



# *Index of Postal Freedom*

## **Russia – Pochta Rossii**



### *Overview*

Russian Post (**Pochta Rossii** or **PR**) is a sleeping giant, which has only recently begun to stir with the emergence of a new consumer economy in Russia. PR is in many ways a relic of the vast, inefficient state bureaucracies of the Soviet area. However, with vigorous new management, infusions of investment capital, and the rapid introduction of electronic communications, the system is showing signs of new life. There are no indications that PR will be privatized; it is, and for the foreseeable future will remain, a state-owned enterprise.

The service is recognized as a valuable tool in holding the huge Russian construct together. As the economy evolves, international carriers are playing a role in modernizing postal service in Russia, especially in package transport and logistics. These two arenas are crucial because of the unique transportation challenges posed by Russia's vast land mass and geography.

Fueled by a commodities boom, the Russian economy has markedly turned around since its late-1990s collapse in the wake of mismanaged attempts at reform. Many Russians are now able to afford a widening range of consumer goods. In fact, catalog marketing (a process common in the United States back when Sears & Roebuck served far-flung American communities) is beginning to provide new growth opportunities for postal services.

### *Structure and Regulation*

Pochta Rossii provides a perfect case study of the complex bureaucratic relationships that define post-Soviet Russia. After the disintegration of the USSR, PR found itself divided into 92 independent regional units. The system was enormously inefficient. Delivery times were slow, and package service was unreliable. Diverse customs rules and inspections -- not to mention creative



"interventions" in the mail stream and localized fees and taxes -- made the system ponderous and reform difficult.

In 1993, postal service in Russia undertook the first steps of reorganization. The old post office was formally restructured as an "FSUE," or Federal State Unitary Enterprise. Officials attempted to reintegrate the capital assets of the post office under a single structure belonging to the national government. The post office, still divided by region, state, and often type of activity, was then allowed to "use" these unified assets to deliver the mail.

Russian Post maintains 42,000 post offices and employs 415,000 people. Postal jobs are secure but low-paying; until recently, PR employees were paid roughly 60 percent of the average wage in Russia.

PR reports handling over 1.4 billion letters, 38 million parcels and more than 188 million money transfers in 2006. PR expects those numbers to increase in the future and claims that it collects, sorts, and delivers 1.5 billion letters, 48 million parcels, and more than 190 million money orders annually.

The system reportedly lost US\$186 million in 2007. It provides about 80 types of services through 90 affiliates. Although the unified operating company now has a relative degree of freedom, ultimate control still rests with Russia's Ministry of Communications and Information Technology.

There has been some talk of making PR a state corporation, but critics within Russia point to the conflict of interest between seeking profits and providing social services.

### *Postal Reform*

During Russia's economic decline of the late 1990s, mail usage plummeted and the postal system lost money, even with the aid of questionable accounting practices. Attempts to reform the system included unraveling existing arrangements and improving service without unduly upsetting patronage arrangements.

The current version of Russian Post was established on September 5, 2002.



In 2007, Andrei Kazmin, the dynamic CEO who had success reforming Sberbank, Russia's largest state-owned bank, was brought in to supervise reforms of Pochta Rossii. Sberbank's structure and problems paralleled those facing the postal service. In the last year, he has moved quickly to assess PR's overall situation and address processing bottlenecks and management issues. Many of the problems facing PR stem from a need to restore public confidence in the system.

The government is making both internal funding and foreign loans available to build new infrastructure, particularly for PR. According to the Finmarket information agency, Russian Post planned to invest 9.5 billion rubles in 2007 in modernization, compared to just 600 million rubles in 2004. Kazmin has publicly stated that he does not intend for PR to become a bank, but the organization is nonetheless rolling out an increasing array of financial services.

New processing facilities are being built in the "hub" cities of Moscow and St. Petersburg in concert with foreign firms like TNT. PR is also attempting to centralize purchasing to cut costs.

### *Modernization*

Given Russia's size and relative technological sophistication, initiatives for money and document transmission via e-mail are being given high priority by Kazmin and his team. A funds transfer service called Cybermoney was established in 2003. A service called CyberPocht@ (or Kiberpocht), which allows Russians to access computer terminals to send and receive e-mail and funds, has recently been rolled out. By the end of 2006, Russia was reported to have over 20,000 postal offices (PAO outlets) offering Internet access.

A whole range of value-added services centering on the post office network are in varying stages of implementation.

Besides regular mail deliveries, post office "outlets" are beginning to offer services like the distribution of subscription periodicals; mail order and COD; e-commerce; collection of rent, utility and tax payments; consumer cards and credit; lottery sales; insurance products; sales of railroad and airline tickets;



passes for public transportation; and even terminals for MasterCard and Visa. PR is also pushing communication initiatives involving remote printing.

Kazmin has made raising both postal salaries and service standards a priority for his tenure. Labor costs account for 78% of total expenses, and recent salary increases of roughly 30% have dampened expectations of PR producing a profit in the near future, despite jumps in revenue.

### *Liberalization and Competition*

The market for Russian postal services is growing rapidly and was valued at about \$1 billion in 2003, with Pochta Rossii accounting for 80 percent of that number. Today, delivering letters makes up only 20 percent of the post office's income.

Technically speaking, the Russian postal market was opened to competition in 1996 when the Ministry of Communications removed the state monopoly on postal services.

The Russian government is now a major source of business for Russian Post. Certain large streams of mail from other government agencies, like the delivery of 60 million pension checks annually, are routed through Russian Post.

Most of its revenue, however, comes from delivering goods. There are some local delivery services in Moscow and St. Petersburg.

Competition with international carriers for lucrative and strategically important package delivery and logistics services is concentrated in the western hub regions of Russia. This is a booming market, and DHL Worldwide, TNT, FedEx, UPS and others are all involved.

In 2004, Russian Post launched its own national express mail operator (EMS -- Russian Post) with prices that are 20% lower than competitors on average. EMS relies on its connections with the regular postal network and touts deliveries made "door-to-door." More than 42,000 post offices throughout Russia make EMS deliveries, and 5,500 post offices in Russia accept EMS items.



It is unclear whether Russian Post subsidizes EMS with proceeds from traditional mail. Even though the Russian government eliminated the state postal monopoly in 1996, PR still controls 80 percent of the postal market and so has sufficient market dominance to build EMS on the backs of ordinary stamp-buying consumers.

EMS claims annual revenues in the area of \$300 million and an annual growth rate of 30-40 percent.

Firms like Western Union compete in the money transfer business against PR's Cybermoney system. PR rates are set to undercut the competition by as much as 35 percent.

### *Privatization*

In 2002, Minister of Communications and Information Technology Leonid Reiman told Prime-TASS in an interview that "There are no plans for privatizing Russia's postal service in the near future," although he added that there remained a possibility that it might be reformed into a 100-percent government-owned company.

Current law does not allow for the privatization of postal service companies. In 2006 Reiman told a Cabinet session that of the many countries that tried to privatize their postal services, few succeeded. "For example, the U.S. Postal Service is a government corporation and is subsidized from the budget to perform socially important functions."



## *Useful links*

[Russian Post](#)

[RussiaPost: Can snail mail survive Internet boom?](#)

[EMS Post Resources and Information](#)

[History of the Russian Post Office](#)

[International Commission for Postal Financial Service and Business](#)

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