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.

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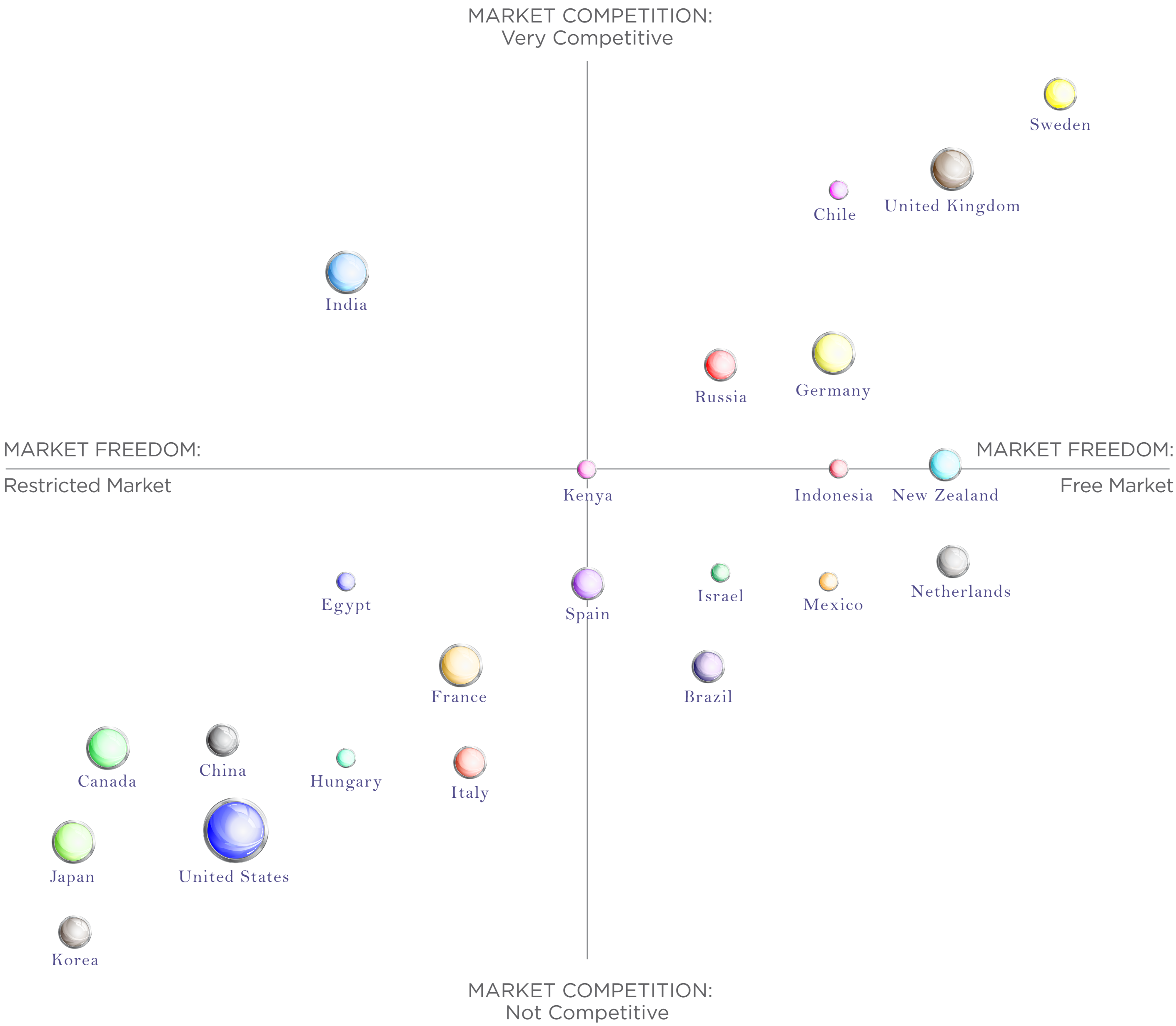
INDEX OF POSTAL FREEDOM



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

CONSUMER POSTAL COUNCIL

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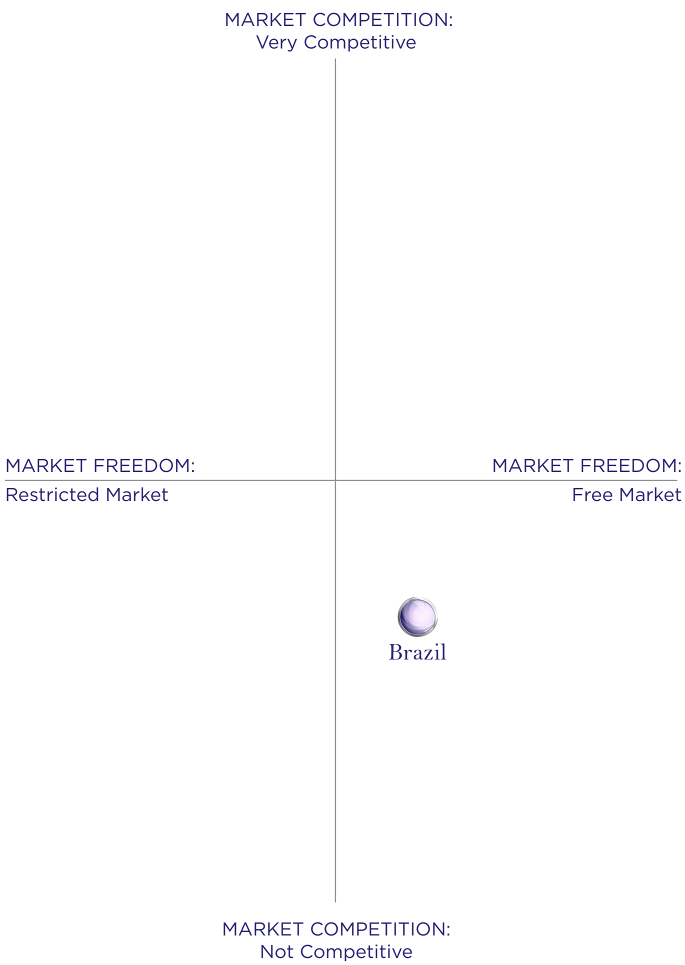
BRAZIL CORREIOS/ECT



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.

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 subsides from the government since 1986.

LIBERALIZATION & COMPETITION (CONTINUED)

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 | CANADA POST

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 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.

In 2008, mail volume declined for the second straight year. Each household received an average of only 355 pieces of mail during the year.

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 2008, 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 14 million addresses.

Canada Post maintains a significant presence in express services. In 1993, it bought courier company Purolator. In 2008, this part of Canada Post contributed 20 percent of the company's revenue and was the top overnight-express-services firm in the nation.

CANADA | CANADA POST

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.

Private firms are also 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, but it has not yet passed.

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.

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.

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.

The CPCSR also floated the idea of creating an employee share ownership plan. The CUPW is adamantly opposed to this measure, which it terms "partial privatization."

Some outside observers credited the CUPW's campaign against "closures, privatization, and deregulation" with dampening the scope of the Strategic Review.

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.

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, 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. Whether such a Charter will soon be drafted is unclear.

COMPETITION

Private international mail firms are allowed to transfer packages sent by Canadian corporations to destinations outside the country. Materials sent in this manner included 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 2008, this branch of Canada Post was the leading overnight courier company in the country and contributed about 20 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.

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 72,000 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. Between 1965 and 1981, workers went on strike at least 6 times.

ORGANIZATION & STRUCTURE (CONTINUED)

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.

More than 6,600 post offices serve the nearly 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).

PRICING

In 2000, a price-cap formula was implemented that holds basic letter rates to two-thirds the rate of inflation. The past two price increases for first class stamps occurred in January 2007 and 2009, first by one cent and then by two. As of 2009, a first class stamp goes for $0.54 CAN.

In 2008, Canada Post delivered 11.8 billion pieces of mail. Its revenue was $7.7 billion CAN.

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 24 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.

Canada Post is planning significant rate increases over the next five years. 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. For letters, Canada Post's five-year plan includes a three-cent stamp price increase in January 2010 and an additional two-cent increase each year until 2014. If the plan is approved by regulators, stamp prices will have risen 20 percent by 2014.

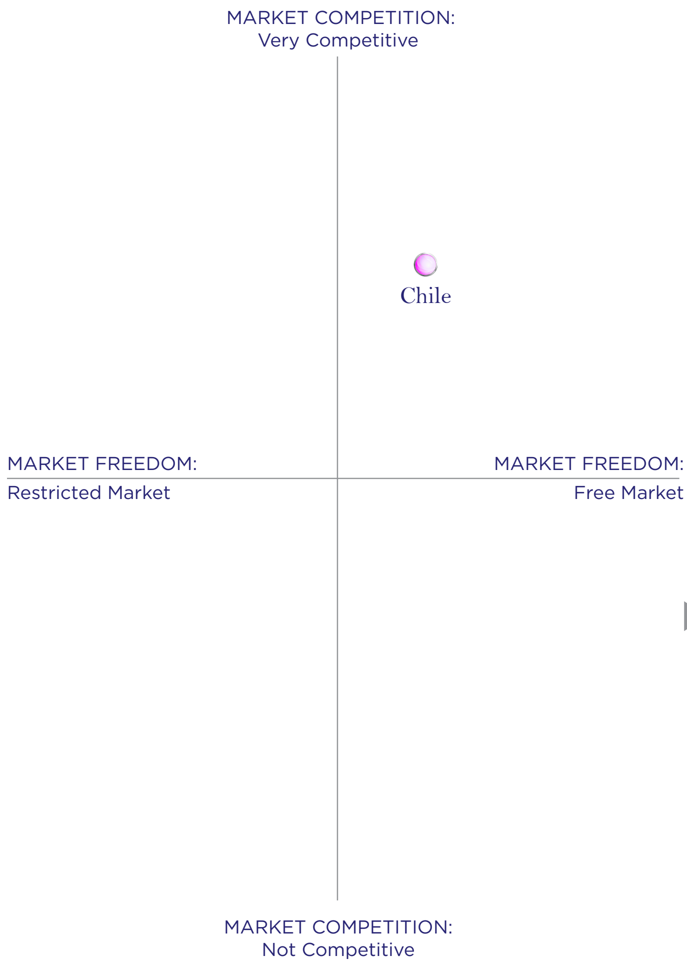
FUTURE

Canada Post is also looking to cut costs by $250 million CAN in 2009. To do this, Canada Post intends to cut the management workforce by 5 percent and reduce hours worked by about two million. Canada Post is looking 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.

Each year, Canada Post adds about 200,000 addresses to its delivery list. Actual mail volume, however, has declined about 6 percent since 2004. The combination of decreasing volume and increasing service requirements represents a significant challenge.

CHILE | CORREOS DE CHILE



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 CORREOS DE 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.

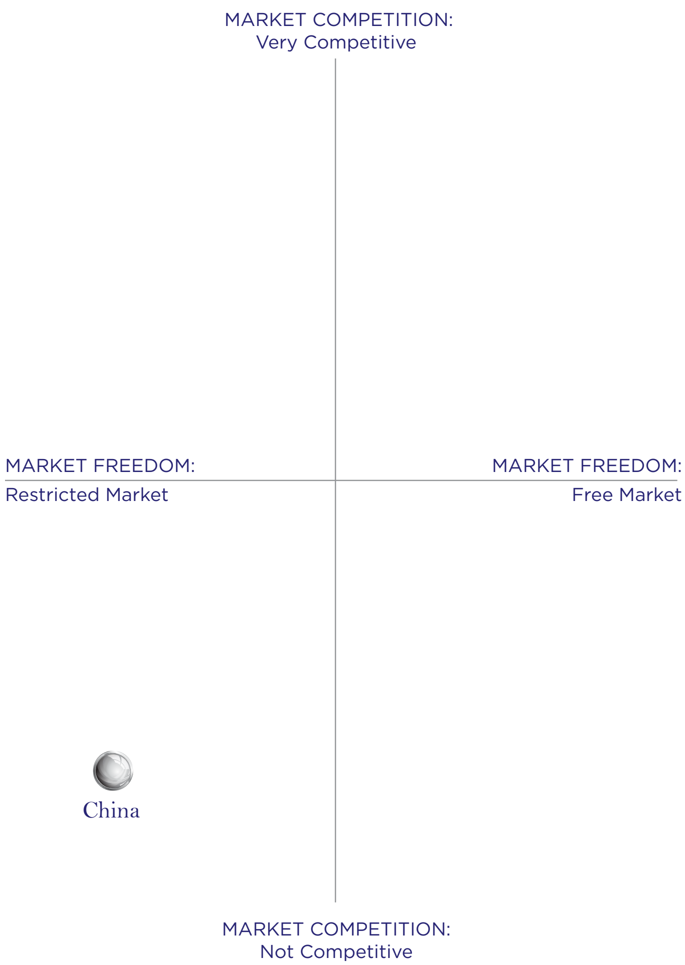
The company also negotiates large-scale deliveries of pensions, subsidies, and loan repayments. There is even a loan service for customers available upon application (Facturas y notas de crédito clientes empresa).

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.

PRIVATIZATION

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

PRIVATIZATION (CONTINUED)

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.

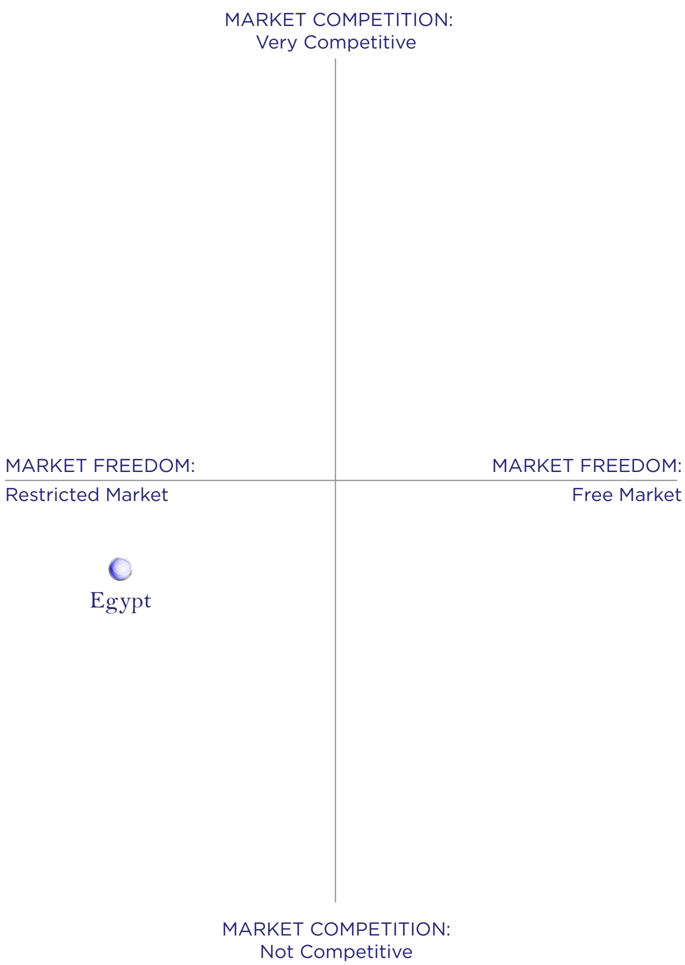
New legislation may give China Post's Express Mail Service the sole authority to handle documents weighing under 150 grams, effectively forcing most domestic express companies to shut down, as 90 percent of their business is derived from handling such small items. It presumably would prevent foreign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

EGYPT | 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, EP 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 EGYPT POST

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

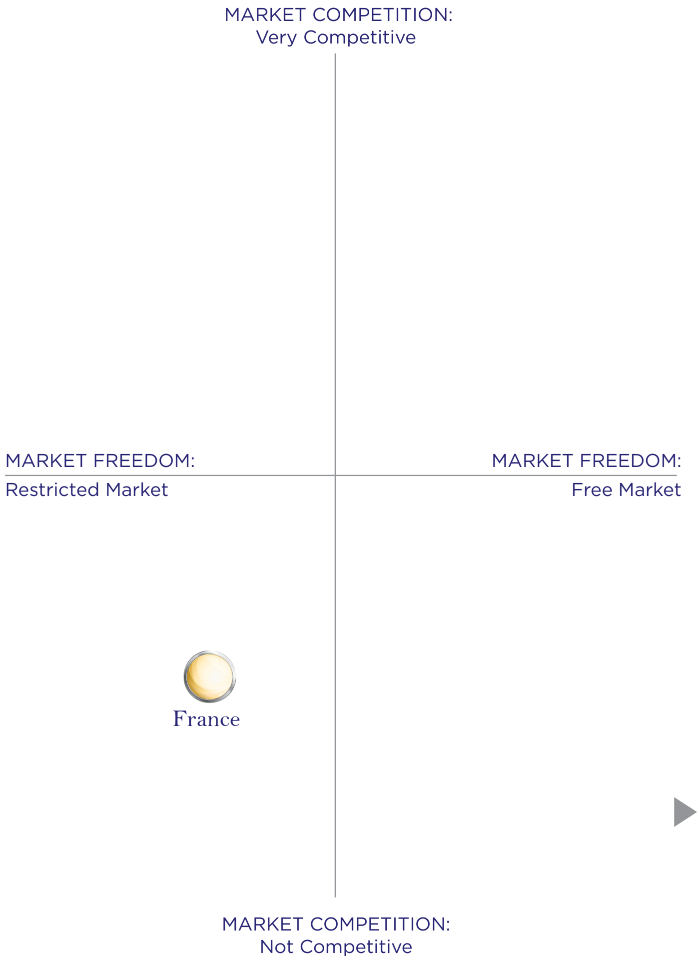
EP is working to bring domestic delivery up to international standards. But with mail volumes worldwide continuing to decline, that effort may have minimal impact on EP's prospects. Strategists project that growth -- both for EP specifically and for Egypt's postal sector as a whole -- will flow from 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.

FRANCE LA POSTE



OVERVIEW

La Poste -- the French government-owned postal service -- is the third-largest national post in the world, with 2008 revenues of over €20.8 billion. It's also the fifth-largest mail and package delivery firm in the world. 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 300,000 workers, La Poste is the second-largest employer 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.

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 has been among those most loudly calling for postponement of the EU's deadline for total liberalization of postal markets. The deadline for liberalization was recently pushed back two years to 2011. Union workers have vociferously opposed the liberalization movement. La Poste management claims that the company will be ready to compete in a liberalized marketplace in 2011.

Labor groups have consistently opposed the 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.

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. These subsidies are expected to provide roughly €140 million annually until 2010. There is little chance of this trend lessening. In addition, La Poste enjoys an unlimited line of credit with the French government.

La Poste is slated to become a limited liability company by 2010. Jean-Paul Bailly, La Poste's President, has announced that the firm must raise between €2.5 and €3.5 billion to be prepared for full liberalization at the EU's deadline.

The current plan is to offer 20-30 percent of the company's capital as publicly traded stock. Full privatization is out of the question in the short term. The French Constitution forbids the government from owning less than 50 percent of La Poste.

COMPETITION

La Poste maintains a monopoly on letter mail below 50 grams, and so it faces no competition within the letter mail market. 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 71 percent of its revenue in 2007 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's in liberalized business areas, primarily mail weighing over 50 grams.

UNIVERSAL SERVICE

La Poste is the designated universal service provider in France, and ARCEP supervises this obligation. A unique component of La Poste's universal service obligation is the requirement that no more than 10% of a given municipality's (or département's) population may be more than five kilometers away from a post office.

UNIVERSAL SERVICE (CONTINUED)

In France, the universal service 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.

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.

In preparation for the full liberalization of the French mail market, La Poste is seeking new ways to finance universal service. One option, preferred by the French government, would be to charge La Poste's competitors a fee for access to the French market. The fees would be placed into a fund to subsidize universal service. Another option, favored by the EU, would be to charge La Poste's competitors for access to La Poste's network. This option is similar to a policy already in place in the United Kingdom.

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 Poste held €270.5 billion in deposits in more than 40 million accounts at the end of 2008. It's the fourth-largest retail bank in France in terms of demand deposits and savings.

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

In November 2007, the French government authorized La Poste to distribute consumer credit. La Poste expects to offer such products by late 2009 or early 2010.

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

GERMANY 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.

GERMANY DEUTSCHE POST

OVERVIEW

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

LIBERALIZATION & PRIVATIZATION (CONTINUED)

its growth strategy in express delivery. But in 2009, the company sold its domestic express business in the United Kingdom.

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)

REGULATION & UNIVERSAL SERVICE (CONTINUED)

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.

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.

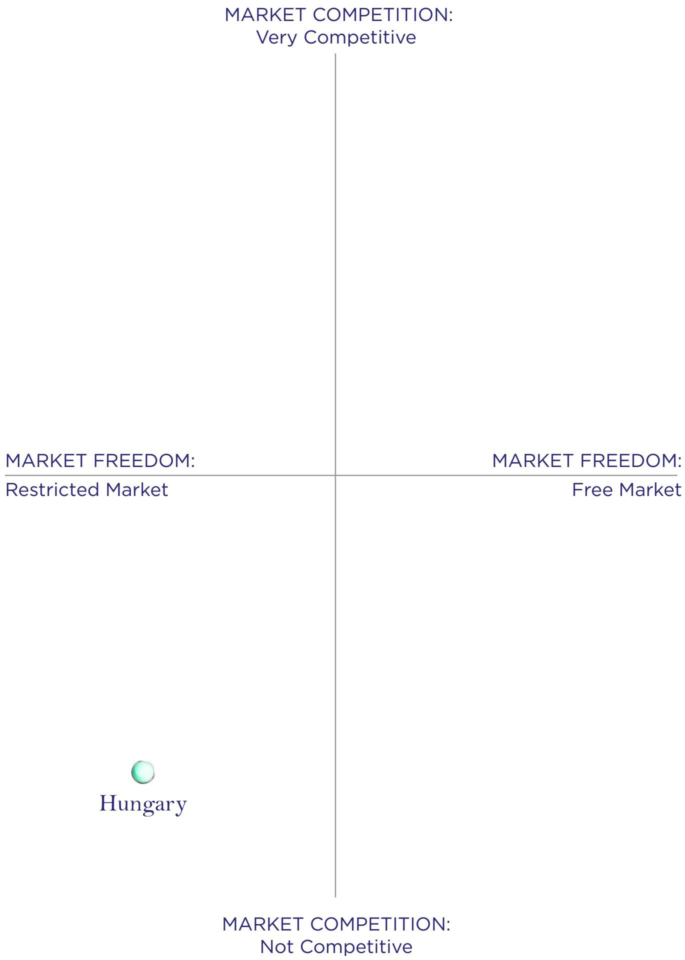
Deutsche Post has also made a significant commitment to improving the environment. As part of its GoGreen initiative, DP aims to cut its carbon emissions -- and those of its subcontractors -- by 30 percent by 2020 compared to a 2007 baseline. DP also offers a carbon-neutral shipping service.

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 MAGYAR POSTA



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.

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 are expected to be shuttered by the end of 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.

COMPETITION

Well-known multinational companies such as TNT, DHL, and UPS are all very active in Hungary in the markets for packages 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.

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.

COMPETITION (CONTINUED)

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 eight 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 half the workforce.

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

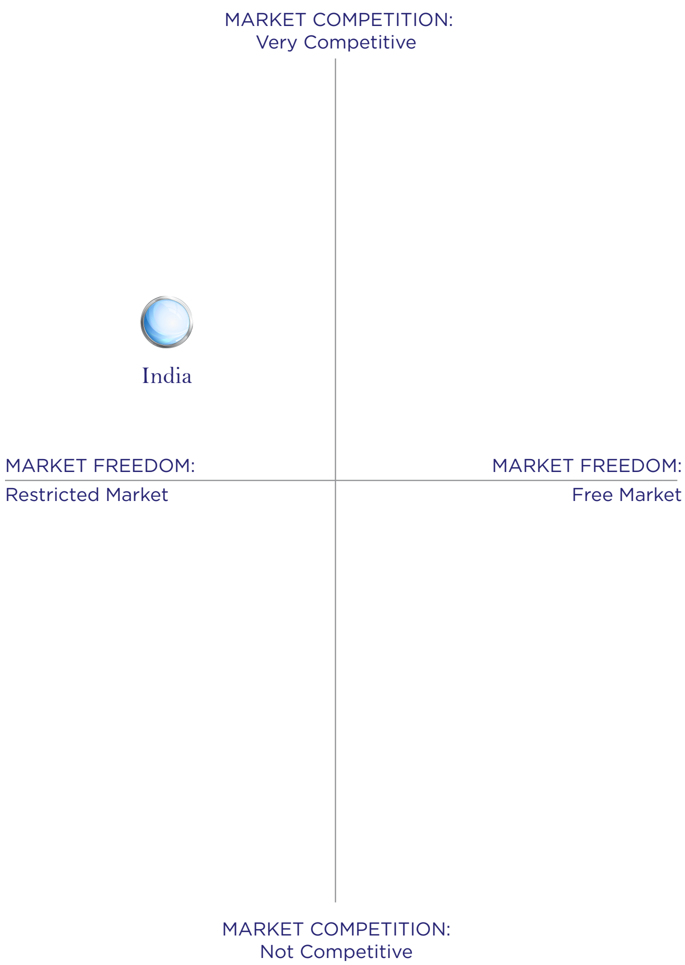
There have not been any strikes in the postal sector for the last 20 years.

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.

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.

LIBERALIZATION & PRIVATIZATION (CONTINUED)

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.

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 others 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.

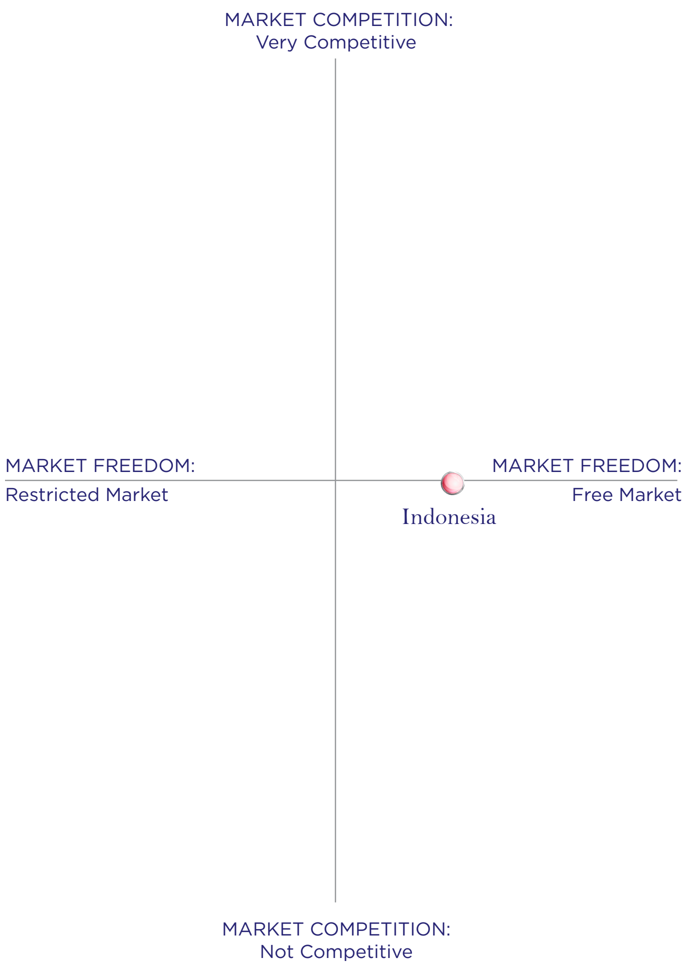
The National Postal Policy statement on India Post's Web site explains that "the new economy and modern markets require [the postal service] to become more financially autonomous and commercially flexible in order to deliver its core functions and other services." To that end, India Post has continued 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.

INDONESIA POS INDONESIA



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.

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.

STRUCTURE (CONTINUED)

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.

REGULATION (CONTINUED)

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.

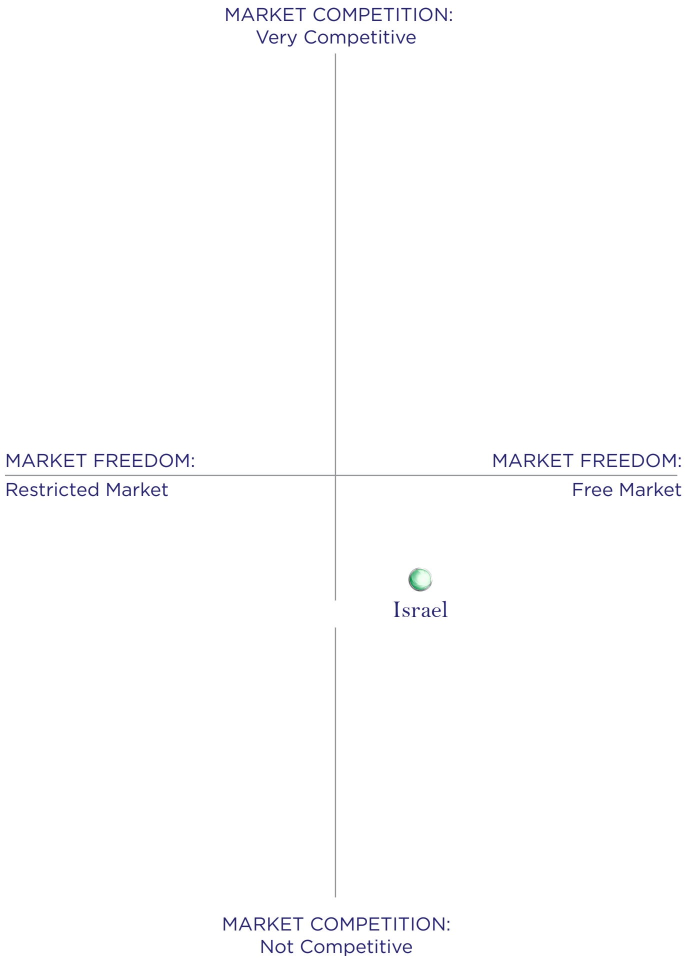
FUTURE

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.

ISRAEL | ISRAEL POST



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.

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).

OWNERSHIP & STRUCTURE (CONTINUED)

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.

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.

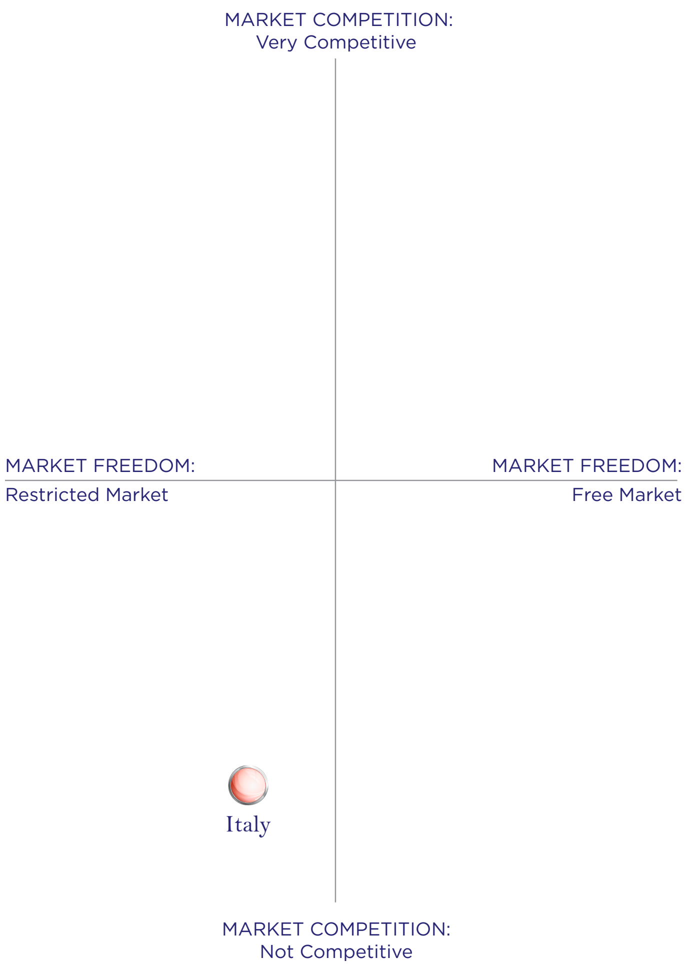
FUTURE

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.

ITALY POSTE ITALIANE



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 2007 Fortune Magazine report, the group's revenues of US$21.4 billion ranked sixth in the world -- behind only Deutsche Post, the U.S. Postal Service, UPS, FedEx, and France's La Poste. Established firms TNT, Japan Post, and Britain's Royal Mail all trailed Poste Italiane's revenues by significant margins.

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.

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.
- Postel is the European leader for hybrid electronic mail and document processing.
- Poste Italiane's Europa Gestioni Immobiliari unit engages in real-estate financing.

ITALY POSTE ITALIANE

OWNERSHIP & STRUCTURE (CONTINUED)

Poste Italiane employs 46,000 postmen and about 155,000 workers in total. The workforce has shrunk since Poste Italiane became an independent company. While government-run, the national post employed more than 200,000 workers.

In 2007, Poste Italiane delivered more than 3 billion pieces of mail. It retains just 5 percent of the domestic package market, according to IBM. Letter volumes are less than half 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 six years since.

In 2007, Poste Italiane reported that its net income was up 25 percent, to €844 million, from €676 million in 2006. That represents a 141 percent increase in profit in just two years. The group reported revenue from postal services of €5.5 billion and from financial services of €4.5 billion in 2007. Both represented increases in revenue from the previous year.

Nevertheless, some analysts believe Poste's profits are tenuous. Just 200 customers are responsible for 20 percent of Poste Italiane's revenues.

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 still maintains a monopoly on letter mail below 50 grams, as do many other European posts. The EU has directed that postal markets in member states must be liberalized by 2011. The target date for full liberalization has been postponed several times, and Italy has taken full advantage by refusing to liberalize its market ahead of schedule.

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 "post prioritaria" at a cost of 60 eurocents.

COMPETITION

Licenses have been granted to 1,600 mail operators for a market that includes some 900 million pieces of mail outside the monopoly, which is currently in effect for letters weighing less than 50 grams. 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 monopoly on letter mail -- the weight for which has declined over time -- guarantees Poste Italiane a dominant position.

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 1,800 workers in Italy and posted €147 million in revenue in 2006. 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. These efforts were undertaken in partnership with outside firms, including such technology leaders as Microsoft and Cisco.

Non-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.

So far, the global financial crisis has contained some good news for Poste Italiane. Money has poured into Poste Italiane's banking unit, which Italian savers regard as a safe alternative to the country's endangered commercial banks. The postal bank only invests in state bonds. 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.

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 €3.3 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 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 have 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 2007, Poste Italiane reported six 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.

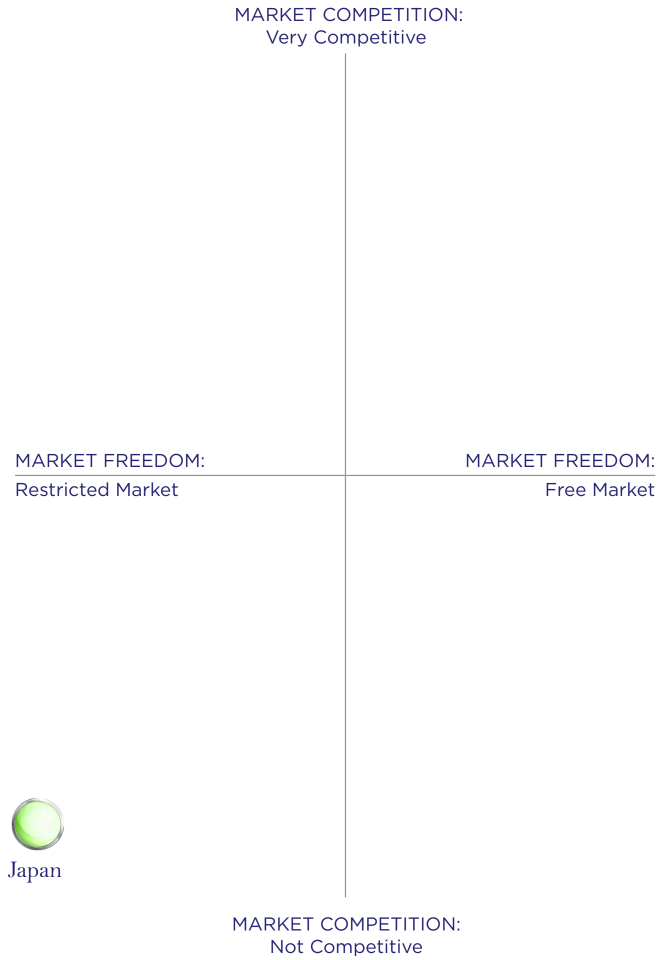
Poste Italiane continues to venture into new fields where it essentially competes with private-sector providers. Its mail operations have benefited from the profits borne by non-mail operations.

Such cross-subsidies have helped modernize and maintain the mail sector. For example, all Italian postmen will soon be 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 has put such plans in doubt.

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 | JAPAN POST



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. The four-pronged structure for Japan Post is set to remain in place until October 2011, when JP will be re-organized into three entities.

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.

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.

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.

In October 2011, the government plans to re-organize Japan Post into three entities. 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.

The Economist called the halt to Koizumi's privatization plan a "symbol of the government's reluctance to restructure the economy."

The original privatization plan called for the Bank and Insurance arms to be transferred to ownership by private shareholders by 2010. The state-owned holding company would have then relinquished all shares in them by 2017.

Japan Post Network and Japan Post Service would have continued to be completely controlled by the holding company. They were not to be privatized themselves, but the government had plans to relinquish two thirds of its interest in the parent holding company by 2017.

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

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.

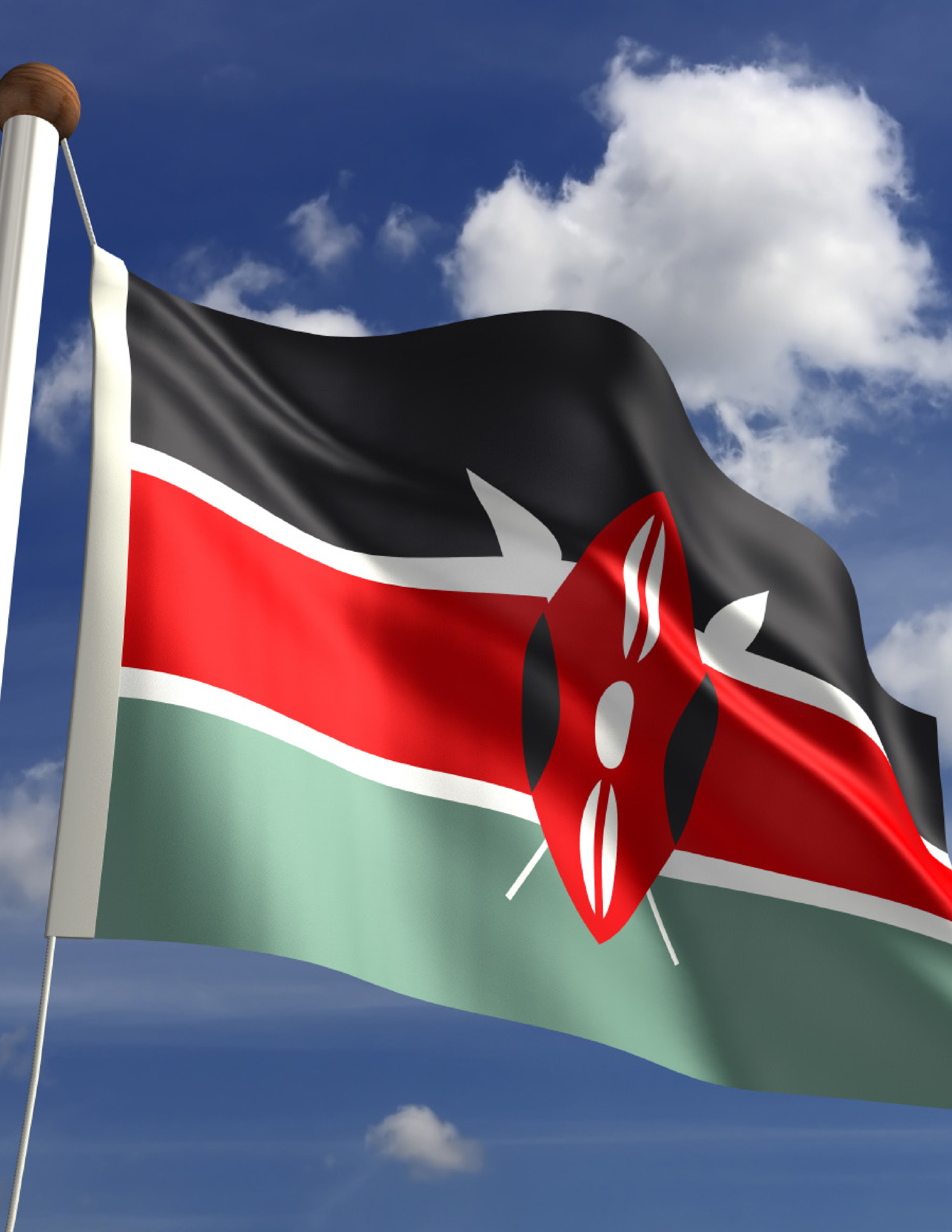
OTHER NON-POSTAL ACTIVITIES

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.

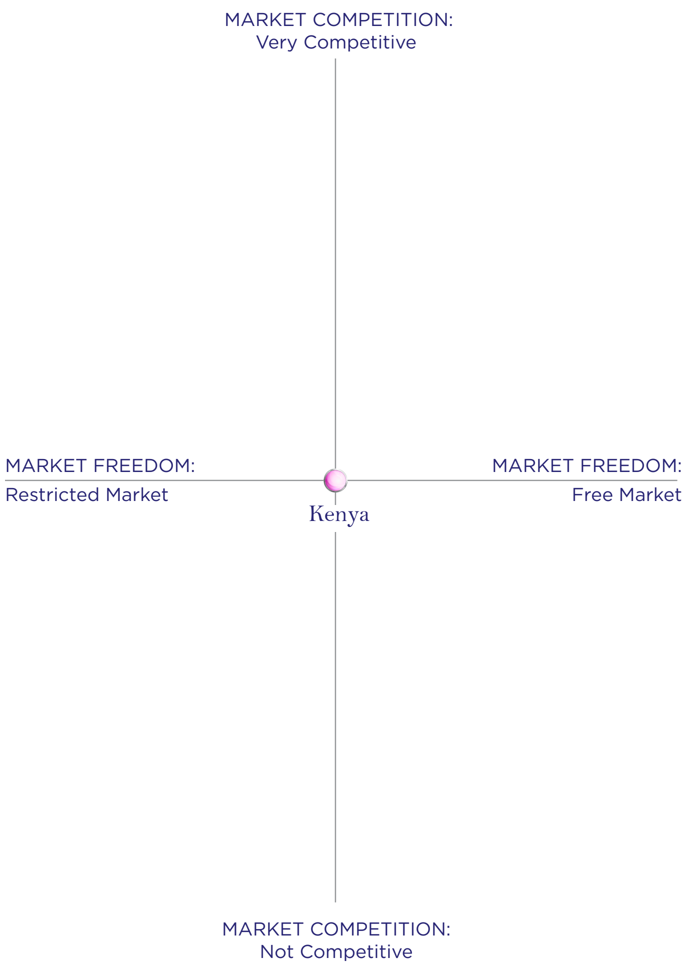
FUTURE

Koizumi's plan for postal privatization would have fundamentally changed the nature not just of Japan's postal services but of the entire Japanese financial sector. It also would've set the stage for greater levels of liberalization across the entire Japanese economy.

The DPJ seems committed to the old status quo. It's unlikely that Japan's leaders will revisit postal liberalization and privatization at any point the near future. And with the reconstituted Japan Post freed of many of its former banking and insurance strictures, Japan Post appears poised to play an even greater role in the Japanese polity and economy.



KENYA POSTAL CORPORATION OF 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.

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.

STRUCTURE (CONTINUED)

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.

REGULATION & UNIVERSAL SERVICE (CONTINUED)

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.

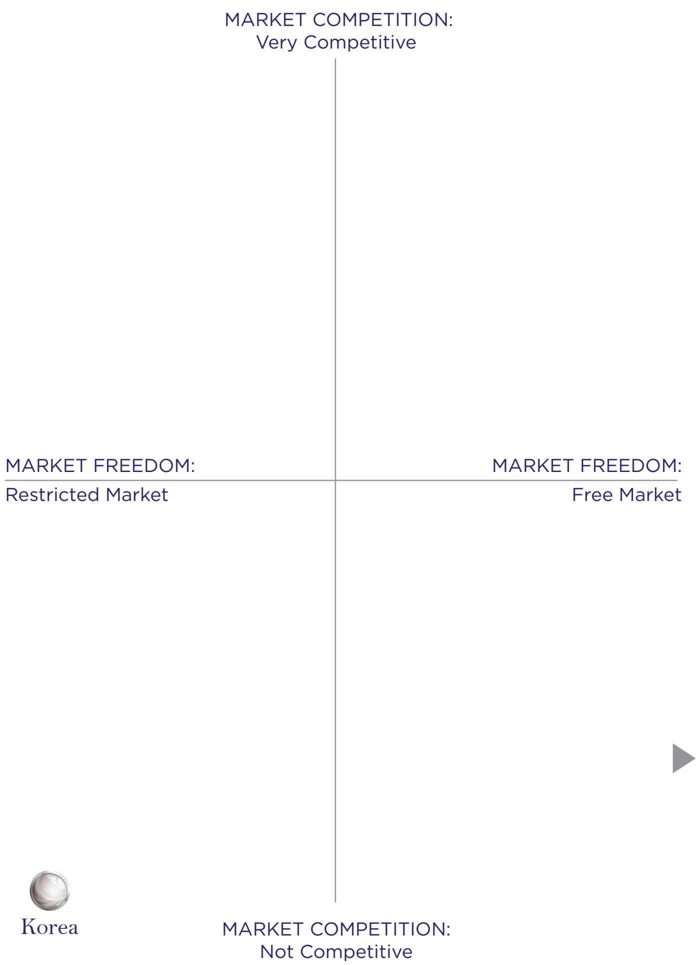
Posta has long operated the government-owned Kenya Post Office Savings Bank, which is structurally separate from the postal service and reports to the Ministry of Finance. About half of all Posta's post office locations also serve as outlets for the Savings Bank.

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 | KOREA POST



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 have tripled since 1997, to about US$43 billion by 2007. That represents roughly 5 percent of all Korean deposits. KP maintains the sixth-largest deposit base among South Korean banks.

STRUCTURE

KP consists of a General Affairs Division, Planning Division & Management Bureau, Postal Service Bureau, Postal Savings Bureau, Postal Insurance Bureau, and Inspector General.

Korea Post processed 4.818 billion items of mail in 2007, of which 111 million items were courier, express mail, or parcels. Its courier and express business steadily grew between 2003 and 2007, even as overall mail volume fell. Mail volume declined 2.8 percent in the first half of 2009, after a 1.2 percent decline last year.

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.

Like all postal services, KP's traditional mail stream has been shrinking. However, its employee base has grown and stood at roughly 43,000 full-time-equivalent employees as of 2007. In 2007, the service had 1,978 self-owned postal outlets and franchised an additional 1,681 outlets. The number of KP-owned postal outlets has declined slightly since 2003, while the number of franchised outlets has increased slightly in that time frame.

STRUCTURE (CONTINUED)

KP posted revenue in 2007 of US$5.642 billion. Net income was US$563.3 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 proposed Free Trade Agreement between the United States and South Korea, which is currently awaiting action in Congress, would subject Korea Post's insurance products to regulation by the FSS. This would place 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.

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 admit that postal reform has moved to the back burner.

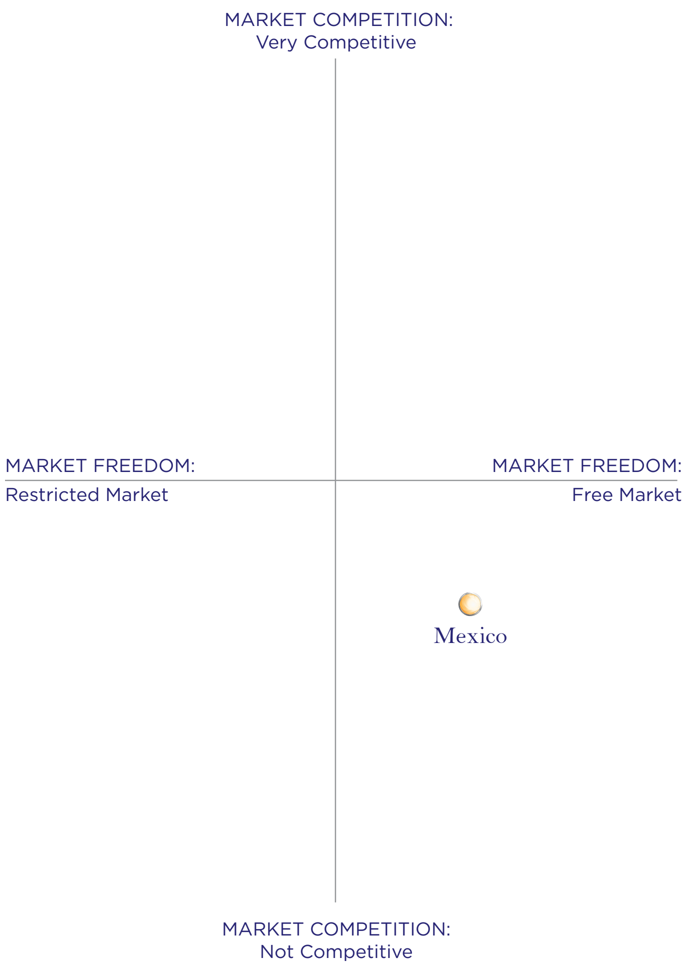
FINANCIAL SERVICES

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 some 18 million postal savings accounts. Thirty percent of KP deposits come from rural areas.

MEXICO SEPOMEX



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 SEPOMEX

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.

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.

COMPETITION (CONTINUED)

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.

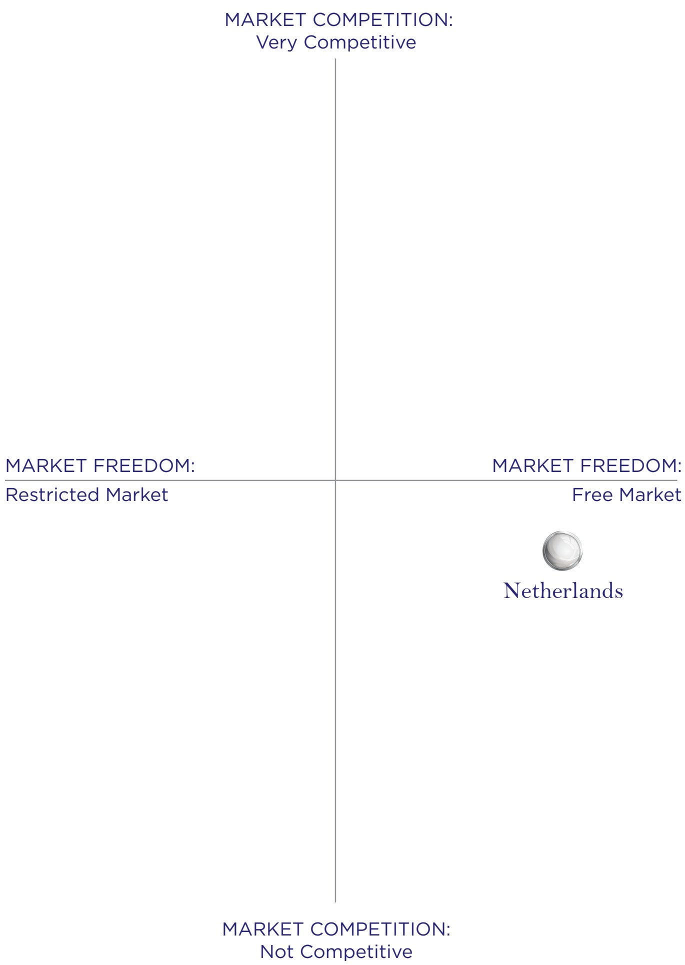
FUTURE

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.

NETHERLANDS TNT POST



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.

NETHERLANDS TNT POST

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.

UNIVERSAL SERVICE (CONTINUED)

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.

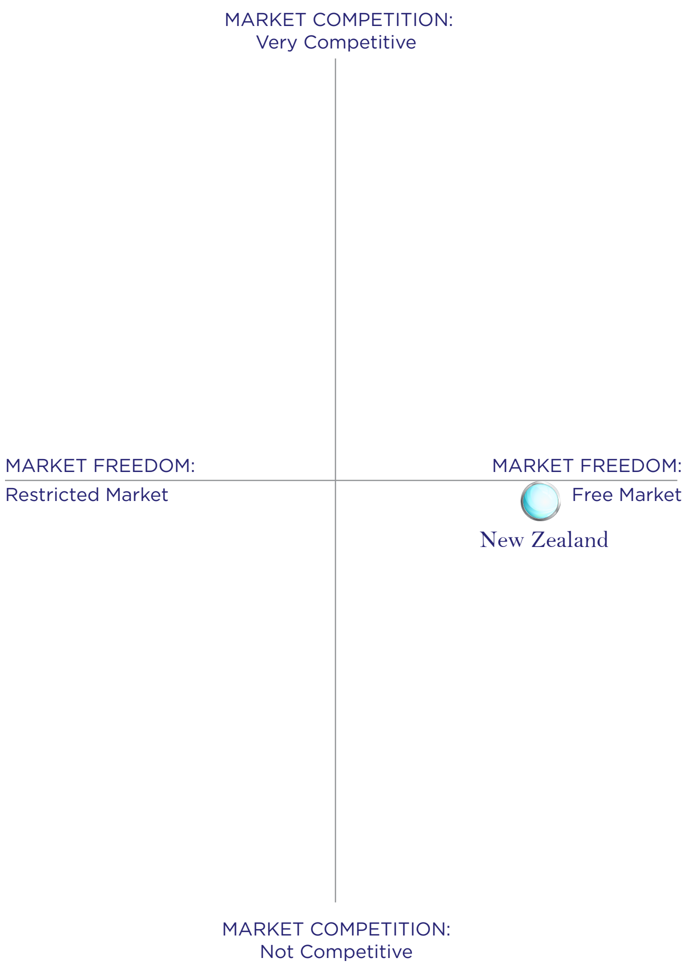
TNT has stated publicly that it would like liberalization to move faster. It also contends that too few countries have opened their markets.

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.

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.

NEW ZEALAND | NEW ZEALAND POST

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

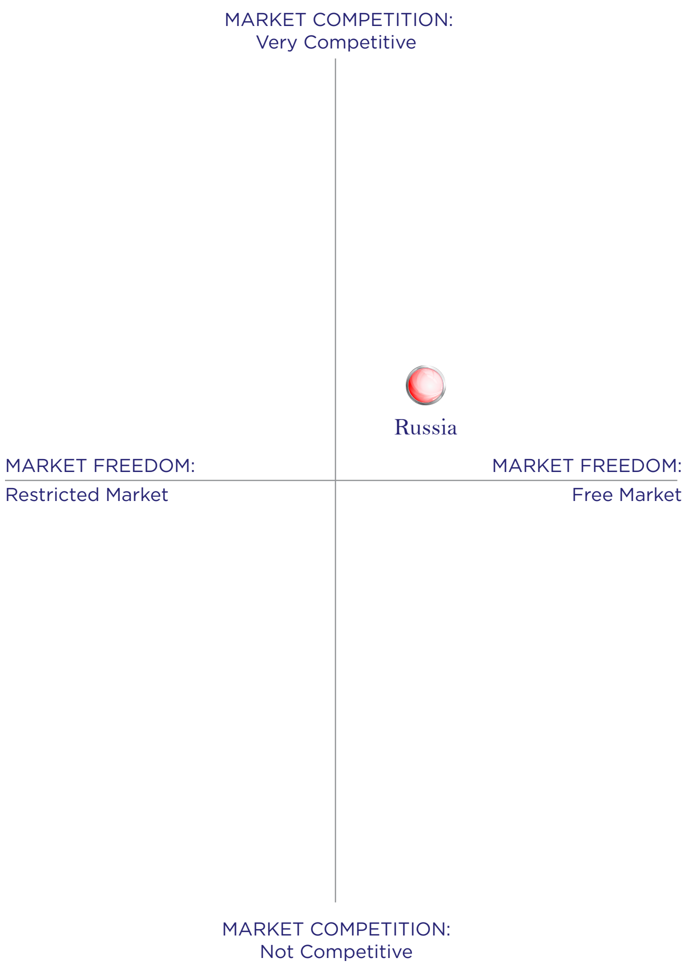
NZP delivers to over 1.84 million delivery points, including over 200,000 rural addresses. The Post maintains a network of at least 880 postal outlets and post centers (excluding stamp retailers).

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.

RUSSIA POCHTA ROSSII



OVERVIEW

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

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

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

STRUCTURE & 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.

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.

MODERNIZATION (CONTINUED)

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.

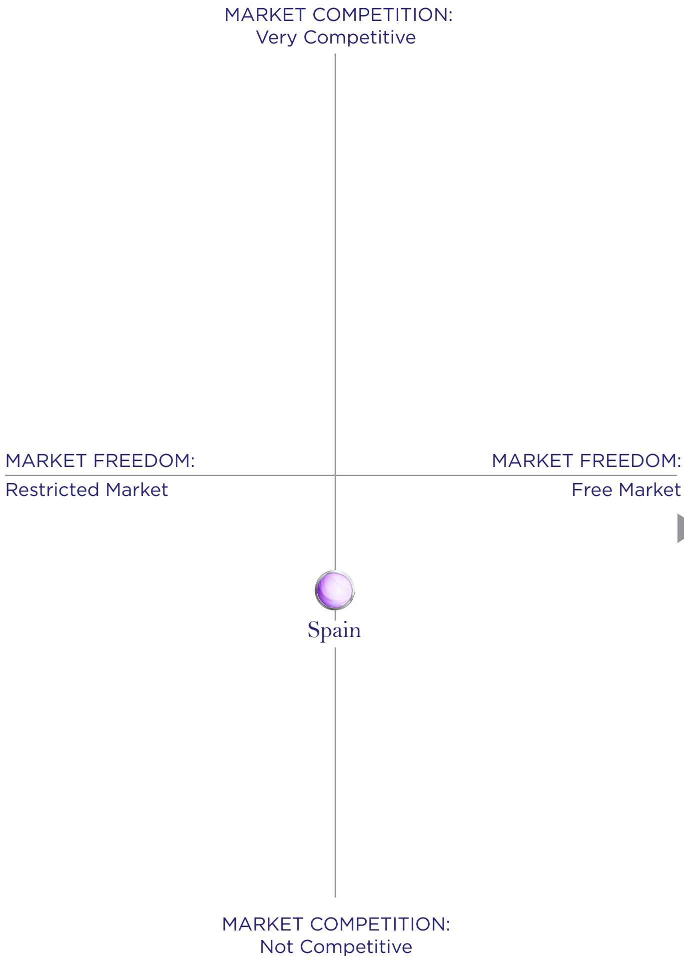
PRIVATIZATION

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."


PLVS
VLTRA

SPAIN CORREOS



EARLY HISTORY

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.

STRUCTURE & STATISTICS

Correos has roughly 66,000 employees who serve a Spanish population of approximately 40 million. According to its annual report, the company posted revenues of more than 2.1 billion euros in 2007 and handles 5.9 billion deliveries every year.

Correos operates 10,000 postal centers, more than 2,200 multiservice offices, and more than 7,800 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.

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. Correos Hibrid S.A. offers mass-media communication services to corporations. 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.

PRODUCTS & PRICING

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

Prices vary by weight (standard mail up to 2 kilograms) and zone -- mainland Spain, the islands, and trans-border. A standard stamp costs 30 euro cents -- 15 cents less than the average stamp price in the EU.

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.

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. It was projected that all monopoly rules would be dismantled by 2009, when Spain's postal market would be fully liberalized.

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 to corporations.

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

Spain has yet to fully liberalize its postal market for letters below 50 grams, and its leaders successfully argued for the right to postpone full liberalization to 2011, two years later than originally promised.

LIBERALIZATION & PRIVATIZATION (CONTINUED)

However, in cities, the letter market has been fully liberalized within a 50 kilometer radius. More than 60 percent of the mail market is subject to competition, and 26 percent of Spain's total mail volume is classified as city mail.

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.

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.

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.

The European Commission has been pushing for full competition for all conventional mail under 50 grams, but several countries -- including Spain -- have postponed their deadlines for liberalization to 2011, beyond the original target date of January 2009. Spain has long resisted the move to liberalization and maintains that EU directives on funding are insufficient to cover the cost of the service.

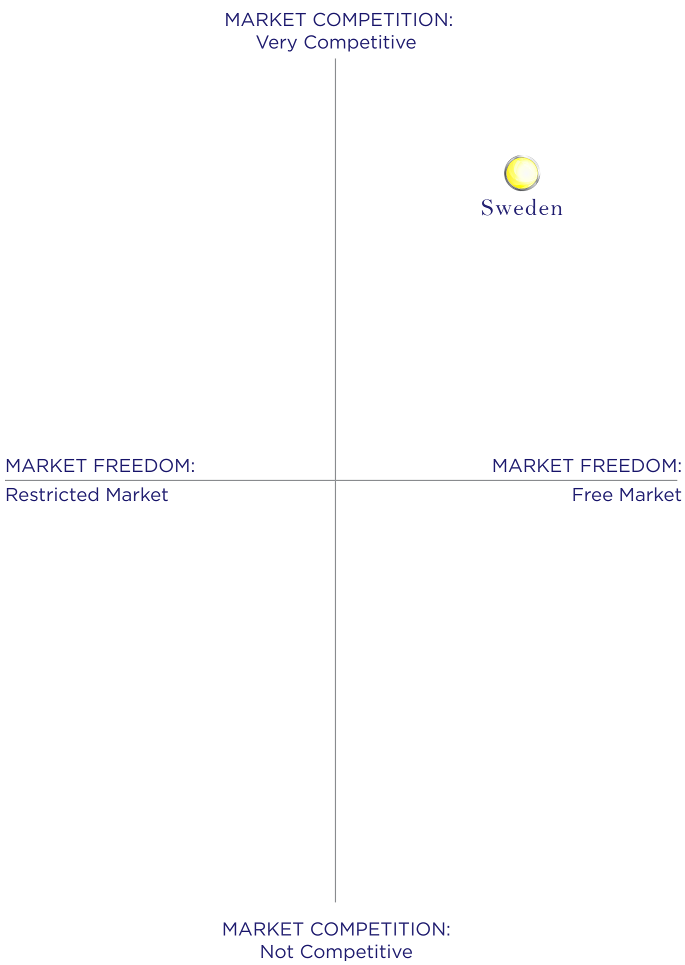
The universal service provision covers money orders; standard national and international letters up to 2 kilograms and packages up to 10 kilograms; national and international deliveries of advertising material, books, catalogues, and periodicals; and services accompanied by a certificate and of stated 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.

SWEDEN POSTEN



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 (CONTINUED)

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

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

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)

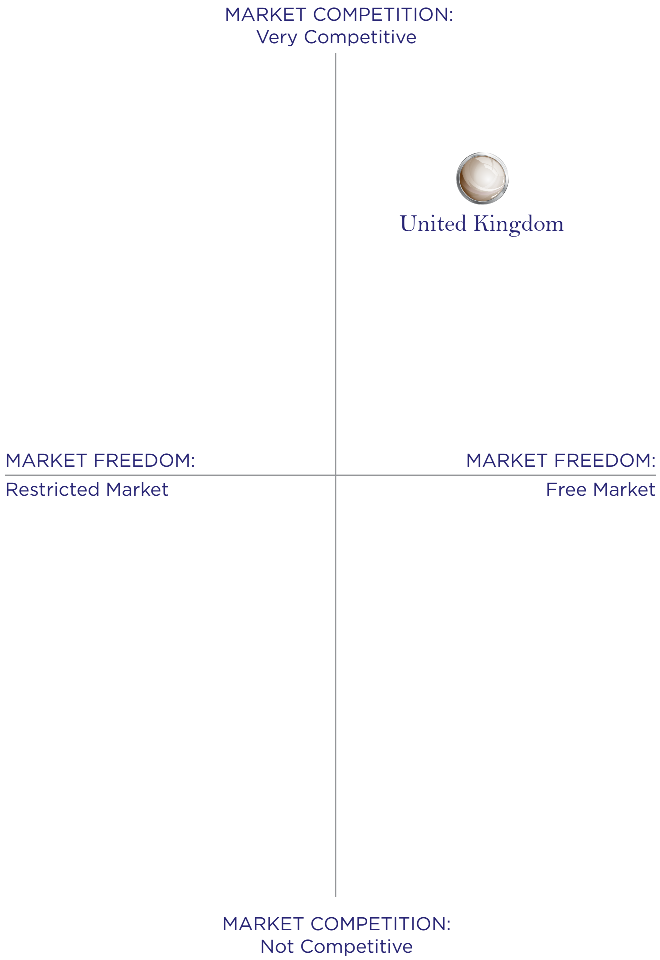
On the bulk side, Posten attempts to match many of CityMail's volume discounts, but more often the competition is not price but process-driven. Posten uses its own in-house sorting technology, while CityMail encourages customers who, for internal reasons, prefer to control their own mail streams and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

FUTURES

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.

U.K. ROYAL MAIL



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 79 million items to 27 million addresses.

Almost 193,000 people work directly for Royal Mail Group. In the first half of fiscal year ending March 2009, Royal Mail Group posted revenue of £4.6 billion and operating profits of £177 million, more than doubling the £86 million from the same period last year. Businesses currently send 87 percent of all mail in the UK, and consumers send 13 percent.

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

The question of whether to privatize Royal Mail continues to be a subject of political debate in Britain. Despite the opening of postal markets, Royal Mail remains government-owned and still receives public subsidies -- to the tune of £302 million. Royal Mail claims that it needs government subsidies for its service to rural areas. The majority of its 13,500 Post Office branches loses money.

The European Commission is investigating these 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 labor 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."

Royal Mail has accumulated a massive pension liability. From March 2008 to September 2008, the pension deficit increased from £2.9 billion to £4 billion, largely due to stock market losses. This deficit renders privatization much harder, as very few investors are interested in assuming pension liabilities.

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.

COMPETITION

Despite liberalization, competition has yet to fully take hold. Royal Mail is still the predominant actor in the British postal market, with market share of well over 90 percent.

Currently, 25 firms are licensed to deliver mail in Britain, including Royal Mail. However, most competitors only collect and process mail while still paying Royal Mail to handle delivery.

Royal Mail has access agreements with other licensed carriers, serving as the last-mile deliverer for 2.5 billion "access" deliveries in the first half of fiscal year 2008-2009. There were 4 billion "access" deliveries in 2007-2008. As of December 2008, Royal Mail handles about 450 million deliveries per month under access agreements.

In 2007-08, newly licensed operators carried 26 million items end-to-end, a decrease of 15 percent from the previous year. This decrease is at least partially explained, however, by trial routes in limited geographical areas.

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

REGULATION

As a government organization, Royal Mail is regulated by the Postal Services Commission, or Postcomm. According to its mission statement, Postcomm's job is to make sure licensed postal operators "meet the needs of their customers throughout the UK." Postcomm ensures that the universal service guarantee is upheld for all UK households and businesses. Postcomm also supervises the licensing of postal operators delivering mail within the "licensed area."

Postcomm has supervised the introduction of competition in mail services. Bulk mail was the first to be opened to competition, in 2003, and the entire market was opened to competition at the beginning of 2006.

Finally, because Royal Mail still controls over 90 percent of the letters market, Postcomm continues to regulate Royal Mail's prices and its quality of service. The most recent pricing framework places a 37-pence limit on first-class stamps by 2010. Royal Mail's competitors are free to price services as they please, even if lower than the regulated price.

Postcomm has the authority to intervene in a variety of cases deemed anticompetitive. As such, because of the size of the national post, most of Postcomm's focus is on Royal Mail's activities.

Royal Mail is obligated to offer its competitors access to its vast network on a "fair and reasonable basis." This means that all competitors must be able to negotiate for use of Royal Mail's delivery system, if necessary.

Postcomm has the authority to negotiate solutions with Royal Mail to anticompetitive behavior that has arisen or may arise. If these discussions do not solve the anti-competitive problem, Postcomm can issue an enforcement order or even impose a financial penalty.

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.

According to the Hooper Report, Royal Mail has "a difficult relationship with the [postal] regulator." The Report recommends replacing the regulator.

CONSUMER PROTECTIONS

Postwatch is the independent consumer watchdog for postal services in the United Kingdom. Postwatch monitors Royal Mail's performance and advises the Postcomm 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.

Postwatch 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 Postwatch'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 to every UK address, 6 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.

Two bulk mail products are also covered under the universal service obligation:

- Mailsort 1400, which is mail up to 2 kg pre-sorted according to the location of 1,400 Royal Mail delivery offices;
- Cleanmail, which is considered "entry-level" bulk mail and does not need to be pre-sorted.

Royal Mail claims that the universal service obligation generates a loss; it put the loss at around £100 million in fiscal year 2007-08.

PostComm, on the other hand, has held that the universal service obligation is a commercial advantage for Royal Mail, not a burden.

NON-POSTAL SERVICES

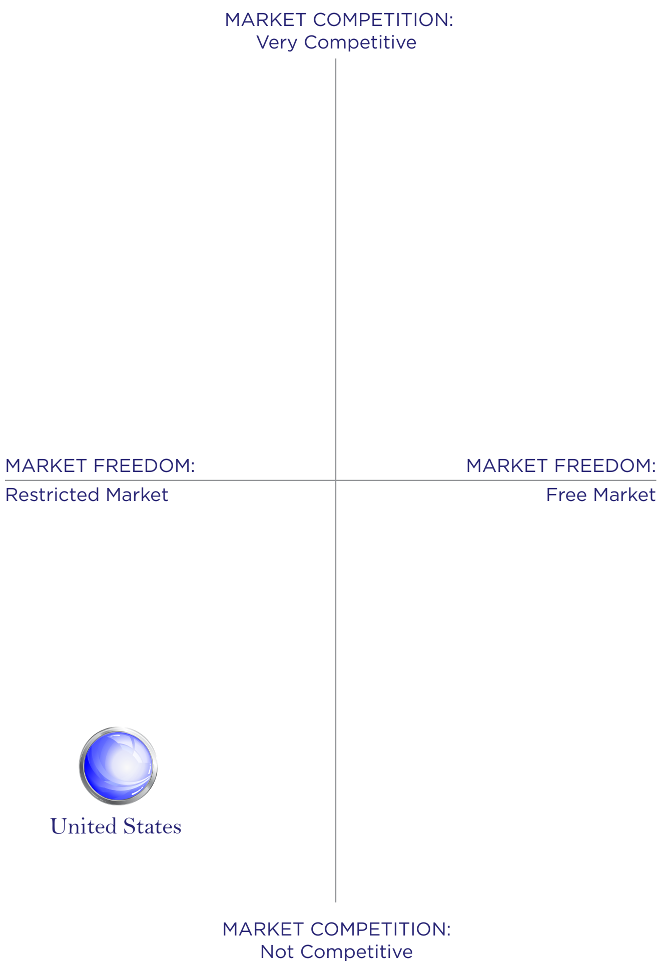
With revenue from letters and other traditional postal services trending downward, Royal Mail has expanded into several non-postal commercial activities. At the end of the 2007-08 fiscal year (March 2008), Royal Mail announced that it was responsible for one of every 50 auto insurance policies in Britain and was insuring one in every 200 homes in the UK.

Royal Mail has also expanded into services traditionally offered by banks. It now holds savings from nearly half a million depositors and issues one in every 40 new credit cards in the United Kingdom. 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.

Royal Mail's bank accounts are provided by the Bank of Ireland. So Post Office savers rely on the Irish government for protection, not the British Financial Services Authority. As the Irish economy has been hit especially hard by the global economic downturn, many postal savers have become nervous about the security of their assets.

Revenue from non-postal businesses increased in the first half of the 2008-2009 fiscal year, offsetting revenue losses from Royal Mail's government services and retail operations.

UNITED STATES USPS



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 177 billion pieces of mail each year to more than 150 million addresses.

USPS had 623,128 career and 88,954 non-career employees in 2009. 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. This is a unique arrangement among federal agencies.

The number of addresses to which it delivers increases year on year; between 2008 and 2009 the figure grew by about 900,000. The volume of letters sent by individuals is shrinking steadily, with businesses accounting for the bulk of the mail market today.

The U.S. Postal Service lost $3.8 billion in 2009. 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, under the leadership of Postmaster General John Potter, USPS has cut costs and improved productivity.

A postal reform law passed in 2006 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.

Postal products are divided into market-dominant and competitive categories. The Postal Accountability and Enhancement Act 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.

UNITED STATES USPS

LIBERALIZATION

USPS opposes liberalization of the market for letter mail delivery, in which it enjoys a statutory monopoly. USPS also maintains a monopoly on access to a consumer's mailbox -- even if he or she owns and maintains it.

The postal monopolies were 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 FTC also reported on eight countries without mailbox monopolies. None noticed a significant loss in postal revenue. Six reported little or no problem with theft from the mailbox.

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

Some business and consumer groups favor the introduction of competition, but there has been inadequate momentum to lift the monopoly on letter mail delivery.

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, allowed some de facto privatization of delivery through the use of contractors. Contract mail carriers currently service about 7,600 routes, or approximately 2 percent of all routes nationwide.

Some members of Congress have sought to restrict such contracting. Several pieces of legislation have been introduced that would require USPS to collectively bargain with postal unions whenever it moved to outsource significant amounts of work.

USPS has also increased its reliance on private companies as contractors to aid in the completion of other tasks. In 2009, 15 private-sector suppliers were each paid over $100 million. The largest supplier was FedEx Express, which received $1.4 billion for domestic air transportation of postal express shipments, as part of a deal which expires in September 2013.

PRIVATIZATION (CONTINUED)

USPS regularly enters 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. For instance, the Postal Regulatory Commission predicted that a negotiated service agreement that the agency entered into with Bank of America in 2007 would end up costing "anywhere between $25 million and $45.8 million."

Because of the potential for such losses, negotiated service agreements are becoming less common.

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 express service products) with revenues gained from monopoly products, but critics often accuse the Postal Service of engaging in such cross-subsidization regardless of the law.

Private-sector companies compete with USPS in express and package delivery. As of 2007, UPS was the leader in ground package shipments, with a 61 percent share. FedEx maintained a strong hold on the overnight market with 42 percent share. The Postal Service led the two-day air-delivery market with 40 percent share, though it relies on FedEx aircraft to transport its express packages. These figures include all domestic air and ground volumes as well as international package volumes that either originate or terminate in the United States. All data are from freight-consulting firm MergeGlobal Inc.

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 PAEA. It considers rates proposed by USPS, holds hearings on rate changes, and makes rate recommendations to the Postal Service Board of Governors, which may accept or reject them.

The PAEA also directed the Department of the Treasury to undertake a review of the Postal Service's accounting and cost attribution practices. The Department's findings were released in late 2007. USPS is able to attribute only about 60 percent of its costs to specific purposes; the rest are categorized as "institutional costs," or overhead.

This inability to attribute costs is significant because it effectively allows the Postal Service to overcharge the captive monopoly consumer. Incomplete cost attribution forces the consumer to contribute more than his fair share to institutional overhead.

UNITED STATES

REGULATION & OVERSIGHT (CONTINUED)

The Treasury report encouraged adoption of a simplified approach to computing the "assumed" federal income tax to be paid by the Postal Service on revenues derived from its competitive products in accordance with the dictates of the PAEA. Of course, this "assumed tax" would be paid by the Postal Service to itself -- rendering its status as a true "tax," like those faced by private-sector competitors, dubious.

Despite this putative tax reform on the competitive products side, the Treasury report stopped short of requesting definitive attribution of costs from USPS's monopoly products.

UNIVERSAL SERVICE

The USO 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.

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.

CONSUMER PROTECTIONS

Until late 2007, the Postal Regulatory Commission's Office of the Consumer Advocate was charged with representing the interests of the single-piece letter-mail consumer in matters related to pricing and service. The Office of Public Affairs and Government Relations has taken over the Consumer Advocate's old duties.

USPS itself has consumer affairs offices around the country to which users can bring complaints. In addition, a variety of non-profit organizations and government agencies hear complaints from the public and press for fairness to consumers. The most powerful among them is the Federal Trade Commission.

PRICING

In May 2007, the price to mail a single letter rose from 39 to 41 cents -- the first price increase under the terms of the PAEA. First Class stamp prices rose to 44 cents in May 2009. USPS has asked the PRC for permission to raise stamp prices to 46 cents apiece starting in January 2011.

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.

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

First Class mail contributes more revenue to cover general overhead than any other category of mail does. Consumer advocates argue that this is unfair to individual consumers, particularly because bulk mailers negotiate to send their missives at a discount.

September 2010 | The Postal Freedom Index is updated regularly. Check www.postalconsumers.org for new and updated information.

CONSUMER POSTAL COUNCIL

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