters are financial and not related to mail delivery.

STRUCTURE

In 1990, Posten AB maintained 1,934 traditional post offices. Beginning in 2001, Posten began closing many of these traditional post offices, replacing them with a new network of privatized and contracted counter services.

The new network consists of three main levels. The lowest are roughly 2,000 stamp agents who are mostly proprietors of small shops, stands and kiosks authorized to offer the most basic stamp and mail services.

The second level of contracted service consists of about 1,600 postal outlets located within larger grocery stores and the like. They are staffed by regular store clerks, are typically open late, and offer more services -- including mail registration and package pickup (in Sweden parcels are not delivered to the door).

The top level are 381 Business Centers located in commercial areas. These centers are staffed and managed directly by Posten AB. They provide complete post office services, including the processing of business mail and insurance for parcels. Business Centers can be used by individuals and businesses alike and are open weekdays between 7 a.m. and 7 p.m.

Additionally, rural areas are served by 2,500 rural postmen who bring their "post offices on wheels" directly to the doors of more isolated users.

Other "traditional" mail services were also formally spun off from Posten AB in 2001. The main unit was Svensk Kassaservice (Swedish Cashier Service) which provides a retail cashier service allowing Swedes to pay bills and withdraw and deposit money with several Swedish banks.

COMPETITION

As of 2007, there were 33 licensed postal operators in Sweden, but almost all were tiny, local operations in niche markets. Only one could remotely be considered a competitor to Posten. That company -- CityMail -- specializes in low-end business bulk mail.

COMPETITION (CONTINUED)

Launched in Stockholm in 1991, CityMail delivers only to about 40% of households in Sweden using a three-day-a-week cycle. Until 2004, it operated at a loss. CityMail delivered 275 million addressed items in 2006 -- compared to Posten's 3.263 billion items. CityMail has an 8.6% share of single letter volume and a 13% share of bulk mail. Its 1,400 employees get wages and benefits equal to Posten's.

CityMail is poised to expand. In September 2007, the company announced that it would employ 500 new staff as part of a US\$14.67 million expansion in central Sweden. By 2010, the company expects to be capable of delivering to 60% of Swedish addresses.

Posten and CityMail run a combined subsidiary to handle postal zone directories and change-of-address processing, but CityMail has no part of Posten's network of postal outlets. The services of express and courier companies are not regarded as postal operators and thus are not subject to licensing.

European postal commissions estimated that national incumbents would be likely to retain roughly 80% of mail share after privatization. In Sweden, Posten AB has been able to maintain a dominant position in all segments of the market. Some 14 years after the opening of the letter market, for instance, Posten AB retains 91%.

REGULATION

Sweden's National Post and Telecom Agency (PTS) is the independent government agency tasked with supervising and licensing letter mail providers. It also ensures that requirements of Sweden's Universal Service Obligation are met. Parcel and bulk mail delivery does not fall under PTS control.

Sweden has an independent Competition Authority, and there have been numerous cases brought before the Authority -- most concerning CityMail's attempts to limit Posten's "customer loyalty programs." These were discounts offered by Posten to big and well-established companies to keep their business with Posten.

Posten does not work within a confrontational union environment, and its healthcare costs are taken up by nationalized government health programs. Regulation, competition and wage disputes are not a major political issue in Sweden.

PRICING

Posten's USO tariffs for letter mail are required to be "uniform and reasonable." But letter mail is a small part of the mail stream. Other parts of the mail are not as closely regulated, but competition and pricing rules attempt to follow very general EU directives.

Price increases for letter mail are in theory tied to the CPI but in fact have risen about 90% since liberalization. Some of these "unusual but allowed" increases are attributed to the imposition of VAT and some to a structural redistribution of costs by Posten.

PRICING (CONTINUED)

On the bulk side, Posten attempts to match many of CityMail's volume discounts, but more often the competition is not price but process-driven. Posten uses its own in-house sorting technology, while CityMail encourages customers who, for internal reasons, prefer to control their own mail streams and get customized delivery solutions from CityMail.

FUTURE

Competition combined with technology has brought bulk mail prices down 50% in real terms. Large mailers have benefited. Smaller businesses have seen less improvement. Despite the price cap, such businesses have endured gradual increases of over 50% in rates. Moreover, letter postage has increased dramatically even as the percentage of letters in the mail stream continues to decline. Also, parcel rates have soared by 253%.

Fourteen years after complete liberalization, it does not appear that generalized rules allowing free competition -- without true privatization -- are sufficient to bring competitors into the mail market, at least under the somewhat unique conditions that exist in Sweden.