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# Universal Postal Service in Major Economies

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# Executive Summary

"We're operating in a dynamic, digital world where community expectations and customer behavior are changing rapidly," Australia Post's CEO Ahmed Fahour observed in a noteworthy speech in August 2014. "Simply continuing to do what we have done in the past will not allow us to be a community service in the future."

Such sweeping determinations would have seemed somewhat fantastical within postal or mailing communities fifty years ago, but today they represent sentiments that are quite common among the leadership of national postal operators around the world.

Faced with a changing global marketplace with new technologies and enhanced world-wide connectivity, postal operators are adapting their business models. Where this often uneven evolution has been successful, it is characterized by three primary strategies: 1) liberalization, 2) diversification of revenue sources and 3) rethinking universal service requirements. These three best practices have allowed the world's largest national posts to remain both relevant and fiscally solvent despite declining service demands and global economic recession.

Declining mail volume, independent of economic growth, has driven changes in business models. Mail volumes have dropped at an annual rate of 5 percent since achieving their peak in 2007.[1] The United States Postal Service has observed a 38 percent reduction in single-piece first class mail, its highest-profit offering, over the past five years[2], forcing lawmakers and the Service's management to reconsider its business plans and look at universal service obligations from a different perspective.

This report outlines major dynamics and strategies characterizing universal service across the world's largest postal markets, comprising 96 percent of global postal revenues, and 70 percent of domestic mail volume, with an emphasis on how they can be expected to impact consumers.

Every national post faces unique demands, obligations and challenges – and so there is no "silver bullet" for restoring postal financial stability. Some countries are enacting tighter regulations and fees in response to changing mail trends, while others are relaxing regulations and fees. But as this report demonstrates, the experience of other national posts can inform decisions going forward, so that countries can build on past successes and avoid missteps.

The three aforementioned best practices shine through as noteworthy trends across this global case study:

***Liberalization,*** where postal markets are opened to outside competition, is an overall trend underway in 13 of the 20 countries examined in this study. The goal of opening markets to outside competition is to lower costs for consumers, while improving service quality. Independent postal regulators have developed different rules and methodologies for allowing competition, and for establishing and monitoring service quality. For example, the European Union's 2008 Third Directive offered sweeping changes designed to open postal markets broadly – to which states have responded in various ways.

The United States, on the other hand, has not made its mail monopoly available to the private sector, but it has effectively liberalized significant portions of its mail stream through establishing "worksharing" arrangements. Worksharing, or offering third parties discounts for mail preparation and transportation, has driven down the cost of doing business, to the observable benefit to consumers in terms of cost and service quality. More broadly, if worksharing were included under the liberalized category, the percent of worldwide postal revenue from non-liberalized posts falls to just 15 percent.

***Revenue Generation Flexibility,*** derived from alternative sources, has been another predominant trend among postal operators. Such non-mail revenue sources include offering banking and insurance services, logistics, internet, and parcel deliveries. Banking and insurance activities have generated the majority of alternative postal revenue, followed by parcel delivery.

***Relaxation of the Universal Service Obligation*** has been another dominant trend of posts and regulators, providing posts flexibility in delivery infrastructure and standards. For reference, Appendix C contains a list of successful practices by posts to re-define the universal service obligation in an acceptable manner to consumers, while reducing costs. Certain countries have implemented universal service funds to help subsidize their posts' universal service obligations, but only 10 of 20 major national posts examined here have taken such actions. These tend to be the smaller countries and operators of those studied. Of these, at the time this report was published, available evidence indicated that most had not actually begun to collect payments for the fund. In all but four countries examined (Brazil, China, India and Turkey), universal service funds were created following liberalization, established as short-term mechanisms to support the implementation of liberalized market conditions, particularly the higher cost of delivery to certain locations by the designated operator responsible for the obligation.

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## Introduction

The twenty countries profiled in this report account for over 250 billion pieces of mail annually, according to statistics from the Universal Postal Union. Collectively, their postal markets are worth more than USD465 billion. Interestingly, they have all addressed the provision of universal service differently.

Some have used revenue derived from the sale of non-postal products to help underwrite the cost of universal service. Others have established funds that subsidize the provision of universal service – and rely on fees paid by carriers that do not provide universal service to seed them. In this latter case, officials must ensure that they clearly define universal service and transparently calculate the cost of providing it so as to guarantee that the fund serves its stated purpose – and doesn't serve simply to subsidize the universal service provider.

As an example, the Third European Postal Directive defines the cost of universal service as "the difference between the net cost for a designated universal service provider of operating with the universal service obligations and the same postal service provider operating without the universal service obligations." That cost is affected largely by the scope of the universal service obligation, a country's geography and demography, and the nature of the postal market.[3]

Most economists agree that the cost of the universal service obligation is not equivalent to the profits that a dominant postal operator loses when a marketplace is liberalized; instead, it is the cost of liberalization, or the value of the monopoly.[4]

If universal postal service is to remain an objective in the coming decades, postal operators must determine how to support it as mail volumes continue to decline globally. To that end, other nations' experiences with universal service may be instructive – and are summarized below.

## 1. United States

The United States Postal Service (USPS) is required to receive, transmit, and deliver all mail matter to and from "as nearly as practicable to the entire population of the United States" at uniform prices, meaning that rates are based on weight, not distance.[5] Under terms defined by Congress, the USPS currently must provide these services six days a week, adhering to published standards for service quality.

To fulfill its universal service obligation, the Service maintains an extensive network including nearly 32,000 post offices, with an additional 70,000 locations shared with retail partners for basic transactions, including stamp sales.[6] To reduce operating costs in response to declining mail volume, Postal Service management has adopted changes including network rationalization, consolidation of mail processing facilities, and reduction of delivery routes, producing USD15 billion in annualized savings between 2007-2013.[7]

According to U.S. law, the Postal Service "shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user."[8] Books, educational materials, sound recordings, and films must be carried at uniform rates. Library mail enjoys preferred rates, as do non-profits sending advertising, periodicals, and newspapers. Members of Congress, blind customers, and certain members of the armed forces may mail items free of charge.[9]

In response to decreases in revenue and mounting financial obligations, USPS announced in February 2013 that it would reduce mail delivery to five days a week – Monday through Friday – in August 2013. In April 2013, the agency backed off such plans, after its Board of Governors concluded that the law requires mail delivery six days a week.[10]

U.S. postal markets are not liberalized, with the Postal Service holding statutory monopolies on both the provision of first-class mail as well as exclusive use of consumers' mailboxes. But postal leadership has pursued aggressive worksharing and outsourcing strategies to partner with customers and vendors to produce often-substantial reductions in operating costs, both for products within and outside the scope of the postal monopolies. Such agreements are subject to review and oversight by the independent Postal Regulatory Commission to ensure that the size of discounts offered does not exceed savings to the Postal Service resulting from the workshare.

Worksharing frequently takes the form of preparing, presorting or transporting mail according to pre-agreed schedules. One prominent example of worksharing is Parcel Select service for large and medium-sized shippers, who transport packages outside of the Postal Service network and drop them off at a postal facility further down the delivery chain. Shippers are charged based on where a parcel enters the delivery network.

In this context, "USPS has developed numerous competitive product Negotiated Service Agreements; most have covered costs and generated a small but growing portion of total USPS revenue," concluded the Government Accountability Office in a June 2013 study.[11]

### Funding Mechanism: How is Universal Service Paid for?

USPS is designed to be revenue-neutral, and the bulk of operating costs is paid for by customers through postage stamps and services.[12] The agency also receives only a small taxpayer-funded subsidy. Congress budgets about USD96 million of the Service's USD65 billion operating budget annually for a "Postal Service Fund" to compensate the agency for postage-free mailing for the legally blind and overseas mail-in ballots.[13]

USPS maintains a legal monopoly on letter delivery and holds exclusive rights of access to Americans' mailboxes. Both monopolies are provided for by the Private Express Statutes and are in place ostensibly to help pay for universal service.[14]

Letters may be carried privately if the price for doing so is six times the going rate for a single-piece first-class letter or if the letter weighs more than 12.5 ounces.[15]

Federal law prohibits the Postal Service from offering nonpostal services.[16] As of January 2013, the Postal Service was pursuing 55 new initiatives to generate revenue, such as enhanced Post Office Box services and prepaid postage on greeting cards.[17] But these are expected to prove insufficient to cover operating expenses, creating a bleak financial situation under its current business plan. The Postal Service reached its statutory borrowing limit in 2012.[18] The Postal Service recorded its eighth consecutive annual financial loss in FY 2014, producing a total net deficit of $51.7 billion between FY 2007 and FY 2014.[19] As of this writing, little consensus among lawmakers exists to remedy the situation.

### Quality of Service

USPS claims on its website that it "has maintained and even improved service levels while keeping rising postage rates in line with inflation" despite increases in the number of people it serves and decreases in household size.[20] Surveys have repeatedly shown that most Americans are generally satisfied with USPS's services.[21]

Quality-of-service targets for First Class Mail in the United States depend on distance.[22] If a piece of mail's number of days to delivery is equal or less than its service standard, USPS is considered to have met its commitment.[23]

The FY2014 Annual Targets for overnight, two-day, and three-to-five day commitments are 96.8 percent, 96.5 percent, and 95.25 percent, respectively.[24] In Quarter 3 of FY2014, the USPS had 90 percent of single-piece stamped and metered mail delivered within its overnight commitment, 93 percent of single-piece stamped and metered mail delivered within a two-day commitment, and 90 percent of single-piece stamped and metered mail delivered within a three-to-five day commitment.[25]

### Additional Information

In a 2013 research report on 26 of the world's major postal service providers, Accenture placed USPS's strategic approach in the "traditionalist" category, which includes approaches that are primarily focused on improving the efficiency of mail and have a national focus.[26] While individual organizations' rankings were not disclosed, the report noted that "nearly every traditionalist in [the] study slipped in the rankings" and "fail[ed] to deliver revenue growth."[27]

## 2. China

State-owned China Post has the obligation of providing universal service in China.[28] China Post states that its universal services cover "letters, printed papers, parcels, and remittances" in addition to state correspondence, correspondence for the compulsory servicemen and other areas.[29]

China Post also holds a legal monopoly on mail and parcels weighing 350 grams or less.[30] The amended 2009 Postal Law of the People's Republic of China states that universal service shall include "delivery of correspondence, printed matters not heavier than 5 kilograms each and parcels not heavier than 10 kg each and the postal remittance."[31] A World Trade Organization document observed that "correspondence" also includes "express delivery services."[32] Foreign-invested express delivery companies were not prohibited under the law, except for "certain private letters."[33] The same 2010 WTO report noted that, "The legal office of the State Council is working on the examination and amendment of the Provisions on the exclusive operation scope of the postal enterprises (draft for review) submitted by the State Post Bureau."[34]

The Law also mandates that in urban areas, postal enterprises must be open six days a week and deliver mail at least once a day. In townships and towns, postal enterprises must be open at least five days a week and deliver at least five times a week.[35] Letter mailing costs are dependent on weight and delivery distance. In other words, rates differ for intra-city and inter-city delivery.[36] Local delivery mail typically costs 0.6 yuan, while inter-city mail costs 0.8 yuan.[37]

According to the Universal Postal Union, which cites China's twelfth five-year plan for postal development, "China will have built a moderate and sustainable universal postal service system covering both urban and rural areas and benefiting the mass public" by 2015.[38]

### Funding Mechanism: How is Universal Service Paid for?

China's 2009 Postal Law dictates that the state "shall subsidize the postal enterprises which provide universal postal services" and establish a universal postal service fund.[39] Because China keeps its stamp prices artificially low, mail services require state subsidies.[40]

China Post also operates several non-mail services such as savings banks, remittance transfers, Internet banking, and logistics services.[41] Since 2003, China Post has had authority to manage deposits on its own, independent of state banks. It also has authority to issue national and local bonds. It immediately began using this authority to leverage its vast network of 47,000 service outlets. By 2011, 52,000 service outlets. [42] In 2012, China Post had 4 trillion yuan (USD657 billion) in total deposits. Postal remittances are a second major line of financial services business by China Post.[43] Revenues from the Group's combined financial businesses reached 52.371 billion yuan (USD 8.6 billion) in 2012, a 13.5 percent increase over the previous year.[44]

In 2010, China Post launched a partnership with China Post Life Insurance Company to sell small-amount insurance products within China, the next major step in diversifying its financial services.[45] In 2012, it signed a strategic cooperation agreement with the Industrial and Commercial Bank of China.[46]

As of April 2013, Chinese postal authorities had prepared a draft regulation that would impose a 0.1-yuan surcharge on each city express package and 0.2-yuan surcharge on inter-city express parcels on private and foreign parcel carriers. Additional fees of 1 yuan per parcel sent to Hong Kong, Macao or Taiwan, and 2 yuan for each overseas parcel would also be levied, although companies with fewer than 20 employees or with annual revenues of less than 2 million yuan would be exempted.[47] Although details were unclear, it appeared that it was the government's intention for the proceeds to be applied to subsidize China Post's unprofitable mail and postcard services, particularly in remote areas.[48]

### Quality of Service

China Post's 2012 Annual Report does not provide statistics on standard transit time targets or performance but states that "we have exerted ourselves to further improve our service conditions, seriously implement the obligations of universal service, try our best to improve the quality of our service, and increasingly promote the overall image of the Group."[49] The report cited a third-party survey of 500,000 customers, which estimated an overall satisfaction rate for postal services of 88.39 percent, a fraction of a percentage point above the previous figure.[50] China Post also observed that 77 percent of respondents felt the overall service was higher than the previous year."[51]

In its 2010 annual report, China Post maintains that "universal service was provided earnestly, the quality of confidential correspondence enjoyed all-around excellence for three consecutive years, circulation of newspapers and journals maintained steady increase, and the safe delivery of ordinary correspondence for the compulsory servicemen and literatures for the blind was effectively guaranteed."

In late 2012, China Post signed a strategic cooperation with the Yunnan provincial government, located in the country's far Southwest region, to speed up the construction of postal infrastructure and network.[52]

Additionally, China Post claims that its number of complaints in 2010 fell by 22.6 percent on a yearly basis.[53] A blog post by the USPS Office of Inspector General's Risk Analysis Research Center stated, "By the end of 2015, the China Post Group plans to extend universal service to all villages," which implies that the entirety of the Chinese population does not yet receive universal postal service.[54]

## 3. Spain

Correos is the designated universal service provider in Spain. A 2010 law granted it such status for 15 years. Universal service applies to letters and postcards up to 2 kilograms, parcels up to 10 kg, and registered and insured items. These items must be delivered five days a week.[55]

Correos' standard transit time is within three working days. Ninety-three percent of mail must meet this standard – and in 2013, 96.5 percent does.[56]

While the combined market share for private providers is growing, it remains near 10 percent. A 2011 report noted that more than 500 licenses for the provision of universal services had been granted, and over 2,600 general authorizations for other postal services including parcel delivery, unaddressed direct mail and periodical delivery.[57] Noteworthy is the fact that Germany's Deutsche Post holds a significant stake in the largest private provider, Unipost.

In 2007, Correos said that it would stop delivering to houses 250 meters or more from a main road. The postal operator forecast the move as a response to the liberalization of the country's postal market – and the challenges it would face maintaining universal service in such an environment. Rural customers would be obliged to retrieve their mail from centralized community letterboxes.[58]

Spanish regulators defended the move as consistent with service standards enshrined into law, which provided for an exception for "isolated houses or homes that are situated in environments characterized as dispersed, which are placed more than 250 meters from the public road, which is used by anyone of the public service sector."[59]

### Funding Mechanism: How is Universal Service Paid for?

Correos is responsible for calculating the cost of universal service "according to the norms dictated by Spain's postal regulator." These calculations must then be externally audited according to a methodology developed by the European Commission on the Universal Postal Service in the European Union.[60] The audit is a significant step to prevent the use of universal service fund proceeds from subsidizing other Correos business functions, such as courier and express delivery services.

In 2006, a Royal Decree established that an operator seeking access to the postal system would negotiate terms directly with Correos based on certain ground rules.[61]

Spanish postal law established a dedicated universal service fund in 2011. If the contents of that fund are not sufficient to offset the cost of providing universal service, the law dictates that the Spanish government will fill the gap.[62]

Under the terms of the law, postal operators with annual revenue on products within the universal service area above 50,000 euros will have to contribute 0.5 percent of net revenues to the fund. The designated universal service operator is exempt.[63]

The Spanish government allocates funds to Correos "towards the accounting cost of the universal service obligation." In 2005, the Spanish regulatory authority calculated the cost of the universal service obligation at 221 million euros. The government provided 41 percent of that sum – 91 million euros. In 2006, 93 million euros was earmarked for this purpose, and in 2007, 95 million euros.[64] These amounts stand as advances on the actual cost of universal service; government officials reconcile these payments with the actual cost of universal service at the end of each year.[65]

### Quality of Service

Standard transit time for letters in Spain is delivery on the third working day after posting (D+3).[66] While no priority class exists, Spain's universal service provider, Correos, offers an express product with a transit time of one day after posting.[67]

From 2001 to 2006, service-quality targets for Correos were 90 percent of letter delivery D+3. Targets were raised to 92 percent in 2008 and to 93 percent in 2009. In the early 2000s, Correos did not meet these transit-time targets, but through reorganization of its transport network and investments in sorting technology, the postal service eventually met these targets in 2010, delivering 96.1 percent of letters within three working days and 70 percent of letters within one working day.[68, 69]

### Additional Information

The universal service fund seems to be intrinsically linked to the liberalization process of the country's postal marketplace, established to help underwrite the cost of universal service. Spain's regulator has clearly defined universal service in its liberalized marketplace, which now includes operators that do not bear the universal service obligation competing against an entity that does. Unipost, a network of private postal and delivery operators, had gained a market share of 12 percent by 2010, collecting and sorting mail while using Correos for last-mile delivery.[70]

The universal service definition and transparent system for calculating the cost of providing it are foundational toward ensuring the fund's purpose of actually supporting universal service, rather than simply subsidizing a favored postal operator.

# 4. Germany

In Germany, universal postal service covers letter mail up to 2 kilograms, insured items, registered mail, express mail, cash on delivery, postal packages up to 20 kg and press items such as newspapers and magazines.[71] However, delivery of books, catalogs, newspapers and magazines is only considered a postal service if provided "in conjunction with a letter or parcel post."[72] All single-piece and bulk-mail services are part of universal postal service.[73] No requirement exists for uniform rates but rates must be affordable.

The Universal Postal Service Ordinance defines tariffs as affordable if the price of a set of universal services purchased by an average household does not exceed the real price paid by an average household on December 31, 1997.[74]

German postal law does not impose an obligation to provide universal service on a specific operator and instead assumes that all operators will provide universal service.[75] If the German postal regulator – the Federal Network Agency for Electricity, Gas, Telecommunications, Post, and Railway, or Bundesnetzagentur (BNetzA) – finds cases where universal service obligations are not being met, it can issue orders to the dominant postal operator – currently Deutsche Post – to provide universal service or contract with other postal operators to do so.[76]

Deutsche Post has committed itself to delivering letters and parcels six days a week.[77] Under the Universal Postal Service Ordinance, "there shall be a minimum of one delivery per working day."[78]

According to German law, 80 percent of mail must be delivered next day. Eighty percent of parcels must be delivered within two days.[79]

Universal service also dictates that urban customers must not be more than one kilometer from a mailbox, that there be one post office in every municipality with more than 2,000 people, that there be a post office less than two kilometers away in every municipality with more than 4,000 inhabitants, and that there be one post office per every 80 square kilometers in all administrative districts.[80]

### Funding Mechanism: How is Universal Service Paid for?

Most of Deutsche Post's revenue comes from its delivery of letters and parcels. Deutsche Post also gains revenue through its online marketing agencies.[81] Universal service in Germany has been funded in part by state subsidies.[82] The German government has relieved Deutsche Post of 37 billion euros of pension obligations since 1995 and also handed over real estate to Deutsche Post, which it sold to raise cash.[83]

While BNetzA has the authority to establish a universal service fund, it has not done so because it finds that the market currently provides sufficient levels of universal service.[84]

### Quality of Service

During the last ten years, Deutsche Post has delivered at least 90 percent of letters the next working day (D+1), thus consistently meeting the legal target of at least 80 percent (D+1).[85] In 2009 and 2010, a new sorting and delivery routine resulted in "a slight deterioration of services," causing transit time figures to sink below 95 percent.[86]

A report by WIK Consult described Deutsche Post's transit time performance as being "stable on a high level'" (D+1: >94 percent in 2010).[87]

### Additional Information

According to a paper published by George Mason University, BNetzA "monitors universal service permanently" and "has found no indications that the universal service was at risk at any time and no need for external funding to maintain universal service."[88]

By 2009, new entrants to the liberalized postal marketplace had gained a 10 percent market share, consisting largely of unaddressed mail.[89]

In a study of the German postal market, the U.S. Postal Regulatory Commission (PRC) noted that privatization of Deutsche Post has "had a positive impact on universal service."[90] Mail volumes have grown, and Deutsche Post has been able to cut costs – thereby achieving substantial profitability. Prices have decreased for private customers and businesses. According to the PRC report, German regulators believe that universal service in their country has not been at risk and does not require external funding to underwrite it.[91]

## 5. France

The universal service obligation in France requires mail carrier La Poste to provide "national and cross-border letter delivery of items 2 kilograms or less, parcel deliveries for items up to 20 kilograms, and recorded deliveries and declared value consignments."[92] La Poste claims that its delivery and collection services are offered at accessible prices and guaranteed on all working days – six days a week, except under exceptional circumstances.[93] Universal service in France extends to the provision of the other public services La Poste offers as well, principally its financial services.[94]

Eighty-five percent of priority domestic mail must be delivered next day; no more than 5 percent can be delivered more than two days after mailing.[95] More than 90 percent of parcels must be delivered within two days and more than 95 percent within three days.

### Funding Mechanism: How is Universal Service Paid for?

In February 2010, France established a universal service compensation fund.[96] It will become active "once the regulatory authority notes that La Poste bears an unfair financial burden attributable to its universal service obligations," according to the Universal Postal Union.[97] Licensed postal operators will have to contribute to the fund according to the number of postal items within the universal-service area that they carry.[98] La Poste also receives subsidies mostly in the form of tax exemptions and "an unlimited line of credit with the French government."[99] The government also provides regional funding to help maintain the existing post office network.[100]

La Poste uses revenue from non-mail services such as its postal banking system to help maintain universal service.[101] La Poste's bank performs retail banking as well as home mortgages. Its net banking income was 5.539 million euros in 2013.[102] La Poste's financial services business accounts for nearly a quarter of annual revenue.[103]

### Quality of Service

In 2013, over 85 percent of priority letters were delivered the next day after posting.[104]

Green Letters, which take two days for delivery rather than one, are "extremely reliable" according to La Poste, which delivered 95 percent of Green Letters within 48 hours in 2011.[105]

## 6. Japan

Universal service in Japan is defined as the collection of mail items from post boxes seven days a week and delivery of all letters up to 4 kilograms to all households and companies six days a week.[106, 107] These services must be provided to "all the population without discrimination and at rates as low as possible."[108] Additionally, ordinary mail is to be delivered within three days after posting by customers.[109] Universal service in Japan also requires that academic publications and agricultural seeds be considered discounted mail.[110] As of October

2007, parcel post delivery has been excluded from universal service.[111] Japan Post is the designated universal service provider.

### Funding Mechanism: How is Universal Service Paid for?

Postal services provided by Japan Post operate at a loss, but universal service is partially underwritten by revenue from Japan Post's other services, which include banking and life insurance.[112] Japan Post runs one of the world's largest retail banks.[113]

### Quality of Service

Japan Post reported that in 2013, 98.5 percent of mail was delivered nationwide "within the number of days prescribed in the Postal Delivery Time Table."[114] Within the same prefecture, 98.9 percent of mail was delivered within the prescribed time.[115] To a neighboring prefecture, 98 percent of mail was delivered on time,[116] and to other prefectures, 97.8 percent of mail.[117]

### Additional Information

In a 2008 paper, the Japan Postal Group Union noted that the universal postal service could be on the edge of crisis due to the decline in regular mail volume of about 2-5 percent a year.[118]

Japan Post offers delivery services through convenience stores, thereby enabling delivery 24 hours a day, seven days a week without significantly increasing operating costs.[119]

## 7. Brazil

Only the state-owned company Correios de Brasil, also known as ECT, has the universal service obligation in Brazil.[120] In January 2012, the Brazilian government imposed delivery targets requiring ECT to deliver 95 percent of letters within five working days and 90 percent within two days. Additionally, 95 percent of printed non-urgent materials must arrive within 10 working days and 90 percent within four days.[121]

Postal services in Brazil are under federal government monopoly, and courier services are permitted to be conducted by entities legally established in Brazil.[122]

### Funding Mechanism: How is Universal Service Paid for?

Each postal operator must contribute 0.5 percent of its revenues to a fund for postal service universalization.[123] ECT currently holds a monopoly on traditional letter mail, small parcels, telegrams, and special mail bags. Express mail, packages, newspapers, and magazines are open to competition.[124] According to a 2000 paper published by George Washington University, ECT had not received direct subsidies since 1986.[125]

ECT has also adopted strategies to diversify revenue sources to fund its activities. A partnership with Banco do Brasil allows some 6,000 post offices to offer financial services to consumers, including access to credit and bill payment.[126]

### Quality of Service

In 2012, Brazil's state-owned Post and Telegraph Company (ECT) imposed delivery targets requiring that 95 percent of letters and post cards – "basic and recorded" – arrive within five working days and 90 percent arrive within two working days.[127] In January and February 2012, ECT surpassed both these target levels, delivering 96.1 percent of basic and recorded mail within five working days and 95.7 percent of letters within two working days.[128]

ECT also imposed a 2012 target requiring that 90 percent of printed non-urgent materials arrive within four working days and that 95 percent be delivered within ten working days.[129] In January and February 2012, ECT exceeded this target, achieving a 94.8 percent rate for the delivery of non-urgent materials within four working days.[130]

However, ECT failed to meet its 2012 telegram delivery target of delivering 95 percent of telegrams within four hours, with January and February 2012 seeing a 94.33 percent average.[131]

A World Bank analysis from 2004 observed that ECT, with a 98 percent satisfaction measure, has the highest rating among Brazilian public services.[132]

### Additional Information

At the time of the World Bank's report, ECT Brazil was undergoing a commercialization process that expanded its product offerings through joint ventures and introduced financial services to populations that previously did not have access to them.[133] ECT partnered with Brazil's largest bank, Banco Bradesco, to establish a highly successful venture, Banco Brazil Postal, which offers "deposits, loans, credit cards, bill payment, direct deposit, tax and social security payments and phone/internet banking."[134]

## 8. United Kingdom

The Postal Services Act requires Royal Mail to deliver letters six days a week – Monday through Saturday. Parcels up to 20 kilograms must be delivered five days a week – Monday through Friday. Both categories of mail must be priced at a uniform tariff "to every personal or business address" in the United Kingdom.[135, 136] On its website, Royal Mail states that under the Postal Services Act 2011, it is required to deliver and collect letters every Monday through Saturday to and from every address in the United Kingdom at an affordable uniform tariff.[137]

Royal Mail is responsible for providing priority and non-priority mail services, non-priority parcel service for packages up to 20 kg, registered and insured services, support services such as mail forwarding, and international outbound service.[138] Royal Mail is also obliged to provide free-of-charge postal service to the blind and provide free carriage of legislative petitions and addresses.[139]

As of August 2011, Royal Mail is no longer obliged to deliver bulk mail to meet its universal service obligation.[140] Additionally, Royal Mail is required to deliver 93 percent of First Class mail by the next day and 98.5 percent of Second Class mail within three days.[141]

### Funding Mechanism: How is Universal Service Paid for?

Universal service and access products make up approximately 60 percent of Royal Mail's letter revenues.[142] Marketing mail and counter services also contribute to Royal Mail's revenue.[143]

### Quality of Service

UK postal regulator Ofcom established a First Class retail Quality of Service target of 93 percent delivery the next working day – the highest of all major EU countries, according to Royal Mail.[144,145] Royal Mail achieved this target in 2013-2014, achieving 93.2 percent First Class retail Quality of Service performance.[146]

### Additional Information

A government-sponsored independent review conducted in 2008 and updated in 2010 of the UK's postal services stated that universal postal service in the United Kingdom as of 2010 was "still under serious threat."[147] The review attributed the worsening financial health of Royal Mail to the decline in Royal Mail's market share, the failure of the company to modernize, the accounting pension deficit increase, and the current regulatory regime.[148]

Ofcom, the independent regulator and competition authority for the UK's communications industries, noted that the risks to Royal Mail's ability to provide universal service are "considerable" because of declining mail volumes and thus increasing average unit costs.[149] Royal Mail claims that current regulations create opportunities for "cream skimming" since mailing costs are not geographically based.[150] According to an independent review sponsored by the British government, "Royal Mail is less efficient than its competitors and many of its European counterparts."[151]

# 9. Italy

Poste Italiane is Italy's designated universal service provider and must guarantee mail delivery to all addresses within Italy and mail collection no less than five times a week.[152] Mail weighing up to two kilograms and parcels weighing up to 20 kg are subject to the universal service obligation.[153]

Poste Italiane is also obligated by the Italian postal regulator AGCOM to reach quality-of-service targets, such as delivery of priority mail within one day, international inbound and outbound mail within three days, registered mail within three days, and insured mail within three days.[154]

### Funding Mechanism: How is Universal Service Paid for?

In 2013, 62.1 percent of Poste Italiane's revenue came from financial services through its BancoPosta arm, 35.3 percent came from mail and stamp sales, and 1.4 percent came from express delivery and parcels.[155] BancoPosta offers services such as the collection of public deposits, "payment services, foreign currency trading . . . loans, investment and insurance" [156] as well as mutual funds, logistics, Internet access, mobile phone services, and passenger charters on its small airline.[157]

Italy created a compensation fund designed to finance universal service in 1999.[158] Its actual contributions to universal service are insignificant.[159] Service providers that hold universal service licenses transfer a percentage of their revenues generated by projects subject to universal service to the fund, but these revenues often do not fully cover the expenses Poste Italiane faces as the universal service provider.[160] Postal operators' contribution to the universal service obligation financing is proportional to their turnover.[161] The maximum rate allowed by law is 10 percent, but the current rate is 3 percent.[162]

The Italian government also contributes 7 to 8 percent of mail revenue to Poste Italiane to help offset the cost of the universal service obligation.[163] In 2005, the state gave Poste Italiane 359 million euros, which was equivalent to 55 percent of the deficit the post realized as a result of the universal service obligation. In 2011 and 2012, the state gave Poste Italiane 380.6 million euros and 327.2 million euros, respectively, approximately half of the deficit realized as a result of the universal service obligation. As a result, in 2014, Poste Italiane demanded a review into the way universal service is funded.[164]

### Quality of Service

Poste Italiane established a service-quality target of 89.0 percent delivery of Priority Mail within one day.[165] In 2013, Poste Italiane achieved 90.4 percent performance in Priority Mail.[166]

Standard parcels, which are also delivered under the universal service obligation, have a service-quality target of 94 percent delivery within three days, which Poste Italiane did not meet in 2013 with actual performance of 93.8 percent.[167]

## 10. Turkey

Turkey's state-owned postal operator, the PTT, provides universal service through a monopoly under which its operations are largely unregulated. Its reserved monopoly areas continue to include letters, registered mail, greeting cards as well as business-to-consumer mail such as credit card and bank statements. Its universal service delivery standard provides for delivery a minimum of five days per week.

Private operators provide express and parcel delivery services under the regulation of the Ministry of Transport. Mailboxes are not common in Turkey, where mail is generally delivered to the door, except for delivery within apartment buildings. Approximately 70 percent of Turkish citizens live in urban settings.

Turkey's national postal operator has either not felt the same declines in mail volume registered by most other postal operators, or has experienced a delayed effect. While the PTT has noted slight reductions in domestic mail volume (1 percent reduction in number of items between 2010 and 2012), both its operating revenue and percentage of revenue linked to letter post increased over this period.[168]

An estimated one in three Turkish households are connected to the internet.[169]

While Turkey's government has taken steps to promote competitive, nonpostal markets in other industries, including communications, its actions in the postal sector have not done so. To date, it has not initiated any noteworthy effort to comply with European Union postal liberalization policies.

In fact, in May 2013, it published a new postal law directing changes moving in the opposite direction of that prescribed by the three EU Postal Directives, by increasing and strengthening terms of its government mail monopoly.

The published law, Postal Service Law No. 6475, was accompanied by a series of new regulatory orders issued by the Turkish Information Technologies and Communication Authority. It implemented new requirements to strengthen the PTT's monopoly and leverage it at the expense of private delivery operators:

1. Defines the terms of the postal monopoly to include all functions relating to domestic and international items weighing 50 grams or less.[170] Some observers have expressed concern that the 50 gram threshold will be raised to 100 grams or more.[171]

2. Requires all providers of postal and delivery services, broadly defined, to obtain an operating license from the Turkish Mail Services Regulation and Supervision Board. The license is reportedly priced at 100,000 TL (USD 45,000).[172]

3. Further requires all registered operators to contribute to a postal compensation fund at a rate of 2 percent of net sale revenue from the provision of postal services, as well as an additional administrative fee of approximately .35 percent.[173]

The proposal was met with strong resistance from the business community. "The new Postal Code did not lift the monopoly, but preserved it, and exacerbated the conditions instead," summarized Aslan Kut, president of the Association of Shipping, Courier and Logistics Operators of Turkey (KARID).[174]

International Logistics Association president Cetin Nuhoglu expressed sharp concern that the 2 percent tax would be excessive. "I am afraid this fund share is a very serious hindrance for the shipping industry," he said of the new postal compensation fund requirement. "This cannot be sustained."[175]

The proposed new law would seem sharply at odds with EU laws and regulations in requiring express delivery service operators to contribute to the postal compensation fund, as these services are clearly treated as differentiated and value-added by the EU, thus outside of the universal postal services segment. If express services are nonetheless required to contribute under terms of this proposal, then the required amount should be recalculated based on the specific costs to the postal operator in providing universal service to areas not served by other providers.

# 11. Portugal

State-owned Correios de Portugal, S.A. (CTT) is Portugal's designated universal service provider until 2020.[176] As of April 2012, universal service included "correspondence items (excluding direct mail), catalogues, books, newspapers and other periodicals weighing up to 2 kilograms," registered and insured items, parcels sent from within the national territory weighing up to 10 kilograms, and parcels received from other EU states weighing up to 20 kilograms.[177, 178] CTT must provide services including the "issue and sale of postage stamps and postage products, postal orders" as well as postal boxes for collection in areas of public access, and "the public service of electronic mail boxes."[179]

The concession contract for the universal postal service with CTT imposes a minimum of "at least one collection . . . and one home delivery, every working day" with exceptions for areas with geographic difficulties.[180]

### Funding Mechanism: How is Universal Service Paid for?

If the Portuguese postal regulatory authority Autoridade Nacional de Comunicações (ANACOM) determines that the universal service obligations result in an "excessive and financial burden" for the universal service provider, the costs of universal service may be compensated.[181]

The compensation fund created under the Basic Postal Law and the Concession Contract would receive income from all postal service providers "offering services in the non-reserved area but within the scope of the universal service" as well as from "profits of philatelic activity."[182] In February 2014, ANACOM approved methodology for the calculation of the net cost of the universal postal service and made CRR the sole survivor.[183]

Though Portugal's postal market was liberalized in April 2012, CTT retains the benefits of being the sole provider of registered mail services for legal documents.[184]

### Quality of Service

In 2010, Portugal's postal regulatory authority, ANACOM, established a minimum of 93.5 percent and a target of 94.5 percent of priority mail reaching destinations on the mainland within one working day.[185] In 2013, universal service provider CTT exceeded the service-quality target, delivering 94.9 percent of priority single-piece mail within one working day.[186]

ANACOM established a 2011 target of 96.3 percent delivery of non-priority mail within three days.[187] CTT surpassed this target in 2013, delivering 97.6 percent of non-priority mail within three days.[188]

Another metric used to evaluate quality of service is the percentage of non-priority mail not delivered within 15 working days. In 2013, Portugal did not deliver 0.15 percent of non-priority mail within 15 working days, against a 0.14 percent target.[189]

In April 2011, ANACOM reported that since 1995 (except in 2003 and 2006, when CTT faced worker strikes), overall levels of quality of service have exceeded targets established under the Quality Convention of the Universal Postal Service.[190] However, the number of postal complaints received by ANACOM also increased 22 percent between 2012 and 2013, a pattern which has been repeated in recent years.[191] These complaints mostly concerned "customer service, lack of effort to deliver to home, loss, delivery to wrong address and delayed delivery."[192]

### Additional Information

With internet communication a major factor in diminishing mail volumes worldwide, Portugal has one of the lowest rates of internet usage in Europe. With only 33 out of 100 Portuguese having regular broadband internet access in 2007, only Greece and Bulgaria had fewer among European Union members.[193]

In addition to its postal service, CTT offers express mail and parcels, financial, and document services.[194, 195]

## 12. Argentina

The Argentine postal market is fully liberalized.[196] Correo Argentino was privatized in 1997 and re-nationalized in 2003.[197]

State-owned Correo Argentino S.A. fulfills the obligations associated with universal service in Argentina. Executive orders establish that universal postal service includes "regular letters of up to 20 grams per unit, regular telegrams of up to 20 words, and post office wires for up to $1,000."[198] Rates cannot exceed the rates charged by la Empresa Nacional de Correos y Telégrafos S.A. (ENCOTESA), which as of 2014, amount to 4.5 pesos, or approximately 50 cents for a letter weighing up to 20 grams.[199, 200]

### Funding Mechanism: How is Universal Service Paid for?

The universal service provider may be compensated by the National Treasury if the provider is required to deliver to a region where the provision of services is not financially viable.[201]

It is not clear whether universal service in Argentina is cross-subsidized. Correo Argentino raises revenue from non-postal services such as logistics services for electronic commerce, telegraphic services, and money transfer services.[202]

### Quality of Service

The UNI Global Union described the Argentina postal service as having "low to medium overall quality."[203] A 2007 audit by the National Communications Commission (CNC) of the three largest postal operators, Correo Argentino, OCA, and Andreani, revealed that 8.1 percent of postal pieces were lost.[204] Standard average delivery time among these postal operators was 2.15 days but the actual average delivery time was 3.76 days.[205]

Audits conducted in 2007 by CNC revealed "serious shortcomings" in Argentina's postal services. The analysis estimated that 8.1 percent of postal pieces did not reach their destination, "with no significant difference" between the results for the official postal service and those for the two major private postal operators, OCA and Andreani.[206] The results obtained reveal a "low to medium" overall quality postal service in Argentina.

An Argentina travel guide noted that though the reliability of Correo Argentino has vastly improved since privatization in the 1990s, the service is still "plagued by theft and loss."[207]

### Additional Information

The Argentine postal regulatory authority Comisión Nacional de Comunicaciones (CNC) requires postal operators to register with the National Register of Postal Operators in Argentina and pay an annual license fee of 5,000 pesos (USD930). CNC is also required to audit the quality standards of registered postal operators.[208]

Argentina was both the largest importer and exporter of postal and courier services in Latin America in 2007, valued at USD51 million and USD76 million, respectively.[209]

## 13. Chile

Correos de Chile, also known as CorreosChile, is the designated universal service provider in Chile. Universal service requirements are unclear, but CorreosChile currently delivers ordinary mail three days per week.[210]

### Funding Mechanism: How is Universal Service Paid for?

CorreosChile charges both the sender and recipient.[211] The "distribucion y carteros" fee amounts to 30 pesos, or roughly 5 U.S. cents. The postman can negotiate a monthly fee with the customer based on the number of letters the customer receives.[212]

### Additional Information

Correos de Chile was transformed from a public administration to a statutory corporation in 1982,[213] and has "long suffered from operational problems and poor customer satisfaction."[214] According to a 2003 study by SkyPostal, 61.7 percent of mail delivered by Correos reaches its destination within 30 days of posting.[215]

Since 2011, Correos has adopted new technologies such as parcel tracking and automated terminals, which helped it increase operating income by 62 percent in 2012. Overall revenue grew by 9 percent last year.[216]

In January 2012, the Chilean postal service reported that it would open 15 new post offices to "expand access to postal services from mail and parcel delivery to money orders."[217] In June 2013, the company partnered with U.S. firm MoneyGram to offer international money transfer services.[218]

### Quality of Service

According to a 2003 study by SkyPostal, 61.7 percent of mail delivered by Correos reaches its destination within 30 days of posting.[219] The average transit time for a letter delivered by Correos is more than nine days.[220]

## 14. India

India Post operates the world's largest postal network, with over 155,000 post offices, 90 percent of which are in rural areas. Each post office served an average of 7,200 people over an area of 21 square kilometers.[221]

India Post is a government-owned entity organized within the Ministry of Communications and Information Technology's Department of Posts. While there have been proposals for postal reform discussed in India's parliament, most significantly in 2002 and 2006, they did not become law and the provision of postal services continues to be governed by the Post Office Act of 1898.[222]

Broad-based modernization plans for the network have been widely discussed for India Post, some of which have been underway across the network. Recently, officials announced that its express parcel post service would introduce an online delivery tracking system, as well as a new plan to airlift domestic parcels.[223]

### Funding Mechanism: How is Universal Service Paid for?

Increasingly, India Post has offered nonpostal products and services for sale, which provide additional revenue sources to support its network. Financial services have been the most significant of these, with small consumer savings instruments as well as domestic and international cash remittances. Some of these vehicles earn between 4-9 percent tax-free, and the Post's Public Provident Fund, currently the highest-yielding of these, has some 2.3 million investors.[224] New fast money transfer services, offered at lower costs than normal electronic money 0rders, were introduced at select post offices this year.[225]

Logistics Post, a division of India Post, offers business-to-business logistics solutions that include warehousing services, order processing and fulfillment services, return logistics, multi-modal transport solutions and tailored solutions including full truckload and less-than-truckload shipping.[226]

In addition to these strategies for revenue diversification, India Post has considered instituting a Universal Service Obligation fund. Proposed legislation drafted in 2006 would have required private carriers to contribute approximately 10 percent of their revenues to compensate India Post for fulfilling its universal service obligation. The proposal, which was never approved, would also have imposed a government-determined fair wage rate and mandated that they adopt India Post's cost structure.[227]

# 15. Australia

Australia Post must abide by a set of Community Service Obligations (CSOs), which specify a minimum set of services and performance standards.[228, 229] The Australian Postal Corporation Act of 1989 requires that Australia Post provide service for both domestic and international letter traffic at a single uniform rate for standard letters.[230] Mail services must be available to all citizens in Australia, Christmas Island, and the Cocos (Keeling) Islands.[231] Parcel services are not among Australia Post's CSOs.[232]

Mail must be delivered five days a week to 98 percent of delivery points and no less than twice a week to 99.7 percent of delivery points.[233] Australia Post must maintain a minimum of 4,000 post offices, of which 2,500 must be located in rural and remote areas.[234]

### Funding Mechanism: How is Universal Service Paid for?

In Australia, letters below 250 grams are protected from competition. Revenue from the reserved area is used to finance universal service.[235] The reserved area covers domestic and incoming international mail, "including Direct Mail up to 250 g or four times the standard postage rate."[236] Cross-subsidies of non-reserved services are not permitted.[237]

### Additional Information

Australia Post's CSOs specify the following delivery timetable targets: 94 percent delivery within one day of posting in cities and between cities in the same state, 94 percent delivery within two days of posting in rural areas within one state and between capital cities in different states, 94 percent delivery within three days between cities in different states if one of them is not the capital city, and 94 percent delivery within four days in other cases.[238]

Australia Post stated that against a service target of 94.0 percent on-time delivery of non-bulk letters, it achieved a 95.5 percent performance rate in 2012-13, virtually identical to the previous year's numbers.[239]

# 16. Canada

In Canada, universal postal service covers letter mail up to 2 kilograms, parcels up to 20 kg, and newspapers up to 2 kg.[240] The Canadian Postal Service Charter requires that Canada Post deliver mail five days a week to every Canadian address at a uniform and fair price.[241] The charter also mandates that Canada Post deliver letter mail "within a community within two business days," "within a province within three business days," and "between provinces within four business days."[242] The Canadian postal market has not been liberalized.

While standard-sized letters require only one stamp regardless of destination, the price to send parcels depends on distance.[243]

### Funding Mechanism: How is Universal Service Paid for?

According to CEP News' Media Reference Guide, "profits are supposed to allow for self-financing of the universal service."[244] No compensation is available or in operation, but upon request, and with the consent of the Governor of Council, the universal service provider may receive subsidies.[245]

### Additional Information

Canada Post has the following letter delivery standards: two business days for local deliveries, three business days for deliveries within the same province, and four business days for national deliveries.[246] On-time letter mail delivery performance in 2013 improved significantly over 2011, with a 95.5 percent on-time delivery rate in 2013, compared to a 91.2 percent on-time delivery rate in 2011.[247]

In 2010, Canada Post achieved a 96 percent rate of on-time delivery of letters, with an "on-time" designation ranging from two to four business days.[248]

## 17. Netherlands

PostNL is the Netherlands' designated universal service provider, in a market which is fully liberalized following European Union Directives. PostNL is obligated by the Netherlands Authority for Consumers and Markets (ACM) to deliver all items of correspondence with a maximum individual weight of 2 kilograms, postal parcels with a maximum individual weight of 10 kg, and "registered, registered insured, and registered value declared items."[249] PostNL is not required to offer domestic services for the "delivery of bulk letters, bulk printed matter such as advertising, magazines and newspapers or unaddressed mail items."[250]

The Dutch Postal Act 2009 requires PostNL to provide nationwide delivery six days a week with exception to holidays.[251] PostNL must deliver no less than 95 percent of letters by the day after posting.[252]

### Funding Mechanism: How is Universal Service Paid for?

PostNL finances the universal service itself.[253] Universal service is provided without any compensation aside from the senders' payment for postage.[254] Though a universal service fund is legally possible, no such funds have been planned since the Dutch regulator has not detected the need for such compensation.[255]

### Additional Information

PostNL is required to deliver "no less than 95 percent of all standard single rate domestic letters at a next-day service standard, excluding Sundays and public holidays."[256] According to a WIK Consult report, PostNL's transit time performance has "constantly fulfilled its transit time target of 95 percent for delivery of letters the next working day."[257]

PostNL resulted from the 2011 demerger of TNT N.V. into two separate components: PostNL for mail and TNT Express.[258]

## 18. New Zealand

In October 2013, New Zealand's government announced that its postal service would be permitted to deliver mail as infrequently as three days a week to most customers starting in 2015.[259] The New Zealand government requires that New Zealand Post provide a "minimum level of national services."[260] According to the Deed of Understanding 1998, New Zealand Post must provide "six day per week deliveries to more than 95 percent of delivery points," "five or six day per week deliveries to more than 99.88 percent of delivery points," and "one to four day per week deliveries to the remainder of delivery points."[261] The Deed does not describe the scope of mail products that New Zealand Post must deliver.

### Funding Mechanism: How is Universal Service Paid for?

New Zealand has fully liberalized postal markets, and New Zealand Post "does not receive a public subsidy or payments from a universal service fund."[262] New Zealand Post may not cross-subsidize its commercial ventures with mail revenues, according to the law.[263]

### Additional Information

In the 2012-13 year, New Zealand Post achieved six day postal delivery for 97.25 percent of New Zealand addresses against an obligation of over 95 percent, virtually identical to the prior year's numbers.[264]

The FastPost delivery transit time target is delivery the next working day between major towns and cities across New Zealand.[265] The Standard Post transit time targets are delivery the next working day for letters whose destination is within the same urban center and delivery within three working days for letters to other destinations within New Zealand.[266] Against these transit time targets, New Zealand Post delivered 95.1 percent of FastPost and Standard mail within specification, 99.7 percent within three days of specification, and 0.3 percent more than three days later than specified from July 2013 - June 2014.[267]

# 19. Sweden

The Swedish government has contracted with PostNord subsidiary Posten AB to fulfill its universal service obligation.[268] In this fully liberalized market, this enables “all residents of Sweden to receive letters and other addressed mail items weighing up to 20 kilograms.”[269] Delivery is from and to all addresses Monday through Friday.[270] As the universal service provider, Posten AB must convey single letters at uniform and reasonable rates and maintain a network of physical postal counters.[271]

### Funding Mechanism: How is Universal Service Paid for?

The universal service provider does not receive public funding.[272] There is no legal mechanism for financing of the universal service obligation since government bodies have decided that Posten AB’s designation as the universal service provider is sufficient to fund the service obligation.[273, 274]

### Additional Information

The Postal Statutes specify that at least 85 percent of first class mail be delivered within one day and 97 percent within three days.[275] In 2013, Posten AB delivered 94.9 percent of first class letters within one day and 99.9 percent of first class letters within three days. Against an internal on-time delivery quality target for parcels of 97.7 percent, Posten AB achieved a performance rate of 97.0 percent. These numbers varied little from the previous years.[276]

# 20. Switzerland

As Switzerland’s universal service provider, Swiss Post must deliver letters up to 1 kilogram and parcels up to 30 kg on all working days – “a minimum of five days a week.”[277] The Swiss universal service obligation includes relatively strict provisions which “require extensive reporting, insure timely delivery, protect jobs, and prohibit outsourcing.”[278] Universal service products include inbound and outbound letters, parcels, newspapers, and periodicals as well as transaction products such as cash-in payments, payouts, and transfers.[279] Swiss Post offers a home-delivery service, but the home must be less than 30 minutes away on foot or by public transport from the nearest post office.[280]

### Funding Mechanism: How is Universal Service Paid for?

Universal service is self-financed through reserved area income.[281] The Swiss Parliament has maintained Swiss Post’s monopoly on domestic letters weighing up to 50 grams.[282] If the reserved area income is insufficient, the regulator, the Federal Department of Environment, Transport, Energy and Communications (UVEK), can levy concession charges up to 3 percent of turnover in order to finance universal service.[283]

While cross financing within the universal service is permitted, rival services may not be subsidized with income from the universal service.[284]

### Additional Information

Swiss Post must deliver 97 percent of letters and 95 percent of parcels on time.[285] On-time delivery in 2013 for the A Mail service slipped from 97.9 percent in 2012 to 97.6 percent in 2013.[286] B Mail on-time delivery slipped from 98.8 percent in 2012 to 97.3 percent in 2013.[287] A Mail letters are delivered on the next day after posting, while B Mail letters are delivered within three working days after mailing.[288, 289]

# Appendix A

## Summary of Major National Postal Systems

| Country | Universal Service Fund? (Y/N) | Revenue (USD) | Liberalized? (Y/N) | Global Share | |
|---|---|---|---|---|---|
| | | | | Postal Revenues† | Domestic Mail Volume |
| Argentina | Y | $705 million | Y | 0.2% | 0.15% |
| Australia | ** | $4.9 billion | Partial* | 1.7% | 1.28% |
| Brazil | Y | $6.2 billion | N | 2.3% | 2.38% |
| Canada | N | $7.4 billion | N | 1.9% | |
| Chile | Y | $133 million | Y | 0.0% | .07% |
| China | Y | $21.6 billion | N | 10.5% | 2.00% |
| France | Y | $28.9 billion | Y | 9.1% | 4.10% |
| Germany | N | $74 billion | Y | 23.5%‡ | 5.44% |
| India | Y | $1.36 billion | N | 0.4% | 1.53% |
| Italy | Y | $28.9 billion | Y | 4.1% | 1.36% |
| Japan | N | $175 billion | Y | 7.5% | 5.24% |
| Netherlands | N | $5.8 billion | Y | 1.8% | |
| New Zealand | N | $1.1 billion | Y | 0.3% | 1.04% |
| Portugal | Y | $1.0 billion | Y | 0.3% | 0.24% |
| Spain | Y | $2.8 billion | Y | 0.9% | |
| Sweden | N | $6.1 billion | Y | 1.4% | 0.61% |
| Switzerland | Y | $9.3 billion | Partial** | 3.0% | 0.64% |
| Turkey | Y | $674 million | N | 0.2% | |
| United Kingdom | N | $14.6 billion | Y | 4.9% | |
| USA | N | $65 billion | Partial | 21.7% | 43.51% |

† Source: Universal Postal Union, except for China, New Zealand, United Kingdom (compiled from annual reports). Revenue sources vary and in many cases include significant revenue derived from non-mail activity.

‡ 2012 Annual Report identifies 24.6% of this total as Mail Revenue

* Letters below 250 grams are protected from competition.

** Letters below 50 grams are protected from competition.

# Appendix B

## The European Union Experience

To increase service quality and maintain competitive postal costs among member countries, the European Union launched a campaign of liberalizing postal monopolies in the late 1990s.  Since then, letter mail across Europe has been fully liberalized, with most EU member states having completely opened their market for all letters in 2011. This is the culmination of an extended process implementing Single Market postal directives adopted by the European Parliament and Council.

This framework was established toward the achievement of 11 specific objectives. In summary, these objectives sought to define a minimum range of services to be provided for the benefit of all users, to set maximum limits to monopoly (reserved) areas granted to the provider of universal service, to open markets to competition, to improve the quality of services provided, and to establish the principal "that tariffs should be related to costs and to ensure that the financing of the provision of universal service is carried out in a transparent manner."[290]

Additional objectives to support these include the harmonization of technical standards, ensuring fair conditions of competition outside of reserved areas and establishing a consistent approach to the coordination of postal policies.

#### First Directive – Directive 96/67/EC, December 1997

The 1997 Postal Directive established common rules for the development of the internal market of postal services and the improvement of quality of service.[291] Defining timetables for liberalization, minimum characteristics of universal service to be guaranteed by each member state, requiring national regulatory authorities independent of postal operators, and fulfilling other baseline requirements were all integrated elements.

#### Second Directive – Directive 2002/39/EC

The 2002 Postal Directive defined further steps and processes for "gradual and controlled market opening and further limiting the service sectors that can be reserved."[292] This included timetables for the achievement of specific, interim objectives.

#### Third Directive – Directive 2008/6/EC

Defined 2010 and 2012 as deadlines for final steps for opening markets fully for 16 member countries. The European Commission's 2012 Green Paper, "An Integrated Parcel Delivery Market for the Growth of E-Commerce in the EU" was a significant outcome of the Third Directive. The Green Paper noted the prevalence of certain conditions, particularly high costs and varying service quality, that it described as hindering the development of a better functioning e-commerce marketplace.[293]

# Appendix C

## Practices That Redefine Universal Service Obligations

In response to the challenges posed to postal business models resulting from decreasing mail volume, national postal operators and regulators have begun to reconsider the terms by which their universal service obligations are defined. What follows is a summary of seven of the most prominent examples of these changes and the benefits they produce.

**Worksharing** (United States) – United States law (39 USC § 3622) defines workshare discounts for bulk mailers as “rate discounts provided to mailers for the presorting, prebarcoding, handling, or transportation of mail.” The Postal Regulatory Commission is charged with ensuring that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity. Worksharing benefits the U.S. Postal Service by allowing it to stimulate mail volume growth while minimizing its workforce and infrastructure. Mailers in turn are able to reduce mail-related costs while often improving the quality of service.

**Cluster boxes and curbside delivery** (United States) – Cluster boxes are mailboxes placed in central locations within communities, rather than at each customer’s front door. The U.S. Postal Service has determined that for many new housing developments, it will require residents to collect their mail at these central locations, allowing it to maximize the efficiency of delivery routes. This practice has been extended to some businesses located in industrial parks and shopping malls, and federal decisionmakers have suggested that it may be extended to existing residences as well. While the use of centralized delivery locations may pose a slight inconvenience to consumers, financial savings can be significant. In addition, delivery to retail outlets is a common and successful practice among posts in Europe.

**Reduction in delivery days** (Canada) – In 1982, Canada Post reduced its number of weekly delivery days from six to five. Several European posts also regularly deliver fewer than six days per week. Such reductions allow the post to realize savings in carrier labor, processing and fuel costs.

**Utilizing commercial retail postal outlets and village postal outlets** (United States, Canada) – Canada Post routinely makes use of Retail Postal Outlets, facilities operated under contract by businesses or individuals that provide consumers with retail postal sales and services. The United States in 2011 began locating Village Post Offices in varying locations including businesses and libraries. This provides consumers with benefits of flexible business hours, such as evenings, as well as convenience, while allowing postal operators to avoid expensive real estate and labor costs.

**Delivery to automated postal lockers** (Germany) – Deutsche Post DHL introduced its “Packstations” to consumers in 2002, and today has over 2,500 in use. Typically located in centralized urban locations, use of the automated lockers includes customer notification via text message or email when items are received. Packstations are available to customers at all times of the day or week.

**Electronic delivery** (Australia, Sweden) – In 2012, Australia Post began offering customers secure mail delivery to free and secure digital mailboxes. The program, in partnership with Pitney Bowes, offers a flexible range of integration options and hybrid products, all utilizing encypted formats. Benefits include lower cost and 24-hour availability. Sweden’s Posten AB allows customers to send letters via email that are delivered physically via post.

**Combining processing facilities while maintaining service standards** (United States) – The U.S. Postal Service has worked in recent years to improve the efficiency of its space, equipment, staffing and transportation in its mail processing functions. It notes realizing annual savings of USD3 billion while reducing its network of processing and sorting facilities by over half.

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