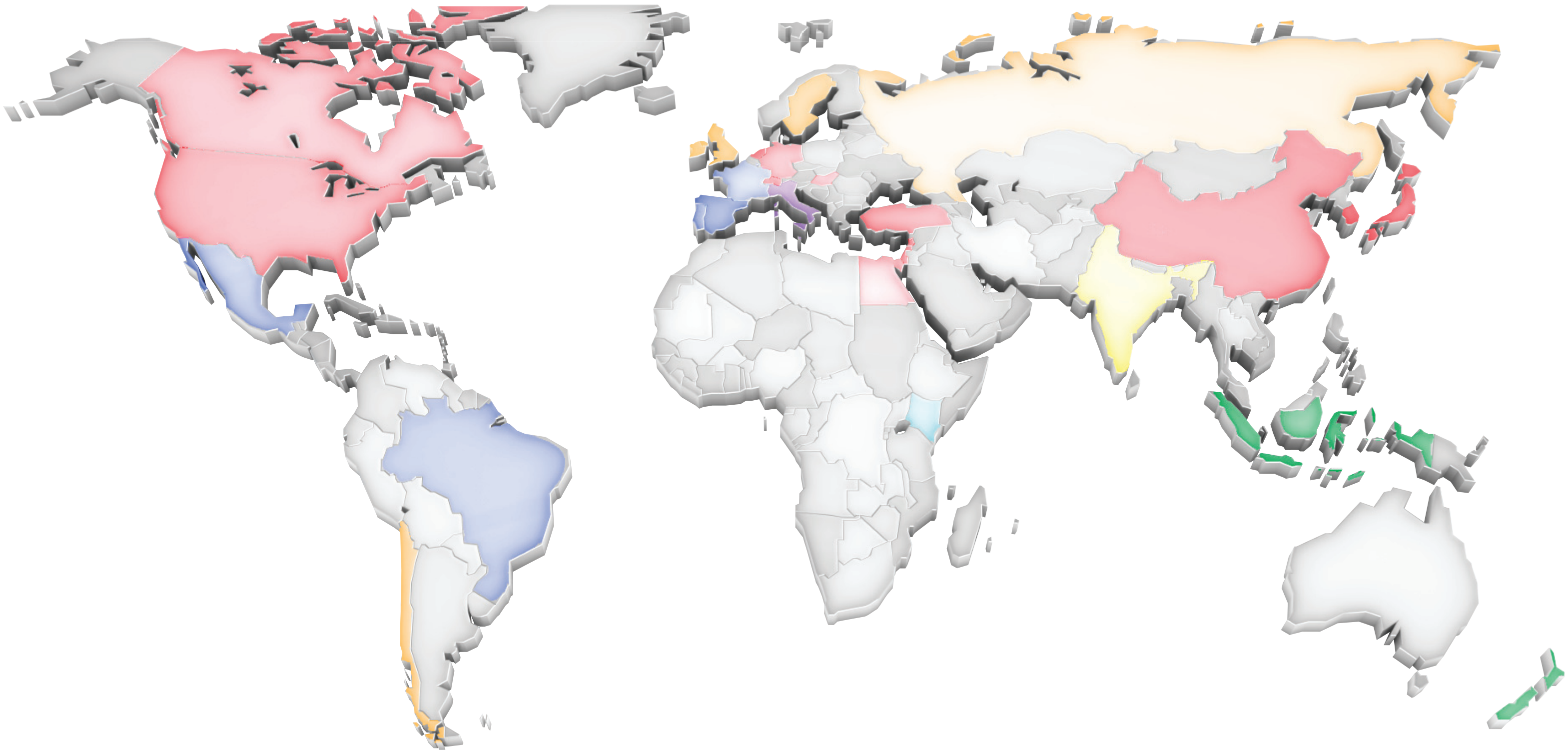
CONSUMER POSTAL COUNCIL

# INDEX OF POSTAL FREEDOM



# 2012 EDITION

*With Foreword by David C. Williams, Inspector General for the United States Postal Service*

The Postal Freedom Index was created by the Consumer Postal Council to serve as an information resource about the provision of postal services in different nations. The Index takes into account such factors as market liberalization, government or private ownership of providers, level of competition within markets, degree of regulation, and universal service.

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# FOREWORD

# INDEX OF POSTAL FREEDOM

As global commerce and communications are rapidly evolving, so too is the provision of postal services throughout the world. It has become a formidable challenge for national posts to keep up with these changes and to align their services to meet the shifting needs of their customers.

While new technologies have disrupted postal services and the way they are offered, the marketplace for these services is in the midst of its own transformation. Consumers and businesses have readily adopted new technologies that allow for instantaneous communications. Consumers are becoming increasingly comfortable relying on their cell phones and smart devices to conduct a variety of transactions, including those they used to do by mail. We live and work in a global community where communications have no national borders.

A growing number of national posts have expanded their products and services beyond traditional mail delivery offerings with a goal of generating new revenue to sustain their operations in an era of declining mail volume. As the world's posts attempt to adapt to this changing market, rightsize their infrastructures for this new reality, and integrate the legal requirements of the digital age, it provides a rich laboratory from which all posts can learn.

It is with these challenges in mind that I commend to you this 2012 edition of the U.S. Consumer Postal Council's Index of Postal Freedom. The Index is a unique resource that offers valuable background and history about the provision of postal services around the world. Its analysis of trends and developments ultimately places each nation's postal system along dual axes representing market freedom and market competition, providing a broad lens that invites comparison. Which innovations are worthy of replicating? Which quandaries should be recognized and avoided? In the current era, with the implications of the digital age and its effect on posts just being realized, such big picture analyses are useful in informing our policy discussions.

*David C. Williams*
*Inspector General for the United States Postal Service*

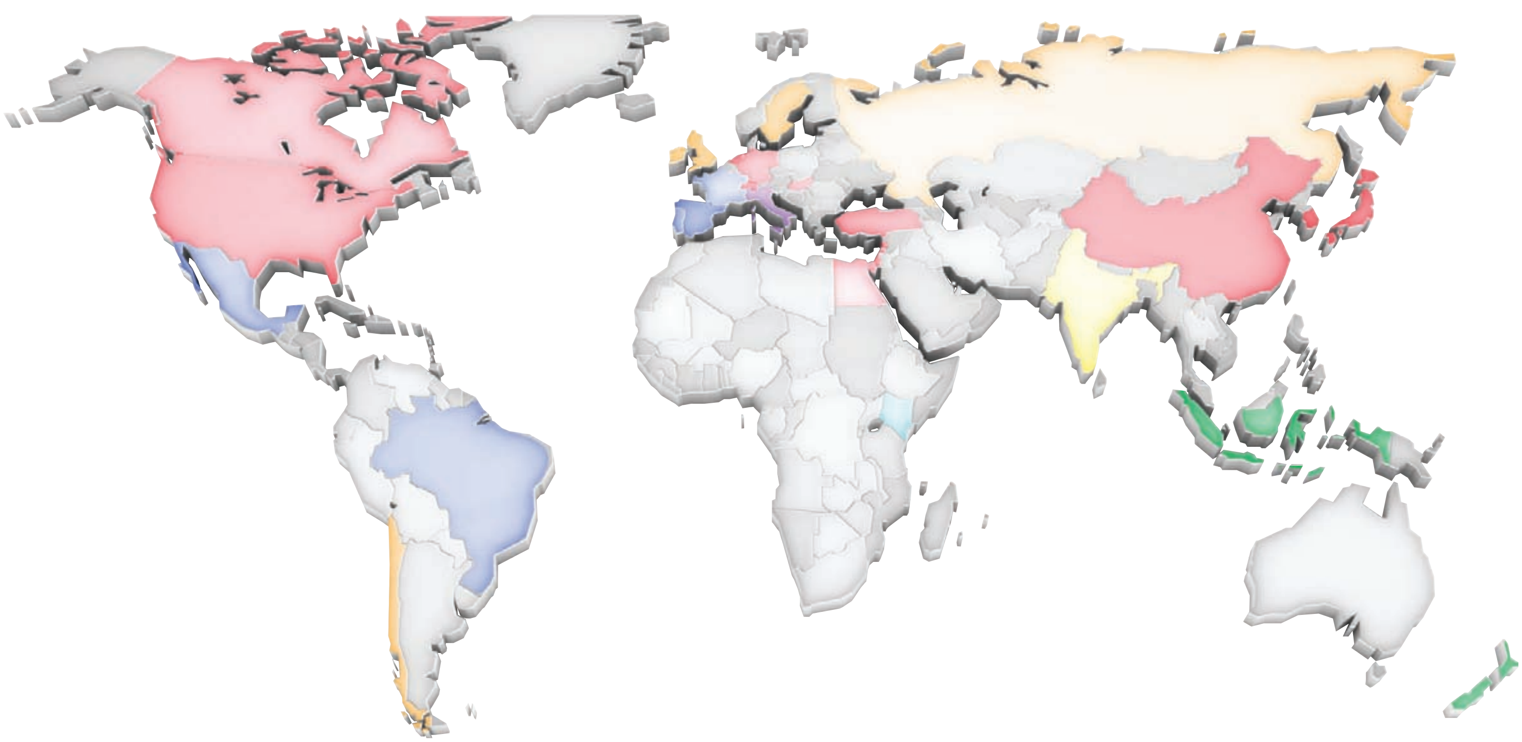
INTRODUCTION

# INDEX OF POSTAL FREEDOM

The Consumer Postal Council is pleased to present its Index of Postal Freedom, 2012 Edition. Inside, you will find updated versions of many of the highlights from last year's index, including original analyses of postal service around the world that discuss factors such as liberalization, regulation, competition and the involvement of national posts in offering financial and other non-postal services.

This year, we have updated the Index to include the most recent facts and figures as reported by national posts around the world and also to consider important events and developments ranging from postal liberalization initiatives in the European Union to the implications of the 2011 Korea-U.S. Free Trade Agreement. We have added new countries to the Index, like Turkey and Switzerland, and included an exciting new feature we call "Market Comparisons," analyzing aspects of postal service of particular interest to the world's postal consumers.

*Don Soifer*
*Executive Director, The U.S. Consumer Postal Council*



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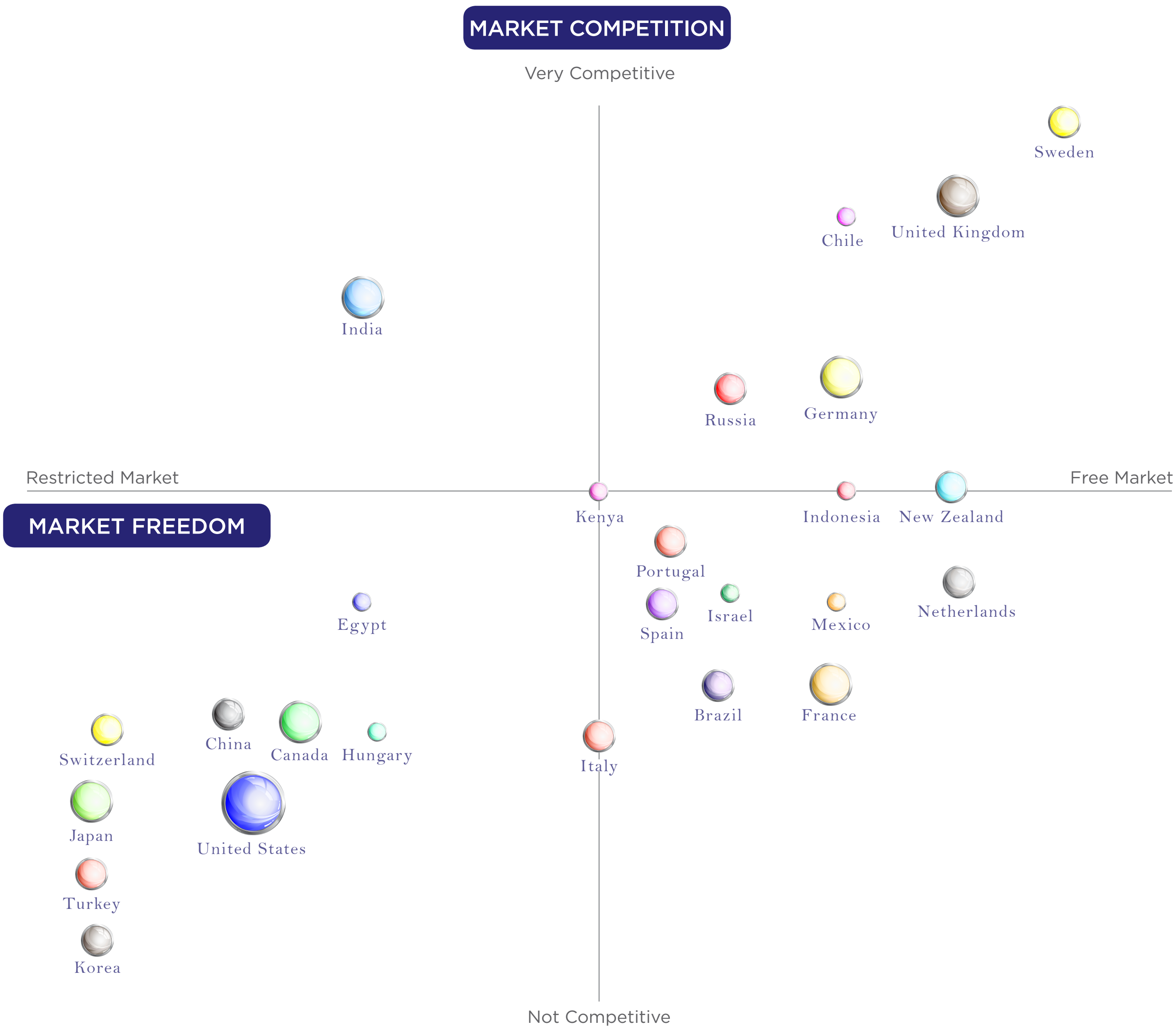
CONSUMER POSTAL COUNCIL

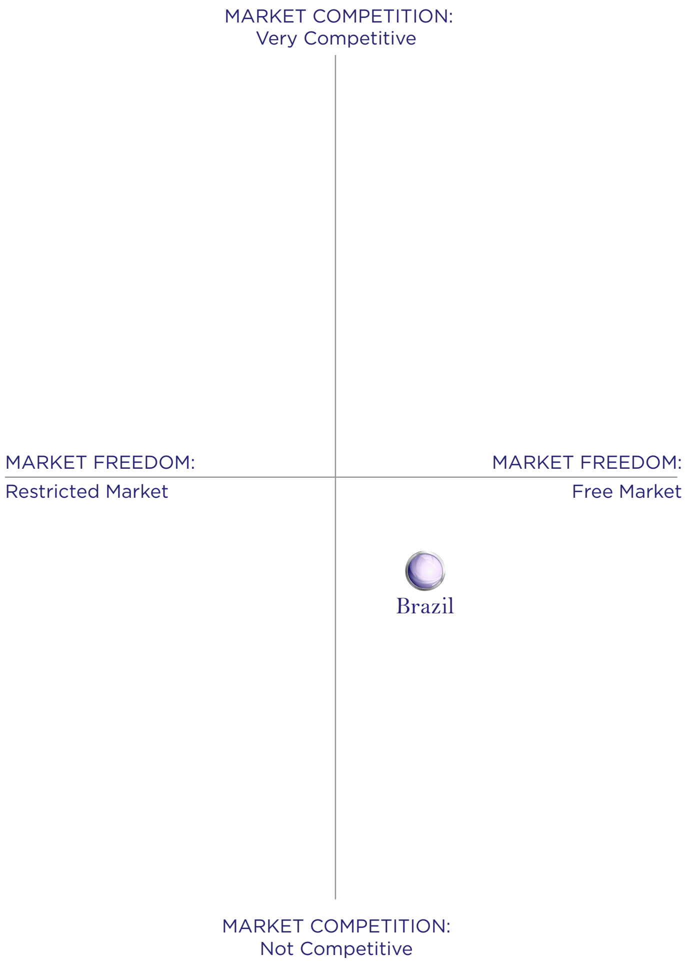
# INDEX OF POSTAL FREEDOM




The Postal Freedom Index was created by the Consumer Postal Council to serve as an information resource about the provision of postal services in different nations. The Index takes into account such factors as market liberalization, government or private ownership of providers, level of competition within markets, degree of regulation, and universal service.

NOTE: Size of marker corresponds to size of postal market in number of pieces per year.

# BRAZIL




## OVERVIEW

Brazil's far-flung postal service was restructured as a state company in 1969. Empresa Brasileira de Correios e Telégrafos (Brazilian Post and Telegraph Company) is commonly referred to as Correios/ECT or simply ECT. Although modestly reconfigured in 1978, ECT remains solidly in federal control. Its government-appointed board reports directly to the Minister of Communications in Brasilia, the country's capital.

Traditional mail delivery is becoming a smaller part of ECT operations and revenues. As elsewhere in the world, mail volumes are trending downward. Brazil's vastness makes the country an ideal setting for electronic communications, which are increasingly replacing paper mail.

On the foundation of its 83,000 full-time staff and its extensive network of 12,200 post offices, ECT has been reinventing itself as a "bank of services" for Brazilians, contracting its distribution infrastructure to other government agencies and private businesses. Through joint ventures and contracts, ECT has also moved aggressively into banking services of all kinds. Correios and Brazil's largest bank, Banco Bradesco, entered into a 10-year joint venture in 2001 whereby Bradesco could use ECT post offices as bank branches, especially in remote areas. The new venture, Banco Postal, has been so successful – offering deposits, loans, credit cards, bill payment, direct deposit, tax and social security payments, as well as phone and internet banking on Bradesco's network – that ECT is thinking of cancelling the deal and setting up its own more closely held banking operation.

Banco Postal, as a unit of Banco Bradesco, is regulated by the Brazilian central bank.

The revenues from these "non-mail" services are making traditional mail service somewhat of an afterthought, even though delivering the mail with reasonable promptness across Brazil remains a formidable undertaking.

# BRAZIL

## LIBERALIZATION & COMPETITION

Although competition is allowed in express mail, ECT continues to hold a monopoly in traditional letter mail, as well as in small parcels, telegrams and mail bags. Proposed sunset dates for ending the monopoly range out to 20 years. ECT itself maintains that the monopoly is not a privilege, but a "financing mechanism" to fund the nation's universal service requirement throughout Brazil's huge hinterland. It also claims not to have received direct subsidies from the government since 1986.

Transportation of larger parcels and physical goods, however, has been fully opened to both domestic and international players. ECT is very active in this highly profitable sector, where the competition from the likes of DHL, FedEx, TNT and UPS is fierce. ECT says "it will transport almost anything to any of Brazil's over 5,000 cities."

In the late 1990s, there was a series of studies and proposals aimed at liberalizing -- but not privatizing -- ECT. These recommendations have been blocked by interest groups, hung up in litigation, or simply overwhelmed by the rush of economic development. Only ECT faces the universal service obligation.

## PRIVATIZATION

ECT enjoyed the fruits of the "Brazilian Miracle" of pronounced economic development in the 1960s and 1970s with rising delivery volumes and increased investment. But when the economy turned sour in the early 1980s and foreign investment dried up, ECT undertook a unique experiment to expand its network -- it sold mail franchises to private investors in major cities.

Postal operators could buy in for an initial fee under $500, use the widely recognized Correios logo, and compete with both each other and ECT-owned units. These franchises were never seen as replacing post office units, but they did introduce a certain element of service competition into the system. Some 1,700 franchises were established between 1993 and 1994, and many remain today. Franchise purchasers are owner-managers who are required to purchase services from ECT, and revenues are passed back to ECT after royalty payments, service costs, and a profit.

## FINANCIAL & OTHER GOVERNMENT SERVICES

In response to economic troubles in the early 1990s, Brazil launched a countrywide liberalization program -- the Real Plan. ECT, however, managed to avoid many of the liberalization program's efforts.

Instead, as the new, technologically driven economy took off, politically connected ECT found ways to position itself in new banking and finance ventures through joint partnerships and concessions. Before long, the bulk of ECT's revenues were coming from its burgeoning banking ventures. In partnership with Bank of Brazil, ECT built up a web of banking enterprises which turned post offices into banking service centers. Banco Postal -- a joint venture with Banco Bradesco, Brazil's largest private bank -- opened its doors in 2002 and already has many millions of customers. Some 5,000 of ECT's 12,000 branches nationwide are to become selling points for Banco Postal services.

In addition, ECT has expanded contract services both for other government agencies and for private businesses -- bill processing, tax registration, online access, forms and documents, auto registration, passports, voting, collecting fees and more. These contract services amount to over 20% of ECT revenues.

## REGULATION

The bicameral National Congress, which sits in Brasilia, ultimately arbitrates postal policy through Brazil's 26 states. ECT has a government-appointed Board of Directors that reports directly to the Minister of Communications.

A tangle of reform proposals is currently floating through the legislature. Some say a portion of basic delivery will be outsourced through concession. All proposals mandate the government retain at least 51% of ECT voting shares. ECT has also been ordered to maintain at least its current number of employees.

It has also been proposed that yet another regulatory agency "linked to the government," ANAPOST, be established to set rates for basic postal services, complement regulatory policies, and check compliance. Insiders and competitors say that such agencies, in the context of Brazilian politics and government, are more likely to be another source of corruption than a fair and impartial arbitrator.

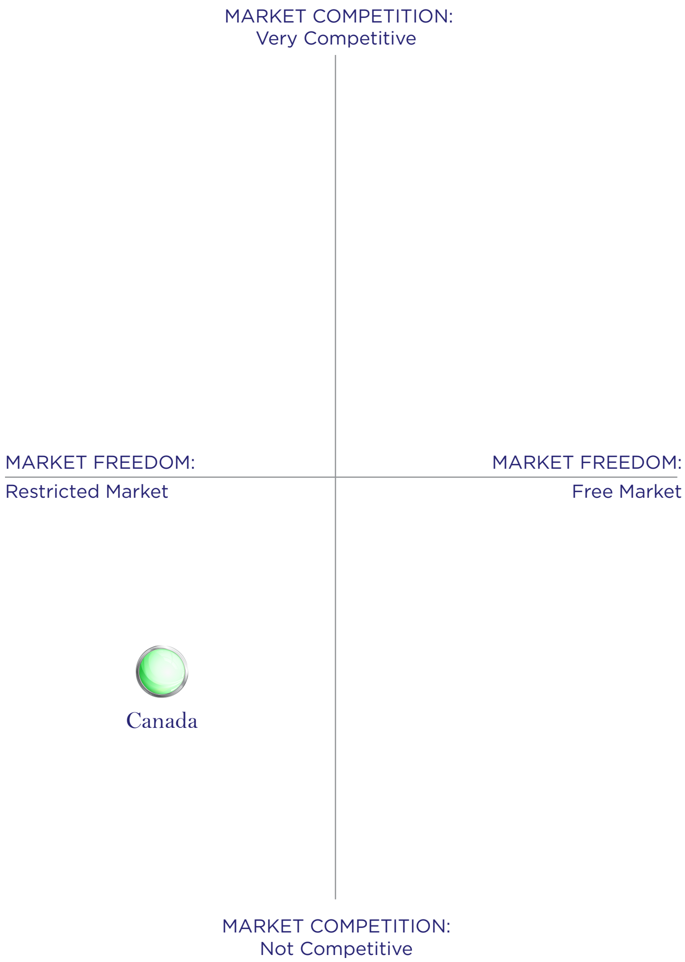
Indeed, charges of corruption within ECT have been frequent. In 2005, a postal procurement/kickback scandal resulted in ongoing televised investigations and multiple dismissals of managers.

## UNIVERSAL SERVICE & PRICING

ECT fulfills the universal service requirement, and each postal operator in Brazil is assessed 0.5% of its revenues for a fund for Postal Service Universalization.

Rate controls only apply to the traditional mail sector, and controlled rates are held low by the government. The monopoly consists of letters, postal cards, telegrams and special mail bags. Express mail, packages, printed matter including newspapers and magazines are not part of the reserved area and are open to competition.

# CANADA




## OVERVIEW

Canada Post is the national postal service of Canada. For nearly thirty years, it has retained a monopoly on all letters weighing less than 500 grams traveling within the country. Canada Post competes against private-sector firms to offer other services, like parcel delivery.

In 2010, mail volume declined for the fourth straight year. Each household received an average of about 320 pieces of mail during the year. While mail volumes are declining, the number of Canadian points of delivery is increasing each year.

In 2010, Canada Post achieved a 96-percent rate of on-time delivery of letters. The "on-time" designation ranges from two to four business days, depending on the distance traveled. There are over 23,000 delivery routes, and that number is projected to grow. Canada Post delivers 45 million pieces of mail each day to about 15 million addresses.

Canada Post maintains a significant presence in express services. In 1993, it bought courier company Purolator. It now maintains a 91 percent stake in the firm. In 2010, Purolator's revenue increased 4.1 percent, to $1.5 billion CAN, and was responsible for nearly 19 percent of the Post's total revenue.

The first mail delivery occurred in 1693 when Pedro da Silva was paid to deliver mail between Montreal and Quebec City. He was later named the "first courier" in Canada. In 1867, the Dominion of Canada created the Post Office Department, thus giving birth to the modern postal system. Prior to that date, there had been unofficial routes, mainly connecting the eastern cities.

In October 1981, the Canada Post Corporation Act placed the postal service under the auspices of a new, government-owned, semi-autonomous corporation of the same name. The change was welcome, as Canada Post ran deficits every year from 1964 to 1981. In 2008, Canada Post made up 80 percent of the holding company's revenue.

## LIBERALIZATION

Canada Post maintains a broad monopoly on mail service. Letters weighing less than 500 grams are subject to the national post's monopoly. Magazines and books may be delivered by private firms. Private companies can deliver "letters of an urgent nature" if they charge at least three times Canada Post's regular rate of postage for a 50-gram package.

## LIBERALIZATION (CONTINUED)

Private firms are allowed to handle bulk mail sent by Canadian interests to destinations outside the country. Government authorities have generally held that Canada Post's monopoly only applies to mail sent within the country. In 1988, Canada Post stated that "outbound mail is not protected by exclusive privilege." But in 2004, the Post went to court to try to have the government re-interpret the exclusive privilege to include outbound international mail. Although the court ruled in favor of Canada Post, private firms have continued to operate within the sector. Legislation was introduced in parliament in 2007 to officially exclude outbound international mail from Canada Post's exclusive privilege. In June 2010, outbound international mail was removed from Canada Post's exclusive privilege.

Canada Post and the United States Postal Service (USPS) maintain a bilateral inbound competitive service agreement, which dictates the levels of remuneration for delivering mail originating in one country and destined for the other. Canada Post and USPS negotiate their terminal dues through this agreement rather than through the Universal Postal Union. The bilateral agreement is classified as a market-dominant product under U.S. law because Canada and USPS both maintain letter-mail monopolies.

Mail delivery between the two countries was briefly interrupted in June 2011 when Canadian postal workers struck on a rotating basis for three weeks. For ten days, USPS stopped accepting letters for delivery to Canada.

In response to the strikes, Canada Post locked its workers out, effectively cutting off mail delivery within the country. The Canadian Parliament ordered Canada's postmen back to work on June 26; USPS then announced that it would release the backlog for delivery to Canada in stages.

## PRIVATIZATION

An Ipsos Reid poll conducted on behalf of the Canadian Union of Postal Workers (CUPW) determined that about 70 percent of Canadians oppose allowing private companies to deliver mail in Canada.

The opposition to privatization stems from the popularity of the current pricing system. Some Canadians fear that private competitors will force Canada Post to charge different fees depending on the destination of a letter.

The postal unions oppose privatization because they fear job losses. They claim privatization will result in more expensive delivery costs for consumers and fewer service counters.

Between 2010 and 2014, however, Canada Post plans annual stamp-price increases.

The Canadian Union of Postal Workers has launched an official campaign against "closures, privatization, and deregulation of Canada Post." One of the motivating factors for the campaign was the 2008 launch of the Canada Post Corporation Strategic Review (CPCSR). A three-member panel appointed by the Conservative government released its report in mid-2009.

The CPCSR panel did not consider whether Canada Post should be privatized. The report did recommend scrapping a moratorium on the closure of rural post offices in favor of new procedures that could allow post offices to be privately operated. The CPCSR also stated that Canada Post's regulated products should generate enough revenue for the organization to be self-sufficient. The panel raised the possibility that significant one-time rate hikes might be necessary to achieve such an outcome.

## PRIVATIZATION (CONTINUED)

Certain functions within Canada Post have already been privatized. Some post offices are privately owned and run as franchises. Some non-core activities are contracted out to private concerns, and Canada Post offers pricing incentives to mailers who presort.

A 2011 study by the Montreal Economic Institute argued that "the burdens for Canada Post of declining mail volumes, costly rural routes and the need for modernisation could be solved by privatising it." The researchers cited privatization initiatives in Europe as potential models for Canada.

## UNIVERSAL SERVICE

The universal service obligation requires Canada Post to deliver mail five days a week to every address in Canada for one uniform price. Mail is defined as letters, parcels, and publications. Standard-sized letters require only one stamp, regardless of destination. The price to send parcels, however, depends on the distance. The Post is obligated to deliver materials for the blind for free. Ultimately, prices and services must meet "reasonable" standards, but the definition of reasonable is not specified.

After passage of the Canada Post Corporation Act in 1981, the Post reduced service in rural areas from six days per week to five and cut multiple deliveries to businesses, eventually to just one delivery per day.

The CPCSR recommended that Canada Post and the national government draft a Service Charter that lays out explicitly the terms of the universal service obligation. The Charter was drafted in September 2009.

## COMPETITION

Private international mail firms are allowed to transfer packages sent by Canadian corporations to destinations outside the country. Materials sent in this manner include checks, invoices, and brochures from large corporations. Despite the 2004 court ruling which determined that outbound international mail was the exclusive privilege of Canada Post, private firms have continued to operate as they did before the decision. The federal government has been trying to pass a law that would solidify the private companies' right to operate since 2007, but no such law has passed.

In 1993, Canada Post purchased Purolator, a competing courier company. In 2010, this branch of Canada Post was the leading overnight courier company in the country and contributed 18.8 percent of Canada Post's revenue. Canada Post also maintains an agreement with FedEx Ground in which the national post delivers FedEx packages to some of the country's more rural and isolated addresses.

## ORGANIZATION & STRUCTURE

The Minister of Transportation officially oversees Canada Post. Canada Post's eleven-member board of directors, however, guides overall strategy. The Board includes Canada Post's President and Chief Executive Officer. Board members also sit on special committees for such topics as pensions, corporate social responsibility, and auditing.

## ORGANIZATION & STRUCTURE (CONTINUED)

In 1997, the first Ombudsman was appointed. This person provides an independent avenue through which customers can raise issues that could not be resolved though traditional channels. The Ombudsman does not mediate labor disputes; the office was created with the express purpose of addressing customer satisfaction.

Canada Post has 69,000 employees, including about 15,000 letter carriers. About 60,000 workers -- or more than 80 percent of the Post's labor force -- are unionized. The most prominent union is the CUPW. In June 2011, workers went on strike for nearly a month.

The contracts between Canada Post and the unions stipulate that labor disputes are to be adjudicated by one of about a dozen arbitrators across the country. The arbitrator's decision on a matter is final. The union involved and Canada Post split the cost associated with the arbitrator.

As has happened in the United States, Canada Post is looking to centralize deliveries around cluster boxes in order to cut costs and head off safety disputes. In 2009, for instance, the Post announced that it would review delivery to 843,000 addresses, particularly in rural areas, because delivering to those addresses may pose safety risks. Postal labor unions see this as cover for potential job cuts.

About 6,500 post offices serve the 15 million addresses in Canada. The services offered by Canada Post can be divided into three categories: Transaction mail (domestic letter mail, international letter-post, and Epost), Parcel (priority next Am, Xpresspost, and Borderfree), and direct marketing (addressed and unaddressed).

While rural post office locations continue to combine retail and delivery functions, increasingly, urban post offices have divided the two functions to different locations.

## PRICING

In 2000, a price-cap formula was implemented that holds basic letter rates to two-thirds the rate of inflation. As of 2010, a first class stamp goes for $0.57 CAN. Two-cent increases are planned annually from 2011 to 2014. That would put the price of a stamp at 65 cents in four years.

In 2010, Canada Post's revenue increased 1.9 percent to $7.4 billion CAN, thanks largely to the price increases.

Canada Post offers a "Permanent Stamp," which is sold at the going rate but may be used as a first class stamp even after a stamp price increase.

Transaction mail makes up over half of the Post's revenue. Parcel post and direct marketing contribute 21 percent and 23 percent, respectively. Businesses and government are responsible for 90 percent of Canada Post's mail volume.

## FUTURE

The increasing popularity of e-mail and digital transactions poses a challenge for Canada Post. In 2000, the national post implemented an electronic alternative called Epost to compensate for the decrease in letter mail. A part of the Transaction Mail line, Epost allows customers to pay bills, view statements, and receive payments through Canada Post.

## FUTURE (CONTINUED)

In addition to the stamp-price hikes described above, the organization will raise the rates charged for publication delivery by 3 percent in 2010, despite protests from the magazine industry. Since 2002, magazine delivery rates have gone up 38 percent.

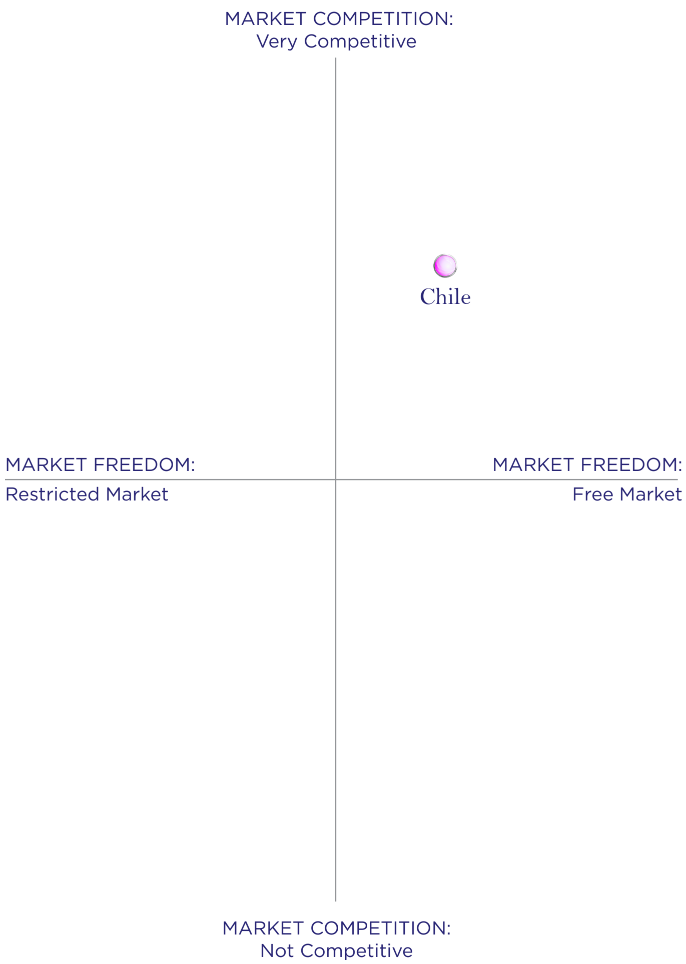
Canada Post is also looking to achieve annual savings of $250 million by 2017. It hopes to upgrade some services for bulk mail clients, including presorting and permit indicia.

Due to competition from other providers, the national post expects low growth in the parcel sector. To combat this, Canada Post is looking to modernize mail delivery. By implementing new technologies, the organization hopes to ensure parity with peers in efficiency and pricing. Renovations will include new sorting techniques and implementation of a "clean addresses" list, which could result in less undeliverable mail and more efficiency. Officials project that this transformation will cost about $2.7 billion.

Like many other public-sector entities, Canada Post faces significant pension-funding challenges. Its pension plan has a $3.2-billion deficit, and much to the CUPW's chagrin, the Post is refusing to offer new workers a defined-benefit plan.

Each year, Canada Post adds about 200,000 addresses to its delivery list. The number of pieces per delivery point, however, has declined 17.2 percent over the last five years. The combination of decreasing volume and increasing service requirements represents a significant challenge.

# C H I L E




## OVERVIEW

In 1747, the king of Spain decreed a standardization of mail delivery throughout his far-flung empire, which included Chile. As a result, the first Chilean royal superintendent of the mails was appointed.

Today, Correos de Chile serves a population of roughly 16.5 million Chileans, the majority of whom still live in the metropolitan area of Santiago and its nearby port, Valparaiso. Chileans receive 30 pieces of mail per year, on average.

One policy making Correos unique among world posts is that it charges both sender and recipient. Senders must place stamps on their letters, while recipients must pay a small fee to their mailman to receive a letter.

## STRUCTURE & REGULATION

The Chilean Post Office has been an autonomous but wholly state-owned company since 1982. It is managed by a five-member Board of Directors. These directors are appointed by the nation's public enterprise system (SEA).

As of 2006, Correos had approximately an 80 percent share of the market for regular mail and a roughly 17 percent share of the domestic package and courier market. It reported a profit of roughly US$4 million for that year. The company has over 5,000 employees, 200 post offices, and 300 authorized agents stationed throughout the 2,500-mile-long mainland and the country's insular possessions in the Pacific, which include Easter Island.

Chile is divided into 13 mail zones (designated by roman numerals) plus the Metropolitan Region (MR). Pickup from mail drops (buzon) is once a day.

In 2007, Correos delivered over 400 million pieces of mail, including 6 million parcels. The company's 2,300 letter carriers operate a fleet of 1,480 bicycles, 400 vans, and 100 motorbikes to deliver mail and packages. Until recently, mail volumes were inching up, but the average Chilean receives only 30 pieces of mail per year. In 2008, Correos experienced an abrupt contraction of volumes. In October 2008, mail deliveries plunged 5 percent. Further declines have been projected, which has caused Correos to scale back its plans for expansion.

Notably, Correos maintains mail service to the South Pole.

# CHILE

## LIBERALIZATION & PRIVATIZATION

The radical free-market reforms undertaken during the Pinochet military regime from 1973 through 1990 have left a lasting imprint on Chile's economy. They remain hugely controversial. With the notable exception of the nation's copper production, large swaths of Chile's government enterprises were privatized over those decades.

Aside from Correos, only about 20 firms remain under the nominal control of the Public Enterprise System (Sistema de Empresas Publicas -- SEP). Most are regional water, sanitation and port companies, while others include the Santiago subway (Metro), tax-free zones (Zofri), the state lottery (Polla) and the railroad operator EFE.

These public companies are expected to contribute a percentage of their profits to the state budget and to undertake initiatives that impact Chile's social welfare. They are not expected to offer profit incentives sufficient to attract private-sector companies. There is little market scrutiny of internal finances, so it is difficult to gauge whether state companies which claim profitability are actually profitable.

It is common for Latin American governments to appropriate the "terminal dues" paid by foreign posts to cover the cost of delivering foreign mail. It is not clear to what extent these dues are passed on to the national post for delivering foreign mail.

Restructured in 1982 as a government company, Empresas de Correos de Chile was not privatized. Like some other government entities, Correos is authorized to issue bonds which are not guaranteed by the state; this brings limited private capital into play. Further privatization is unlikely because the country's central labor federation (known in Chile as CUT) remains so powerful that the "syndicales" (unions) are virtually a partner in the national government.

Within Correos, labor relations are good, as the unions are routinely included in management decisions. Working conditions seem almost as important as financial results. For instance, the tasks of mailmen were recently reclassified as "heavy labor" within national regulations, and postmen were granted pay increases as a result. Correos has been able to institute performance-based pay.

## COMPETITION

Correos is the universal service provider but has competition in niche markets, primarily in the Metropolitan Region of Santiago. Private companies Envia and WSP each handle roughly five percent of total regular mail volume. Some 100 other companies also are in the mail business. In the more competitive express and package markets, Correos competes aggressively against domestic and international rivals.

According to a 2003 study by SkyPostal, Correos's mail delivery times are subpar. Overall, just 61.7 percent of mail reaches its destination within 30 days of posting. The average transit time for a letter is more than nine days.

## PRODUCTS & SERVICES

In regular mail, Correos offers two delivery options on envelopes up to 500 grams -- 72 hours or five business days. Price is based on weight and delivery time. Certified mail can be sent express (24-48 hours), priority (3 days), or standard (5 days). Registered mail takes 5 days with confirmation of delivery.

## PRODUCTS & SERVICES (CONTINUED)

Uniquely, since 2004, Correos also charges the recipient for each piece of mail delivered. This distribución y carteros fee is officially listed at 30 pesos, or roughly 5 U.S. cents. Postmen are authorized to negotiate a target monthly fee with each customer based on the average number of letters that customer receives. If a consumer refuses to pay the postmen to receive his mail, Correos is entitled to suspend mail service to the delinquent person. He must then pick up his mail within 30 days from a Postal Distribution Center.

Correos has been aggressively expanding into the courier, express, and package delivery market (the segment known as CEP). The company had a 15 percent share of this market in 2006 and had hoped to reach a 40 percent share by 2010, but such projections are now in jeopardy. A six-year joint venture with TNT came apart at the beginning of 2009, so Correos relaunched its own express, document, and package services. TNT, meanwhile, has purchased another established Chilean private carrier (Lit Cargo) to shore up its business in the country. The combined TNT-led firm will control almost 40 percent of the Chilean express-delivery market.

Express "docpak" courier services (Mensajeria) are available for deliveries up to one kilogram with delivery by motorbike. Telephone delivery confirmation is available for a surcharge. Such deliveries can be insured by value.

Within the Metropolitan Region, there are also package courier services -- up to 30 kilograms -- with several delivery options and online tracking.

Nationwide, Correos's express services (Servicios Expresos) delivers within 24-48 hours and offers online tracking and insurance. Non-express packages or Encomiendas up to 30 kilograms can be delivered nationwide in three to eight days based on weight, origin, and destination. Volume discounts are available for businesses which ship more than 500 such packages monthly.

Correos also provides International Courier delivery for docpaks up to two kilograms and packages up to 30 kilograms with guaranteed delivery times, online tracking, and included insurance. Correos has state-of-the-art online services such as tracking (seguimiento) and preshipment price quotes (cotacion).

Money transfers are also a major market for Correos. In addition to its joint venture with Western Union, Correos is also working closely with Transbank on money transfers (giros). In July 2008, Correos signed an agreement with Spain and Uruguay to set up an international electronic money transfer system. Within the country, money may be transferred electronically -- and picked up as cash at a post office -- within 4 hours in most locations.

The company also negotiates large-scale deliveries of pensions, subsidies, and loan repayments. There is even a loan service for customers available upon application (Facturas y notas de crédito clientes empresa).

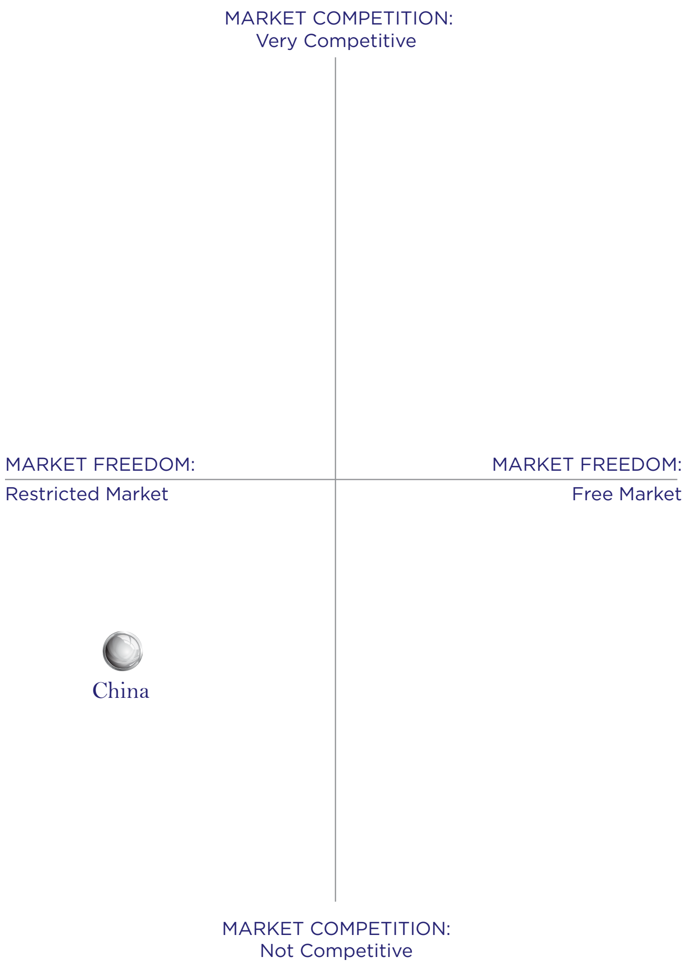
According to a survey of postal services in Latin America conducted by the bank of Thailand, Correos de Chile has not ventured into many of the financial services that other postal services around the world have introduced -- namely savings, insurance, and consumer credit.

## FUTURE

Correos de Chile claims to be in a reasonably good position to withstand the economic downturn. There is little expectation that Correos will be privatized. But it is clear that Chile's national post will continue to compete aggressively against both foreign and domestic rivals.

# CHINA

# CHINA POST




## OVERVIEW

China's postal service, China Post, has among the largest delivery networks in the world, with 77,000 post offices. Its more than 500,000 postal employees serve China's 1.3 billion inhabitants, delivering over 7 billion letters and 95 million parcels annually and generating over $7 billion in revenue (2005 statistics).

Today's China Post dates from the founding of the Communist regime in 1949. The postal service for decades remained an appendage of the government. Only in the 1980s, when China moved toward limited liberalization, were big state units formally restructured as stated-owned enterprises (SOEs) and given a degree of operational freedom. But SOEs were by no means set free -- they remain wholly controlled by the Communist Party and subject to its largely opaque decision-making processes.

Because of its size and complexity, China Post was the last large state organization to be restructured as an SOE. However, additional reform of the postal service has stalled. Moreover, since postal rates have been kept artificially low, traditional mail services operate at a loss and require subsidies.

China Post has long provided services beyond mail delivery, the most important being money deposit and remittance. Hundreds of millions of Chinese keep their savings with the Post, even though it pays very low or, with inflation, even negative rates of interest. Migrants from rural China regularly use the Post to send an estimated $30 billion in remittances back to their inland families. Until 2003, the Post was required to keep its deposits in state banks. Such banks were directed to pay a slightly higher (state-controlled) interest rate on Post deposits. The difference between what the Post paid out and what it earned on deposits long provided the primary subsidy to support universal mail service.

The last ten years have witnessed a whirlwind of modernization in China with a growing economy, increasing cash reserves, and China's entry into the WTO. With the passage of a limited and still vague postal reform bill in 2005, parts of the postal sector have come alive. What is now the China Post Group (still owned by the state) has been active in protecting its traditional monopoly on personal domestic mail under 350 grams and leveraging its network to hold on to exploding new markets.

## LIBERALIZATION & PRIVATIZATION

As the red-hot Chinese economy has sprinted forward, reform of the traditional mail system is still in the initial stages. Modernization and competition have taken place in economically vital sectors of courier service (business express mail), electronic communication, and banking. China Post still maintains a legal -- if hotly contested and often unenforced -- monopoly on mail and parcels weighing 350 grams or less. Profitable intra- and inter-city express mail service (EMS) has been the main battleground, where local and foreign competitors face formidable opposition from regulators loyal to state-owned China Post.

Until 2005, the State Post Bureau had a dual role -- it was both the regulatory authority on all postal matters and the organization which delivered the mail. In every area it could control, it has been slow to innovate and sought to block potential competitors from breaching its monopoly.

China Post did establish its own Express Mail Service (EMS) in 1980, recognizing it as a high-potential market. Since China Post had no international capacity, international EMS was opened to foreign carriers in the mid-1980s. But those carriers -- including FedEx, UPS, DHL and TNT -- were prohibited from handling domestic EMS until roughly 1995. Since that time, foreign carriers have lobbied to extend their reach into Chinese domestic markets. Thousands of local Chinese carriers have also sprung up, serving cities and high-volume routes, often on a semi-legal basis. Meanwhile, China Post has sought -- through subsidiaries and joint ventures -- to participate in lucrative international markets, primarily intra-Asian express mail and package delivery.

Efforts to open up China's domestic mail market and to establish the long-term legitimacy of local carriers have largely failed. Legislation to reform the postal system has been drawn up by China Post insiders who sought to protect China Post monopolies and to tilt the playing field in lucrative emerging markets. In effect, China Post itself drew the line between what in China are called "Post-exclusive" and "non-Post" services -- services which foreign and local carriers alike claimed should be opened to full competition under WTO. These competitors to China Post complained that a sector operator -- the subsidized Universal Service Provider of traditional mail service -- should not be allowed to set the rules for an entire industry.

The last three years have seen an explosion in non-mail services provided by China Post -- primarily banking and financial services. Such services are closely linked to industrial development and are profitable for China Post. Besides express mail, savings banks, remittance transfers, Internet banking, and logistics services -- all leveraging the ubiquitous China Post network of post offices -- have evolved at breakneck speed. Moreover, the China Post network is established in rural China, and so the government has used the China Post infrastructure as a conduit to bring small loans, insurance, ATMs, and Internet transfers into the back country.

Life insurance sales represent the next business venture for China Post. In June 2008, China Post Group received the go-ahead to launch China Post Life Insurance Company Limited. The new company has stated that it will target farmers, low-income urban residents, and migrant workers in particular.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

Postal regulatory functions were separated from postal business functions of the State Post Bureau with the creation of China Post Group (CPG) in December 2006. On the one side, the State Post Management Bureau (SPMB) was set up as the agency which regulates postal services nationwide. On the other, CPG, with registered capital of 80 billion yuan (about US$11.5 billion), was established as the operational arm with four segments: postal services, logistics and express services, private document services, and financial services. Still wholly owned by the state, CPG has launched subsidiaries which have entered into joint ventures with domestic and foreign companies. Certain profitable units have even been packaged for limited IPOs to raise private capital, but the fact that the state continues to play such a large role in ownership has scared away most potential investors.

## COMPETITION

There is virtually no nationwide competition in the core letter mail business because postage prices are held low for political reasons. A letter can be sent from Shanghai to Yili, some 4,500 km away, for what amounts to pennies. China Post still holds roughly 90 percent of the domestic market, although it has faced the most pressure in emerging industrial centers.

Today, however, there are over 100,000 foreign and non-state express mail service providers that carry out about 80 percent of same-city express mail delivery and over 50 percent of trans-province business express mail services. Such firms can handle mail under 350 grams so long as it is not personal mail. Foreign firms like DHL, UPS, TNT and FedEx have taken most of the international freight forwarding market. China Post, through a co-operative agreement with Dutch TNT, holds only about 25 percent of that business.

New legislation may give China Post's Express Mail Service the sole authority to handle documents weighing under 150 grams, effectively forcing most domestic express companies to shut down, as 90 percent of their business is derived from handling such small items. It presumably would prevent foreign and private firms from handling business from online retailers.

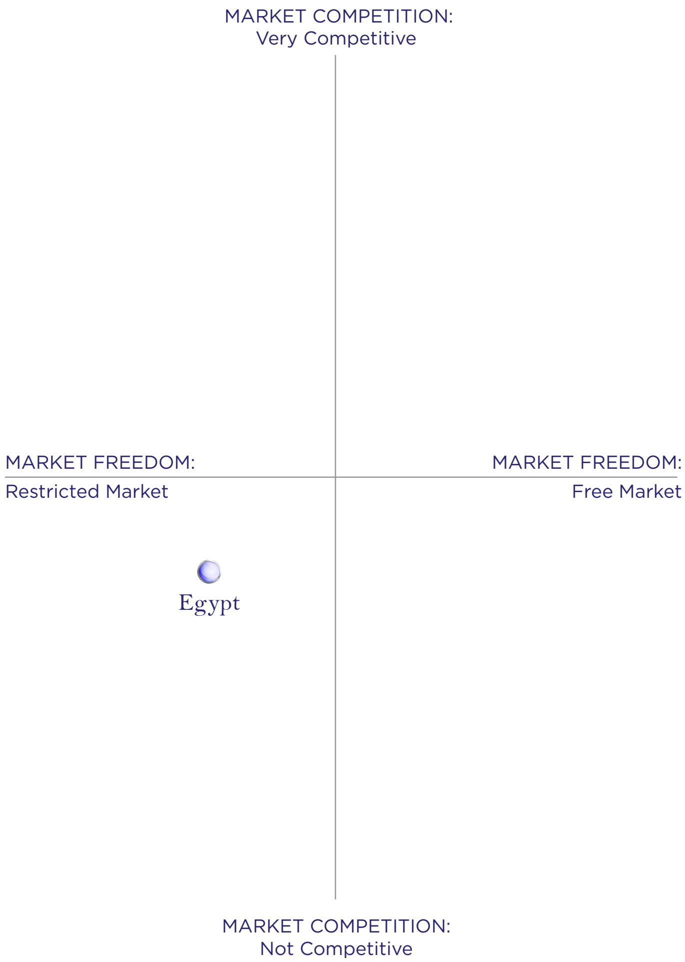
## FUTURE

Observers say it is unlikely that the Chinese government will allow foreign competitors significant entry into what is considered a semi-strategic sector of the economy. Moreover, the Chinese continue to reevaluate the role of foreign investment all across their economy in light of their strategic priorities and their obligations under WTO. Postal reform is still "under consideration" but it appears likely that the government will promote a Chinese small package competitor and discourage foreign companies through a variety of subtle (but still WTO-compliant) restrictions.

The most that can be expected in the medium term is legal clarification of boundaries so that the mail industry can develop with more certainty within the booming Chinese economy.

# E G Y P T

# EGYPT POST




## OVERVIEW

A 2008 paper written by Egyptian government officials posited that the international postal sector has changed more in the last 20 years than it had in the preceding 150. Egypt's own postal sector is no exception. Those changes will no doubt accelerate as the country's leaders move toward standardizing postal regulation and liberalizing the postal market.

Egyptian postal leaders are pegging their hopes for growth on "increasing overall levels of private-sector investment in the postal market through open and fair competition and progressive regulation." Officials would also like to make Egypt into a regional hub for logistics by marshaling the assets of the state-owned Egypt Post (EP), various government agencies, private postal operators, and other interests.

The earliest organized mail systems in human history actually have their roots in Ancient Egypt. Records of a cuneiform post date back to 1364 B.C. More than 2,000 years later, in the 12th century A.D., Egyptians created a primitive airmail network using carrier pigeons.

The modern-day Egypt Post traces its lineage to 1865, when Viceroy Ismail purchased Posta Europea, the dominant private postal service in Egypt at the time, from its Italian owners. In 1874, Egypt became one of 22 countries that contributed to the founding of Universal Postal Union.

## STRUCTURE

Today, Egypt Post operates under the National Post Authority, which is controlled by the Ministry of Communications and Information Technology (MCIT), established in 1999. EP employs nearly 50,000 people. As government employees, postal workers are not unionized.

EP maintains 4,600 branches. All of Egypt's commercial banks combined do not have as many outlets. But mail services account for only 40 percent of the post's revenues; financial services provide about 50 percent.

Due to high migration rates from rural to urban communities within Egypt, EP handles a significant amount of personal correspondence between separated family members as well as local money orders sent home as remittances. Additionally, Egypt is one of the top three providers of foreign laborers in the rich countries bordering the Persian Gulf. Many of these workers use EP to remit money to their families back in Egypt.

# EGYPT

## STRUCTURE

Per-capita mail volume in Egypt is only 3.2 pieces per person per year. That's low by international standards, as its peers in terms of GDP per inhabitant exhibit much higher rates of mail utilization. The country immediately above Egypt in this category exhibits mail volume of 5.8 pieces per person per year; the country immediately below, 5.0 pieces per person per year.

On average, EP delivers once a day in urban areas and once a week in rural areas. Domestic delivery times outside of major commercial routes remain erratic. Service standards are practically nonexistent.

International mail comprises an increasingly important part of Egypt Post's mail stream. The volume of EP's inbound and outbound international letter mail today is approximately equal to its domestic volume.

## LIBERALIZATION & PRIVATIZATION

Nominally, Egypt Post holds a monopoly on letters and parcels smaller than 2 kilograms and on national money orders. However, the postal market is relatively dysfunctional. According to a strategy document from the MCIT, "the postal market in Egypt is performing below potential and not fully meeting the needs of individual and business mailers."

MCIT has called for a bolder liberalization program but cautions that "liberalization needs to be accompanied by enhancement of public operators' efficiency and effectiveness." There is no serious discussion of dismantling or privatizing the EP.

## COMPETITION

Despite EP's monopoly, MCIT characterizes the Egyptian postal market as having a "high level of competition with 12 operators providing various forms of postal services." Competition within the high-value parcels, express mail, and logistics sectors is vigorous.

## REGULATION & UNIVERSAL SERVICE

Egypt's postal market is loosely regulated. By law, the Egyptian National Postal Organization (ENPO) issues licenses to postal operators. But ENPO also competes in the postal marketplace as Egypt Post. In other words, Egypt Post is both postal regulator and state-owned postal operator. MCIT characterizes the situation as one where "there's simply no effective licensing regime to legitimize competition in the market." Many private postal operators function without licenses. Those entities that are licensed tend to offer services beyond the scope of their licenses.

MCIT notes that the regulatory structure must be fixed. According to its strategy document, "the significant lack of transparency concerning the separation between the regulatory and operator functions of ENPO has affected the predictability of the sector and thus the level of private sector investment."

Egypt Post is considered the universal service provider. But according to MCIT, "there are no regulations concerning fulfillment of universal service obligations."

## FUTURE

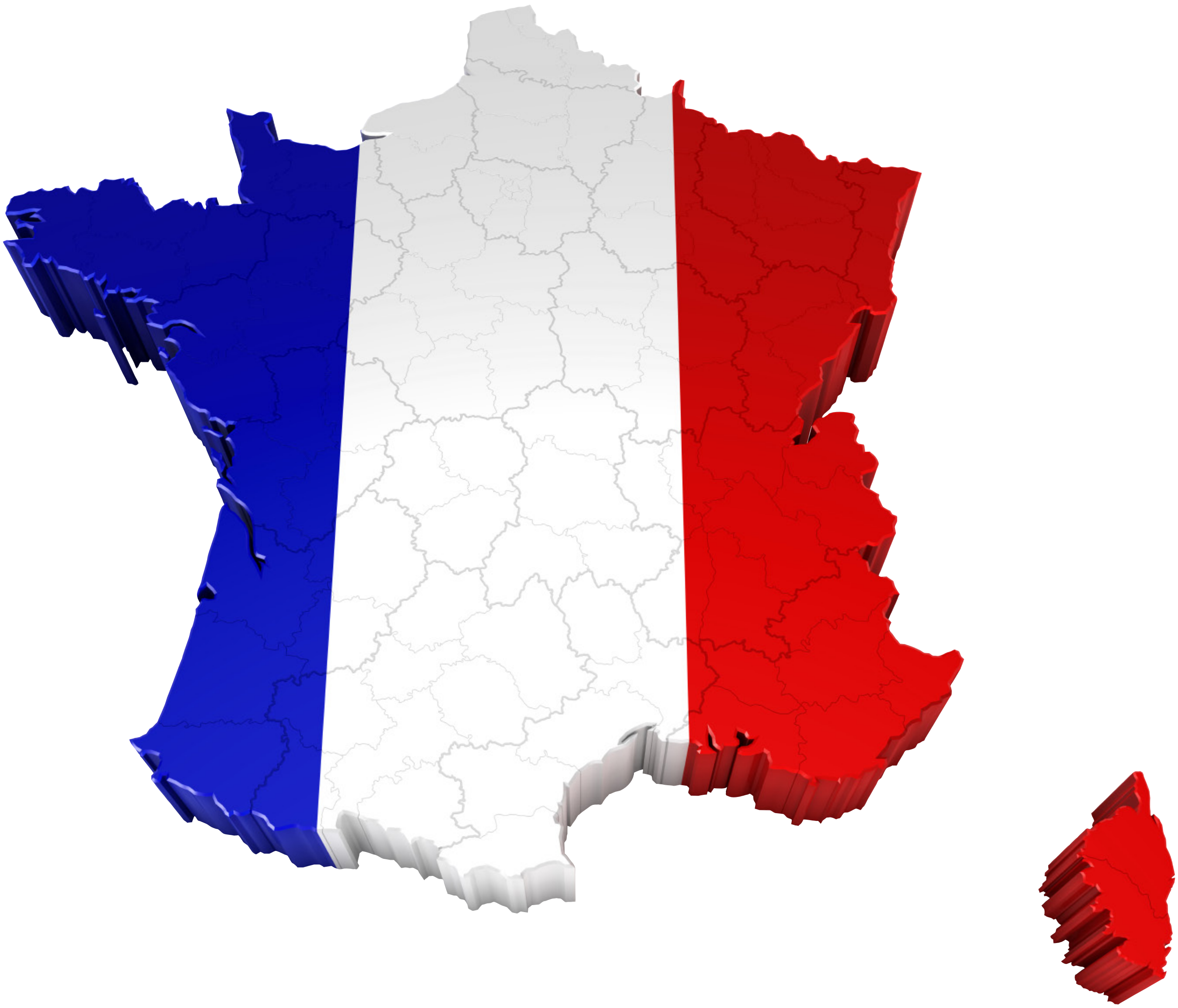
EP is working to bring domestic delivery up to international standards. But with mail volumes worldwide continuing to decline, that effort may have minimal impact on EP's prospects. Strategists project that growth -- both for EP specifically and for Egypt's postal sector as a whole -- will flow from improved parcel delivery and expansion of the Post's financial services offerings, particularly digitally, through the existing post office network. Managers see these initiatives as a way to generate additional revenue for EP, given the likelihood that consumers will not readily pay more for traditional mail delivery.

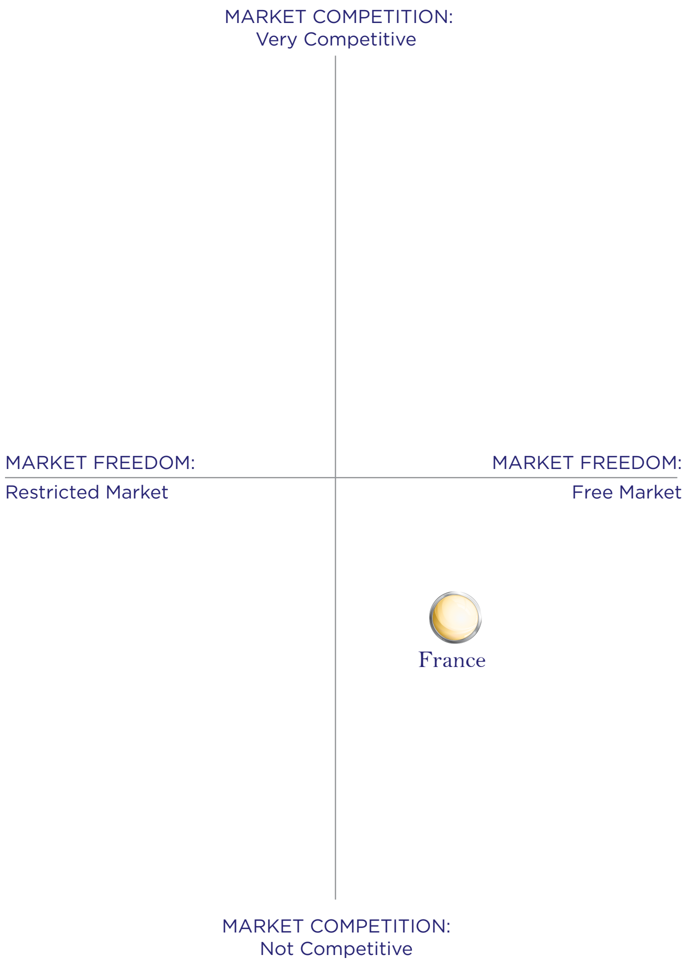
Ninety-seven percent of Egyptian transactions are still made in cash, and only 10 percent of Egypt's population has bank accounts. Planners see the EP network as a development tool for extending government services to the public and drawing more Egyptians -- especially the poor and marginalized -- into the civil and economic life of the country. This vision includes a wide range of services. Already, Egyptians can deposit savings, withdraw cash, draw down pensions, pay certain bills and taxes, buy airline tickets, and process certain licenses at many post offices. Egypt Post's leaders would like to expand these services.

These efforts are well underway. For instance, the EP unit GiroNil, a joint venture with Egypt's Banc Misr and a Dutch processing firm, is rapidly developing an extensive network of internet hubs, ATMs, and mobile banking capabilities.

Partnerships like these are at the heart of MCIT's plans for developing Egypt Post. Given the rapid pace of change that has characterized Egypt's postal market over the past two decades, Egypt Post has momentum to proceed apace with further significant changes to its operations and business strategies in the years to come.

# F R A N C E






## OVERVIEW

La Poste -- the French government-owned postal service -- is the third-largest national post in the world, with 2010 revenues of over €20.9 billion. Components of La Poste include traditional mail delivery, express and parcel delivery, and a financial division, which provides basic banking services.

Despite this menu of diverse offerings, mail still accounts for over half of La Poste's revenues. Financial services are becoming increasingly lucrative, as nearly a quarter of La Poste revenue is derived from this relatively new offering.

With over 275,000 workers, La Poste is among the largest employers in France. Although state-owned, its operations have been commercialized -- so it competes against private companies -- and it holds stakes in some foreign postal operators.

In February 2010, the French government passed legislation transforming La Poste into a limited liability company owned by the state. The law also set the terms under which the French postal market would operate after liberalization in January 2011.

## LIBERALIZATION

Liberalization of the French postal market has come in stages. The market for mail weighing more than 100 grams was completely liberalized in 2003. The market for mail above 50 grams was opened in 2006.

France had been among those most loudly calling for postponement of the EU's deadline for total liberalization of postal markets. The initial deadline for liberalization was pushed back two years to 2011. But as of the beginning of that year, La Poste no longer has a monopoly on mail weighing less than 50 grams.

Labor groups consistently opposed liberalization of the mail market. In response to La Poste's drift toward competition and privatization, postal unions staged a nationwide strike on September 23, 2008. The demonstration involved 27 percent of La Poste workers, according to company management.

# FRANCE

## PRIVATIZATION

Privatization of La Poste remains unlikely in the foreseeable future. Since 1991, La Poste has been considered an autonomous agency providing a public good. Thus, it is government-owned but independently run, with a board of directors and a regulatory structure overseeing its operations.

The French state distributes subsidies to La Poste, mostly in the form of tax exemptions. There is little chance of this trend lessening. In addition, La Poste enjoys an unlimited line of credit with the French government.

Despite opposition by French postal unions, La Poste became a limited liability company with public ownership on March 1, 2010. The French Constitution forbids the government from owning less than 50 percent of La Poste.

## COMPETITION

France's mail market is liberalized, so La Poste faces competition. However, La Poste dominates the market for letter mail. Foreign and domestic package firms compete with La Poste for parcel and express revenues. So far, at least 19 such firms have been licensed by ARCEP, the French postal regulatory authority.

Because of its presence in package markets, as well as its robust financial services business, La Poste faces competition in non-postal sectors. La Poste claims that 73 percent of its revenue in 2010 came from markets open to competition.

## REGULATION

Since the revision of France's postal laws in 2005, La Poste has been under the regulatory authority of ARCEP, or the Autorité de Régulation des Communications Electroniques et des Postes, an independent administrative authority.

The Autorité's executive board is composed of 7 members. Three are nominated by the President of the Republic, two by the President of the Senate, and two by the President of the National Assembly. Their terms are six years in length and are not renewable.

ARCEP's regulatory authority is wide-ranging. Not only does ARCEP regulate the postal market, it is also the overseer of the French telecommunications market. ARCEP ensures that the universal service function is carried out, that the liberalization agenda of the EU is adhered to, and that the postal market generally functions. ARCEP is also responsible for licensing firms to compete with La Poste in liberalized business areas.

## UNIVERSAL SERVICE

La Poste is the designated universal service provider in France through January 1, 2026, according to the February 2010 law. ARCEP supervises this obligation. A unique component of La Poste's universal service obligation is the requirement that no more than 10 percent of a given municipality's (or département's) population may be more than five kilometers away from a post office.

In France, the universal service obligation comprises letters up to two kilograms, parcels up to 20 kilograms, and newspapers up to two kilograms. It also includes recorded mail and valuable consignments.

## UNIVERSAL SERVICE (CONTINUED)

In addition, regional post offices can draw upon a geographic equalization fund. Through this fund, tax revenue from more profitable urban post offices is used to subsidize the extra expense of maintaining the universal service obligation in less profitable rural areas.

The February 2010 law established a fund for financing universal service in France. Licensed postal operators must contribute to the fund according to the amount of mail within the universal-service area that they carry.

La Poste has the right to negotiate agreements not governed by the universal service obligation with bulk mailers, consolidators, and firms licensed to deliver mail in France.

## NON-POSTAL SERVICES

Like many postal operators in Europe, La Poste has launched an integrated Postal Bank, offering a multitude of financial services. In 2005, the laws governing La Poste's bank were revised to allow it to perform, not just retail banking, but more complex transactions, such as issuing home mortgages. La Banque Postale has more than 10 million customers and reported a net banking income of €5.215 billion in 2010, with credit outstanding over €6.1 billion at the end of December.

La Poste is also involved in a number of government-related operations, such as distributing social benefits like welfare.

As of April 2010, La Poste offered consumer credit and was working to expand into personal loans. In December 2010, La Poste unveiled its first range of casualty insurance, which includes car insurance, home insurance and legal protection.

La Poste's financial services business accounts for nearly a quarter of annual revenue.

# G E R M A N Y

# DEUTSCHE POST


## OVERVIEW

Deutsche Post -- under the umbrella name Deutsche Post DHL -- is the largest mail operator in Europe, delivering roughly 70 million pieces of mail six days a week in Germany. With about 500,000 employees worldwide, it is also one of the globe's largest employers. Its revenues totaled €64.4 billion ($82.85 billion) in 2009. Deutsche Post has also become the world's largest logistics company.

The German postal service is unique in being one of the first European services to be converted from a completely state-run organization into a semi-independent, semi-private business. Moreover, as early as the 1990s, Deutsche Post was the first "national" postal service to pursue an aggressive strategy of expansion and diversification beyond its home country.

The growth of Deutsche Post beyond Germany has been controversial. Some maintain that the company's acquisitions and rapid worldwide expansion into the private sector have been paid for by its "trapped" residential mail customers within Germany. DP has long opposed full competition in its domestic market, but Germany was among the first European countries to comply with EU directives to liberalize their postal markets; it did so in January 2008. The European Commission's Third Postal Directive had called for full liberalization of European postal markets by January 2009. Since then, European policymakers have postponed that deadline several times.

DP has received state subsidies. Critics have maintained that these state monies were used to shore up the firm's loss-making parcel service. Legal battles have ensued for the better part of a decade. In 2002, the European Commission ordered DP to return the subsidies. But six years later, an EU court ruled that DP could reclaim the subsidies with interest, as competition authorities had failed to prove that subsidies were illegitimate. An appeal by the European Commission in 2010 was denied.

DP and its labor unions opposed the opening of Germany's postal market and have gone to great lengths to limit competition, emboldened by the reluctance of other European nations – notably France – to revoke their own domestic monopolies.

## OVERVIEW (CONTINUED)

In November 2007, the German government instituted a minimum wage for letter carriers, with the support of both Deutsche Post and its unions. The minimum wage put competitors at a significant disadvantage by preventing them from paying lower wages, effectively re-granting a letter-delivery monopoly to Deutsche Post.

Competitors, led by TNT, challenged the law in German court. They were vindicated in January 2010, when a German court nullified the minimum-wage regulation.

There is no doubt that the aggressive Deutsche Post will continue to be a major player in a broad range of world markets -- mail and package delivery, business logistics, banking, communications, and finance. To this point, Deutsche Post has shrewdly grown by leveraging a huge domestic revenue base that few of its competitors -- private or national -- can match.

## LIBERALIZATION & PRIVATIZATION

Reform of the post-war German postal service in West Germany was already underway well before the reunification of the two Germanys in 1990. The postal system of West Germany was officially reunited with the virtually bankrupt East German system in 2000.

The postal service was split up in 1989 into three units, but the critical transition came in 1995 -- the so-called "second wave" of the orchestrated German liberalization policy -- when those three units were officially converted into private stock companies -- Deutsche Post AG (DP), Deutsche Postbank AG, and Deutsche Telekom AG (AG stands for "stock company" in German). A large block of DP shares was put on public exchanges in November 2000.

The new "private" Deutsche Post began a whirlwind round of investments and acquisitions beyond German borders, seizing upon new business opportunities across Europe and beyond.

In 1998, DP acquired Global Mail (USA) the largest and fastest-growing private provider of mail services in the North American market. A Swiss logistics company, Danzas, was snapped up in 1999.

Although the traditional German postal bank had been split off from the postal service in 1989, the German government allowed Postbank AG to come back to Deutsche Post AG in 1999 as a subsidiary when Berlin sold its government shares of the bank (both giro money transfer service and the savings bank) to Deutsche Post AG. At the beginning of 2009, DP sold Postbank in order to "sharpen its focus on the core divisions Mail and Logistics."

Although DP officially went public in 2000, share stakes in the company were retained by various government bodies. As a semi-public, semi-private entity, DP acquired a 25-percent stake in DHL International Ltd., the worldwide market leader in international courier shipments.

In 2002, DP was granted a license to deliver mail in the United Kingdom, the first company to break the Royal Mail's long-standing monopoly. That same year, DP took over 100 percent of DHL to consolidate its growth strategy in express delivery. But in 2009, the company sold its domestic express business in the United Kingdom.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

In a move aimed at breaking into the enormous American market, DP acquired the #3 American delivery company, Airborne Express, in 2003 and integrated it into DHL as DHL Express. DHL itself was rebranded as DHL Global Mail the following year, bringing a broad range of international mail services under integrated control. But in 2008, DHL announced that it would cease domestic delivery in the United States. By 2009, DHL had terminated its intra-American delivery service. However, DHL still delivers international parcels to American destinations and carries American goods to foreign delivery points.

## OWNERSHIP & STRUCTURE

Roughly two-thirds of DP shares are “free floating” shares, open to market fluctuations since November of 2000. The remaining third are held by the German government-owned development bank, the KfWor Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute), which dates back to the Marshall Plan after World War II. These latter shares are not on the market.

Deutsche Post DHL is the name under which the company appears in public, e.g. in advertising. Deutsche Post AG is the company’s legal name. Dividends on DP stock are tax free for residents of Germany. Shares of Postbank were put on the market in a spectacular IPO in June of 2004. DP retains an ownership stake in Postbank.

DP operates through two brands (DHL and Deutsche Post) and five business divisions.

The mail division delivers approximately 70 million letters six days every week in Germany and provides services across the entire mail value chain, including production facilities at central hubs, sales offices and production centers on four continents, as well as direct connections to more than 200 countries.

The express division -- under the DHL brand -- transports courier, express, and parcel shipments all over the world, combining air and ground transport.

The logistics division -- also operating primarily under DHL brands (DHL Global Forwarding and DHL Exel Supply Chain) -- provides a range of international logistics services via long-term contracts with major multinationals across a wide range of industrial sectors.

The services division includes the corporate center, global business services, and retail postal outlets.

## REGULATION & UNIVERSAL SERVICE

At the time of the first postal reform in 1989, the three units of the old Deutsche Post were overseen by a federal ministry -- the Bundesministerium für Post und Telekommunikation. However, that centralized ministry was dissolved in 1998 in favor of a more decentralized new federal “net” agency (Bundesnetzagentur) which reported to the ministry for economics and technology. Other secondary functions from the old regime were split to the federal ministry of finance and the federal ministry of the interior.

## REGULATION & UNIVERSAL SERVICE (CONTINUED)

A new non-ministerial support institution -- Bundesanstalt für Post und Telekommunikation -- was also created, which is responsible for diverse legal services as well as benefits for former postal civil servants.

Deutsche Post contracts with the government as the nation's universal service provider.

According to the postal administration law (Postverwaltungsgesetz, abbreviated PostVwG), mail service is to be financially self-sufficient and to be administered in "the interests of the German national economy."

## COMPETITION

There are hundreds of commercial mail distributors in the country. German mail boxes are not the exclusive property of Deutsche Post. DP's monopoly on letter mail formally ended on Jan. 1, 2008. Actual competition has been slow to take root.

Postage for a standard letter, up to 20 grams, costs the sender €0.55 (US$0.70), while a letter up to 50 grams costs €0.90 (US$1.14). DP lost its exemption from Germany's value-added tax (VAT) in March 2010, but DP executives say that commercial and bulk consumers shouldn't expect to see their product costs increase. Since July 2010, DP has been subject to VAT. If the company carries those costs itself, analysts project a hit to annual earnings of €150-€300 million (US$190-US$381 million). The previous tax break had given DP an advantage of some €500 million (US$635 million) over its competitors.

Express delivery and package markets are already open. Competitors including the PIN Group and the Dutch-owned TNT Post maintain a noteworthy presence in the residential mail market, but DP still dominates.

## FUTURE

Deutsche Post has ambitious growth plans. It is already a world leader in the market for transport, logistics, and communications services. The company has identified growth opportunities outside Germany and has enthusiastically embraced technology in all parts of its business, from delivery to financial services. With its branded DHL services, DP continues to grow in Asia.

In 2010, DP hopes to expand its network across Germany and to increase its availability to private customers by adding 4,000 additional points of sale, 2,000 additional mailboxes and 150 additional packstations.

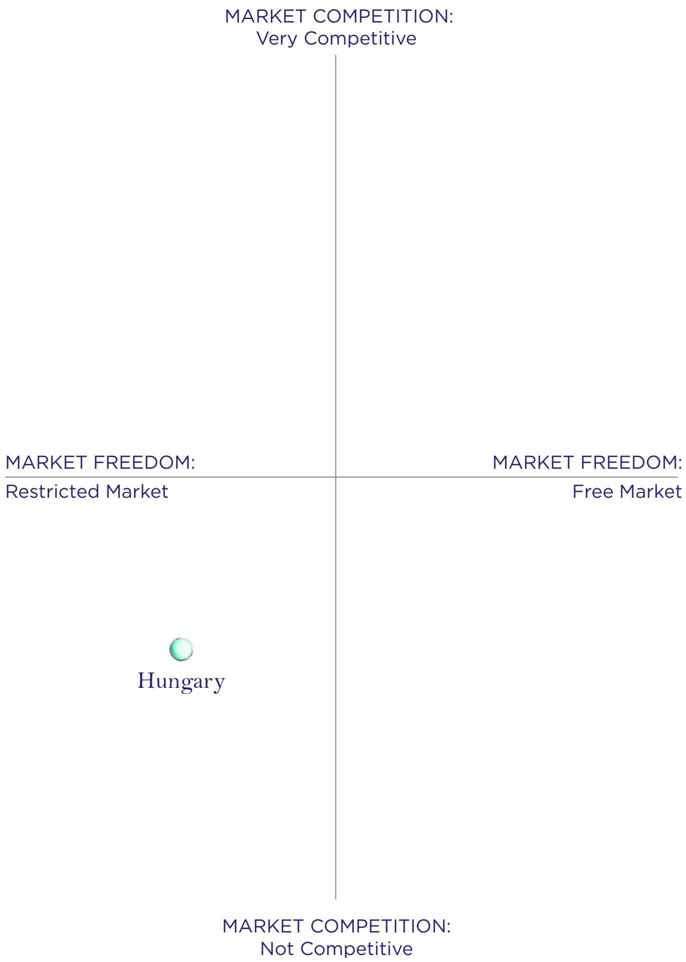
Deutsche Post has also made a significant commitment to improving the environment. As part of its GoGreen initiative, DP aims to cut its carbon emissions -- and those of its subcontractors -- by 30 percent by 2020 compared to a 2007 baseline. DP also offers a carbon-neutral shipping service.

## FUTURE (CONTINUED)

As the volume of traditional letter and parcel mail shrinks, Deutsche Post continues to look for new revenue-producing projects. For instance, Deutsche Post has begun selling "Internet letters," which are said to be safer and more reliable than standard e-mails. DP hopes that businesses will turn to Internet letters to send secure official correspondence. A hybrid mail option for printed delivery is also available.

Despite these new offerings, the company's success may ultimately hang on its mail products. Of all the products DP offers, mail posts the highest profit margin. Sustained growth will require fatter profits from its express, logistics, and freight forwarding arms.

# HUNGARY




## OVERVIEW

The Hungarian Post Office (Magyar Posta) is a state-owned and operated company with no true competitors in the market for regular mail delivery.

The Hungarian Post claims a long history of mail delivery in central Europe dating back to the 16th century. It claims to be the first postal service worldwide both to introduce the postcard and to use "motorcars" to deliver the mail.

Presently, reform of traditional mail in Hungary is lagging. Reform measures are subject to the heavy procedural burdens of the 1993 Maastricht Treaty governing all liberalization efforts of the European Union, which admitted Hungary in 2004. Mail reform remains bogged down in studies, mandated social dialogues, and meetings. Further, as is common elsewhere in Europe, many stakeholders in Hungary oppose liberalization reforms.

In 2007, Magyar Posta enjoyed operating profit of 5.39 billion Hungarian forints ($27 million) and profit before tax of 5.66 billion Hungarian forints ($28.4 million). Letter mail accounted for 92.56 billion Hungarian forints of revenue ($464 million) in 2007. Financial services accounted for 50.64 billion Hungarian forints ($254 million) in the same year.

In January 2011, Magyar Posta increased prices by 4.8 percent. A domestic "priority" letter costs 0.40 euros, or 115 Hungarian forints. Standard non-priority letters cost 0.33 euros, or 90 forints.

## OWNERSHIP & STRUCTURE

The Hungarian Post Office claims that it achieved official independence from government control by the Act of 1908, when Hungary was still a part of the Austro-Hungarian Empire. After World War II, the Post became an organ of the Communist government, which took power with the Soviet occupation of Hungary in 1945. In 1983, before the end of Russian domination, the Hungarian Post was split off from direct central government management as the Hungarian Post Centre. In 1990, broadcasting and telephone services were separated from the post office, which was reconfigured as the Hungarian Post Office Company.

This arrangement was modified at the beginning of 1994, when the Hungarian Post Office, Ltd., began operations. This company is the state-owned successor to the Hungarian Post Office Company and ultimately reports to the Hungarian Minister of Transport, Communications, and Water Management.

## OWNERSHIP & STRUCTURE (CONTINUED)

In 2002, another significant restructuring process was launched. This resulted in a system of three administrative regions and division of labor into three broad classes: strategic and administrative, operations, and internal services like human resources.

Magyar Posta also has set up "mobile post offices" for 950 smaller communities. These mobile post offices are trucks that visit small towns to offer the full range of postal services in lieu of bricks-and-mortar establishments. A further 1,000 conventional post offices of the 2,841 currently in use were targeted for closure in 2009 in favor of these mobile post offices. As a result of these closures, the workforce will be subject to continued paring.

## LIBERALIZATION

In some senses, Hungary has led the way among former Soviet satellite states in advancing market reforms. After the fall of the Soviet Union, the government launched a basic program of privatization, which ended on schedule in 1998. Eighty percent of GDP is now produced by the private sector. Hungary has experienced growth in foreign investment, with cumulative foreign direct investment totaling more than $60 billion since 1989.

Postal liberalization has advanced slowly; the state-owned post still possesses a monopoly on letters under 50 grams. In 1992, Act XLV allowed private companies who had won concession tenders or permission from the government to compete with Hungarian Post in providing basic postal services. The law was meant to open the market, but Magyar Posta remained more or less a monopoly.

In 2001, Act XL established a framework for a gradual transition toward liberalization. This act resulted in numerous market entries.

In 2007, the EU allowed Hungary to postpone effective liberalization of its postal marketplace (i.e., the removal of its monopoly on letters under 50 grams) until 2013.

Magyar Posta has launched some self-directed privatization initiatives, like the "Post Partner Programme," wherein post offices are operated by private actors. The national post now operates 90 percent of post offices; it expects that figure to drop to 60 percent by the conclusion of the program.

Additionally, in July 2011, Magyar Posta announced a 759.5-million-forint public procurement tender for media buying and planning which will include placing advertisements and creating graphics for the company.

## COMPETITION

Well-known multinational companies such as TNT, DHL, and UPS are all very active in Hungary in the markets for package and express delivery, but there are virtually no significant competitors to Magyar Posta in traditional mail. In 2005, the state-owned national post employed more than 38,000 people, or 97 percent of those who work in the sector. Magyar Posta's 2007 annual report claimed 36,429 employees, 34,995 of whom were equivalent to full-time staff. Universal Postal Union data peg the 2008 workforce at just under 36,000.

## COMPETITION (CONTINUED)

In the aftermath of Act XL, several companies registered as postal operators. In 2002, there were 18 postal operators. By 2003, there were 43, and by 2004, there were 58. The National Communication Authority (NHH) conducts the licensing and notification procedures related to entering the postal market.

There is very little data available on market shares in the mail sector. However, managers within Hungary estimate that 60 percent of Magyar Posta's revenue comes from its activities in the competitive market, while roughly 40 percent comes from its monopoly area. The share of revenue from the competitive market is continuously growing.

## UNIVERSAL SERVICE

The EU Act CI (101) of 2003 on EU postal services basically stipulates that universal service cover domestic and international correspondence and direct mail of 100 grams or less, as well as mail related to official documents, unless specific exceptions are made by the government.

Magyar Posta bears the universal service obligation in Hungary.

Hungary is embroiled in the required EU Social Dialogue procedures -- ongoing negotiations between unions, employers, government agencies and other stakeholders. With the current financial crisis, it seems unlikely that much progress will be made in the immediate future.

## LABOR CONDITIONS

The average monthly salary of a worker at Hungary Post is 156,682 Hungarian forints ($785). The average income for a Hungarian is about $600 per month. GDP per capita in Hungary was estimated in 2007 to be approximately $19,500 on a purchasing power parity basis.

There are nine trade unions active in the postal sector in Hungary. The most significant union is the Postal Trade Union (Postások Szakszervezete, or PSZ), an affiliate of the National Association of Hungarian Trade Unions (Magyar Szakszervezetek Országos Szövetsége, or MSZOSZ). The PSZ has about 20,000 members, or a little over half the workforce.

The second-largest trade union is the Independent Trade Union of Post Workers (Postások Függetien Szakszervezete, or POFÜSZ), which represents 4,400 employees.

There have not been any strikes in the postal sector for the last 20 years, though labor and management nearly came to blows in late 2007. Those negotiations led to a 7.5-percent wage increase for postal workers in 2008.

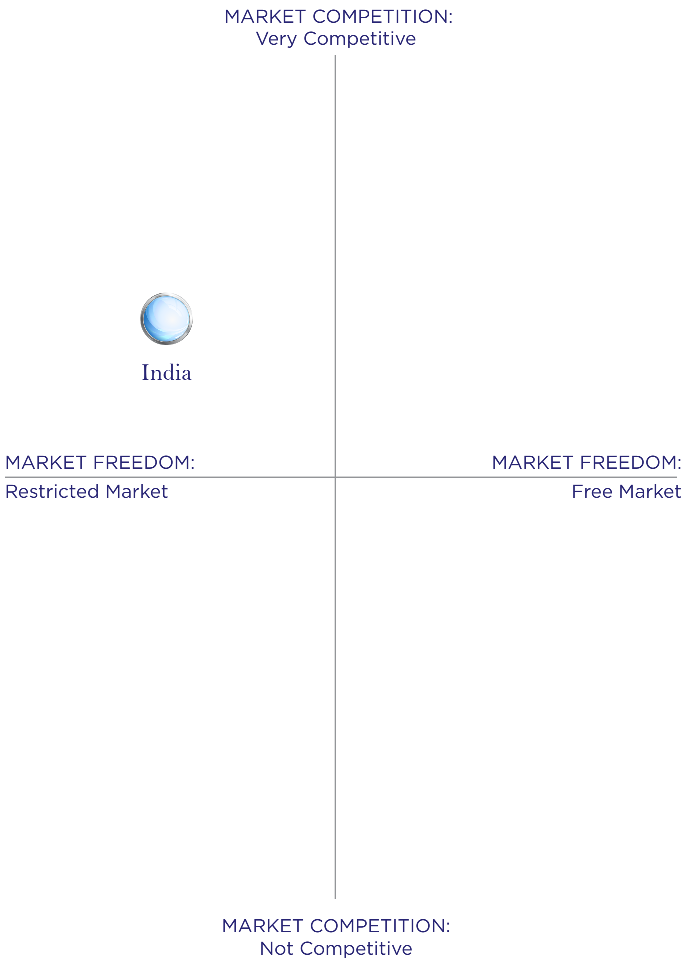
As might be expected, smaller postal operators have resisted unionization of their workforces, despite the efforts of Hungary's national trade unions.

## FINANCIAL SERVICES

Magyar Posta holds 135,000 customer accounts. Its product offerings include loans, investment funds, conventional savings accounts, and life, property, travel, and car insurance policies. By October 2007, the post's insurance offerings had reached one million customers.

# INDIA

# INDIA POST




## OVERVIEW

The Indian Postal Service, or India Post, is a government-operated system. It consists of more than 155,000 post offices scattered across India's vast land expanse of more than three million square kilometers and serves a population of roughly 1.3 billion citizens. India Post claims to be the largest postal system in the world, with nearly 500,000 people working for the company.

Last restructured at the time of Indian independence in 1947 from the remnants of the British system, India Post rests on a legislative foundation laid out by the British in the Indian Post Office Act of 1898. The Indian Parliament attempted to revise the 1898 Act in 1982 and again in 2002, but their proposed changes were never adopted. A sweeping reform measure that would have strengthened India Post at the expense of competitors was introduced in 2006 but has not advanced.

India Post supplies a variety of services to the Indian population, including small savings banking and other financial and documentary services. It is the oldest and largest savings bank in India and the second largest provider of life insurance in the country. In total, financial services provide over half of the revenues of India Post.

There have been studies by global consultants on the paths to reform and liberalize India Post and other critical infrastructure sectors, but real reform has not matched the hopeful rhetoric.

## LIBERALIZATION & PRIVATIZATION

India Post remains a government-owned entity operated by the Department of Posts (DoP), which is part of the Ministry of Communications and Information Technology. India Post enjoys a state-protected monopoly on letter delivery, but the definition of "letter" is open to interpretation. The only exceptions to the monopoly named in the Post Office Act of 1898 are private communications delivered by the writer to the recipient, those sent by messenger, and related notes within parcels of goods.

India Post is also not liable for lost or damaged letters, according to the statute. This protection from liability contradicts the Consumer Protection Act of 1986. India Post has sporadically lost cases brought by consumers alleging delinquent service, but such consumer-friendly judgments are by no means the norm.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

Outlines for reform have come in draft bills in 2002 and 2006. These proposals would have given India Post a weight-based monopoly covering both letters and parcels on mail deliveries of 500 grams or less.

These draft bills would strengthen India Post's monopoly by defining the word "letter" and explicitly barring the private carriers that currently deliver low weight parcels from doing so. The draft legislation would also assess a levy on private carriers to finance India Post's universal service obligation.

The proposed 2006 bill stipulated that private carriers would have to pay a fair wage rate determined by the government and comply with all applicable national labor laws. Such mandates essentially would have required that private carriers adopt India Post's cost structure. They also effectively would have undermined any potential for liberalization.

## OWNERSHIP & STRUCTURE

Echoing the original British structure, postal service in India is divided geographically into 22 postal circles (originally "routes"), each headed by a Chief Postmaster General. Within each circle there are regions called Divisions under the control of a Postmaster General. An additional circle, the so-called Base Circle, handles the postal needs of the Indian armed services.

The government exercises its authority through a Postal Service Board consisting of a chairman and three members who are responsible for Operations & Marketing, Development, and Personnel. A government-appointed Joint Secretary and Financial Advisor also attends all meetings.

Nearly 90 percent of India Post's offices are in rural areas. According to the Planning Commission for the Government of India, on average, rural post offices cover just 34 percent of their costs. In hilly areas, cost coverage is just 15 percent.

## REGULATION & UNIVERSAL SERVICE

Under the Indian Postal Act of 1898, the "Central Government" fixes the prices for postal services and seeks the approval of Parliament on its decisions. This vague responsibility falls to the Postal Services Board.

India Post bears the Universal Service Obligation but receives significant subsidies from the government. Of the 23 services provided by India Post, only Insurance, Speed Post, and Foreign Mail yield a surplus of revenues.

The 2006 draft bill would have required private carriers to contribute roughly 10 percent of their revenues to a fund to compensate India Post for fulfilling the Universal Service Obligation. This USO Fund contribution would be a cost passed on to consumers.

Although the bill has not passed, there were rumblings that smaller companies might be required to pay less. Observers predicted that larger carriers would split their businesses into smaller units -- losing economies of scale -- to avoid the maximum contribution.

The bill proposed that an Independent Mail Regulatory and Development Authority be set up to level the playing field and enforce standards.

## REGULATION & UNIVERSAL SERVICE (CONTINUED)

There would also have been a Mail Dispute Settlement Tribunal to resolve disagreements between the Registering Authority and the Service Providers, between the Service Providers themselves, and between Service Providers and Consumers. India Post, under the proposed legislation, would have continued to enjoy immunity from liability charges stemming from failed delivery.

## COMPETITION

Private courier companies have been delivering various types of written and printed communications without calling them letters. Some 2,500 have registered with the government. At times, senders have included a small "object" in the envelope in order to categorize it as a parcel.

The proposed 2006 bill would have restricted foreign ownership in any private courier to below 49 percent.

Private carriers operate almost exclusively in urban areas.

The market has been growing rapidly -- by 20 to 25 percent per year. Of the 16 billion items sent in India each year, private firms deliver more than 7 billion.

## FUTURE

Studies by McKinsey and Company have pointed out that, in the future, India Post will be a great vehicle for public-private partnerships. Following models of liberalization undertaken in other countries, some planners look to debundling the owner, operator, and regulatory functions of India Post.

India Post's huge distribution network -- the largest in the world -- may be its most significant asset in any future partnership with either private-sector concerns or with other government agencies.

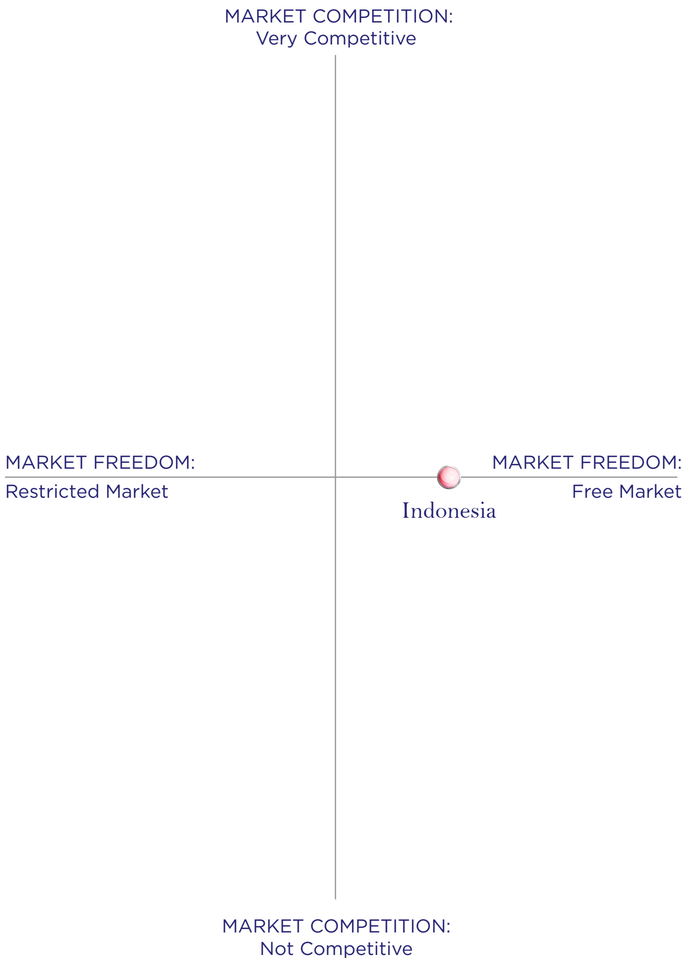
The National Postal Policy statement on India Post's web site explains that "the new economy and modern markets require [the postal service] to become more financially autonomous and commercially flexible in order to deliver its core functions and other services." To that end, India Post has continued to look for new revenue-producing projects as the volume of traditional letter and parcel mail shrinks. In recent years, for example, the company has begun to offer gold coins, books, and mobile connections at many of its postal outposts. The Post has also launched a partnership with ARM I-Solutions to sell railway, bus, airline, and even movie tickets at post offices in several states. With the private firm's "Genie Ease-Ticket" service, customers can also make hotel reservations at select India Post outlets.

Moreover, in addition to the banking and financial services it already offers, India Post has announced plans to open the Post Bank of India in order to expand banking services to the rural areas of the country -- in which 60% of India's population resides. India Post is also looking to further break into the lucrative sectors of data processing and electronic communication.

Prompted by recommendations from a study conducted by the Jamnalal Bajaj Institute of Management Studies, India Post is also exploring technology that would make it possible to scan letters into the Post's system for reprint and delivery anywhere in the country.

While a large-scale restructuring of the current postal system is certainly imminent, no decisive movement towards privatization is expected.

# I N D O N E S I A




## OVERVIEW

In August 1746, Indonesia's first postal service was established by Governor-General G.W. Baron, the country's Dutch colonial ruler, in the capital city Batavia (modern-day Jakarta). In 1906, post and telegraph services were brought under the auspices of a new agency within the colonial government -- Posts, Telegraphs and Telephones (PTT). After Indonesia declared independence in 1945, the new government seized control of the postal service. In 1961, PTT was converted from an official government agency into a state-owned company.

The public postal operator of today -- PT Pos Indonesia -- came about in 1965, when postal services were separated from telecommunications services. Pos Indonesia is still state-owned and is the official carrier for Indonesia's 230 million people.

Today, Pos Indonesia employs about 26,000 workers in nearly 20,000 permanent post offices. Traditionally, the company has provided letter post and financial services. But in recent years, Pos Indonesia has expressed a desire to participate in the development of Indonesia's information infrastructure.

Pos Indonesia's growth has paralleled that of the Indonesian economy in general. At the height of the Asian economic crisis in the late 1990s, mail volume was just 3.38 pieces per capita each year. By 2007, as Indonesia and other emerging markets in Asia recovered, per-capita mail volume reached 3.989 pieces annually -- an increase of about 18 percent. In November 2009, Pos reported having Rp 6.62 trillion (US$715 million) in assets.

## STRUCTURE

As of 2007, Pos Indonesia operated about 20,000 permanent post offices that each served an average of about 11,600 people. Employees of Pos Indonesia unionized in 2000. Because Pos serves more than 17,000 islands throughout the country, the company relies on both private and government train, bus, airplane, and ship operators to aid in the transportation of mail.

Mail has been collected on average once per work day (Monday through Friday) from boxes in urban areas and twice per week in rural areas. Deliveries were made an average of three times per working day in urban areas and two times per week in rural areas.

## STRUCTURE (CONTINUED)

Pos Indonesia offers standard letter mail as well as some express services. The post also offers some direct mail services, whereby it receives letters electronically and then prints and delivers physical copies.

The Indonesian government has granted fuel subsidies to Pos Indonesia in order to offset the cost of transportation.

Pos shares the revenue from terminal dues with the state treasury.

Business reforms begun in the late 1990s continue today. Priorities in Pos's transformation include:

- Investment in training and coaching tools for employees.
- Implementation of new technology.
- Revamped service processes with an eye toward improving efficiency.

Pos Indonesia has established the electronic "Wasantara Network" to address the challenges posed by its vast coverage area. Wasantara serves as Pos Indonesia's "Intranet" for operational purposes and as a support for commercial activities in the field. The network links all of Indonesia's main post offices with the Ministry of Communications.

Indonesian consumers may also access the Wasantara Network from their own computers or from Warung Pos Internet access points at post offices and other places throughout the country.

## LIBERALIZATION

Although nominally an independent company since 1995, Pos Indonesia remains state-owned. Before 1995, when it was officially a government agency, Pos enjoyed the exclusive right to collect, transmit, and deliver all letters and post cards. That monopoly has often been ignored. Pos Indonesia consistently sought stronger monopoly protection on letters weighing less than 500 grams, particularly during a 2006 debate over draft postal legislation. But in September 2009, the Indonesian House of Representatives bucked that pressure and put an end to Pos's nominal monopoly as the country's lone postal operator.

## COMPETITION

In the market for letter mail, more than 600 licensed independent "postal" companies also operate in big cities and towns throughout the country. These companies offered quasi-postal services and the delivery of letters even before the official liberalization of the Indonesian postal market in 2009.

Many cargo and freight companies also handle letters and packages. In the express mail market, the world's largest international shipping titans offer substantial competition to Pos Indonesia.

Given the low postal volumes following the financial crisis of the late 1990s and the demands of universal service (20,000 retail units over two million square miles), Pos Indonesia has faced pressure to "add value to the basic postal network," as a recent World Bank report put it. Pos hopes to achieve such an objective by leveraging its Wasantara Network to offer consumers hybrid mail (electronic mail printed remotely) and other Internet-based services.

## REGULATION

Before 1995, the Indonesian government served as both operator and regulator of the postal marketplace. A restructuring effort was begun in that year that granted Pos Indonesia greater managerial and decision-making autonomy.

Currently, the Directorate General of Posts and Telecommunications (DG Postel) is the regulatory body responsible for developing, implementing, and maintaining postal policy in Indonesia. In a supervisory role, the Ministry of Communications ensures that Pos Indonesia's policies are in line with established national guidelines. Delivery time and transportation connectivity standards for Pos Indonesia's mail delivery system are set according to standards outlined by the Universal Postal Union (UPU).

With a new focus on "business culture," Pos Indonesia has set up five service divisions -- transportation, stamp-collecting, technology and information systems, parcels, and property -- to serve as "profit centers," with the intention of granting greater autonomy to regional directorates. Since the 1995 reforms, Pos Indonesia has reported steady increases in total revenues -- even with the deduction of interest paid on assorted government loans.

## UNIVERSAL SERVICE & PRICING

Pos Indonesia's universal service obligation includes reception, transport, and delivery of mail throughout the Indonesian archipelago's two million square kilometers of territory. As a result, the company enumerates seven different categories of mail with delivery speeds that range from several hours to several days.

The 2009 law providing for liberalization of the Indonesian postal market re-affirmed Pos Indonesia's universal service obligation, including "cooperation with local and international postal service operators," according to Mohammad Nuh, Indonesia's Communication and Information Technology Minister.

The Indonesian government must approve of all basic postal rates for letters and postcards.

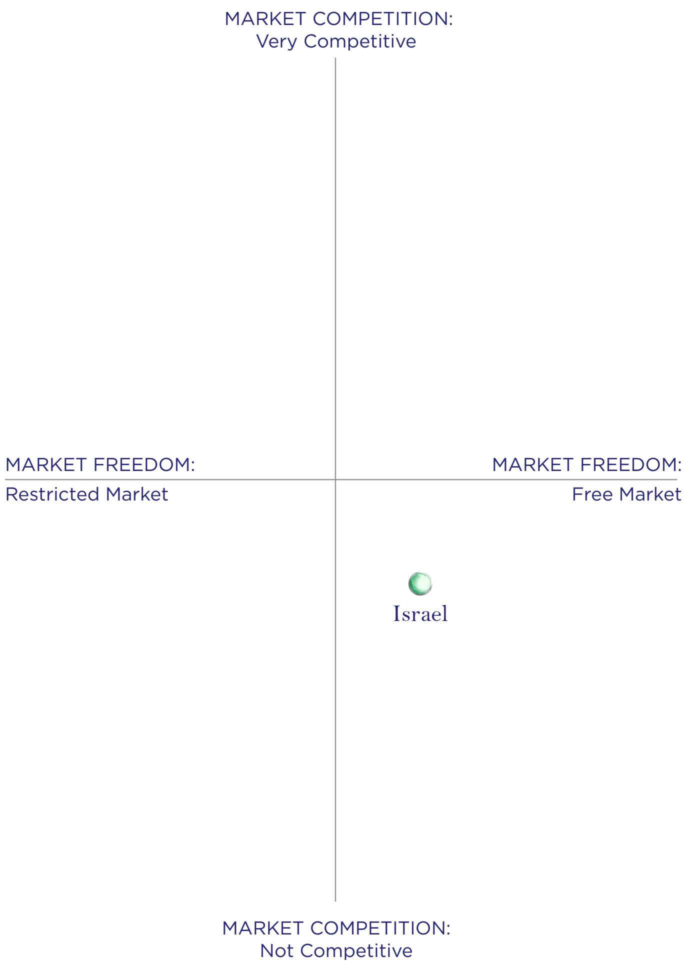
## FUTURE

Hoping to bounce back from losses of Rp 40 billion (US$4.32 million) in 2008, Pos Indonesia is set to invest US$64 million in new infrastructure. The bulk of this investment, which represents a six-fold increase in capital expenditures relative to their 2009 level, will be devoted to electronic applications, as opposed to paper ones.

With the new infrastructure, Pos Indonesia hopes to expand its breadth of services. The company projects a 50-percent increase in profitability in 2010 thanks to planned initiatives in microfinance, money transfer services, electronic bill payment, and business logistics. Pos expects to profit Rp 90 billion (US$9.5 million) on revenue of Rp 3.7 trillion (US$399.6 million).

The Indonesian government sees the expansion of Pos Indonesia's network as crucial to building the nation's economy. Aided by its existing electronic capabilities -- like the Wasantara Network -- Pos Indonesia hopes to make the transition from national post to major player in the information economy.

# I S R A E L




## OVERVIEW

Israel Post -- Israel Post emerged days after Israel declared independence on May 14, 1948, when the United Nations' attempt to partition Palestine into separate Jewish and Arab states failed. Israel Post has roots in the British postal system from the mandate period (1920 - 1948) and was an important unifying symbol for the new Israeli State. Throughout its history, Israel Post has been active in commemorating the state's history though its postage stamps. This has occasionally led to political and religious controversy.

Because of the nation's unique defense needs and its socialist roots, the government has played a large role in virtually all aspects of Israeli society. Israel Post is no exception.

Beginning in 1948, the state of Israel provided postal services through the Ministry of Transportation. From 1951, mail delivery came under the Ministry of Posts, which later became the Ministry of Communications. Consistent with the British model, the service included letters, parcels, and telegrams, as well as telephone services. An Israeli Postal Bank was established in 1951 which processed not only private but most government payments and money transfers.

In 1986, legislation was passed to nudge public-service units of the government in the direction of greater self-management. This legislation created the Israel Postal Authority. This Authority was formally constituted in April 1987 and was responsible for mail until 2002, when mounting operating losses, political scandals, and the recognition that deeper structural changes were necessary in light of the electronic revolution in communications led to calls for reform.

## OWNERSHIP & STRUCTURE

Israel Post -- 100 percent owned by the government -- ultimately comes under the control of the cabinet posts of finance and communications. Conflicts, which are usually initiated by labor unions, have led to stormy negotiations before the State Attorney and in civil and even rabbinical courts. Coalition blocks from the Knesset often take sides. Over the past few years, the State Comptroller has conducted investigations into charges of graft and corruption within the postal service.

## OWNERSHIP & STRUCTURE (CONTINUED)

In 2007, the turnover of the combined entity, the Israel Postal Authority and the Israel Postal Company (IPC), reached NIS 1.732 billion (US$485 million). The budget of the Israel Postal Company for 2008 was NIS 1.798 billion (US$503 million).

The Israel Postal Company employs 7,000 workers, including 1,500 postal delivery staff. It maintains 700 postal branches, 4,602 mail collection boxes, and 1,000 vehicles and sorts 2.5 million postal items every day. That adds up to 787 million postal items sorted per year. Israel Post also transports 1.6 million packages per year and makes 2.3 million express deliveries per year.

## LIBERALIZATION & PRIVATIZATION

In July 2002, after a series of studies, the Israeli government set up the framework that would convert the Israel Postal Authority into a new government company -- the Israel Postal Company Ltd. -- and allow for a prudent, step-by-step liberalization of the Israeli postal market. Israel Postal Company Ltd. began operations in March 2006. Between 2002 and 2006, licenses were granted to a small number of competitive mail carriers. At first, these competitors were limited to charging rates no less than 4.5 times the rate charged by Israel Post.

The postal market can now be considered open, but Israel Post continues to enjoy one unique monopoly right -- foreign packages arriving in Israel from abroad, regardless of their customs status, are assessed a fee starting at NIS 35 (US$9.80) for handling by the Post.

It is important to note that the powerful Israeli labor unions -- notably the national Histadrut Labor Federation and Israeli postal employees union -- played large roles in negotiations over postal reform. As the government, concerned about postal losses, sought to raise postal rates in 2006, the unions objected. Union leaders claimed that higher rates would make the Israeli Post "uncompetitive," as business would be taken by private firms, eventually resulting in layoffs at the government carrier. Strikes and legal actions have followed. As these disputes have wound their way through Israeli courts, job actions and work stoppages by postal workers have cut off deliveries of tax payments and government benefit checks.

Potential losses at Israel Post put the company on the brink of collapse, so a Tel Aviv Labor Court ordered the government in June 2008 to provide a "security net" of 36 million shekels (US$10 million) to the Post to make sure the company would not dismiss workers. Moreover, pensions were guaranteed by the government, and those employees who were laid off in cost-cutting moves were given substantial "adjustment grants" by the government. Early retirement buyouts were also used to cut costs.

## REGULATION & UNIVERSAL SERVICE

The Israel Postal Company provides universal postal service to the general population, under the motto "From everywhere, to everyone at an equal price to all." The Post provides approximately 100 products and services, including many items outside the scope of traditional mail, through the largest branch network in Israel.

Rates are recommended by a Rates Committee, which meets together with representatives from the Finance and Communications Ministries.

## REGULATION & UNIVERSAL SERVICE (CONTINUED)

Because of its large staff, high compensation rates, and contributions back to the government, Israel Post has historically operated at a loss. In 2002, its operating deficit was NIS 150 million; in 2003, it was NIS 200 million. Israel Post's financial prospects may be turning around, however; it posted a small profit in 2007.

## COMPETITION

Israel Post faces competition from private carriers. The postal reforms between 2002 and 2006 opened Israeli postal markets to entrepreneurs. Israel Post's monopoly on bulk mail was ended in July 2007, and unions have initiated intermittent job actions and sanctions as a result.

Private carriers generally deliver mail only on profitable urban routes.

Despite this nominal competition, Israel Post retains a stranglehold on the consumer market. After the IPC announced the 35-shekel fee for incoming foreign packages, the Jerusalem Post editorialized that "the public has no viable alternative to basic mail services making it vulnerable to what amounts to extortion. . . The IPC knows that most ordinary folks remain its captive consumers[,] a fact which renders its new demands [i.e., the 35-shekel fee] particularly unacceptable."

Government studies have recommended raising postal rates, but unions have objected. Union leadership maintains that such increases would bring about "rigidity" in rates and make it "impossible for the Postal Company to compete" with private entrepreneurs.

Mail delivered by the Post weighing between 100 and 500 grams now (2006) costs NIS 3.30 (roughly US$0.92), and VAT is not charged for international mail.

## FUTURE

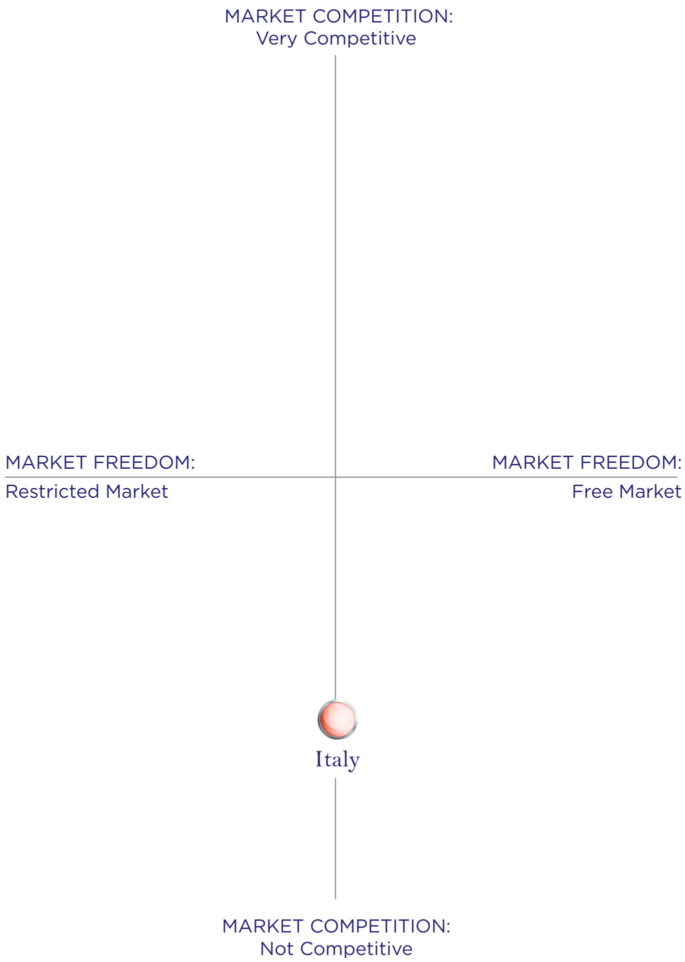
With the establishment of the Israel Postal Company, the government promised lower rates for consumers and better service. However, the country increasingly relies on electronic communications. As of 2006, close to two million Israelis were Internet users. When the new Post structure was proposed, postal rates were to have been reduced immediately by 6% and then by 1% over each of the following five years. The Postal Bank's services were also to be expanded. But the proposal, at least concerning rates, was opposed by unions and was ultimately dismissed as premature and overly ambitious.

The Post has struggled with deficits. "We are in a deficit because it is difficult to compete and make profits for a few years as our formerly monopolistic services have been exposed to competition. It will take a few years until we can stabilize ourselves and make a profit so we no longer need a safety net," a postal company spokeswoman said in 2008.

Nevertheless, the Israeli economy has rebounded since 2003, thanks to broad structural reform. The economy grew an estimated 5.4% in 2007, the fastest pace since 2000. Foreign investment has been strong, and both tax revenues and private consumption are up, setting the economy on a solid growth path. Israel Post saw its prospects improve in 2007 after years of losses, posting a profit of NIS 40 million (US$11 million). The company's Postal Bank was the engine for much of that profit, bringing in NIS 307 million (US$86 million). Company officials predict that profits will grow in the future.

# I T A L Y

# P O S T E   I T A L I A N E




## OVERVIEW

Government-owned Poste Italiane has evolved into a financially profitable and technologically sophisticated conglomerate that offers an array of services to Italy's 60 million consumers. According to a 2011 Fortune report, the group's revenues of US$28.9 billion ranked eighth in the country -- and 329th worldwide. And in 2009, Poste Italiane was listed as one of the three most -admired companies in Italy by Fortune.

Poste Italiane's operating profit in 2010 was up 16.9 percent, to €1.87 billion. From 2002 through 2010, Poste Italiane reported eight consecutive years of profits. The post has no doubt benefited from the removal of a 45-eurocent mailing option in 2006; retail consumers must send their letters via "posta prioritaria" at a cost of 60 eurocents.

The organization's success has been helped significantly by its expansion into banking, insurance, financial services, logistics, phone cards, and other competitive markets. This effort built upon Poste Italiane's network of 14,000 post offices. Traditional mail services in Italy are often slow and barely profitable -- only half the mail sent between Naples and Bologna, 360 miles away, arrives within the 1-3 day delivery window classified as "on-time." Financial services have surfaced as a crucial source of new revenue for the organization.

So far, Poste Italiane has weathered and actually benefited to some degree from the global financial crisis. The postal bank invests only in state bonds, and Italian consumers view postal savings certificates and accounts as safe havens for their cash in the wake of declining values for other types of assets.

## OWNERSHIP & STRUCTURE

Sixty-five percent of Poste Italiane shares are held by the Italian government's Ministry of Economics and Finance. The remainder is owned by a government company which manages the investment of public savings (Cassa Depositi e Prestiti S.p.A).

Management controls a broad empire beyond mail and package delivery. This includes business logistics, banking and internet services, insurance, credit cards, investments, hybrid electronic document processing, and even mobile phones.

## OWNERSHIP & STRUCTURE (CONTINUED)

Here is a short summary of Poste Italiane's many subsidiaries:

- BancoPosta accepts and invests deposits.
- PostePay facilitates bill-paying.
- The SDA Group provides express mail and logistics.
- Mototaxi runs city bike couriers.
- Postecom operates Internet services.
- PosteVita sells a range of insurance products.
- Fondi Bancoposta Sgr handles investments.
- Poste is the European leader for hybrid electronic mail and document processing.
- Poste Italiane's Europa Gestioni Immobiliari unit engages in real-estate financing.

Poste Italiane employs roughly 41,000 postmen and about 152,000 workers in total. The workforce has shrunk since Poste Italiane became an independent company. While government-run, the national post employed nearly 200,000 workers.

In 2010, Poste Italiane delivered roughly 2.8 billion pieces of mail. It retains just 5 percent of the domestic package market, according to IBM. Letter volumes are less than half of EU per-capita averages.

Poste Italiane reported its first overall profit in 2002 -- after fifty years of red ink as a government agency. It has reported profits in each of the eight years since.

In 2010, Poste Italiane reported that its operating profit was up 16.9 percent, to €1.87 billion, from €1.599 billion in 2009. The group reported revenue from postal services of €5.05 billion and from financial services of approximately €4.67 billion in 2010. Both represented slight decreases in revenue from the previous year.

## LIBERALIZATION

In 1998, in response to the general EU schedule for gradual liberalization of national postal markets, Italy converted its traditional national post into a public limited company. The new share company evolved rapidly.

In 1999, Priority Mail service was introduced, and in 2000, Poste Italiane implemented a broad plan to upgrade post offices.

Poste Italiane no longer maintains a monopoly on letter mail below 50 grams, as the EU directed that postal markets in member states be liberalized by 2011. The target date for full liberalization had been postponed several times, and Italy took full advantage by refusing to liberalize its market ahead of schedule.

## LIBERALIZATION (CONTINUED)

Poste Italiane has received government support during the transition to a liberalized postal marketplace. In 2006, for example, the Italian government removed the standard 45-cent letter from Poste's product offerings. Since then, every letter sent via Poste must be sent as "posta prioritaria" at a cost of 60 eurocents.

In July 2011, Poste Italiane established free wi-fi internet access in 22 of its main branches. CEO Massimo Sarmi considered it essential for his customers.

## COMPETITION

Prior to liberalization of the entire postal marketplace, licenses were granted to 1,600 mail operators for a market that included some 900 million pieces of mail outside the monopoly. Given Poste Italiane's historical unreliability, many consumers embraced the entrance of independent operators into the delivery market in the 1990s. Nevertheless, the postal market is relatively non-transparent, and the legacy of the monopoly on letter mail -- the weight for which declined over time -- has assured Poste Italiane a dominant position, even after liberalization.

The market for packages is more competitive. According to IBM, Poste Italiane has just 5 percent of the domestic package market.

Major players in the postal market include Dutch titan TNT Post, which employs 1,437 workers in Italy. According to BT Global Services, TNT Express Italy is the market leader for domestic and international parcel and package shipments in Italy.

Deutsche Post's various brands also maintain a presence in the Italian market.

There are five significant players in the mail market, of which Poste is by far the biggest. Poste Italiane has revenues more than three times higher than its nearest competitor.

## NON-POSTAL SERVICES

Poste Italiane has been aggressive in diversifying its business into markets more lucrative than traditional mail, even as it's maintained its core mail obligations. It has invested substantially in electronic infrastructure for banking, financial services and advanced business logistics have. These efforts were undertaken in partnership with outside firms, including such technology leaders as Microsoft and Cisco. wNon-mail financial services compete directly with the private sector.

More than half of Poste Italiane's revenues come from financial services and insurance. Traditional mail accounts for less than a third of total revenues. It's clear that Poste Italiane's management is "betting on banking," as IBM's postal analysts put it in 2006.

## NON-POSTAL SERVICES (CONTINUED)

The global financial crisis did augur some good news for Poste Italiane. Money poured into Poste Italiane's banking unit, which Italian savers regard as a safe alternative to the country's endangered commercial banks. In October 2008, purchases of postal savings certificates were almost 300 percent higher than in September, while Italian mutual funds suffered massive withdrawals. Deposits to postal savings accounts jumped 112 percent in October 2008 compared to the previous month.

In December 2010, Poste Italiane agreed to buy MedioCredito Centrale for €136 million as part of a plan to create a new bank to develop Italy's poor southern region. Poste Italiane will act as manager for the bank which plans to stimulate the impoverished region through lending to small and mid-size businesses.

Today, Poste Italiane manages €340 billion of savings in more than 5 million accounts. With such assets, Poste Italiane is one of the largest savings banks in Italy.

Its investment arm, Fondi Bancoposta Sgr, handles €3.1 billion.

A further €29 billion of savings and deposits is managed through Poste Vita, the national post's insurance company. Poste Vita is the largest life insurance company in Italy. In 2010, Poste Vita achieved 34 percent growth with earned premiums of €9.5 billion. In fact, in two years Poste Vita has grown by 70 percent.

In 2003, Poste Italiane introduced PostePay, which is now the most widely used prepaid credit card in Europe.

Poste Italiane has recently moved into wireless telephony with its "virtual" telephone company Poste Mobile. As of December 2008, 630,000 customers had bought Poste Mobile SIM cards for their phones. Poste Mobile also has tapped into the market for payment systems by phone.

In a partnership with Italy's National Railway System in 2008, Poste Italiane set up Italia Logistica, a nationwide business logistics operation.

Notably, in the course of these modernization and expansion initiatives, Poste Italiane units have not been spun off.

## FUTURE

From 2002 through 2010 , Poste Italiane reported eight consecutive years of profits.

Poste's management has bet heavily on financial services as the engine of growth for the organization. Some commentators question whether it will be able to maintain its dense network of post offices into the future, particularly as consumers move online to conduct their financial operations.Poste Italiane continues to venture into new fields where it essentially competes with private-sector providers. Its mail operations have benefited from the profits borne by non-mail operations.

## FUTURE (CONTINUED)

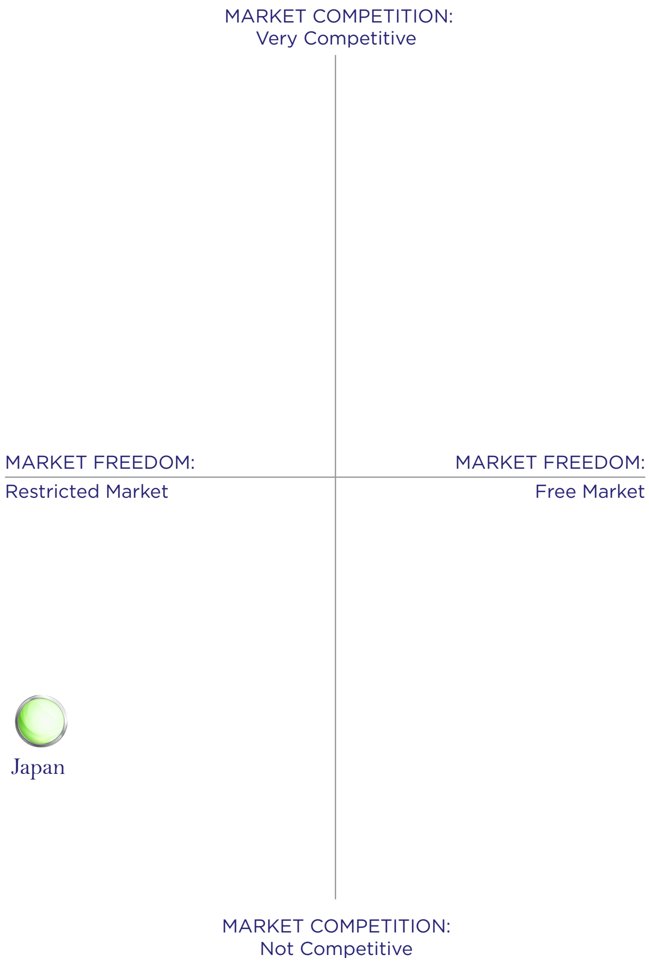
Such cross-subsidies have helped modernize and maintain the mail sector. For example, all Italian postmen are now provided with mobile devices to track mail status and deliveries.

In 2008, Standard & Poor's listed Poste Italiane as one of the top candidates for "final" liberalization. Indeed, there were reports in June 2008 that the Italian government was considering a further privatization of certain state-owned companies, including Poste Italiane. But the credit collapse put such plans in doubt.

In June 2011, credit rating agency Moody's discussed the possibility of downgrading the credit of up to 16 banks and other related issuers, including Poste Italiane. Premier Silvio Berlusconi, however, remains optimistic about their credit.

In Italy's "mixed" economy, the government has traditionally played a large role. Given the current economic environment, the "safety" of Poste Italiane's financial conglomerate grants the state postal monopoly great advantage over private-sector firms engaged in everything from financial services to communications to package delivery.

# JAPAN




## OVERVIEW

Japan Post is comprised of four major entities: postal operator Japan Post Service, post office operator Japan Post Network, life insurer Japan Post Insurance, and financial institution Japan Post Bank. This unique structure was created in a landmark, 10-year privatization scheme on October 1, 2007.

That privatization plan, however, was halted in early 2010 by the new government of the Democratic Party of Japan (DPJ), which was elected in September 2009.

A reorganization of the four-pronged structure for Japan Post has been the focus of reform plans in recent years and is expected to get back on track during 2012.

Japan Post's infrastructure sustained major damage in the catastrophic earthquake and tsunami of March 2011, with as many as 330 post offices destroyed or damaged. In light of a 5.5 percent mail volume loss in the 6 months from April-September 2011, Japan Post Service Co. announced losses of ¥44.3 billion, an improvement in the bottom line of one-third over the same period a year earlier.

## STRUCTURE

The four present JP entities are all multimillion- or multibillion-dollar entities. Japan Post Insurance employs 5,770 workers and is the nation's primary provider of life insurance policies. During the 2008 fiscal year (which ended March 31, 2009), JP Insurance reported premium income of ¥7.9 trillion (US$83.69 billion).

Japan Post Bank -- with 233 branches, 11,675 employees, and agents in approximately 24,000 post offices -- holds deposits totaling over ¥177.5 trillion (US$1.88 trillion) and total assets of ¥196.5 trillion (US$2.08 trillion). The Bank's net income was ¥229.3 billion (US$2.43 billion) in the 2008 fiscal year. With such financial heft, Japan Post Bank is the biggest bank in the world.

## STRUCTURE (CONTINUED)

Japan Post Service's 95,631 employees distribute 68 million pieces of mail per day to 32 million locations. JP Service delivered 21.2 billion pieces of mail in the 2008 fiscal year and earned a net profit of ¥29.8 billion. Rates for regular letters up to 25 grams are ¥80 (US$0.85); for letters up to 50 grams, the rate is ¥90 (US$0.95).

In fiscal 2008, Japan Post Network earned ¥40.8 billion (US$432.2 million) through its network of 24,539 post offices. It employs 112,726 people. Japan receives the second-highest volume of mail in the world, trailing just the United States.

All told, the net income for the entire Japan Post Group was ¥422.8 billion (US$4.48 billion) in fiscal 2008.

Ordinary Japanese households, who tend to shun "riskier" financial markets, have long kept their savings in low-interest accounts with Japan Post Bank. Having halted privatization, the DPJ is poised to double the level of deposits that JP Bank can legally take, to ¥20 million (US$211,880) per customer. The existing government guarantee on deposits would stay at ¥10 million (US$106,030). This change would give the postal bank a huge advantage over other Japanese banks.

The DPJ government is also contemplating a change that would allow Japan Post Insurance to raise its coverage limit to ¥25 million (US$264,850). Japan Post Insurance already controls 40 percent of the market.

## LIBERALIZATION & PRIVATIZATION

In principle, Japan's postal market has been liberalized since January 2003. As many as 100 firms have applied for licenses to deliver mail up to 250 grams. But none of these firms has a significant presence in the postal marketplace. Japan Post effectively has a monopoly.

The highly publicized privatization scheme had been full of stops and starts even before the DPJ government officially put it on hold. In reality, Japan Post would hardly have been private, as the state would have retained full ownership of the holding company.

Historically, Japanese economic planners have identified postal reform as key to making Japan's financial markets more efficient. The country has struggled through four recessions since 1991, and policymakers have admitted that interlocked and inefficient capital allocation was inhibiting growth. Japan Post simply controlled too many assets. As of 2005, more than 85 percent of Japanese households had postal service accounts and some 60 percent had insurance policies with Japan Post.

Former Prime Minister Junichiro Koizumi staked his political legacy on the privatization of Japan Post by calling snap elections in 2005. Despite passionate opposition, Koizumi won enough support to move ahead with his long-term plan to privatize the behemoth.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

In January 2006, the government mandated the establishment of a holding corporation -- Japan Postal Services Corporation (JPSC) -- whose stock was to be entirely owned by the government. JPSC in turn was structured to own the stock of four subsidiary operating corporations created as Japan Post was split up. JPSC began to identify itself as Japan Post Holdings Co., Ltd. The four-part structure formally came into being on October 1, 2007.

These reforms tore deep into the fabric of Japanese society. Political and cultural opposition was strong, and powerful interest groups continuously made their voices heard.

Japan's postal labor unions proved especially hostile to the privatization plan. In fact, two of the postal unions, previously rivals, merged in response to the announced plan in October 2007 to form the Japan Post Group Union. This syndicate has 229,000 members.

By September 2009, when Koizumi's Liberal Democratic Party was voted out of office and replaced with the Democratic Party of Japan, the privatization plan began to unravel.

On March 30, 2010, the DPJ government adopted Banking and Postal Service Minister Shizuka Kamei's "renationalization" policy, and the privatization plan was effectively scrapped.

Plans to reorganize Japan Post into three entities had been considered for late 2011 but were delayed until 2012 for reasons including the effects of the March 2011 earthquake and tsunami. A holding company that merges the explicitly postal entities (Japan Post Network and Japan Post Service) would stand at the top of the organizational chart. Japan Post Bank and Japan Post Insurance would operate under the wing of this new holding company. The government plans to take the new company public at some point but will keep more than one-third of the shares.

Previous efforts to privatize even parts of Japan Post have met resistance. A plan to sell an unprofitable string of hotels owned by the JP holding company was scuttled in February 2009, after the Minister of Internal Affairs and Communications called into question the deal's transparency and sale price.

## REGULATION & CONTROL

A 2004 Cabinet decision left Japan's politically appointed Minister of Internal Affairs and Communications (MIC) with virtually complete authority in mail matters – approving all changes in postage rates and supervising postal operations and standards. The Cabinet ruling also continued universal postal service, and stated that the postal monopoly would not be abolished "for the time being." In effect, the government continued to set the prices and make the rules.

With privatization now a non-starter, regulatory reform is also unlikely. Japan Post and its emerging subsidiaries will continue to report to and be supervised by the Japanese government.

The arms of Japan Post are government-owned corporations. They report directly to the government and retain government guarantees and special rights.

## COMPETITION & UNIVERSAL SERVICE

Universal service is recognized in Japan to comprise 6-day delivery of mail of up to 4 kilograms. The DPJ also plans to charge the re-organized postal group with providing "universal" banking and insurance services throughout the country. An independent postal reform committee would be created to monitor for unfair competition with private-sector financial institutions.

Japan Post is in the process of modernizing its traditional mail operations. It has taken steps to form business alliances with both Japanese and European firms to gain a foothold in the high-margin package delivery market. Almost immediately after initial restructuring in October 2007, Japan Post forged a domestic partnership with Nippon Express, a prominent Japanese parcel delivery firm.

As a result of the DPJ's reforms, Japan Post is poised to compete more aggressively with private insurers and banks. Private firms are not pleased with the government's decision to raise the ceiling on JP's bank deposits and insurance policies. They fear that competition will suffer. Other critics of the new reform plan worry that it will throw the nation's financial markets "back to the past."

JP's business focus remains on the domestic market. Insurance and banking services are sold through the Post's network of post offices, and the company has not announced any plans to expand abroad. About 80 percent of Japan Post's assets are invested in Japanese government securities, so foreign dealings appear unlikely.

## FINANCIAL SERVICES & OTHER NON-POSTAL ACTIVITIES

Japan Post Insurance Company was the world's largest insurer by asset value in 2009, with assets of over $1 trillion. A 2010 report by the U.S. Trade Representative noted that its life insurance system "remains a dominant force in Japan's insurance markets." The report expressed concern about conditions obstructing a level playing field between the company and private-sector insurers and has urged Japan's government to take steps to ensure equivalent treatment.

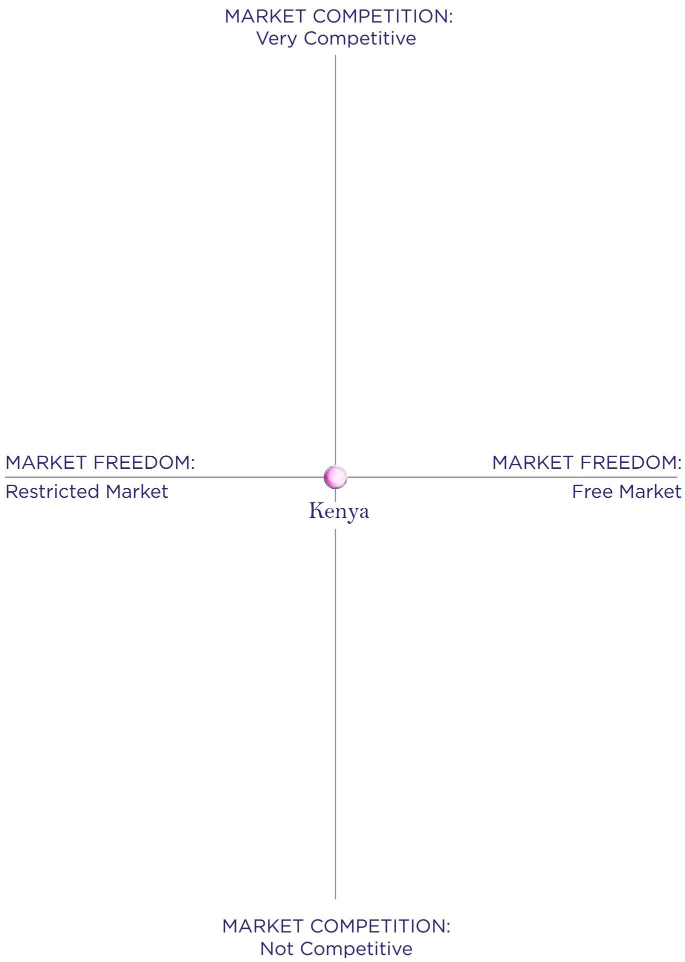
Japan Post has introduced electronic bill-paying and also begun to offer its customers the option of moving savings into a range of investments -- including stock market investment trusts managed by private financial firms. Japan Post has also formed an advertising company to take advantage of unused space inside and outside of post offices. As of 2008, Japan Post Bank offered JP-brand credit cards. Similarly, Japan Post Insurance has begun offering hospitalization and surgery insurance.

## FUTURE

Liberalization of postal markets in Japan really got underway with changes made in 2003, but in recent years, the most significant initiatives to complete the task have met formidable resistance and subsequent delays. Most recently, 2012 has been designated as the target date for reorganizing Japan Post and transferring ownership to the private sector.

The Japan Post Group's senior management has made a priority of focusing on strengthening internal management systems as it addresses losses due to declining volume. Meanwhile, its President and CEO noted in the Group's 2011 annual report, "Having waited for the realization of postal reforms, we would like to begin providing easy-to-use products and services to better respond to the needs of customers." He also noted that 2012 would be the time for a "counteroffensive to ensure our postal business develops and grows over the medium and long terms." Postal market observers worldwide will certainly be keeping a close eye for signs of progress.

# KENYA




## OVERVIEW & HISTORY

The state-owned Postal Corporation of Kenya (PCK or Posta) dominates the Kenyan postal market, though private delivery firms maintain a significant presence. Since 2003, the number of licensed postal and courier operators has doubled. Like many national posts worldwide, Posta sees expansion into financial services as its best avenue for future growth.

The Kenyan postal service has its origins in the mail system created by Britain, the colonial power, to serve sub-Saharan British East Africa -- what is now Kenya, Uganda and Tanzania. The combined East African postal service for the three territories was consolidated into a single postal union in 1933.

Kenya gained independence in 1963. Fourteen years later, in 1977, the government controlled Kenya Post and Telecommunications Corporation (KP&TC) emerged as the country's national post after the demise of the East African Union and its regional postal service.

KP&TC's telecom arm was separated from the postal wing in the late 1980s, and in 1999 KP&TC was officially split into the Postal Corporation of Kenya, the Communication Commission of Kenya (CCK), and Telkom Kenya, which remains the sole provider of landline phone service.

## STRUCTURE

As of June 2009, Posta operated 31 main post offices, 472 departmental postal outlets, and 204 postal agencies (sub-post offices). The service provided letter post, parcels, expedited mail services (EMS), money orders, third-party payments and receipts (agency services), electronic money transfer services, and lottery tickets. Posta employed roughly 4,300 postal workers in 2009. The main labor union representing Kenyan postal workers is the Communication Workers Union of Kenya.

According to CCK's 2007-08 annual report, "private letter boxes continued to play an important role as the last mile in the delivery of postal items by PCK." As of June 2008, Posta had installed 414,616 private letterboxes. Of those, 335,438 were rented.

## STRUCTURE (CONTINUED)

Posta derives a significant chunk of its revenue from processing utility bill payments for public and private suppliers, since the stream of "social letters" is weak. Posta's CEO said that business mail -- bills, invoices, bank statements and demand letters -- accounted for 70 percent of Posta's 3 billion Kenyan Shillings (Ksh) (US$39 million) in revenue in 2007.

The postal service's stated goal is to become "financially stable." In March 2010, Posta claimed on its website that it sought to grow financial services revenues from their current level, Ksh 700 million (US$9 million), to Ksh 5 billion (US$65 million) over a five-year period. (As of March 2010, Posta's website did not list a beginning or end year for this five-year period.) Planners hope that mail revenue will grow from Ksh 2.2 billion (US$26 million) to Ksh 3.2 billion (US$42 million) and that revenue from courier services will increase nearly tenfold, from Ksh 113 million (US$1.5 million) to Ksh 1 billion (US$13 million) over the same five-year period. In total, postal leaders hope to triple revenue, from roughly Ksh 3 billion (US$39 million) to over Ksh 9 billion (US$119 million).

Posta is pinning much of its hope for growth on so-called agency business -- processing an expanding stream of utility bills and required mail for the retail, financial and banking sectors. Favorable deals negotiated with other governmentcontrolled entities may foment growth in the agency business. Posta already collects commission fees from utility companies to collect fees and bills on their behalf. These arrangements are based on complicated fee-sharing contracts. At present, Posta is paid fees by utility companies which range from Ksh 17 (US$0.22) and Ksh 50 (US$0.65) to collect payments.

## LIBERALIZATION & PRIVATIZATION

Posta Kenya effectively maintains a monopoly on the delivery of letter mail. Kenyan law requires that private operators handling letters of up to 350 grams charge at least five times Posta's basic letter rates.

All firms offering postal or courier services are required to obtain licenses from the CCK. Licenses are valid for 15 years, as long as the licensed firm pays the annual fee. Fees for private operators range from Ksh 22,500 (US$290) to Ksh 450,000 (US$5,800). PCK must pay an annual license fee of Ksh 3,750,000 (US$48,300).

The breakup of the Kenya Post and Telecommunications Corporation in 1999 was one of the first concrete steps toward liberalizing the Kenyan communications sector. Telkom Kenya was largely sold off in 2007, but Posta is still government-owned.

There are no plans to privatize Posta, but the service is working with outside firms to upgrade mail and courier services and move into modern financial businesses. The postal service is also launching efforts to franchise at least 60 post offices, particularly those that had made losses, to private firms and individuals.

## COMPETITION

Nearly 150 postal and courier firms currently operate within Kenya in accordance with the Kenya Communications Act of 1998. As of 2008, there were 14 licensed international operators and well over 100 licensed operators within the country.

## REGULATION & UNIVERSAL SERVICE

Posta is regulated by the Communications Commission of Kenya (CCK). According to the Kenya Communications Act of 1998, CCK is mandated to license and regulate postal and courier services throughout the country. CCK grants licenses to operators, regulates the tariffs and fees for basic services, and maintains the overall order of the postal and courier market.

Posta is the "public postal licensee" and the official universal service provider for Kenya. As such, Posta must provide the "consistent supply of basic quality postal services [including reserved services and postal financial services] at affordable prices at all points in the country."

The Commission establishes and enforces minimum standards for Posta's delivery performance. Mail delivery expectations range from one to six days, depending on the day of posting and whether the delivery is to be made in an urban or rural area.

Mail posted for delivery before noon within the same urban area is expected to be delivered on the same day. Mail posted after noon for delivery within the same urban area is expected to be delivered the next day. The same is true for letters sent from one urban area to another. Urban to rural delivery standards are established at three days, and rural to urban standards at five. Posta is considered in compliance with its universal service obligation if it reaches these standards at least 65 percent of the time.

## FINANCIAL SERVICES

Remittances from abroad are a major source of income for the Kenyan economy, but Posta's share of the cash transfer service market has dwindled, thanks to the likes of Western Union, MoneyGram, and mobile-phone company Safaricom's M-Pesa service. The market for international remittances approaches Ksh 60 billion (US$779 million) annually.

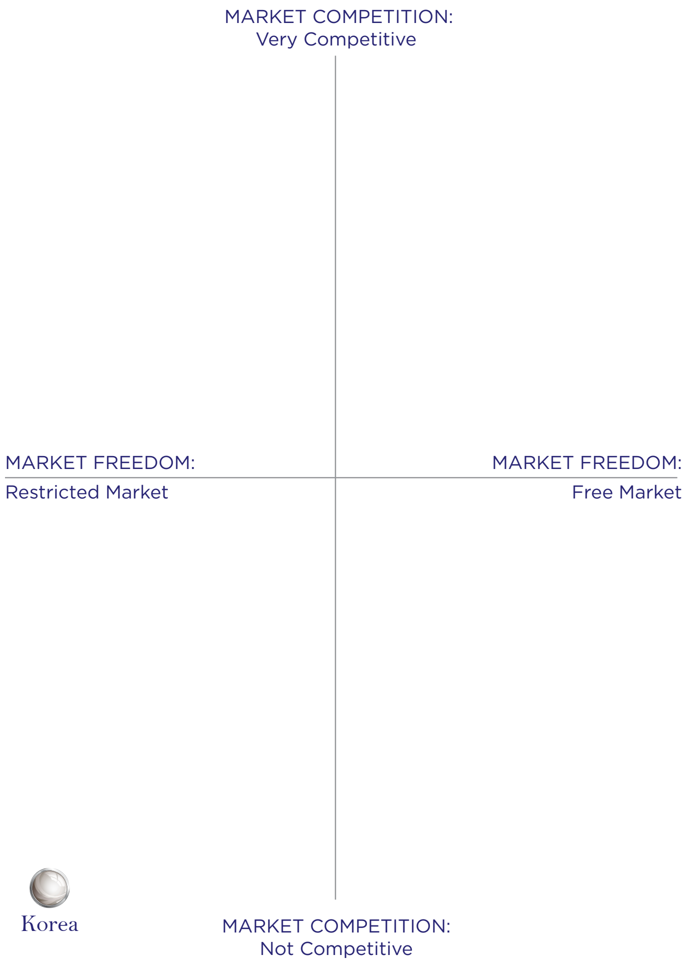
Posta has long operated the government-owned Kenya Post Office Savings Bank, which is structurally separate from the postal service and reports to the Ministry of Finance. About half of all Posta's post office locations also serve as outlets for the Savings Bank.

## FUTURE

The CCK has warned Posta that it will be overtaken by competitors if it doesn't modernize. Posta has already lost market share in the courier sector to rivals which now control the Ksh 3.3 billion (US$43 million) courier business. Not long ago, Posta effectively monopolized that business.

A 2008 report in Business Daily, a Nairobi newspaper, suggested that Posta's regular mail delivery is slow and erratic. The service wants to boost revenue by franchising out post offices which are losing money, building up direct mail marketing, and undertaking a complete restructuring of its money remittance and courier businesses. Additionally, the service has plans to introduce a postal-based savings service, postal giro services, and hybrid mail. However, some analysts say the strategic shifts will have little impact because competitors have already locked up the most profitable market niches.

# KOREA




## OVERVIEW

Founded in 1884, Korea Post became a government-owned enterprise in the 1960s. It's still owned by the South Korean government today. Aside from mailing services, KP outlets offer customers the opportunity to pay bills, to use ATMs for deposits and withdrawals, to buy stock, and to purchase phone cards (both national and international).

Korea Post has been aggressive among national posts in bringing financial services into both post offices and households via the Internet through agreements with banks and telecommunications companies, including some that are government-run. Deposits at KP tripled between 1997 and 2007, to about US$43 billion. That was roughly 5 percent of all Korean deposits.

In 2011, Korea Post hinted that it would explore offering credit cards. Its financial services arm has also forged a partnership with the Land Bank of the Philippines to offer remittances among Filipinos living and working in Korea. Meanwhile, the 2011 KORUS FTA places new limitations on Korea Post's insurance offerings.

## STRUCTURE

KP consists of 12 entities, including a General Affairs Division, Planning Division & Management Bureau, Bureau of Posts, Postal Savings Bureau, Postal Insurance Bureau, and Inspector General.

Korea Post processed 4.831 billion items of mail in 2009, or 99.1 pieces of mail per person. Its courier and express business steadily grew between 2003 and 2007, even as overall mail volume fell. Mail volume decreased by 1.1 percent in 2009.

KP has announced its intent to expand into the "logistical support" business, but specific plans to derive profitability from this income source have not been made public. KP has branded this initiative "u-POST" and aims to use mobile technologies, radio communications, and RFID to allow customers to track mail and packages in real time. The manufacturing and information logistics business in Korea is very competitive.

## STRUCTURE (CONTINUED)

Like all postal services, KP's traditional mail stream has been shrinking. However, KP has been among the first posts to offer IT-based hybrid mail. Hybrid mail volume nearly tripled between 2004 and 2009, to more than 100 million items. Revenue on this product quadrupled, to more than 50 billion won.

KP's employee base has grown and stood at roughly 44,000 employees as of 2009. In 2009, the service had roughly 3,700 post offices.

KP posted revenue in 2009 of US$6.7 billion. Net income was US$787.4 million.

Despite its status as a government-owned entity, Korea Post claims not to receive any additional assistance or financing from the national government.

## REGULATION & UNIVERSAL SERVICE

Korea Post, including its postal savings operations, is regulated by the Ministry of Knowledge Economy (MKE), the successor agency to the Ministry of Post. Other financial institutions are regulated by the Korean Financial Services Commission. The government's Financial Supervisory Service (FSS) can conduct an examination of KP's postal savings operations at the request of the MKE. However, FSS examinations are not mandatory for KP. Such audits are required for other financial institutions with operations in the South Korean market.

The KORUS Free Trade Agreement between the United States and South Korea, signed in October 2011, subjects Korea Post's insurance products to regulation by the FSS, placing private insurers on more equal footing with KP.

KP is the universal service provider in Korea. It defines universal service as "postal and financial services that every citizen can access easily from anywhere."

## LIBERALIZATION & COMPETITION

KP retains a monopoly on traditional letter mail. It competes with private express carriers in the express mail and parcel services markets.

In the highly competitive express mail sector, KP holds about 25 percent market share. Korea Post's parcel services hold about 10 percent market share.

## PRIVATIZATION

Privatization of Korea Post has been mentioned by Korean leaders, but there's been virtually no action on the issue. Labor unions resisted privatization efforts in 1994. President Lee Myung-bak announced that postal privatization would be one of his priorities when he took office in February 2008.

## PRIVATIZATION (CONTINUED)

In a 2008 paper by its Country Analysis Unit, the Federal Reserve Bank of San Francisco reported "growing public concern over the competence and financial expertise of KPS [Korea Post] staff managing the postal savings deposits." But as yet, postal reform -- particularly postal financial services reform -- has remained on the government's wish list of reforms. Amidst the 2008-09 economic crisis, government spokesmen candidly admitted that postal reform had moved to the back burner.

## FINANCIAL SERVICES

Korea Post's involvement in financial services dates back to the late 19th century, soon after the post was founded. Its current structure as a financial savings institution was codified in the Postal Savings Law of 1962.

In 1977, however, Korea Post's financial services operations were largely suspended. At that time, the Ministry of Post transferred the postal savings program to a series of agricultural cooperatives so that it could focus on developing telecommunications services. In 1983, KP regained its postal savings operations. But in the six-year interim, the post lost many of its potential customers to the agricultural cooperatives.

Korea Post's savings operation is substantial, though not nearly as large as Japan's. Koreans maintain nearly 21 million postal savings accounts. Thirty percent of KP deposits come from rural areas.

Deposits tripled in the ten years following the 1997 Asian economic crisis, to some US$43 billion by 2007.

Postal savings accounts are seen as a safe haven with a government guarantee. These postal savings deposits have long been a source of funds for the government.

Until 2003, KP was forced to place its deposits in the Public Capital Management Fund, where they were pooled with other sources of public funding.

In 2009, the Industrial Bank of Korea, one of the country's large government-owned banks, expressed its desire to take over KP's savings operation.

KP also offers many different forms of insurance, including traffic accident, health, and homeowner's policies. South Korea is the eighth-largest market for insurance services in the world, with premiums totaling $65 billion. Under the terms of the 2011 KORUS Free Trade Agreement, Korea Post is prohibited from issuing new types of insurance products, and limitations to modifications including coverage increases apply.

KP's insurance business has been growing, albeit at a slower pace than in the mid-2000s. In 2009, the post held more than 10.6 million contracts.

As Korea Post has undertaken restructuring initiatives in recent years, KP's postal savings assets have been a major target.

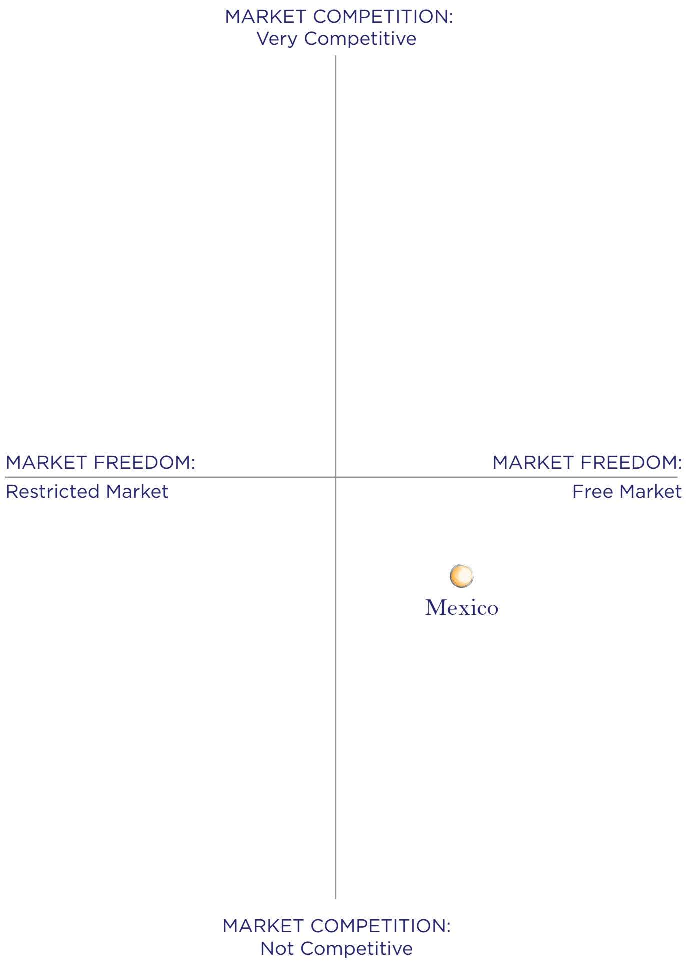
Korea Post also maintains a significant presence in asset management. KP controls billions in funds that it invests in equities and bonds worldwide.

In 2010, The Korea Herald reported that Korea Post would expand financial services to mid- and low-income customers, as part of its efforts to support the underprivileged and maintain its status as a profit-seeking public firm.

Korea Post launched a remittance service in the Philippines in partnership with the Land Bank of the Philippines in 2010. Filipinos living and working in Korea can send money home at KP outlets.

In 2011, Korea Post reportedly began preparing to offer credit-card services to consumers.

# MEXICO




## OVERVIEW

Servicio Postal Mexicano (Sepomex) is the national postal service of Mexico and officially retains a monopoly on all mail items under one kilogram. It delivers relatively little mail, however, and is widely distrusted by Mexican businesses and consumers.

Indeed, Sepomex handles some 700 million pieces of mail per year; that equates to just seven letters per Mexican per year. The equivalent number in Brazil, for example, is forty-six per citizen. For further comparison, New Zealand Post delivers about one billion pieces of mail per year, and the U.S. Postal Service some 200 billion.

Sepomex has struggled since a 1982 economic collapse and subsequent earthquakes. Even in recent years, despite the Mexican economy's enormous potential and booms in some sectors, Sepomex has not been able to regain public confidence. With a few notable exceptions, delivery of the mail has passed to more than 4,000 private -- and generally more expensive -- delivery and courier companies, which have sprung up to fill the gap.

## REGULATION & UNIVERSAL SERVICE

The mail is regulated under Mexico's Transport and Communications Ministry, and postal service -- supposedly universal service -- is reserved by the state under Mexico's Constitution. But universal service in Mexico has an odd ring because Sepomex delivers so little mail compared with other countries. The monopoly on letters below one kilogram is loosely enforced.

In an effort to renew its fortunes, Sepomex has been calling for legal reform that would give it a strictly enforced monopoly on packages weighing 350 grams or less and require private couriers to charge up to seven times Sepomex's prices. Sepomex also has been pushing for the Mexican legislature to create a new regulatory organization to investigate postal violations.

To date, the government has done little to move ahead on this front. Instead, Sepomex has been forced to increase its own prices, mainly on its remaining corporate clients.

# MEXICO

## OWNERSHIP & STRUCTURE

Sepomex's status as a government-owned entity dates back to 1580, when its colonial precursor was charged with communicating with the rulers in Spain.

The mid-1980s were watershed years in the history of the Mexican Postal Service, as economic crisis and natural disasters destabilized the agency. Many of its primary mail processing buildings were destroyed in the earthquakes which hit Mexico City in 1984. These centers have only been partially rebuilt. Mail volumes since that time have continued to trend downward, although accurate statistics are hard to come by.

In 1986, Sepomex was formally created as an autonomous agency to provide postal service. It was also allowed to create a higher-priced courier service, Mexpost, to compete with foreign express delivery services. Little else has been done to restructure the organization.

As of 2007, Sepomex employed but 9,619 mailmen nationwide and a total staff of 19,665 -- a decrease of roughly 10,000 from twenty years ago. The agency has a fleet of 1,000 trucks -- 500 less than rival DHL. Mailmen, paid around $3,500 a year, trudge around with an average of 500 letters a day. For the many below average employees, mail routes have deteriorated to a "fistful of letters."

In 2004, Sepomex operating losses reached the point where calls emerged for restructuring to push the entity towards financial self-sufficiency. Technically, Sepomex is responsible for financing itself, but the government does subsidize the agency if there's insufficient revenue. In recent years, state subsidies have been needed to make up for fiscal losses.

As part of its restructuring efforts, Sepomex targeted income of US$189 million in 2004. The government sought to make additional subsidies contingent on cutting costs and increasing income to lower the annual operating deficit to US$26.5 million -- US$3.5 million less than its typical deficit. To that end, over the last five years Sepomex has entered into consulting, training, and systems contracts with the United States Postal Service.

In 2007, Sepomex declared total revenue of 607.9 million pesos, or about US$61.3 million.

## COMPETITION

Sepomex suffers from a serious lack of confidence among its potential customer base. In 2005, Mexican pollster Parametria found that 29 percent of Mexicans had never even heard of Sepomex. Of those familiar with the agency, 32 percent considered it slow. About one third preferred to use private messengers to hand deliver documents. It's reported that in some areas, mail boxes are widely used as garbage bins.

Each year, 80 percent of the mail sent is letters, bills, and account statements; 14 percent is advertising, and another 4 percent is publications like magazines. Packages constitute the rest of Sepomex's annual volume. The agency processes some 13 million statements for Telmex, the Mexican telephone giant, every month.

## COMPETITION (CONTINUED)

Private delivery of pieces under one kilogram is officially illegal, but exemptions are given for companies which offer some kind of additional value, like confirmation of delivery.

Despite Sepomex's shortcomings, mail markets are reasonably robust in Mexico. The National Mexican Association of Courier Businesses represents some 30 private couriers who serve more than 400,000 clients, with sales running close to US$925 million a year.

People have simply gotten used to conducting commerce absent a functioning mail service. The millions of Mexicans working in the United States who regularly send money home won't risk putting anything in an envelope that will pass through the regular Mexican post office. They find other ways, like the Mexican-created, multi-million-dollar Houston-based Estafeta USA courier service or even informal hand-to-hand delivery over the border.

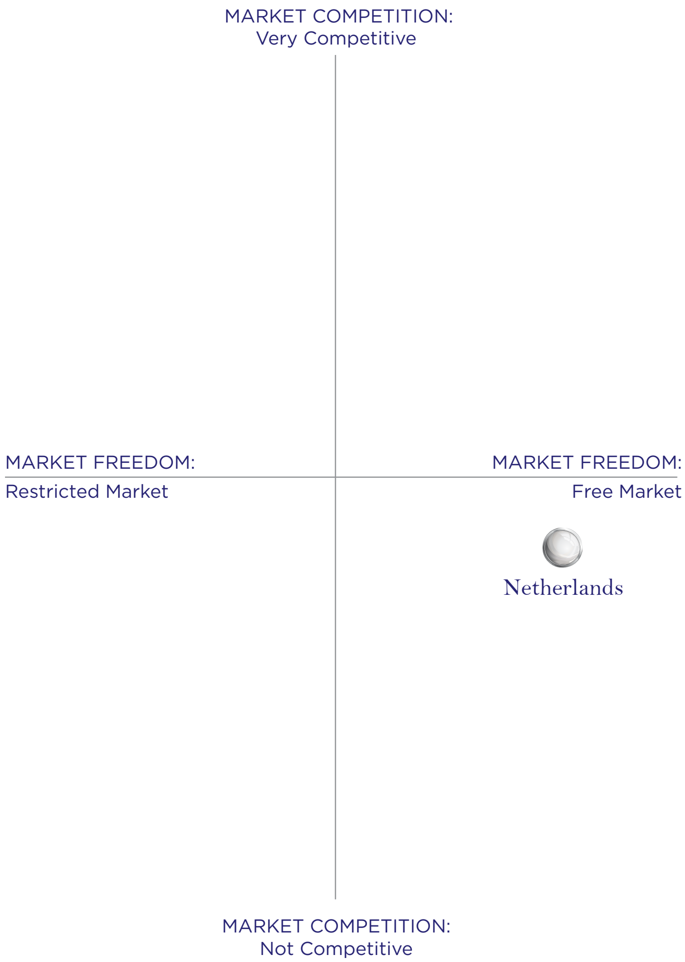
## FUTURE

Internet communications and wireless telephony have cut deeply into paper (letter and document) mail's market share in Mexico. Political and economic pressure has drawn most of Mexico's available resources into what are seen as the communications systems of the future, consigning improvement of the postal network to the back burner. Over 22 million Mexicans already use the Internet, according to the CIA's World Fact Book.

In contrast to most other national postal systems, Sepomex, even with its monopolies, has not been able to find ways to pull itself onto this bandwagon of growth. It has introduced some advanced systems with the help of contracts with the US Postal Service and others, but these have been attempts to serve relatively small niche markets more efficiently, not to improve mail service for all Mexicans.

Liberalization and privatization of postal markets are not on the agenda in Mexico in the same way they are in other countries because Sepomex is so dysfunctional and because the government faces far more pressing political issues.

# THE NETHERLANDS




## OVERVIEW

The Netherlands has been a leader in Europe's drive to liberalize postal markets. The country's primary mail carrier, TNT Post, has been a private company since 1994 and has long been traded on the stock exchange. Since April 2009, the Dutch mail market has been fully liberalized. Moreover, the company's corporate parent, TNT Group, has used strategic partnerships and acquisitions to become a major player in nearly every European mail market that allows competition. In fact, from its headquarters in the Netherlands, TNT is actively positioning itself to become one of the world's major mail carriers, with worldwide staffing and operations which far outstrip its small Dutch "base."

Since the mail market's liberalization in 2009, competing carriers have begun to deliver letters under 50 grams. TNT authorities estimate that competitors held about 14 percent market share in the Netherlands in 2009. In an effort to reclaim market share, TNT has announced intentions to carry out a complete redesign of its mail network in 2010.

The Dutch market is small and concentrated. Like most modern mail sectors today, it is over 90 percent dominated by business mail. However, TNT is counting on its nimbleness, advanced technology, and market savvy to offset the decline in traditional paper mail and aggressively moving into the most profitable sectors in mail markets in other parts of the world.

As a company, or more accurately, a group of companies, TNT has reinvented itself over the last decade. It has executed several spinoffs, acquisitions, and partnerships in order to adjust not only to evolving technology like email but also to the start-and-stop regulatory uncertainties of the European Union.

## STRUCTURE

In 2009, mail accounted for 40.5 percent of TNT's revenues and 72.8 percent of TNT's operating income. Mail revenues reached €4.2 billion (US$5.4 billion).

TNT's Express arm operates in 65 countries and delivers to over 200. TNT Express delivers documents, parcels, and other freight worldwide with a fleet of 47 airplanes and 26,000 vehicles. According to the company's 2009 annual report, TNT held 18 percent of the express market share in 2009 and posted €6 billion (US$7.6 billion) in revenues. By comparison, Deutsche Post DHL reported 16 percent of the express market share, and UPS had 9 percent.

TNT employs about 160,000 people worldwide.

In recent years, TNT has exited the logistics and freight management businesses to concentrate on express mail and other ventures where margins were higher.

## LIBERALIZATION & PRIVATIZATION

State-controlled mail in the Netherlands has a long history. Earlier for-profit mail services were consolidated into a state monopoly in 1799, and over time all the innovations of an active business-oriented economy followed. In addition to internal and cross-border mail, Dutch royal mail eventually supplied telegraph, banking and money transfer services as well.

As the Netherlands grew its trade and industry, its mail service led the continent in introducing labor-saving innovations -- postal codes, presort processing, and increasingly sophisticated mechanical mail sorting.

However, by the middle of the 1980s, the weight of maintaining post offices, structural inertia, and a large labor force combined to cause the service to begin to lose money. Widespread use of telephones, then faxes, international express mail, and the beginnings of email pointed to major changes within its traditional markets.

Planners for the state-owned post began to restructure the service for emerging business mail markets and sought ways to make it profitable. The Postal Giro Service and the National Savings Bank were split off in 1983 and an independent company, Postkantoren BV, was set up to operate postal counters (savings and mail). On January 1, 1989, the postal service itself was restructured as Royal PTT Netherlands NV, a private stock company, yet all shares were still owned by the state.

In 1994 the company's stock was listed on the Amsterdam stock exchange and, in the pivotal year 1996, majority control of PTT Post passed from the Dutch government to private hands. In that same year the company acquired TNT, a world-wide delivery service from Australia. Almost overnight the company became a major player in global mail and logistics.

In 1998, TNT and PTT Post were joined as TNT Post Group (TPG) independent of the telecom arm of the business. And in 2002, PTT Post became TPG Post, which has since evolved into TNT Post, the name used today. In the Netherlands, Royal TNT Post is the country's primary carrier, with letter-mail market share of about 86 percent. Its parent TNT has become a conglomerate aggressively seeking business and profits all over the world.

## COMPETITION

The Netherlands proclaims it has gone farther than virtually any other EU member in opening its domestic mail markets. In theory, European markets were to be opened by 2008, but exceptions have been made in some countries.

TNT Post's two biggest competitors are Sandd and Selekt Mail. Both are active in the business-to-business and business-to-consumer marketplaces. Sandd has a significant presence in the direct mail and magazine subscription markets. Selekt Mail is a subsidiary of Deutsche Post. All the major players in the European postal market also offer express services in the Netherlands.

In the residential market, there is little competition to TNT Post. But the combined business and residential markets in the Netherlands are not sufficient to satisfy the company's aggressive business model. The company has been in the forefront of efforts to liberalize mail markets in Europe and worldwide, and has acquired express delivery companies in China, India, Brazil and Spain to tap into growth markets.

## UNIVERSAL SERVICE

The universal service obligation covers letters weighing up to 2 kilograms, domestic parcels weighing up to 10 kilograms, and international parcels weighing up to 20 kilograms. The universal service provider -- TNT -- must deliver every day but Sundays and holidays and must deliver no less than 95 percent of letters by the day after the day of posting.

In a country as small and compact as the Netherlands, universal service has never been a problem. In fact, TNT management has been much more concerned with the use of universal service as a barrier to other countries' liberalizing their markets and using direct and indirect subsidies to prop up incumbents.

## REGULATION

The Dutch Postal Act of 2009 governs the Dutch postal market and TNT Post. OPTA, the independent Supervisory Authority for Post and Telecommunications, supervises the postal market as well as TNT's compliance with its universal service obligations. OPT also has rate-setting authority. The Minister of Economic Affairs maintains authority over postal policy.

## FUTURE

TNT has set the explicit goal of becoming the second postal service provider after the national incumbent in every county of Europe. It aggressively supplies a full line of mail services with emphasis on business, and is technologically advanced, flexible and nimble. With its own small "base" well covered, the company has used strikes by postal workers in the United Kingdom and elsewhere to grab market share. It has become the ultimate conglomerate, seeking profitable niches wherever regulations, monopoly inertia or high margins offer opportunities. Some insiders say TNT is all the more aggressive because its Dutch base is shrinking and increased competition is driving down margins in business mail.

In line with increases in fuel and transport costs, mail prices have generally been rising in most EU countries in recent years. But many national monopolies are still in place, and it is expected that prices for business-generated mail will fall after full market opening. As technology continues to revolutionize the communications mix, TNT has moved to provide the most advanced consumer services. It aggressively combines traditional mail with electronic media, and has added sophisticated tracking and tracing capabilities designed to exploit the wave of internet shopping delivery.

TNT has stated publicly that it would like liberalization to move faster. It also contends that too few countries have opened their markets.

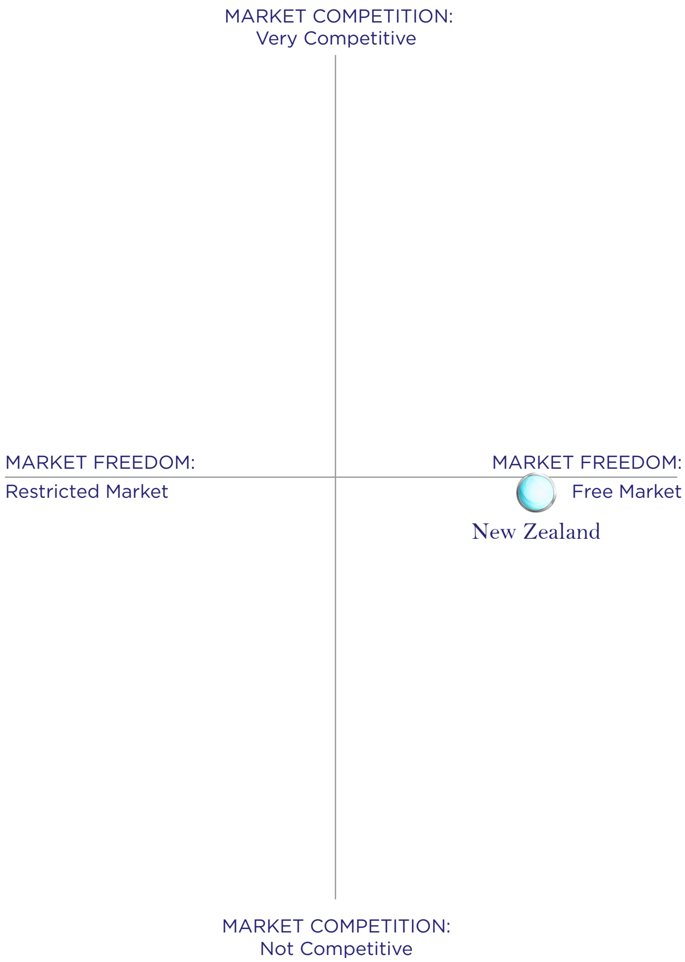
The company is very concerned with "leveling the playing field" in what it calls "responsible liberalization." Moreover, the recent extension of mail openings to 2011 for 11 of the EU's 27 member states is blocking what TNT sees as necessary expansion channels.

In December 2009, TNT announced the "Vision 2015" -- a five-year plan to help the company optimize its national and global performance with an eye on improving profits. Thus far, things look promising. A 2010 TNT outlook report boasts that the first few months of 2010 have shown a "continuation of the improving trend in express volumes started in the third quarter of 2009, albeit against a weak prior year comparison."

In accordance with Vision 2015, TNT has expanded its vehicle fleet in the Middle East, reduced transit times between Europe and Tangiers, expanded its international freight service in Russia, and improved intercontinental offerings through a strengthened partnership with Con-Way Freight.

# NEW ZEALAND

# NEW ZEALAND POST




## OVERVIEW

New Zealand Post was corporatized and restructured very rapidly as part of top-to-bottom reorganization of New Zealand's economy beginning in the mid- 1980s. The traditional, protectionist and inward-turning model of what had long been a British Crown colony was rebuilt by Labor Party Finance Minister Roger Douglas to integrate New Zealand into the realities of a radically changing global economy. Douglas followed the theories of the American economist Milton Friedman and the Chicago School.

"Rogernomics," as the measures were called, consisted of reforms pushed through Parliament which turned New Zealand towards a free-market, competitive model that welcomed foreign products and investment. The country's sleepy, colonial, agricultural orientation disappeared virtually overnight. Foreign exchange controls and industry subsidies were eliminated. Marginal tax rates were cut and financial markets deregulated. This "new order" continues to the present with many positive results, in spite of lingering controversy. The whole experiment is an unusual example of radical, free market innovations undertaken by an otherwise left-leaning Labor government.

A significant reform of New Zealand Post, one of New Zealand's largest employers, was part this movement. Until roughly 1985, NZP was a government bureaucracy consisting of mail, savings bank, and telecommunications divisions. These three units were split apart, distanced from direct government control, and restructured as government-owned enterprises, or SOEs. They were not, however, privatized.

The government Ministries of Communications and State-Owned Enterprises continue to hold all shares, and there is no intention, it appears, to sell these shares to private investors. But the Post now competes as if it were a private enterprise. NZP pays taxes, earns a return for its ministerial shareholders, and reports periodically according to the Postal Acts and other relevant legislation.

Large sectors of New Zealand's mail were opened to competition early on, and NZP's final monopoly on standard letters was stripped away as of April, 1998. Even though NZP remains ultimately under government control, it has expanded aggressively in the private sector through a portfolio of joint ventures and acquisitions. Despite early liberalization, NZP still controls about 95% of the country's letter market.

# N E W   Z E A L A N D

## ORIGINS & DEVELOPMENT

New Zealand is a small, remote country consisting of 4 million people living primarily in cities along the coasts of two main islands in the far South Pacific some 1,200 miles southeast of Australia. Settled primarily by the British who for years warred against indigenous Maori, New Zealand eventually became a Crown colony (1902) which retained close ties to Britain and remains, formally at least, under "the Crown," though in practice independent.

Early postal services were set up in the mid-19th century on British and Australian models. New Zealand settlements were isolated and accessible only by sea. Early post offices were agents of the Wellington government -- registering births and deaths, handling money transfers, voting processes, even marriages. That tradition -- the postal offices representing the government and providing government services -- remains alive today.

Of course, in recent times intercity transportation and communication problems have been solved with railways, superhighways, regular air service, and now electronic channels. Sea and air transport are now reliable and regular -- and virtually instantaneous cable and satellite transmissions are now standard.

New Zealanders lived well for decades exporting dairy and agriculture products to England via Australia. The economy faltered when Britain finally entered the European Economic Community in 1973. New Zealand felt -- and was -- economically abandoned, and the economy entered a period of stagnation. By the 1980s, policy makers realized New Zealand had to change to survive amidst changed realities.

## LIBERALIZATION

NZP was losing money, and its services were ponderous and slow to adapt. The Postmaster General, under government prodding, ordered a study in 1985 which recommended sweeping changes in the way the Post was organized and administered. The report made the case for splitting up the Post's three core businesses -- mail, bank, and telecom -- and restructuring them as independent state-owned corporations.

According to the State-Owned Enterprises Act of 1986 and the subsequent Postal Services Act in 1987 (supplemented by a Postal Services Amendment Act in 1990) these recommendations were carried out. Some 432 post offices were closed in 1987, replaced by alternative postal outlets. The postal service returned a NZ$70 million profit in 1988. The price of a standard stamp dropped from NZ $0.45 to $0.40 in 1995. During this time, New Zealand Post increased its percentage of next-day deliveries from 17 percent to, eventually, above 99 percent and was able to cut postage rates.

NZP did retain, for more than a decade, a statutory monopoly on the delivery of standard letters. In 1987 this reserved area included letters delivered for under NZ$1.75 or weighing less than 500 grams. In 1991 the reserve area was reduced stepwise to letters under 200 grams carried for less than NZ$0.80. By 1998 the Government of New Zealand removed the final Postal Service monopoly on letters weighing less than 200 grams.

## LIBERALIZATION (CONTINUED)

New Zealand Post delivers to 1.8 million delivery points, including over 200,000 rural delivery boxholders. Rural boxholders used to be assessed a substantial rural delivery fee, but that fee was eliminated in 1995.

In 1998 an additional Postal Services Act completed the deregulation of the New Zealand postal market which now may be considered open to full competition. New Zealand Post is contracted as the universal service carrier.

Although traditional first-class mail volumes are sinking, over the last 20 years NZP has entered joint ventures and acquired companies across the spectrum of mail, express delivery, bulk business mailing and logistics. NZP also set up a very profitable banking business, Kiwibank, in 2002. Through that bank, the Post has ventured into credit cards, retail store gift cards, personal loans, insurance, foreign exchange, online billpay, business lending and further into the home mortgage market through its 51% stake in New Zealand Home Loans.

## OWNERSHIP, STRUCTURE, & REPORTING

According to the State-Owned Enterprises Act of 1986, the New Zealand Post Office was 'corporatized' and its core businesses split into three separate companies as of April 1, 1987. Telecom, Post Bank and New Zealand Post companies -- still owned by the Government -- were expected to operate as commercial entities and be profitable, efficient, good employers, and maintain a high level of social responsibility.

Ten non-executive and independent Directors make up the Board of Governance of the New Zealand Post Group. These governors must report any potential conflicts of interest, and every effort is made to ensure fair and businesslike oversight. Directors in turn serve on task-specific committees for the group using corporate models of governance.

The Act defined the specifics of the Government's (Crown's) ownership of the company, setting out rules governing Directors as well as the responsibilities of the Ministers who retain ownership of shares. The Act also laid out reporting requirements. The Act attempts to distance management from political influence. The Government may instruct the new SOEs to undertake additional tasks only under the condition that the government funds such tasks.

Besides the several Postal Services Acts, the New Zealand Post is also subject to provisions of the Commerce Act of 1986, The Fair Trading Act of 1986, and the Companies Act of 1993. The State-Owned-Enterprises Act also introduced a so-called Statement of Corporate Intent for the New Zealand Post. That statement, which must be updated annually, sets out performance targets and accounting rules. Additionally, performance updates must be presented in half-year and annual reports to the independent Directors, shareholding Ministers and Parliament. A further Deed of Understanding was set up between the Government and the New Zealand Post which outlines service, price and social undertakings of the corporation.

## UNIVERSAL SERVICE

Unlike most countries, New Zealand has no provinces or states beyond a system of local governments, regional councils, and territorial environmental and transport authorities. The New Zealand Post reports to its Directors and its shareholding ministers in the capital of Wellington, but is also responsible, in a larger social sense, to a network of local planning bodies. New Zealand Post's relationship with its government "owners" and the public is maintained through the Deed of Understanding specifically relating to the postal service, and the various postal and government Acts which apply.

Maintenance of existing levels of universal service by New Zealand Post was stipulated in the postal Acts. According to law, NZP may not cross-subsidize its commercial ventures with mail revenues.

## COMPETITION

Under New Zealand's current regulations, it is relatively simple to become a "postal operator" able to process and deliver mail, at any cost. A simple form is required to register on the Postal Register with the Ministry of Economic Development. Today there are some 25 such operators, including New Zealand Post, and a handful of these have set up relatively broad delivery networks. However, despite the loss of its monopoly in 1998, NZP still controls approximately 95% of the letter market today.

By the end of 1998, when mail competition was fully opened, there were 17 registered operators in New Zealand. Most were small and localized. But larger competitors began to emerge, including Fastway Post (a subsidiary of Fastway Couriers) which set up a franchised nationwide network of retail outlets, and New Zealand Document Exchange Limited (DX Mail) began providing regular business-focused deliveries in major cities. These companies and others negotiate access arrangements with New Zealand Post. In the very competitive express delivery market, New Zealand Post entered into a joint venture (Express Couriers Limited) with DHL in 2005. NZP is also very active in data management and direct mail processing (Datamail Group), competing against numerous other suppliers. The company has also become one of the largest postal consultancy companies in the world.

NZP constructed a new network of Mail Service Centers, PostShops and mail processing operations to service its largely urban retail and business customers. In addition, the company subcontracts a share of its rural delivery to individuals or rural delivery teams, which service approximately 600 rural routes. These are open to tender and small operators often combine routes.

Besides its joint venture with DHL, NZP is active in ventures which extend beyond mail. In both retail and business banking, NZP Group's Kiwibank has grown rapidly since its founding in 2002, and has become the source of much of NZP's post-reform revenue, in the face of slowly shrinking mail volumes.

## STATISTICS & PERFORMANCE

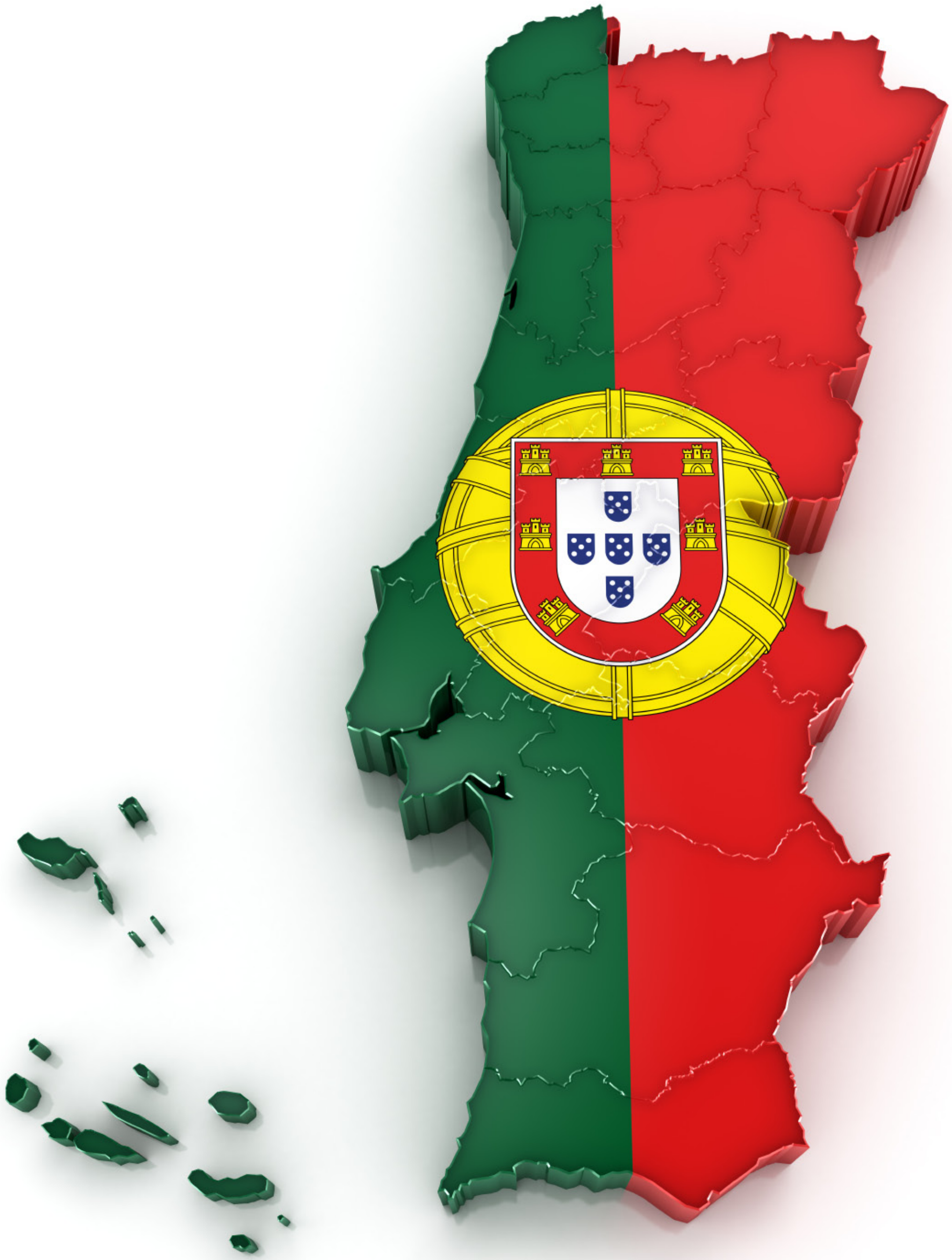
NZP delivers to over 1.84 million delivery points, including over 200,000 rural addresses. The Post maintains a network of at least 880 postal outlets and post centers (excluding stamp retailers).

Total mail volume sank 2.1% in the 2006-07 reporting year and the price of a standard post stamp increased to NZ$0.50. But New Zealand Post profits remain respectable, and direct mail volumes are increasing. NZP works closely with roughly 1,300 corporate mailers who, combined, generate some 500 million pieces of mail, approximately one half of NZP's total mail volume of one billion pieces per year.

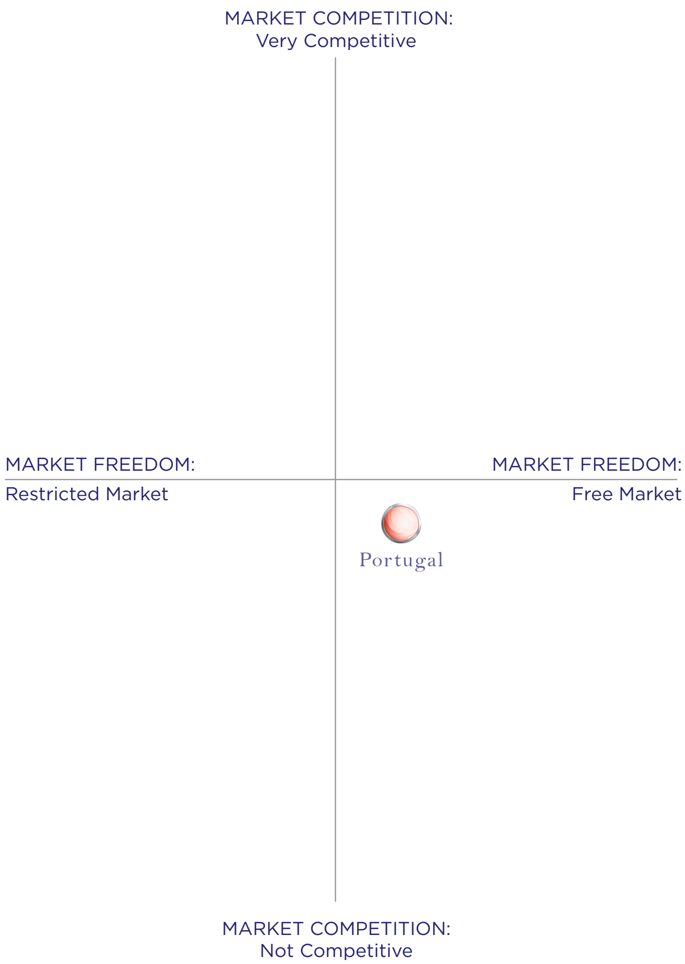
Overall, the New Zealand Post Group reported operating revenues of NZ$1.2 billion in 2006-07. Its net surplus was NZ$70.2 million, of which NZ$30.8 million was returned to the government. Net profit after tax was 12.4%. NZP paid NZ$29.3 million in taxes in 2006/2007 and raised NZ$100 million in five year bonds in the country's capital markets.

NZP continues to supply some non-mail services such as voter registration on contract from the Ministry of Justice. Such services must be paid for by the government units which contract them.

# PORTUGAL



# CTT - CORREIOS DE PORTUGAL




## OVERVIEW

Portugal's state-owned monopoly postal service is CTT - Correios de Portugal, S.A., and is usually referred to as simply CTT or CTT Correios. CTT stands for Correios, Telégrafos e Telefones (Post, Telegraph and Telephone), which was an earlier configuration of the postal service.

Today's CTT consists of three major components: 1) basic mail delivery, which fulfills the universal service requirement; 2) a logistics network offering express and business services; 3) a retail network which operates post offices and other outlets for postal products.

Besides mail delivery, CTT considers among its basic markets: 1) Messaging (communications, information and advertising), with emphasis on business correspondence and rapidly evolving services in hybrid and electronic mail; 2) Distribution & Logistics, encompassing courier, parcel, EMS and express post services, along with a variety of e-commerce initiatives; 3) Financial Services including postal banking, transfers and bill payment; 4) Post Office Services and support for other postal business units including diversification into third-party products.

## LIBERALIZATION & PRIVATIZATION

Portugal's postal market was supposed to be liberalized on January 1, 2011, in accordance with the European Union's Third Postal Directive. But the Portuguese government did not approve legislation fully liberalizing the market until December 2011.

By 2005, Portuguese economic planners had essentially signed on in principle to the 2009 EU timetable for countries to open their domestic mail markets to competition, to commit to end state postal monopolies, and to move toward at least limited privatization of national posts.

However, as specifics emerged -- and union opposition mobilized -- Portugal's drive toward liberalization slowed. Together with several new member states including Greece and Luxembourg, Portugal lobbied the European Parliament to allow members with "special transition problems" to push the liberalization deadline to 2011. By 2007, it was clear that an open, competitive mail market, to say nothing of privatization of CTT, would be much further off than anticipated.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

In fact, when Portugal rotated into the presidency of the 27-member EU group in 2007, the country's Public Works, Transport and Communications Minister Mário Lino emphasized the difficulty of achieving consensus on opening up national postal markets. As in many other states, even preliminary consideration of liberalization triggered postal strikes.

Then came the worldwide economic recession of 2007-08, which ravaged weaker European economies. Portugal's economy, battered by fiscal mismanagement, the financial implosion and declines in tourism and demand for exports, was widely considered to be on the brink of financial collapse. In December 2009, Standard and Poor's lowered Portugal's credit outlook from "stable" to "negative."

Portugal's Socialist government seized upon privatization of government enterprises as a way of raising cash. It was assumed that a sale could be structured such that pension and benefit obligations would be assumed by buyers.

Portuguese postal unions have taken umbrage with the proposed austerity measures and privatization plans, contending that privatization would cut union jobs and benefits, raise costs for consumers, and reduce service. Portugal has a strong socialist tradition, and the Portuguese postal union -- SNTCT (Sindicato Nacional dos Trabalhadores dos Correios e Telecomunicaçoes) -- has engaged the media as well as the legislative and judicial bureaucracies of the EU to derail the initiative.

In October 2011, Finance Minister Vitor Gaspar announced plans to privatize CTT in 2012 as part of his official State Budget submission to Parliament.

## COMPETITION

By 2009, Portugal had opened outbound international mail and intercity commercial mail to competition. As of the third quarter of 2009, this liberalized portion of the Portuguese mail market represented just over 20 percent of total mail, while about 80 percent remained in the reserved area. Domestic traffic represented 93 percent of all mail subject to competition, leaving 7 percent for international outgoing traffic.

As of 2009, in this portion of the market, CTT was responsible for about 89 percent of domestic traffic and 80.5 percent of outgoing international traffic.

Within the express mail market, CTT holds about 40 percent market share. Some 60 companies have licenses to deliver express mail. Thirteen firms have licenses to deliver mail that's not termed "express." Within this latter market sector, CTT holds a 94 percent share.

## REGULATION & UNIVERSAL SERVICE

Portugal's national regulatory authorities for communications and telecommunications are Autoridade Nacional de Comunicações (ANACOM) and Instituto das Comunicações de Portugal (ICP). ANACOM, is primarily concerned with the telecommunications industry but also grants a concessions and licenses to Portugal's postal operators.

Portuguese officials have decreed that CTT must serve as the country's universal service operator through 2020 under the terms of the December 2011 measure that liberalized the country's postal market. It reports to and is regulated by ANACOM. Besides domestic communications, ANACOM is also active in communications associations linking many of Portugal's former colonies -- Angola, Brazil, Cape Verde, Mozambique, Sao Tome and Timor East.

## STRUCTURE & STATISTICS

Public postal service in Portugal dates to 1520, when a mail service was established by King Manuel I. The country's modern postal service was born in 1880, when the Post Office and Telegraphs Departments were merged into a single entity -- Direcção-Geral dos Correios, Telégrafos e Faróis (Department of Posts, Telegraphs and Lighthouses). Just before World War I, the postal conglomerate was made nominally independent from the government as the Administração-Geral dos Correios, Telégrafos e Telefones.

CTT was again converted into a state company in 1969. The booming telecommunications unit was spun off as an autonomous company in 1992, when CTT itself was restructured as a public limited company, officially named CTT - Correios de Portugal, S.A. (CTT - Posts of Portugal). All shares in the new company are still owned by the Portuguese government.

Portugal's mail service follows most of the trends evident in other European mail systems over the last decade — declining volumes of traditional paper mail, the transition to electronic communications, and moves towards express mail, logistics and financial services. In 2007, CTT re-entered the mobile phone market under the brand name Phone-ix.

Letters and parcels sent within Portugal via correio normal (analogous to first class service) generally arrive within three business days in mainland Portugal. Mail sent to Madeira, off the coast, generally arrives within five business days. In some rural areas, delivery services are infrequent, and so many people rent post office boxes (apartado).

CTT offers several classes of express mail, which guarantee delivery by 9 a.m., 12 p.m., or 6 p.m. the following day. The post also offers prepaid express, delivery confirmation, and online tracking services. CTT maintains 19,000 access points, 80 percent of which are letter boxes.

The postal sector represented 0.7 percent of the Portuguese economy in 2008, generating €1.08 billion in revenue and employing roughly 17,000 workers. About 98 percent of mail is considered "correspondence."

Mail volume decreased 6 percent between 2007 and 2009, with a 4-percent drop affecting monopoly mail and a 13-percent drop in competitive mail. Between 2004 and 2009 the number of letters per inhabitant decreased 10 percent.

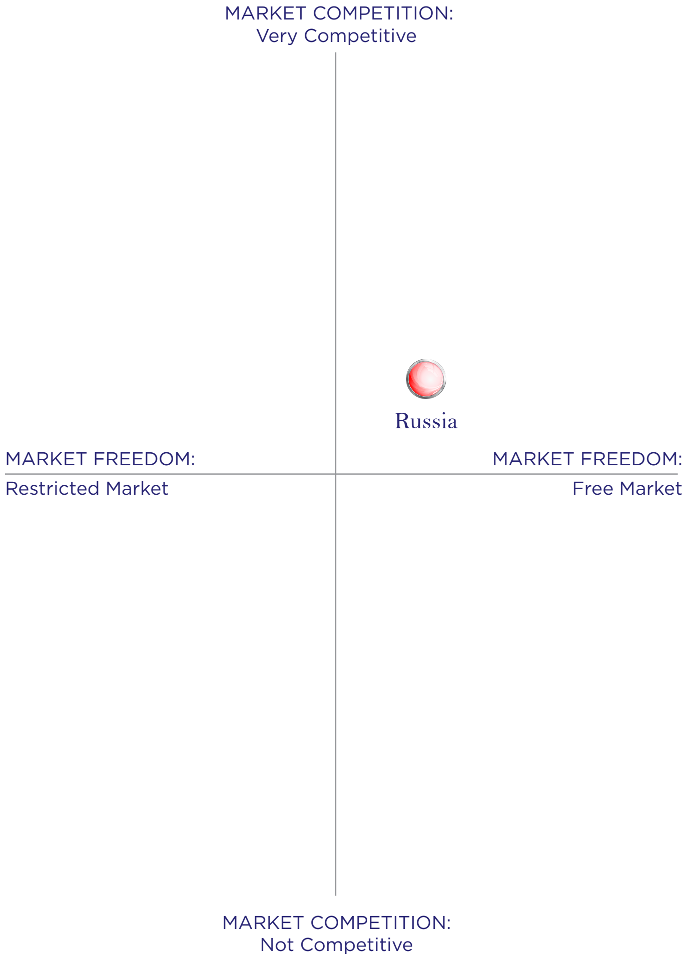
The price of correio normal, in real terms, has decreased 3.6 percent since 2006. The price of priority mail (correio azul or "blue mail") has decreased 3.1 percent since 2006. A Portuguese letter costs roughly 30 percent less than the median letter of other EU member states, with priority mail costing 2 percent less. An international letter costs 5.5 percent less than the EU median.

## FUTURE

Portugal is developing a licensing system for new entrants into the postal market, as well as advancing systems which allow sharing of postal data between the monopoly and private postal operations. As with most other EU states, the imposition of IVA (Value Added Tax) across postal services remains a contentious issue, with the monopoly lobbying that it should not be subject to such taxes since it provides universal service. Within postal markets, regulatory uncertainty remains a considerable barrier to private investment, since the regulatory bodies are weighted with and influenced by the monopoly.

With markets limited, it is also difficult for competitors to develop sufficient economies of scale to make investment worthwhile.

# R U S S I A




## 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 is beginning to provide new growth opportunities for postal services.

## STRUCTURE & 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.

## STRUCTURE & REGULATION (CONTINUED)

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.

## MODERNIZATION (CONTINUED)

Besides regular mail deliveries, post office "outlets" are beginning to offer services like the distribution of subscription periodicals; mail order and COD; ecommerce; 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 & 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 stampbuying consumers.

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

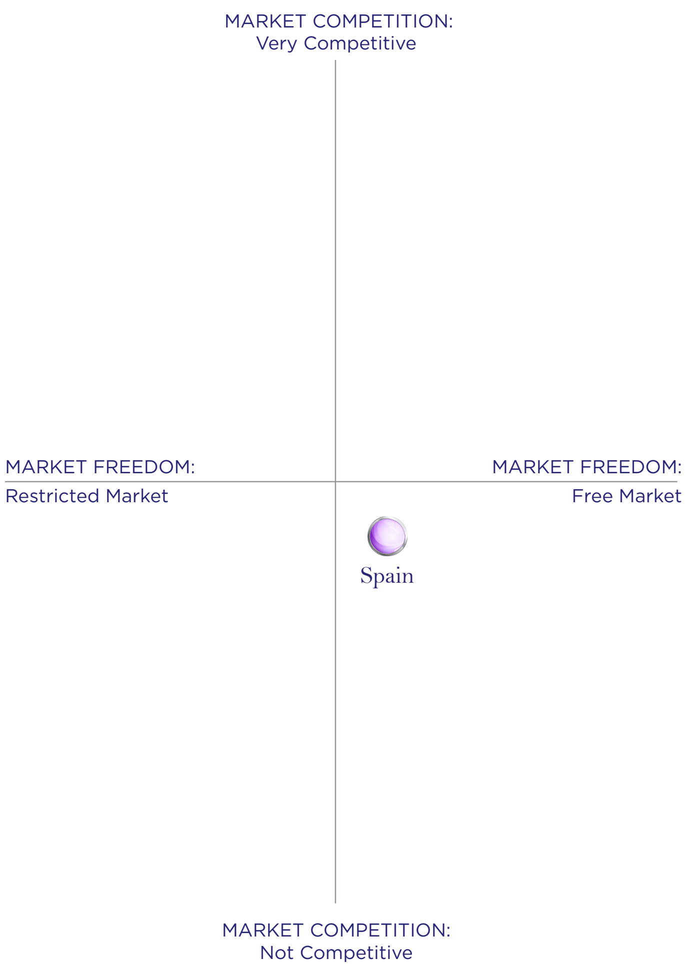
Firms like Western Union compete in the money transfer business against PR's Cybermoney system. PR rates are set to undercut the competition by as much as 35 percent.

## 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."

# SPAIN




## OVERVIEW

The genesis of mail service in Spain is the royal messenger system first created in the Middle Ages by the Spanish Catholic monarchs. An early "public" postal system was built up under a royal monopoly by a privileged aristocratic family who sold its creation in 1720 to the Bourbon King Phillip V. He placed the mail under direct royal control and made postal service officially available to all.

The modern postal operator in Spain -- Correos y Telegrafos S.A. (known as Correos) -- formally came into being in 1992, when it ceased to be a government department and was christened an independent commercial organization.

As in many other European countries, the Spanish postal market was fully liberalized on January 1, 2011. Mail volumes have been declining. Volume was down 9.6 percent in 2009 over the previous year. Revenue declined 4.8 percent in the same period.

## STRUCTURE & STATISTICS

Correos has roughly 66,000 employees who serve a Spanish population of approximately 46 million. According to its annual report, the company posted revenues of more than 2 billion euros in 2009 and handled 4.6 billion pieces of mail.

Correos operates nearly 10,000 postal centers, including more than 2,300 multiservice offices and more than 7,400 service points which provide postal and delivery services to the country's rural regions. The company also offers online fax, telegram, and digital delivery services. Its website, which it calls a "virtual office," is used by 750,000 individuals every month.

In 2007, the company invested nearly a quarter-billion euros in service, processing, and infrastructure improvements.

## STRUCTURE & STATISTICS (CONTINUED)

Besides its core conventional mail unit, the Correos group consists of three main subsidiaries. Chronoexprés S.A. provides express delivery for some 1.2 million packages per year. Nexea -- previously known as Correos Hibrid -- offers mass-media communication services and hybrid mail. Correos Telecom S.A. specializes in telecommunications services, including internet access and e-commerce.

Unionization of Correos began in 1978, almost as soon as unions became legal after the end of the Franco regime. Public-sector unionization has been stronger and more pervasive than in the private sector; the "liberalization" of the postal market has not affected this trend. Workers within Correos are represented by about a half dozen unions, which do not always present a united front in negotiations.

Correos remains subsidized in part through investment requirements laid out in previous negotiations with unions which allowed expanded private competition. To advance the cause of liberalization, the Spanish government has been forced to make stronger guarantees of job security and subsidize both the provision of universal service and the acquisition of assets which Correos deems necessary to providing the universal service. The accounting for such subsidies is somewhat opaque.

## LIBERALIZATION & PRIVATIZATION

Spain was among the first countries in Europe to allow private competition in its postal markets. This happened as early as 1960. But even though small, private services were allowed to operate, Correos remained the dominant carrier.

In the early days of its existence, Correos served as a savings bank for Spaniards. It's estimated that at the outbreak of the Spanish Civil War in 1936, some 40 percent of Spain's savings were held in post office accounts.

After General Francisco Franco's death in 1975, change came rapidly to the postal sector, thanks in large part to a wave of liberalization in other parts of the economy, which required more reliable and efficient mail. In 1981, Correos launched a domestic express mail delivery service, Correos Exprés. In 1983, an international express mail service, Postal Exprés Internacional, came into being. In 2001, Postal Exprés Internacional merged with France's La Poste express service in Spain, creating ChronoExprés. In order for Spain to meet the standards of the Maastricht Treaty, which created the European Community, the whole Correos y Telegrafos organization was subject to a multiphase restructuring in 1992, with the goal of moving it out of direct government control.

In 1997, Correos became an autonomous government company. In 1998, Spain's Ministry of Development crafted and secured passage of Law 24/1998 to set Correos on the course to become a limited liability company in 2001. The law spelled out Spain's version of the 1997 EU Directive on postal services, which addressed regulations associated with the Universal Service requirement in European nations as well as other postal liberalization topics.

## LIBERALIZATION & PRIVATIZATION (CONTINUED)

Law 24/1998 initially allowed Correos to retain monopoly rights for long-distance domestic and international services for letters and postcards weighing less than 100 grams until January 1, 2006. After that date, the monopoly would only apply to letters and postcards below 50 grams. With its liberalization program, Spain intended to jump ahead of what was required by the EU Postal Directive. Spain liberalized its market in January of 2011.

In order to prepare for these ambitious liberalization plans, the Spanish government made massive investments to upgrade Correos's services and infrastructure to bring it up to world standards in mail and communications processing. Correos is now one of the world leaders in the use of advanced RFID systems. Correos Telecom provides telecommunications services, including internet access and e-commerce services.

Correos also introduced a spectrum of new services designed to support Internet communications and e-commerce. In 2006 the company opened a network of 30,000 Telecentros Internet access terminals for rural markets. At the same time a new unit, Correos Hibrid, was set up to provide mass-media communication services and hybrid mail. Correos Hibrid now goes by the trade name Nexea.

In 2006, a law requiring Correos to offer private operators access to its service network was passed.

As of January 2011, the mail market is open to competition.

Although Correos has not been privatized, it faces competition from private mail companies both within metropolitan areas and in the cross-border market. Commercial direct mail is now open and although inter-city and cross-border are officially not yet liberalized, it has been reported that, for all practical purposes, outgoing cross-border mail is already open.

Postal unions continue to argue that both local and urgent mail are essential and profitable services for Correos. Union leaders claim that the monopoly is necessary to guarantee the economic solvency of the public operator and a sufficient standard of service. Postal unions also claim that the liberalization process has led to price increases for postal and courier services and a decrease in the stability of employment.

In order to compete in the newly liberalized market, Correos has published a new business plan for 2011-2014. The new plan claims to shift emphasis from the product to the consumer. In doing so, Correos hopes to gain a greater market share in traditional post, parcels, direct marketing, and technological services.

## COMPETITION & UNIVERSAL SERVICE

Competition within Spain's postal markets has been less than robust. Government estimates of market share from 2007 using 2004 data give Correos 94.1 percent share, Unipost 3.8 percent, and other carriers 2.1 percent. The same government report attributes 91.3 percent of Correos's revenue to postal services.

## COMPETITION & UNIVERSAL SERVICE (CONTINUED)

Market surveys put the number of active mail services at about 150. Unipost, which is partially owned by Deutsche Post, is the biggest of Correos's competitors. It posted revenues of 89 million euros in 2006 on mail volume of 513 million pieces. Altogether, private operators handle more than 700 million items each year, according to 2005 data.

A few international companies (DHL, La Poste, MRV, UPS) have succeeded in gaining the largest share of the courier-services market. Correos and the Spanish firm SEUR also offer courier services. Smaller domestic couriers try to compete with these larger international firms, but their deliveries are for the most part geographically limited.

Growth of the courier sector has outpaced growth in conventional mail. Between 1996 and 2003, the courier market grew 12.2 percent on average, while the conventional postal market grew at a little over 9 percent annually.

Although Spain long resisted the move to liberalization and maintained that EU directives on funding were insufficient to cover the cost of the service, the market was liberalized in January 2011.

The universal service obligation covers money orders; standard national and international letters up to 2 kilograms and packages up to 10 kilograms; national and international deliveries of advertising material, books, catalogues, and periodicals; and services accompanied by a certificate and of stated value. Correos maintains monopoly delivery rights over money orders; letters, advertising, and periodicals in the protected weight class; and deliveries to Public Administrative Bodies. Competitors may deliver letters in the protected weight class if they charge 2.5 times more than Correos does for the same service.

Correos delivers letters and parcels six days per week, but it must deliver letters five days a week to be in compliance with the universal service obligation.

## REGULATION

Under the postal law (Ley Postal 1998) passed in 1998, Spain's Ministry of Development is charged with making sure that postal services are universal, have suitable quality, cover the whole national territory, and are provided at affordable prices. The Subdirectorate General for Regulation of Postal Services is responsible for enforcing the postal laws.

## PRODUCTS & PRICING

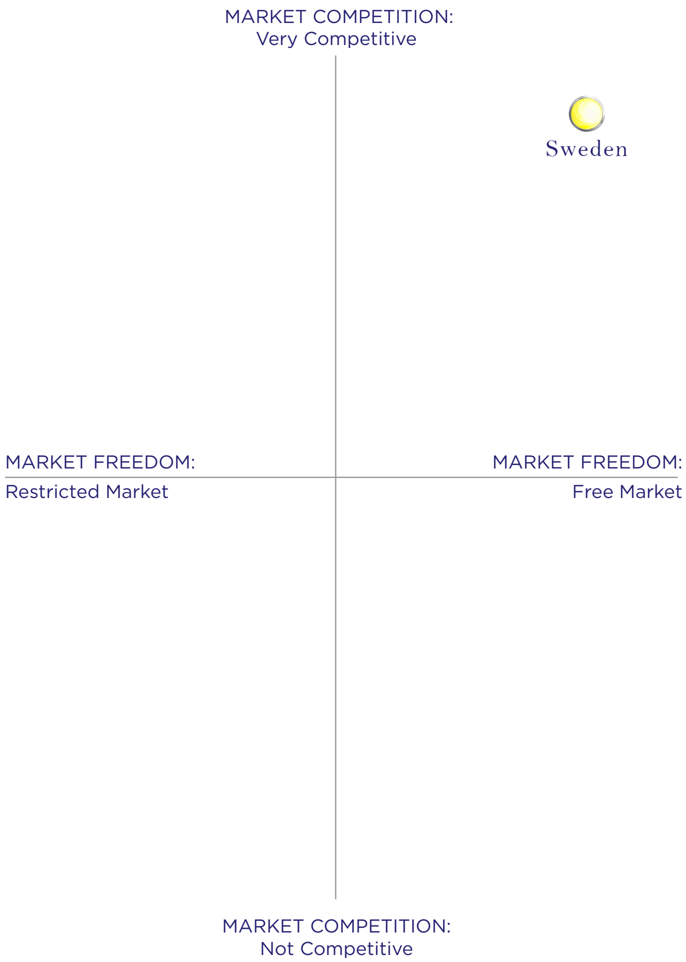
Correos offers a full range of mail services for both individuals and business through its core unit and subsidiaries.

## PRODUCTS & PRICING (CONTINUED)

Correos launched a venture with Deutsche Bank in 2006 to offer banking services. Branded as BanCorreos, the venture suggests that Correos may be moving more fully into financial services. BanCorreos offers financial services, loans, and mortgages. Its total business volume increased 1.1 percent in 2009. Despite Spain's real-estate crisis, BanCorreos maintained a zero percent delinquency rate on the mortgages it issued.

Prices vary by weight (standard mail up to 2 kilograms) and zone -- mainland Spain, the islands, and trans-border. A standard stamp costs 35 euro cents -- 10 cents less than the average stamp price in the EU.

# S W E D E N




## 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 then 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)

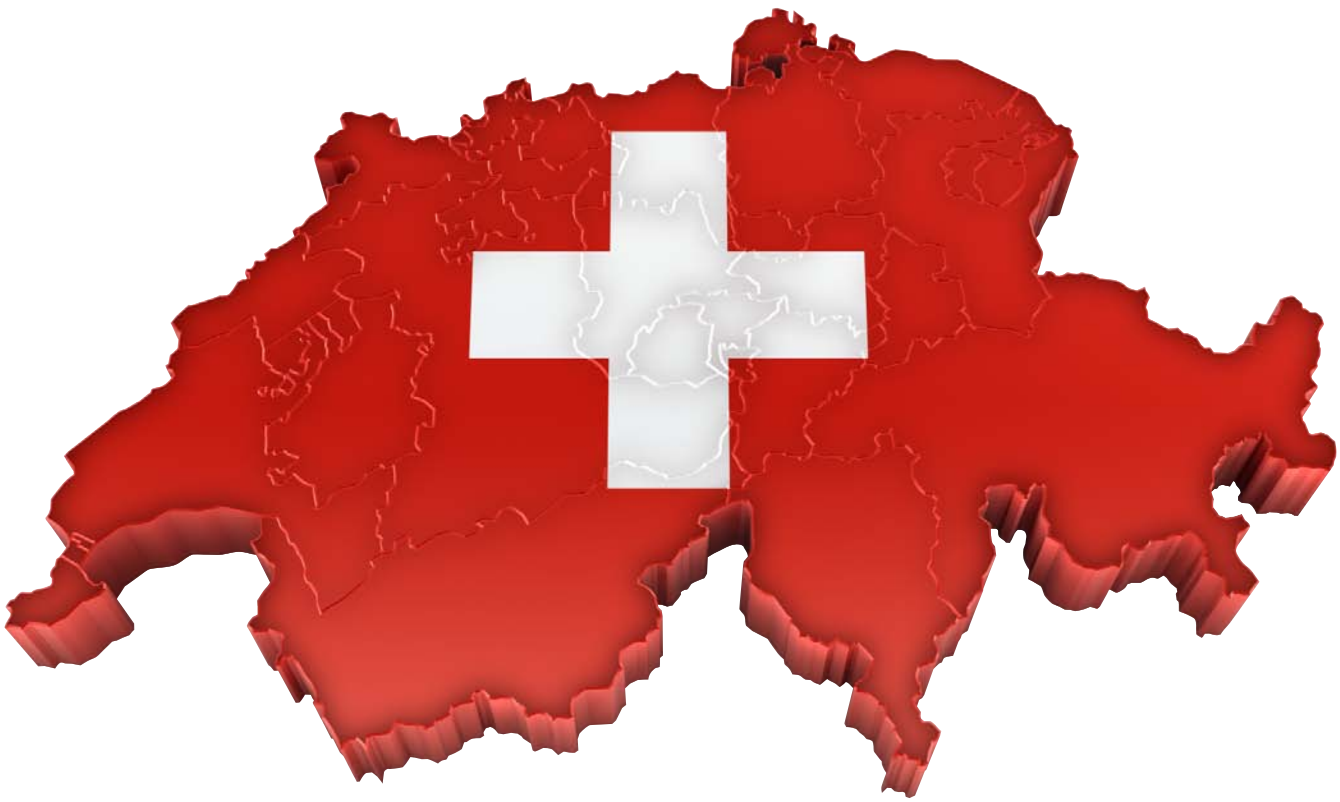
On the bulk side, Posten attempts to match many of CityMail's volume discounts, but more often the competition is not price but process-driven. Posten uses its own in-house sorting technology, while CityMail encourages customers who, for internal reasons, prefer to control their own mail streams and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

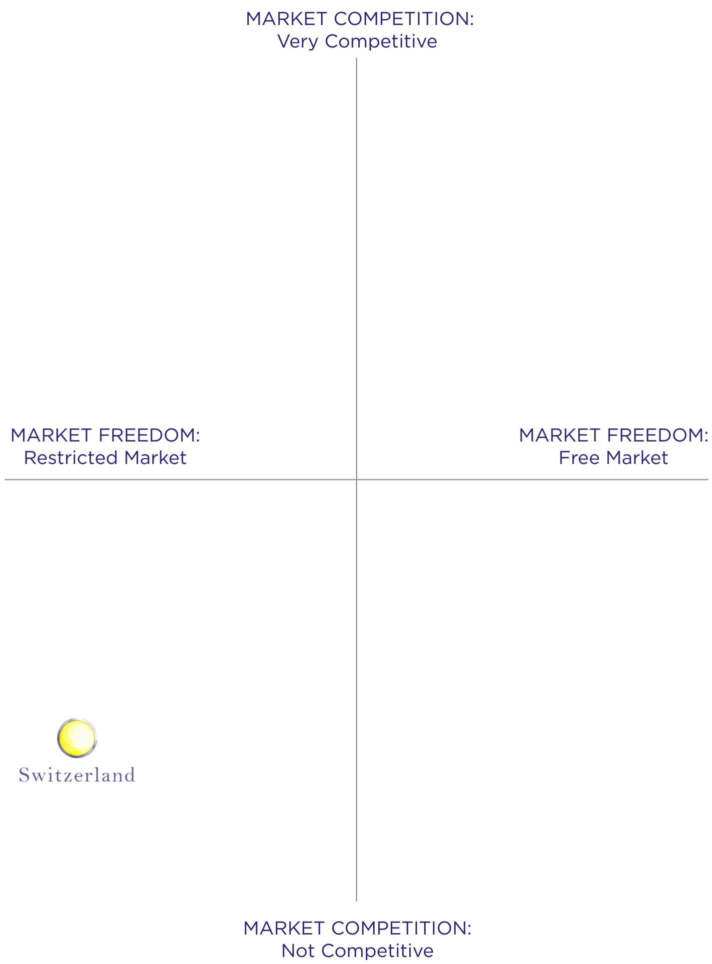
## FUTURE

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.

# SWITZERLAND






## OVERVIEW

Swiss Post traces its lineage to 1849, when "Federal Mail" -- the modern-day post's precursor -- launched.

Today, Swiss Post delivers mail and provides both financial services and passenger transport to Switzerland's nearly eight million inhabitants.

## HISTORY

The Universal Postal Union (UPU) was founded in Switzerland in 1874, so actors in the Swiss postal marketplace have long been aware of postal developments around the world. The UPU established the first Universal Postal Convention which sought to "simplify and coordinate the inter-state mailing of letters and parcels and regulates international cooperation between the postal authorities of the member states." The UPU, now a part of the UN, still maintains its headquarters in Berne.

Internally, the evolution of the Swiss postal system follows European patterns. In the 1920s, the country's postal, telegraph, and telephone services were consolidated into a single federally-operated unit -- the Swiss PTT -- which continued until it was restructured first in 1960 and again in 1970.

## STRUCTURE

On January 1, 1998 -- the yellow-branded PTT was transformed into two public service companies -- Swiss Post and Swisscom. Swiss Post remained entirely government-owned. Swisscom was created as a new "semi-liberated" stock company in which the Swiss government continued to hold 52 percent of shares.

The intention was to give Swisscom the freedom to maneuver and compete in newly liberalized telecommunications markets throughout Europe and the world.

Despite the success of private Swiss multinationals, postal ventures beyond Swiss borders by both Swisscom and Swiss Post remain controversial. Observers remember the 2001 bankruptcy of national airline Swissair, which collapsed after risky leveraged acquisitions and mergers with other airlines. The so-called "Swissair disaster" even resulted in a 2007 criminal trial for the policy makers and directors involved and galvanized opposition against "adventures" abroad, at least by quasi-government entities.

## STRUCTURE (CONTINUED)

Like other posts worldwide, Swiss Post faces existential challenges in the near term. Not only must the organization deal with electronic diversion -- it also operates in a small domestic market that is smaller than those of its potential European competitors. With margins shrinking and costs rising, Swiss Post projects that its core business -- traditional mail -- will decline by one-third by 2015.

Swiss Post has introduced several new products in hopes of generating the revenue it's losing from electronic diversion. Perhaps the most innovative of these is the hybrid mail product Swiss Post Box, which allows customers to receive by email scanned images of their paper mail. They can then decide whether to have Swiss Post open a letter, scan the contents, and email them; to have the letter destroyed; or to have it physically sent to another address. Many postal industry observers believe this hybrid approach represents an important model for the future of mail around the world.

Swiss Post Box is just one of the organization's "ePost Solutions," which also include secure identification on the Internet, legally compliant electronic signatures, and verified electronic mail. Swiss Post's identify verification system "Post SuisseID" is delivered through USB sticks, which the post brands as "SwissStick," or chip cards.

The post also offers money transfers and bill payment, ATMs, automated postal services, e-tracking, and even passenger transport through its PostBus service.

Swiss Post is organized as a Group with units, support units, and legally autonomous subsidiaries. Primary Group units are PostMail, Post Offices & Sales , PostFinance, Swiss Post International, PostLogistics, PostBus and Swiss Post Solutions.

Operationally, Swiss Post Group defines its markets as:

1) Communications, which includes letters, newspapers, promotional mailings, information solutions, and data management in Switzerland, neighboring countries, and internationally.

2) Retail finance, including payments, investments, retirement planning and some financing.

3) Logistics, covering parcels, express services, and logistics solutions.

4) Public passenger transport, including regional, municipal, and urban transport plus systems management.

## LIBERALIZATION & PRIVATIZATION

Swiss Post retains a monopoly on the delivery of letters weighing less than 50 grams. In 2006, the reserve area was lowered from 350 grams to 100 grams. The current monopoly came into force in 2009.

In December 2010, the Swiss parliament voted to begin reforming the country's postal system. Switzerland's Federal Council will evaluate the consequences of fully liberalizing the postal marketplace and will offer recommendations to parliament by 2014.

In 2004, the parcel market in Switzerland was deregulated and made open to competition. Markets for parcels, express delivery, in-night express delivery, unaddressed mail, and newspaper deliver are all well developed.

There are no initiatives pending to further privatize either Swiss Post or Swisscom.

## COMPETITION

At least 27 companies have government approval to compete with Swiss Post in the liberalized portions of the postal marketplace.

Swiss Post claims to generate 80 percent of its revenue in competitive markets. The remaining 20 percent comes from the monopoly area, which Swiss Post asserts is in competition with electronic media. However, Swiss Post's share of outbound mail has been dropping due to vigorous competition from companies like Deutsche Post and G3 Worldwide.

According to its 2010 annual report, Swiss Post holds 45 percent market share in the import and export of courier, express, and parcel services. Its logistics arm maintains 75 percent market share for parcels. Its lending business posts an 11.35-percent market share. And its regional transport segment has 16 percent of the market.

Swiss Post has strong unions and a long tradition of union activism. Unions are regarded as "stakeholders" have a strong influence in all decisions relating to the mails.

## UNIVERSAL SERVICE

Swiss Post is Switzerland's universal service provider. Mail service must be provided on all working days -- a minimum of five days per week. "A POST" franked letters are delivered on Saturdays, whereas "B POST" mail is not. Despite the deregulation of the parcel market in 2004, Swiss Post continues to be the dominant provider in that market.

The Swiss USO is stricter than in most other European countries and includes a variety of provisions which require extensive reporting, insure timely delivery, protect jobs, and prohibit outsourcing.

## OPERATING STATISTICS

Despite a less-than-robust economic environment, Swiss Post Group generated a profit of CHF 910 million in 2010 -- CHF 182 million higher than the previous year. However, 61 percent of those profits came from SP's retail banking operation, not from mail.

Besides increased retail banking deposits, operating efficiencies and a higher volume of parcels contributed to the year's profits. Swiss Post increased employment in its letter business by 326 full-time equivalents in 2010 to bring the total employment in mail operations to 45,129 full-time equivalents. Swiss Post is the country's second-largest employer.

Besides the lagging economy and the inexorable decline in letter volume, there were other pressures on Swiss Post's profitability. In July 2009, the price of postage was reduced by the government. In 2010, Swiss Post earnings became subject to the value-added tax. That same year, Deutsche Post decided to use DHL, its own subsidiary, to transport parcels into Switzerland instead to subcontracting the business to Swiss Post. However, Swiss Post profits were sufficient for it to fund its own pensions with a CHF 100 million set-aside and to contribute CHF 200 million to the federal treasury.

## OPERATING STATISTICS (CONTINUED)

Letter volume declined 1.5 percent in 2010; Swiss Post delivered 2.365 billion address letters in 2010, down from 2.401 billion the year prior.

Parcel count went from 104 million in 2009 to 108 million in 2010. PostMail operating income sank to CHF 2.619 billion in 2010 from CHF 2.808 billion in 2009. Also, the organization's Post Offices & Sales unit (including sales of non-postal brand merchandise) booked a roughly CHF 100 million loss for the year. Switzerland has a dense network of over 2,500 post office branches, which have high costs.

Retail finance offset the negatives. PostFinance had a net inflow of new money of CHF 10.662 billion in 2010, down from CHF 20.120 billion in 2009. For the first half of 2011, deposits were up 9.9 percent.

## REGULATION

The Swiss Postal Law of 1998 provides the legal framework for Swiss Post, including the process for liberalizing segments of the postal market, the rules for universal service and its financial support, and the scope of commercial activities Swiss Post is permitted to undertake.

The law was completely revised in 2004 for implementation in 2006. It placed major limitations on Swiss Post in terms of financing and personnel decisions. Express mail and international parcels were excluded from the post's monopoly. Moreover, the law stipulated that Swiss Post was to finance its universal service obligations from revenues derived from its monopoly activities. The law limited the reserve monopoly to just the size needed to guarantee universal service. A corporate-style governing board was set up by the law with the intent of encouraging a more "commercially oriented" organization.

Swiss Post operates under significant capital restraints. It must go to the Swiss government, not private capital markets for investment capital. Pension funding is the subject of yearly negotiations between the post and the government. The obligation is burdensome because postal salaries in Switzerland are unusually generous -- approximately 30 percent above market. Moreover, Swiss Post is required to provide regular reports, certified by an independent auditor, of its computations of the cost of provided universal service.

The law divides the Swiss postal market into two segments: universal services and competitive services. In the competitive area, licenses are required if private service operators provide regular, commercial delivery service of mail and parcels and reach revenue liable to value-added tax of at least CHF 100,000.

The Postal Services Regulation Authority (PostReg) is a specialist independent authority attached to the Federal Department of the Environment, Transport, Energy and Communications. PostReg monitors the Swiss postal market to ensure that universal service is efficiently provided. PostReg deals with complaints made by the public related to universal services and is tasked with ensuring fair competition in the segments of the postal market that are open to it. The regulator also monitors compliance with standard-sector working conditions and enforces a ban on cross subsidies.

PostReg is entitled to collect licensing fees up to 3 percent of a licensee's turnover to compensate Swiss Post for its provision of universal service, if necessary.

## PRICING

Swiss Post provides letter service with remarkable efficiency. Analysts of postal pricing say that Swiss Post's domestic postage is relatively inexpensive. The post tabs itself as the sixth-cheapest provider of service among 15 "important" European countries. Swiss Post spokesmen say that if quality of service, higher Swiss salaries, and the strength of the Swiss franc were taken into account, the organization's ranking would be even better.

## FUTURE

Foreign revenue from Swiss Post's letter and package deliveries accounts for a fifth of revenue, CHF 1.8 billion. Swiss Post, like other postal services worldwide, is seeking to expand its operations outside of its base to compensate for declining domestic revenues. The company, according to its annual report, is already active in twenty countries, and the proportion of its employees dedicated to these activities is rising.

Within the limits of guidelines allowed by the Swiss government, the post will no doubt continue to expand the reach of Swiss Post Solutions, the division which handles mail and document outsourcing for companies. Policy makers are also planning to expand PostFinance, SP's banking arm, into corporate loans and even mortgages.

Claude Béglé, the former head of Swiss Post, sees the country as a presumptive multinational conglomerate. "The Swiss Post must be like Nestlé," he recently said. "It will in the future have a large headquarters in Switzerland, will develop products here, will pay taxes on its profits but to a large extent will do business outside the country."

# T U R K E Y


## OVERVIEW

Turkey's postal service -- the PTT -- was first established in 1840 as the Ministry of Post by the Ottoman Empire. PTT stands for "Post, Telegraph, and Telephone" -- the three roles it assumed in 1909.

In 1939, the PTT was made a Directorate under the control of the Ministry of Transport. In 1984, PTT was reorganized as a so-called State Economic Establishment, and in 1995, the organization was restructured again into the General Directorate of Posts and Turkish Telecommunications Coop as a result of the deregulation of telecom service in Turkey. In 2000, the General Directorate of Posts was changed into the General Directorate of Posts and Telegraph.

As a State Economic Enterprise, PTT is entirely government-owned, has its own Board of Directors, and is accountable to Turkey's Department of Transportation under a basic Postal Law promulgated in 1950 and revised and reissued in 2000.

PTT maintains over 4,000 postal outlets within Turkey including 1,056 centers, 2,226 branches, and 830 agencies. PTT employed roughly 28,000 individuals as of 2010.

## LIBERALIZATION & UNIVERSAL SERVICE

Although universal service is not regulated by current law, PTT is simply "recognized" as the universal service provider throughout Turkey. As of 2005, a national regulatory authority did not exist. PTT worked as both the regulatory and operational body under the control of the Ministry of Transport as defined by Law 5584. Sealed letters, unsealed letters, and postcards are subject to the reserved postal monopoly regardless of weight limits as of December 2005.

PTT's reserve area (monopoly) includes ordinary and registered letters, postcards, greeting cards, printer papers and newspapers, small packages, free-of-charge mailings, literature for the blind, notification papers, and insured letters. Following a Supreme Court ruling, credit card and bank statements also fall within the reserve area.

Private firms involved in package delivery are regulated under a separate law No. 4925, but reports indicate that such firms also operate *de facto* in the area reserved for PTT.

The USO delivery standard is set at a minimum of five days per week.

# TURKEY

## COMPETITION

As of December 2005, there were 23 private firms (17 national and 6 international) in Turkey providing cargo and courier services transporting parcels, cases, and packages weighing less than 100 kg. Supervision of private firms is carried out by the Ministry of Transport, regional governments, and the police in accordance with the articles of the by-law on Road Transport.

Planners are aware that PTT holds a dominant market position. Although apparently not embodied in actual law as of 2005, private deliveries outside of PTT's reserve area are to be open and provided "without any discrimination." The process for so-called "access conditions" (licensing of private carriers) had not been provided for in legislation as of 2005.

## REGULATION

According to a country report prepared by the Universal Postal Union in December 2005, there is not sufficient independent regulatory authority to ensure fairness in postal markets in Turkey.

In the context of "harmonizing" Turkey with EU standards, the country enacted a major liberalization and competition law in 1994, which led to the appointment of a Competition Board. In that same year, the telecommunications industry was largely deregulated.

Although studies have been conducted, no independent postal regulatory body had been established as of late 2005. As a result, PTT itself is tasked with setting and maintaining standards of delivery for domestic mail. International mail is subject to periodic audits conducted in collaboration with the Universal Postal Union and PostEurop.

The Board of PTT is authorized to set postal tariffs. Domestically, there is no requirement that prices be calculated on the basis of costs. However, international mail tariffs must in part be geared toward the cost of providing service. PTT uses single-price delivery throughout Turkey.

Planners are aware of the potential for cross-subsidization of products outside the reserved area by those over which PTT has a monopoly. Turkish officials admit that, as of 2005, price-setting for universal service is not yet tied to actual costs. Further, since there is no separate accounting system for reserved and non-reserved services, it is as yet impossible to determine whether there is in fact cross-subsidization by PTT.

Postal workers are exempt from fares, duties, and taxes charged by public institutions and municipalities.

The current regulatory state of affairs may perhaps be summed up by a 2008 report on the liberalization of Turkish markets by the European Commission:

> *No progress can be reported in the field of postal services. The legal monopoly regardless of weight limits is still intact. No independent regulatory authority exists in the sense of the acquis communautaire [an EU term for the consensus of EU law and related court decisions]. The accounting system still lacks transparency for want of an appropriate accounting method for reserved and non-reserved services and of separation of accounts.*
>
> *The absence of transparent monitoring of State aid and of supporting policies to reduce distortion has an adverse effect on competition and competitiveness in the economy. Public procurement policies continue to be undermined by exceptions to the regulatory framework.*

## PRODUCTS & SERVICES

PTT provides the following domestic and international services: letter post, parcel post, express mail service (EMS), cash-on-delivery (COD), door to door delivery service (Alo Post), telegraph, telepost, money order, postal checks, bill collection, payment, foreign exchange, train ticket sales, and insurance transactions. Types of insurance sold through PTT include accident, life, liability, emergency health, and travel policies.

Perhaps the most important PTT initiative is its PTTBank project, which offers banking services to individuals and corporations through post offices. Prominent in this effort are PTTmatic bank kiosks and PTTcards for postal checking accounts, with electronic tie-ins to conventional credit card systems. Money transfer and bill payment, especially in rural areas where there are no conventional bank services, have allowed PTT to put down deep roots within the nation's financial infrastructure. By 2010, 1,997 PTT post offices had been upgraded to banking outlets.

In 2009, PTT derived 123 million TL in revenue on commissions from financial transactions. That commission revenue rose by 31 percent in 2010. As in many other countries, the Turkish post office processes financial transactions including pensions, bill distribution and collection, ticket and subscription sales, lottery entries, prepaid cellular cards, and cross-border payments. In 2009, PTT derived 23 million TL on basic banking services alone. In total, commission revenue came to 64 million TL in 2010.

PTT has also invested heavily in advanced sorting and electronic processing, scanning, and tracking technologies. In 2010, Turkey started to roll out a hybrid-mail system whereby mail can be electronically scanned at one post office and remotely printed for delivery at a destination printing center. The post claims that such techniques cut delivery times and transport costs.

PTT is moving quickly into the e-document business by guaranteeing via software systems the integrity, tracking, delivery, and signatures on documents. New computer software allows post offices to provide customers with delivery dates for mail.

Since 2008, PTTcargo has been competing in corporate logistics, introducing advanced software and facilities for state-of-the-art processing, tracking and transport. This business produced 60 million TL in revenue in 2010, an increase of 65 percent over the previous year. PTTcargo even has a special unit to cater to the large number of Turkish citizens who make the pilgrimage to Mecca.

PTT's Express Mail service, begun in 1983, delivers throughout Turkey and to 110 foreign countries. EMS generated 56 million TL in 2010, a 17-percent increase over 2009. It includes what the Turks call door-to-door delivery, whereby information sent into the postal service via telephone or Internet can be delivered to the recipient's door and tracked within a guaranteed time period. The total revenue for all PTT logistics services in 2010 was close to 130 million TL.

## PRODUCTS & SERVICES

PTT also offers a service whereby a consumer may retrieve a printout of important mail from an automated kiosk 24 hours a day, 7 days a week. PTT is also rolling out promotion and marketing services which use the mail to drum up business for PTT clients and installing call centers which will process inquiries and tracking on a 24/7 basis.

## STRUCTURE & MAIL VOLUME

From 2009 to 2010, total PTT profit fell from 230 million Turkish lira (TL) to 144 million TL. Operating income for 2010 increased 9 percent while non-operating income decreased 32 percent. The decline in profit represents a drop of 38 percent from 2009. Operating costs rose 11 percent, with an 18 percent increase in transportation costs for the year.

PTT processed 1.015 billion domestic letters in 2010, a decrease from 1.066 billion items in 2009. It handled 17.2 million international letters in 2010. International traffic -- especially money transfers -- was concentrated in the sizeable Turkish expatriate communities in Germany, Austria, and Belgium.

PTT breaks out its revenue and expense numbers into Postal Services, Telegraph Services, Logistic Services, and Non-Operation and Other.

In 2010, Postal Service revenues were 936 million TL with expenses of 871 million TL. Telegraph Services posted a loss, with revenues of 6 million TL and expenses of 11 Million TL. Logistics also posted a loss, with 129 million TL in income and expenses of 172 million TL in expenses. Parcel Post reported 333 million TL in revenue compared to 306 million TL in expenses. Non-operation revenue came in at 162 million TL, with 62 million TL in expenses. Total revenues were 1.566 billion TL against total expenses of 1.423 billion TL to produce 2010 profit of 144 million TL.

Turkish postal services are subject to value-added tax.

On a comparative year-by-year basis, Postal Service revenue shows major growth -- going from 554 million TL in 2003 to 2010's 936 million TL. However, expenses have been rising as well. Telegraph revenues have been stagnant despite sharply rising expenses. PTT profits have declined from a high of 377 million TL in 2008 to 2010's 144 million TL. A 58-million TL increase in investment over that period -- much of it coming in Anatolia in the east -- accounted for only part of this reduction. Investments of 140 million TL are projected for 2011.

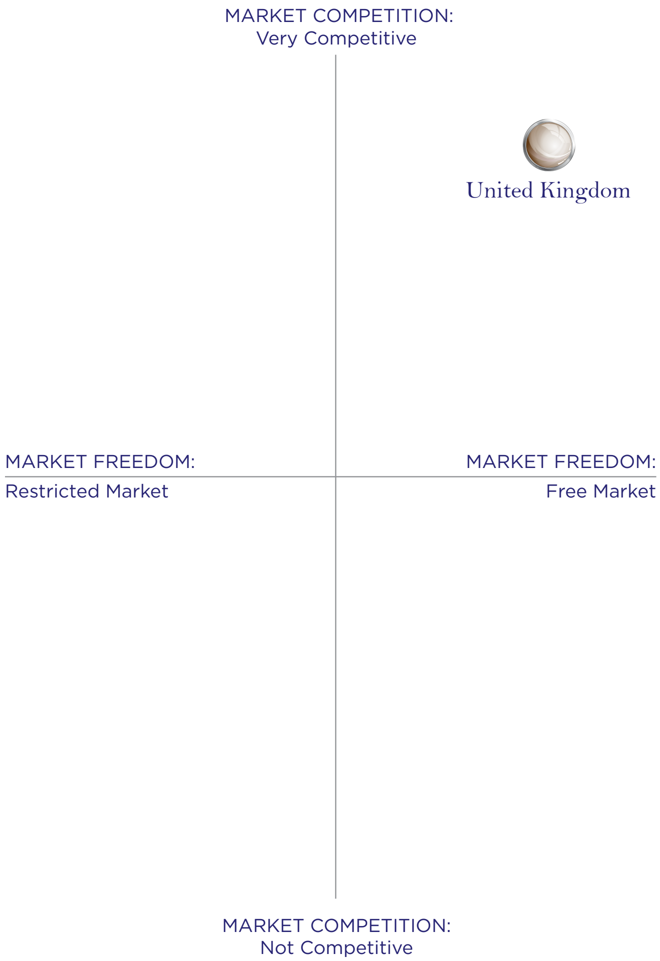
Letter mail volume in 2009 was 1,087,295 pieces, which produced a revenue stream of roughly 800 million TL. In 2010, letter volume decreased by 5 percent. However revenue increased by 6 percent. Oddly, telegraph services -- e-telegraph -- are offered via internet connections and generated close to 4 million TL revenue in 2010 on declining volume. PTT offers inbound and outbound tracking for express mail (76 countries), parcels (81 countries) and letter post (41 countries).

## FUTURE

Like the rest of Europe, Turkey has been affected by the economic downturn. For a period, government enterprises were given the opportunity to take out special loans from the central government. According to a 2008 U.S. State Department cable made public by Wikileaks, the president of Turkey's Privatization Agency, Metin Kilci, said that his agency was planning to privatize PTT over the next two years. Obviously, that has not happened, as the post remains entirely state-owned.

In its latest publications, PTT projects that current investments will pay off in future revenues. It predicts a profit bounce to 325 million TL for 2013.

# UNITED KINGDOM




## OVERVIEW

Britain's national post -- Royal Mail -- traces its roots to the 16th century and the reign of Henry VIII, but its modern iteration was effectively chartered in 1969. Each working day, Royal Mail delivers 62 million items to 28.8 million addresses.

About 163,000 people work directly for Royal Mail Group -- more than 60,000 fewer than in 2002. In fiscal year 2010-11, which ended in March 2011, Royal Mail Group posted revenue of £9.2 billion and operating profits of £39 million -- a decline of £141 million over the previous year. Overall revenue, however, declined by £193 million and mail volume declined by 4 percent.

Royal Mail's core postal operations are lagging. The postal group lost £120 million in 2010-11, after making £20 million in profits the previous year. Experts predict that mail volume will decline by 5 percent each year, and postal officials have hinted that 20,000 jobs may be axed.

A postal reform bill – the Postal Services Bill – passed in June 2011 set Royal Mail on the path toward privatization.

## LIBERALIZATION

Britain's postal markets were opened to full competition on Jan. 1, 2006, three years ahead of the European Union's goal of full postal liberalization by 2009.

Liberalization has been good for Britain's economy. A 2008 study by Europe Economics showed that competition in the postal sector created 3,300 new jobs and boosted the British economy by £229 million.

## PRIVATIZATION

Despite the opening of postal markets, Royal Mail remains government-owned and received public subsidies to the tune of £150 million in its 2010-11 fiscal year. Royal Mail claims that it needs government subsidies to maintain its network of over 11,800 post offices.

The U.K. government has also committed £1.34 billion of public money over four years to help the post office network modernize. The European Commission has investigated state subsidies to Royal Mail in accordance with its rules on State Aid.

In December 2008, the British government released a report that called for the partial privatization of Royal Mail. Entitled "Modernise or Decline," the so-called Hooper Report noted that Royal Mail was the only post in Western Europe to lose money. The report cited a shrinking mail stream and strikes as reasons for dwindling revenues. The report also found that "in 2007, the postal sector accounted for 60 percent of the days lost to industrial action across the whole [British] economy."

## PRIVATIZATION (CONTINUED)

The report concluded that the government should transfer a 30 percent stake in Royal Mail to a private postal firm, and assume responsibility for Royal Mail's pension liabilities, which had reached £4.5 billion by March 2011. In 2010, pension liabilities were £8 billion. Changes in accounting were responsible for the significant improvement in the organization's pension outlook.

In June 2011, Parliament passed the Postal Services Bill, which restructured the company's balance sheet in hopes of making it attractive for future sale. It also rid Royal Mail of its historic pension deficit by offloading it onto the government. Ultimately, Royal Mail hopes to sell up to 90 percent of the postal operator to a private company, leaving the remaining 10 percent for its employees.

In a June 2011 interview following the passage of the bill, Alex Walsh, head of postal affairs for the Direct Marketing Association, stated, "While the new legislation will render Royal Mail a more attractive proposition for interested investors, we're concerned that competition will suffer. There's also no incentive for Royal Mail to improve efficiencies or cut costs. So it's highly likely that commercial mailers will be saddled with price increases along the line."

## COMPETITION

Despite liberalization, competition has yet to fully take hold. Royal Mail is still the dominant actor in the British postal market.

Currently, 59 firms are licensed to deliver mail in Britain, including the Royal Mail. However, most competitors only collect and process mail while still paying Royal Mail to handle delivery.

Royal Mail executed 6.4 billion of these last-mile "access" deliveries in fiscal 2009-10, an increase of 20 percent over the previous year. That means that more than one in three letters was posted in 2009-10 by a competitor but delivered by Royal Mail. This access mail accounts for half of Royal Mail's business mail volume.

Given Royal Mail's government-owned status, taxpayer subsidies, and dominant market share, the playing field is not entirely level. An independent regulator is tasked with ensuring that Royal Mail does not abuse its market position when competing with other postal operators.

## REGULATION

The Postal Services bill changed the regulatory structure of the U.K. postal market. The Postal Services Commission's (Postcomm) tenure as regulator ended October 1, 2011. The communications regulator Ofcom took its place.

The regulator's duties are largely the same: ensuring that the universal service guarantee is upheld and overseeing licensed postal operators. Ofcom enjoys greater policing powers over licensed operators than did Postcomm.

Like Postcomm, Ofcom regulates Royal Mail's prices and its quality of service. A first class stamp runs 46 pence, and a second class stamp is 36 pence. Royal Mail's competitors are free to price services as they please, even if lower than the regulated price.

If other licensed operators are accused of anti-competitive behavior, their cases are referred to the Office of Fair Trading under general British competition law.

## REGULATION (CONTINUED)

Royal Mail is obligated to offer its competitors access to its vast network on a "fair and reasonable basis." In other words, all Royal Mail's competitors must be able to negotiate for use of the universal service provider's delivery system, if they wish.

## CONSUMER PROTECTIONS

Consumer Focus claims to "champion" consumers' interest; it absorbed the old Postwatch, an independent consumer watchdog for postal services in the United Kingdom, in 2008. The group has a statutory responsibility to monitor Royal Mail's performance and advises the regulator on action to take if Royal Mail violates the terms of its license or fails to meet the performance targets set for it by the regulator.

Consumer Focus is also active on local or more parochial issues, such as the closing of post offices, local delivery problems, and product trials in certain areas. Consumers can employ Consumer Focus's services in pursuing their own complaints about mail service.

## UNIVERSAL SERVICE

Royal Mail provides the United Kingdom's "universal postal service," which includes the flat-rate stamp and the obligation to deliver letters to every UK address, 6 days per week. It must deliver parcels 5 days per week. Its competitors need not fulfill a universal service obligation.

Five service areas are required under the universal service obligation, with postage at a flat rate:

- Priority and non-priority mail services, or more commonly, general letters and packets;
- Non-priority parcel service for packages up to 20 kg;
- Registered and insured services;
- Support services for ensuring the safety and integrity of mail, including mail forwarding for up to 12 months;
- International outbound service.

Bulk mail was removed from Royal Mail's universal service obligation in August 2011.

Controversially, in mid-2011, Royal Mail asked for permission to leave mail that required an absent addressee's signature with neighbors. Consumer Focus said that it was "unconvinced and unimpressed" with the proposed move.

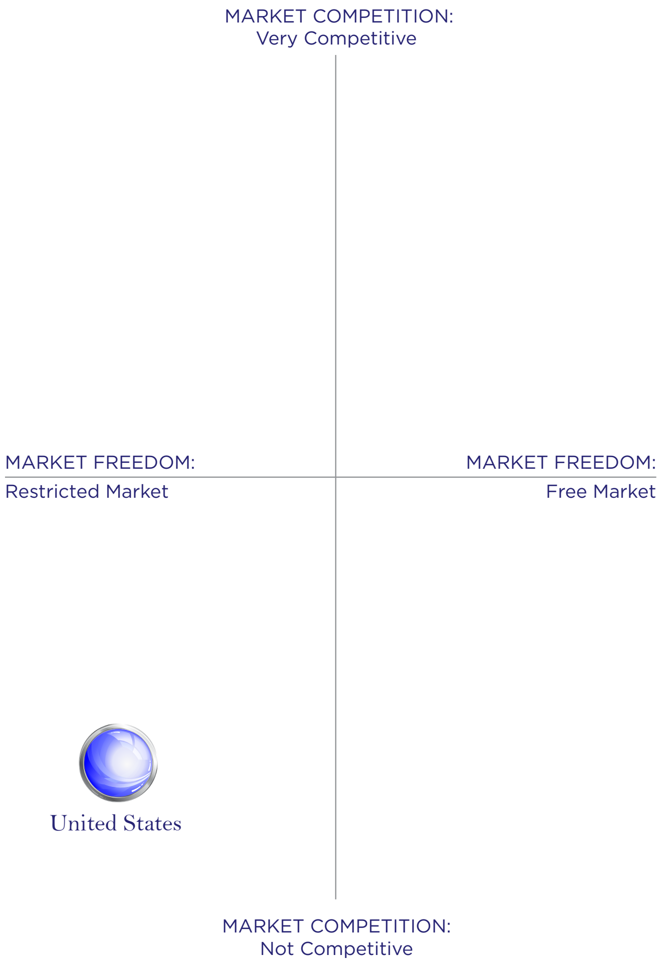
## NON-POSTAL SERVICES

With revenue from letters and other traditional postal services trending downward, Royal Mail has expanded into several non-postal commercial activities. Through the Post Office, Royal Mail sells life, travel, and other vehicle insurance policies and provides several basic savings tools. The company also offers personal loans, mortgages, and other basic financial services. It even sells broadband and phone services. Consumers can also handle passport business and pay car taxes at the Post Office.

Since launching online savings accounts in August 2010, the Post Office has attracted £4 billion in deposits.

# THE UNITED STATES

# UNITED STATES POSTAL SERVICE




## OVERVIEW

The United States Postal Service was created by decree of the Continental Congress in 1775, mainly to deliver mail between Congress and the armies. Today, still wholly owned by the government, it delivers 168 billion pieces of mail each year to more than 151 million addresses.

The number of addresses to which it delivers increases year on year; between 2010 and 2011 the figure grew by about 637,000. The volume of letters sent by individuals is shrinking steadily, with businesses accounting for some 90 percent of the mail market today.

USPS had 557,251 career and 88,699 non-career employees in 2011. More than 85 percent of the Postal Service's career employees are paid according to contracts that are negotiated through collective bargaining between one of four unions and USPS management.

The U.S. Postal Service lost $5.1 billion in 2011, after losing $8.4 billion in 2010. Postal management has blamed losses on statutory obligations to pre-fund its pension and healthcare liabilities through 2017 as well as poor economic conditions. Since 2001, USPS has cut costs and improved productivity.

The Postal Accountability and Enhancement Act of 2006 (PAEA) established a hard rate cap for market-dominant products and granted the Postal Service substantial authority to adjust pricing within that cap. It also required USPS to demonstrate greater financial transparency and granted greater authority to the Postal Regulatory Commission, the independent body that oversees rate increases.

In 2010, the Postal Service projected $115 billion in cumulative losses by 2020, even if it achieved all cost savings that it asserted were within its control. It warned that failure to effectively adopt new cost-saving strategies could produce cumulative losses of $238 billion over the same 10-year period.

The Postal Service is managed by a 9-member Board of Governors, appointed by the President and confirmed by the Senate. The board functions as a board of directors, responsible for appointing the Postmaster General and Deputy Postmaster General, who serve at the pleasure of the governors for an indefinite term. Attorney Thurgood Marshall, Jr. became Chairman of the Board of Governors in January 2012.

## LIBERALIZATION

USPS opposes liberalization of the market for letter mail delivery, in which it enjoys a statutory monopoly. USPS also holds a monopoly on access to consumers' mailboxes, which consumers are responsible for buying and maintaining.

The letter monopoly was granted under the Private Express Statutes, which were enacted by Congress in 1792. The "letters" over which USPS has control are broadly defined to be "messages between parties," with a few exceptions. "Extremely urgent letters" may be delivered by other companies provided that they charge, at a minimum, the greater of three dollars or twice the amount USPS would charge to deliver the same letter as First Class or Priority Mail.

Government inquiries have regularly questioned the necessity of the mailbox monopoly, but it has persisted. The President's Commission on the Postal Service proposed in 2003 that consumers choose whether to allow private individuals or delivery companies to access their mailboxes, "so long as it does not impair the universal service or open homeowners' mailboxes against their will."

A 2007 report by the Federal Trade Commission (FTC) agreed. The Postal Service's monopoly on mailbox use "limits consumer choice and artificially increases the costs of private carriers," it concluded.

The United States is currently the only country in the world with a monopoly on mailbox use.

## PRIVATIZATION

USPS is wholly owned by the U.S. government.

William Henderson, the U.S. postmaster general from 1998 to 2001, wrote upon leaving office that "what the Postal Service needs now is nothing short of privatization." He recommended an employee stock-ownership plan that "would motivate workers by allocating stock to them over time." However, in contrast to the general trend in other developed nations, the United States has not taken any steps toward wholesale privatization.

USPS has, however, adopted some de facto privatization of delivery through the use of contractors. A 2008 report by Kevin Kosar of the Congressional Research Service noted that 6,531 carrier routes were served by contract delivery service providers.

USPS has also increased its reliance on private companies to aid in the completion of other tasks through procurement contracts. In 2010, 11 private-sector suppliers were each paid over $100 million. The largest supplier was FedEx Express, which received $1.37 billion for domestic air transportation of postal express shipments, as part of a 7-year contract which expires in September 2013. A total of seven audit reports by the Postal Service's Office of Inspector General noted that weaknesses in process, guidance, training, and monitoring in the

## PRIVATIZATION (CONTINUED)

implementation of the FedEx Transportation Contract resulted in more than $94 million in unnecessary costs to the Postal Service.

Additionally, USPS has regularly entered into worksharing agreements with some bulk mailers of market-dominant products (as defined by the PAEA), offering postage discounts in exchange for meeting certain criteria, such as pre-sorting, processing, and volume. Negotiated Service Agreements, as some of these are termed, are contractual agreements with major mailers that include customized pricing incentives.

It's not clear whether these deals help USPS's bottom line, and Postal Regulatory Commission opinions have questioned Postal Service management's effectiveness negotiating contract terms.

## COMPETITION

As described above, USPS has two monopolies: one on letter delivery and the other on the use of mailboxes. USPS enjoys additional privileges as a government entity: It is exempt from most taxes (including taxes on its vast real estate holdings), is permitted to maintain a substantial level of secrecy in many financial matters, and may borrow from the U.S. Treasury at favorable rates.

The PAEA prohibits the subsidization of non-monopoly competitive products (like priority mail packages) with revenues from monopoly products, but critics often accuse the Postal Service of engaging in such cross-subsidization regardless of the law. With between 40 and 45 percent of its operating expenses lumped into one vast "institutional overhead" category, to which market-dominant products contribute higher levels of "cost coverage" than competitive products, many observers feel such subsidies are inevitable.

"Even with growth in our package business, we cannot replace the profit contribution of First-Class Mail that has been lost over the past few years and will continue to decline in the future," Postmaster General Patrick R. Donahoe said in 2011.

## REGULATION & OVERSIGHT

The Postal Regulatory Commission is an independent agency, created by the Postal Reorganization Act of 1970 to set postage rates, and invested with new oversight powers under the 2006 PAEA. There are five commissioners, each appointed by the President and confirmed by the U.S. Senate. The Commission considers rates proposed by USPS, adjudicates complaints, and determines whether the Postal Service is in compliance with current law. The PRC has subpoena authority, the power to adjust rates, and the ability to levy fines against the Postal Service.

## REGULATION & OVERSIGHT (CONTINUED)

Additional oversight is provided on an ongoing basis by entities including the Postal Service's Office of Inspector General, House and Senate committees with postal oversight responsibilities, and the Government Accountability Office.

## UNIVERSAL SERVICE

The Universal Service Obligation is understood in the United States as six-day-a-week delivery to every address in the nation at a uniform price. As defined by the Postal Reorganization Act of 1970, the USO requires the Postal Service to "provide prompt, reliable, and efficient services to patrons in all areas and... render postal services to all communities" at "fair and equitable" rates, including a uniform rate for sealed letters.

The Postal Regulatory Commission estimated the value of the U.S. Postal Service's combined monopolies to be $1.55 billion in 2010. This represents a sharp decline from the $3.48 billion the Commission identified as the value of the combined monopolies in 2007.

It also calculated the total cost of the Universal Service Obligation to be $5.37 billion in 2010, an increase of more than $950 million over 2007.

In late 2009, USPS began to seek congressional approval to change the USO from six-day-a-week delivery to five-day-a-week delivery. Historically, Congress has opposed any efforts to weaken the USO. Two years later, the Service had not yet received congressional approval to eliminate a day of delivery.

In late 2011, the Postal Service announced a plan to save costs by loosening delivery standards for first-class letters and postcards. The plan, which postal officials declared would save $2.1 billion annually, would effectively end all next-day delivery of first-class letters, to be replaced with a new standard of two- to three-day delivery.

## PRICING

In January 2012, the price to mail a single letter rose to 45 cents -- the second price increase under the terms of the PAEA.

Each ounce beyond the first costs 17 cents, and there are additional costs based on size and shape. Stamp prices have risen in line with inflation since 1970, and by nearly 30 percent since the beginning of 2001. Businesses and institutions that mail in bulk, which account for 85 percent of USPS revenue, receive discounts from the First Class rate.

In 2007, USPS introduced the "Forever Stamp," which is purchased at the going rate but is valid for use indefinitely, even if used after stamp prices have increased.

## PRICING (CONTINUED)

The 2006 legislation classified postal products into market-dominant and competitive categories, with different pricing rules for each. It lists the following as market-dominant products: first-class mail letters and sealed parcels; first-class mail cards; periodicals; standard mail; single-piece parcel post; media mail; bound printed matter; library mail; special services; and single-piece international mail.

The Act lists the following as competitive products: priority mail; expedited mail; bulk parcel post; bulk international mail; and mailgrams.

Under the PAEA, price increases for monopoly products are limited to increases in the Consumer Price Index. These products represent 90 percent of the Postal Service's revenue base.

# MARKET COMPARISONS

What are the fundamental factors that define national postal markets for household consumers and small businesses?

The Index of Postal Freedom evaluates elements including quality of service, the range of choices and competition, pricing, and the level of modernization that consumers can expect from their national posts. Each of these factors is analyzed in the Index's profiles of individual countries. The Index's Market Comparisons provide snapshot views of these indicators across countries, and show how markets, and the service that consumers receive, compare around the world.

# # 1

## RESIDENTS PER POST OFFICE

Long lines at the post office got you down? In this first in a new series analyzing data on national postal markets, it is noted that consumers in the world's largest economies are served by widely-varying frequencies of postal retail networks.

Russia's post offices serve the fewest people, on average, among the countries in the U.S. Consumer Postal Council's Index of Postal Freedom, while Kenya's serve the most, according to an analysis of Universal Postal Union data.

The United States ranks near the middle, with approximately 8,400 people per post office. This figure has increased by 5 percent over the past five years, and the U.S. Postal Service has embarked on a strategy to close thousands more post offices in the coming years.

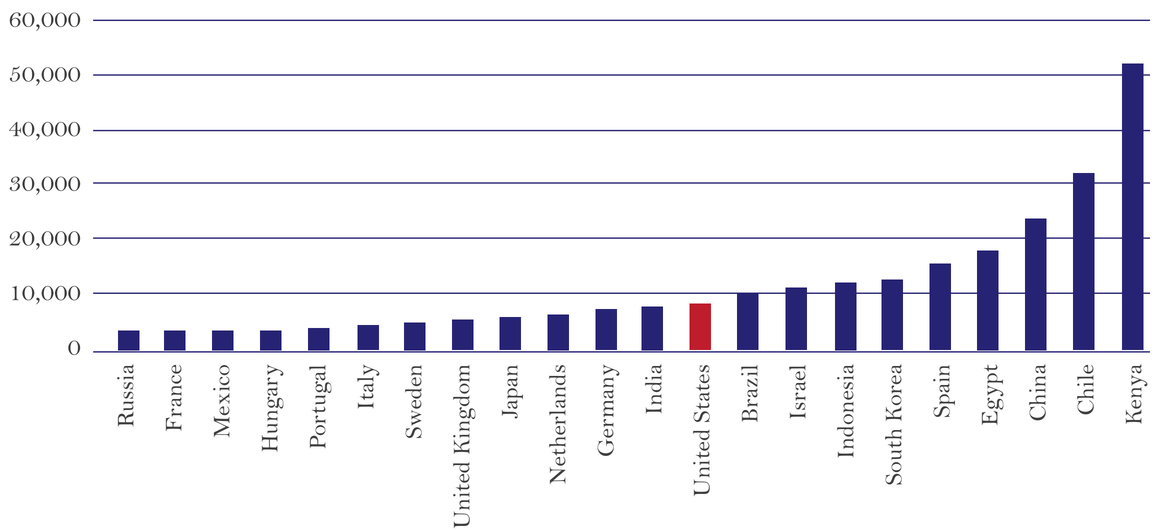
The average Russian post office has 3,502 consumers. Russia has both the largest land mass among nations as well as one of the world's lowest population densities, so it is not surprising that its 40,000-odd postal outlets serve the fewest people per outlet.

France, Mexico, Hungary, and Portugal followed Russia with the fewest people per post office.

The average Kenyan post office serves nearly 15 times more people – nearly 52,000. That's 20,000 more people than any other country featured in the Index. Chile, China, Egypt, and Spain rounded out the countries with the most people per post office.

Most countries, 18 of 23 analyzed, saw the average number of people per post office increase between 2004 and 2008. Kenya, Great Britain, and China posted the largest such growth over this period, at 29 percent, 24 percent and 18 percent, respectively.

### AVERAGE RESIDENTS PER POST OFFICE -- 2008



# # 2

## LETTERS PER POSTAL WORKER

The productivity of national posts, as expressed by the number of business and personal letters per postal worker, varies widely, while the U.S. Postal Service averages more than twice the letter productivity of number two Korea Post.

The United States leads the category by a wide margin, with nearly 250,000 letters per postal worker in 2008, among the countries in the Consumer Postal Council's Index of Postal Freedom. That's nearly 140,000 letters per worker (full-time and part-time) more than the next country, South Korea.

The United States has the largest postal market in the world – which more than counterbalances its sizeable workforce. From 2004-2008, the number of letters per worker in the United States increased 3.7 percent. But the sharp declines in mail volume that began during the first half of 2008 actually caused a net decrease in letters per worker between 2004 and 2010, despite the U.S. Postal Service reducing its workforce by more than 93,000 employees.

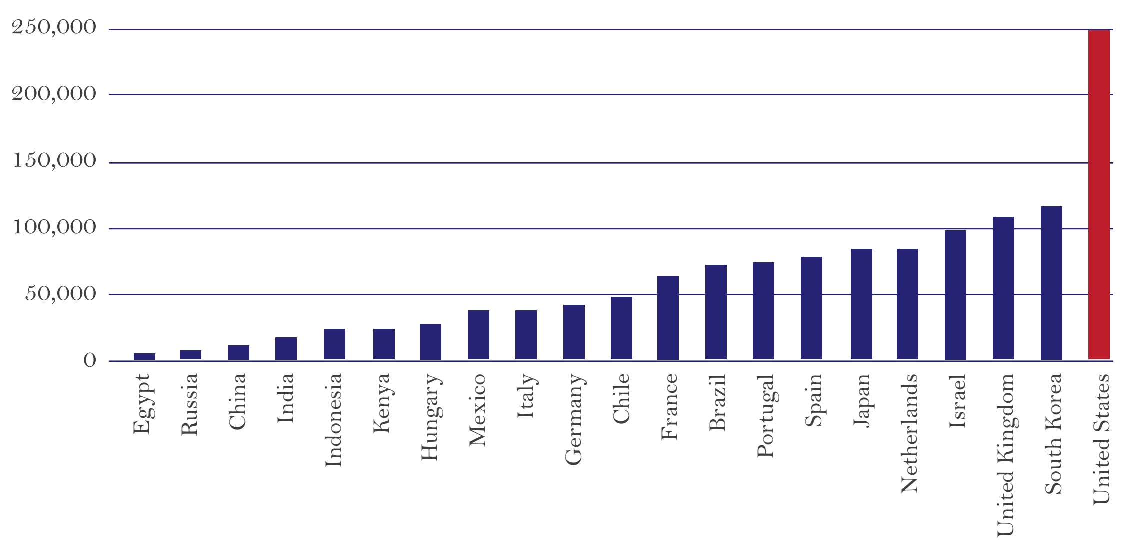
Most countries, 15 of 23 analyzed, saw the average number of letters per postal worker grow between 2004 and 2008. Seven of these countries notched double-digit decreases. South Korea's decline in letters per employee was the smallest, at just over 4 percent. Only Mexico posted a double-digit increase in letters per worker during this period.

Russia's productivity has declined the most – by more than 46 percent. In Russia, the number of letters per worker in 2008 was just 2,878. The country's postal workforce has increased by more than 110,000 since 2004 even as letter volume has declined by more than 89 million.

This indicator correlated poorly with population density, and only slightly with better per-capita GDP. China, India, and Indonesia ranked just above Egypt and Russia with the fewest letters per postal worker studied. In China, the number of letters per employee declined by more than 42 percent between 2004 and 2008.

Along with the United States, South Korea and Great Britain posted more than 100,000 letters per postal worker. Israel and the Netherlands rounded out the top five countries with the most letters per postal employee.

### NUMBER OF LETTERS PER POSTAL WORKER -- 2008



# # 3

## PIECES OF ADVERTISING MAIL PER PERSON

Does it seem like all you find in your mailbox anymore is junk mail? If you live in Canada, Switzerland, or the United States, then that just might be the case.

Americans receive the most pieces of advertising mail per person among the countries in the U.S. Consumer Postal Council's Index of Postal Freedom, nearly twice as much as third-place Canada, according to an analysis of 2008 Universal Postal Union data. In that year, the average American received 320 pieces of advertising mail -- more than six per week.

However, according to U.S. Postal Service data, the number of pieces of advertising mail per American has fallen by about 55 pieces since then. Since 2005, advertising mail per person has fallen by more than 20 percent in the United States.

The Swiss receive nearly as much advertising mail as Americans -- just 14 pieces per person less. In 2008, Swiss Post delivered 2.3 billion pieces of advertising mail to the nation's 7.5 million people.

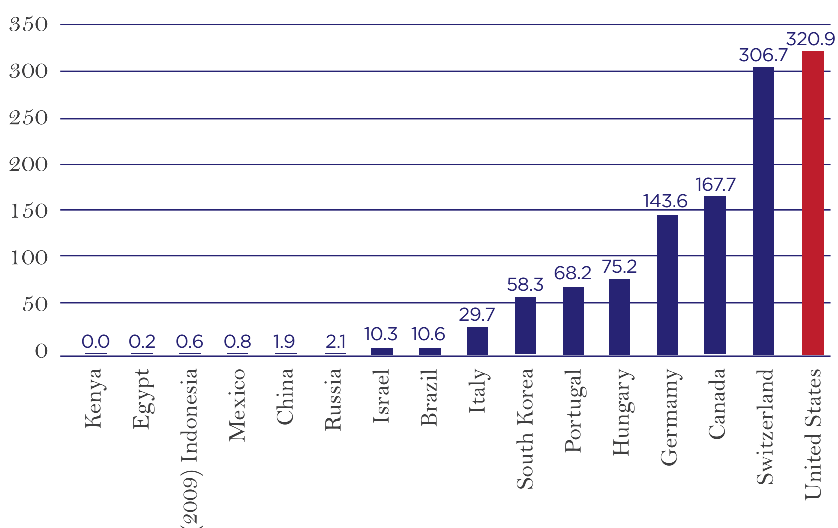
Germans and Canadians also received more than 100 pieces of advertising mail per person.

The Kenyan postal market features barely any advertising mail -- just 512,000 pieces in 2008 for its nearly 40 million people. Residents of Egypt, Indonesia, and Mexico all receive less than one piece of advertising mail per year.

In about half the countries analyzed, the number of pieces of advertising mail per person declined between 2005 and 2008, with the steepest decline in Mexico, at nearly 28 percent. Russia, Israel, Italy, Switzerland, and Portugal -- in addition to the United States -- also experienced decreases in advertising mail.

Advertising mail per person grew in seven countries as well -- with Egypt leading the way with growth of more than 220 percent between 2005 and 2008. Canada, South Korea, Brazil, and Hungary all saw double-digit growth in advertising mail per person over the four-year period.

### PIECES OF ADVERTISING MAIL PER CITIZEN -- 2008



# # 4

## OPERATING REVENUE PER POSTAL WORKER

Posten, Sweden's national post, generated the greatest amount of revenue per employee of 24 countries profiled in the U.S. Consumer Postal Council's Index of Postal Freedom, according to 2008 data from the Universal Postal Union. India Post, by contrast, had the lowest ratio of revenue per postal worker.

The U.S. Postal Service posted revenue of $100,550 per worker in 2008, which puts it in the top third of countries profiled by the Index of Postal Freedom. However, Sweden's post generated almost twice as much revenue per employee. The United States has a postal workforce nearly 30 times larger than Sweden's.

Revenue per worker at USPS has hovered near $100,000 since 2005, falling slightly below that benchmark in 2010. A reduction of 26 million workhours was also a driving factor behind a 2.2-percent increase in USPS's Total Factor Productivity in 2010.

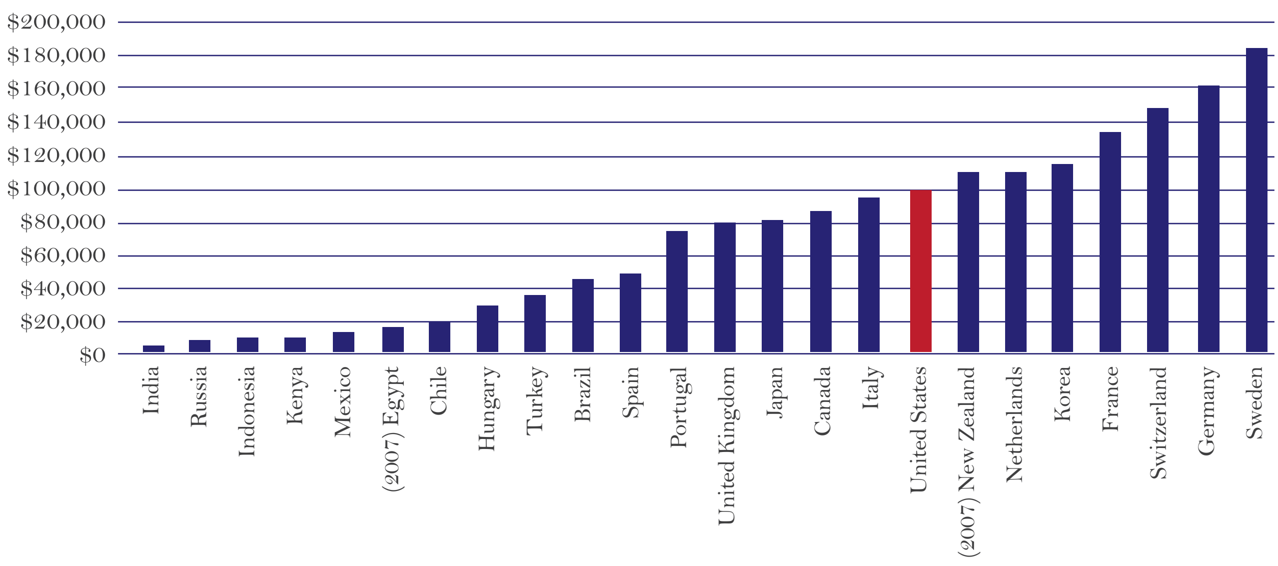
Of the 24 countries surveyed, 12 saw double-digit growth rates in operating revenue per worker between 2005 and 2008, including an 81-percent increase in Sweden and a 45-percent increase in France.

Growth in operating revenue per worker for both Posten and France's La Poste was even better through 2009. The two national posts pared their workforces even as their revenues increased. Swedish Posten's total number of employees was roughly 10,000 fewer in 2009 than in 2005. La Poste cut about 28,000 people from its labor force between 2005 and 2009.

Only four countries experienced a decline in revenue per worker in the same time period, with Chile's 21-percent decline the most severe. Other countries that witnessed declines include Canada, Great Britain, Korea, and Mexico. In 2009, however, Great Britain's revenue per worker increased by nearly $14,000, or about 17 percent, but failed to reach its 2007 high. South Korea experienced a similar phenomenon, with revenue per worker jumping by more than $4,000, or about 4 percent, in 2009.

New Zealand, the Netherlands, South Korea, France, Switzerland, Germany, and Sweden all had ratios of operating revenue per worker above $100,000. At the other end of the scale, India, Russia, and Indonesia all posted revenue of less than $10,000 per worker.

## OPERATING REVENUE PER POSTAL WORKER -- 2008



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"The Postal Freedom Index is a unique resource that offers valuable background and history about the provision of postal services around the world. In the current era, with the implications of the digital age and its affect on posts just being realized, such big picture analyses are useful in informing our policy discussions."

*From the Foreword by David C. Williams, Inspector General for the United States Postal Service*

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