



TRIANGLE

Governmental Measures Related to Post Office Networks in Selected Countries



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Introduction

The aim of the study was to examine governmental measures that affect the post office networks in a sample of countries. The seven countries chosen were **France**, **Germany**, **Italy**, the **Netherlands**, **New Zealand**, **Sweden** and the **USA**.

Political influence

The incumbents' commercial freedom from governmental influence is varied:

- ▲ in the **USA**, **France** and **Italy** the scope for direct political interference over the post office network remains high;
- ▲ in **Germany** and the **Netherlands** the independent regulators can be expected to balance the cost of the network against the needs of the community;
- ▲ there is no regulator in **New Zealand**, but through its ownership of **New Zealand Post** the government effectively has reserve powers to determine the minimum size of the network;
- ▲ in **Sweden** the postal regulator is not directly concerned with the post offices network or with negotiations between **Sweden Post (Posten)** and the government if the latter requires uneconomic offices to remain open.

In the three countries with the most scope for political interference progress has been slowest in changing the incumbents from government departments into independent, commercially orientated entities. The incumbents in the two countries where a substantial part or a majority of the incumbents' shares are in private hands, **Germany** and the **Netherlands**, are profitable overall, and highly so in the case of **Germany**. As a result there is less pressure on them to ensure the profitability of the network of post offices.



Size and structure of the networks

Apart from in **France**, **Italy** and **The Netherlands**, the size and structure of the post office networks has changed significantly over the past decade. In **France** the network has been considered as part of “managing the territory” rather than as a commercial operation that should at least break even in its own right. In **Italy** the emphasis over the past few years has been to revitalise the letter service. Attention is now turning to the network of post offices.

In the **USA** the total post offices network has been reduced, with agency offices falling in percentage terms. By contrast, in **Germany** and the **Netherlands** there has been a significant shift towards converting own-staff offices into agencies. Agreements between the state and the incumbents as to the siting of post offices and/or their minimum number are found in **Germany**, **Italy** and **New Zealand**. It is politically difficult to close a post office in the **USA**.

State assistance

The **Netherlands** has a profitable network of post offices, requiring no assistance. In **Sweden** an explicit state subsidy is paid for uneconomic offices that the state wishes to remain open. Government grants are made to **Poste Italiane**, though not specifically for the post office network. In **France** the government grants **La Poste** tax concessions specifically to support the network. In the **USA** the government is the guarantor of **USPS's** continued solvency.

Internal cross-subsidies

Internal cross-subsidies within incumbents to support the counters' networks are probable in **France**, **Italy**, **Germany** and the **USA** but the incumbents' accounts are generally opaque on such matters.



Reinvention of the networks

Under pressure from the Internet, traditional post office networks are having to rethink their role. **Sweden's Posten** decided to sell its banking arm. By contrast **Deutsche Post World Net (DPWN)** is preparing its banking arm for an imminent partial flotation. **La Poste**, **Poste Italiane**, **TPG** and **NZ Post** all see a bright future in developing their banking and financial services.

Looking to the future, the administrations studied possess networks of offices that are larger and more widespread than those of individual banks or possibly even of many banks combined. Their image is likely to be that of solid trustworthiness. However, some are still staffed by civil servants (**France** and **Italy**, for example) and have a historical outlook of service to the community rather than of commercial dynamism.

Two of the most successful networks, **Postkantoren** in the **Netherlands** and **NZ Post** have formed working relationships with the private sector. Other historically conservative administrations such as **La Poste** and **Poste Italiane** are staking their future on banking and financial services. **Sweden's Posten** seems to have lost its way, and its annual accounts show a high and rising number of staff sickness days, a sign of internal malaise. The **USPS** remains shackled by its non-commercial status and its continuing answerability to Congress and to presidential influence.



Summary

The table below shows a summary of the results found in each of the previous section headings:

- ▲ Political influence
- ▲ Size and structure of the networks
- ▲ State assistance
- ▲ Internal cross-subsidies
- ▲ Reinvention of the networks

	France	Germany	Italy	Netherlands	New Zealand	Sweden	USA
Political influence	High	Low	High	Low	Low	Medium	High
Size and structure of the network over past 10 years	Stable	Significant reduction	Fairly stable	Fairly stable	No data	Drastic reduction	Significant reduction
State assistance	Tax credits	No	Yes	No	No	Yes	No
Internal cross-subsidies to the network	Yes	Yes	Yes	No	Uncertain	Uncertain	Uncertain
Reinvention of the network	Financial services	Financial services	Financial services	Services for third parties	Kiwi Bank	Exit from banking	No



2.1 Terms of reference

This report is based on a revised proposal submitted to the NAO on 20 February 2004. The remit was to describe the following aspects of postal networks in selected countries, bringing the available factual material into a synthesis across the countries concerned.

1. The chain of responsibility for the national post office networks, namely parliament, the relevant government department(s), the regulator (if any) and the incumbent administration.
2. The numbers of wholly owned and agency offices for the past 5-10 years, with plans for reducing, stabilising or even enlarging the network.
3. The services that post office counters provide.
4. The formal or informal regulations that determine the location of post offices and their opening hours.
5. The value of government grants to the counters network and whether these are justified as fees for services rendered, subsidies on social grounds or as seed-corn to re-invent the network.
6. The existence, whether overt or covert, of cross-subsidies to the counters network from within the incumbent administration, for example from the mail service. It was recognised that this information might not be available because of its sensitivity.
7. Attempts, past, present or planned, to reinvent the activities of the counters network and the success or otherwise of these attempts to date.



2.2 Scope

The countries chosen were as follows, and the reasons for their inclusion were given in our proposal.

- ▲ France
- ▲ Germany
- ▲ Italy
- ▲ Netherlands
- ▲ New Zealand
- ▲ Sweden
- ▲ The USA

2.3 Method

The work was by desk research using Triangle's extensive in-house archives and the Internet. This was supplemented with some information from contacts in some of the countries concerned.

We also received material already in the NAO's possession to save us duplicating existing information, and we have drawn on this in the present report.

The research was carried out in March 2004.

3. Analysis and Conclusions



3.1 *The chain of responsibility for the national post office networks*

In all the countries studied, the network of post offices has been, and remains, under the control of the incumbent postal administration. However, the degree of commercial and operational freedom of the incumbents varies considerably in different jurisdictions.

At one end of the scale The United States Postal Service (USPS) has always been subject to strong political pressure and lobbying. Its governors are appointed by the President. Detailed scrutiny of its prices is done by the Postal Rate Commission (PRC), whose five commissioners are also appointed by the President, with party affiliations being taken into account. At different times individual congressmen have introduced bills to change the way USPS operates.

In 2003 a commission appointed by President Bush reported, making recommendations on changing the PRC into a Postal Regulatory Board with wider terms of reference more akin to some European regulators. Overall the USPS has been charged with breaking even financially taking one year with another rather than consistently making a profit and/or a defined return on capital. Its debts have been estimated at \$90 billion (£51 billion) which compare with operating revenues of \$68 billion (£38 billion) in 2003.

In France political influence over La Poste and the network of post offices has also been historically strong. The overall operations of La Poste have been seen as an aspect of “managing the territory”. Only in 2004 is a postal regulator being established. It is to be part of the existing telecommunications regulator, ART. To date, the network of post offices has been seen as part of the fabric of French society, particularly in rural areas, rather than as a commercial profit/loss centre.

In the other European countries covered by this study regulators have varied levels of responsibility for the post offices network but much less so than for the mail services generally. For example, in Germany the regulator RegTP has formal power to intervene directly only if DPWN were to reduce the network below 12,000 post offices (currently around 13,000).

3. Analysis and Conclusions



3.1 The chain of responsibility for the national post office networks

In Sweden the regulator, the National Post and Telecom Agency (PTS), regulates competition and service quality in postal services. Sweden Post operates in a fully liberalised postal market but is still wholly owned by the government who therefore can exert influence on the size and structure of the network of post offices. PTS monitors the network and when Sweden Post wishes to close uneconomic offices the State pays a subsidy to Sweden Post if it wishes them to remain open.

New Zealand Post is wholly owned by the government and does not have a regulator. However, successive governments have concluded agreements with NZ Post in relation to maintaining a minimum number of post offices. Since NZ Post has been conspicuously successful in maintaining its share of the letter market, making profits and satisfying customers in a fully liberalised postal market, the government has had no need to interfere directly in the running of the postal network.

Among the European countries studied, Italy alone has no independent regulator for postal matters. The Ministry of Communication has been designated as responsible for regulating Poste Italiane.

In the Netherlands TPG Post, the Dutch postal administration, has been privatised with 55% of its shares in private hands. It is regulated by an independent agency, OPTA, that has the responsibility to determine whether or not there are enough post offices and service points and whether these are spread over the country according to the law. TPG Post has to report to OPTA before March each year about the number and location of its outlets.



Conclusion

The seven countries can be grouped as follows:

- ▲ the scope for direct political interference over the post office network remains high and is likely to continue in the **USA**, **France** and **Italy**;
- ▲ an independent regulator can be expected to balance the cost of the network against the needs of the community in **Germany** and the **Netherlands**;
- ▲ there is no regulator in **New Zealand** but politicians effectively have reserve powers, through the government's ownership of NZ Post, to determine the minimum size of the network;
- ▲ in **Sweden** the postal regulator is not directly concerned with the post offices network or with negotiations if the government requires uneconomic offices to remain open.

From the above it seems that the three countries with the most scope for political interference are those in which progress has been slowest in changing the incumbents from government departments into independent, commercially orientated entities.

In the two countries where a substantial part or a majority of the incumbents' shares are in private hands, **Germany** and the **Netherlands**, the incumbents are profitable overall, and highly so in the case of Germany. As a result there is less pressure on them to ensure the profitability of the network of post offices. In recent announcements DPWN has stated that it will open 2,000 new offices in rural areas and close 1,500 in other areas. This restructuring may be influenced by DPWN's aim of persuading the regulator not to clamp down on its high letter prices.



Conclusion

The partly privatised German and Dutch administrations are considered to be the most efficient and aggressive in the EU. Over the past five years Germany has acquired a range of companies abroad, thanks to generous profits from its effective domestic monopoly of letters at high prices. Both have received licences to operate postal services in the UK and both are seen as potential purchasers to buy Royal Mail (though not necessarily RMG) if it were to be put on the market. DPWN, in particular, would have the resources to do so.

NZ Post is an unusual example of an incumbent working in harmony with its government without the need for a special regulator or heavy-handed intervention by its sole shareholder. Once the Deed of Understanding has been renewed every three years or so, NZ Post apparently requires no direct governmental intervention. The price of its standard stamp at NZ 40 cents has been stable for approaching 10 years and is still 5 cents below the maximum set by the government. It has been consistently profitable, though less so than before the market was fully liberalised. If it cross-subsidises any parts of its counters network, this so far has not been challenged by the private sector. It remains to be seen whether this will remain true as the operations of the Kiwibank increase its share of the banking market.

In the letters market Sweden's Posten can be considered a success story, but one that is in danger of faltering though not because of overt government intervention. Following market liberalisation in 1993 Sweden Post remained profitable until recently. Initially it had a government subsidy only for clearly defined social services such as mail for the blind. However its attempts to reform its post offices network were drastic, poorly thought out, and initially were most unpopular. It is clear that Posten was acting freely and without government interference until the unpopularity of the changes introduced in 2000 onwards became apparent. At this point political pressure was brought to bear.



Conclusion

In conclusion, it seems that when an incumbent is consistently profitable it can take a more generous approach to the provision of a network of post offices. It is also clear that the historical networks usually made losses. Now that incumbents face actual or future competition on their historically profitable letters operations, they are looking to restructure and reduce the size of their post office networks. Converting own-staff offices into agencies also offers savings.

In Sweden the government has accepted the principle that it should reimburse Posten for maintaining unprofitable offices. Elsewhere the status is more that of behind the scenes negotiation between incumbents and the sponsoring ministries. The regulators do not have the mandate or the funds to determine the final size of the networks. Thus the size and structure of post office networks is ultimately determined by governments even when there is a specialist postal regulator.



3.2 Trends in office numbers

Trends in the number of offices since 1993 are shown in Table 3.1 and Charts 1 - 3 on the following page. There are no data for New Zealand and there are occasional blanks in the sources from which the data have been obtained.

From the table and charts the following points can be seen.

- ▲ The number of **all offices** fell significantly in the USA, and steadily in Germany and Sweden
- ▲ The number of **agency offices** rose dramatically in Germany and steadily in the Netherlands
- ▲ The **percentage of agency offices in all offices** rose sharply in Germany and the Netherlands
- ▲ In the USA the percentage of agency offices fell and then stabilised.

3. Analysis and Conclusions



Table 3.1 All offices, agency offices and agency offices as percentage of all offices

All offices											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France	16,877	16,919		17,069	17,148	17,038	16,930	16,662	17,061	17,015	
Germany		19,479	17,172	16,172	15,331	14,482	13,948	13,663	12,818	12,683	13,514
Italy	14,377	14,200	14,142	14,100	13,967	13,987	13,980	13,831	13,860	13,747	
Netherlands	3,567	2,200	2,009	2,433	2,399	2,387	2,361	2,282	2,183	2,342	
Sweden	1,836	1,786	1,745	1,720	1,075	1,019	922	851	400	430	
USA	50,056	50,087	49,906	44,823	44,619	38,159	38,169	38,060	38,123	37,683	

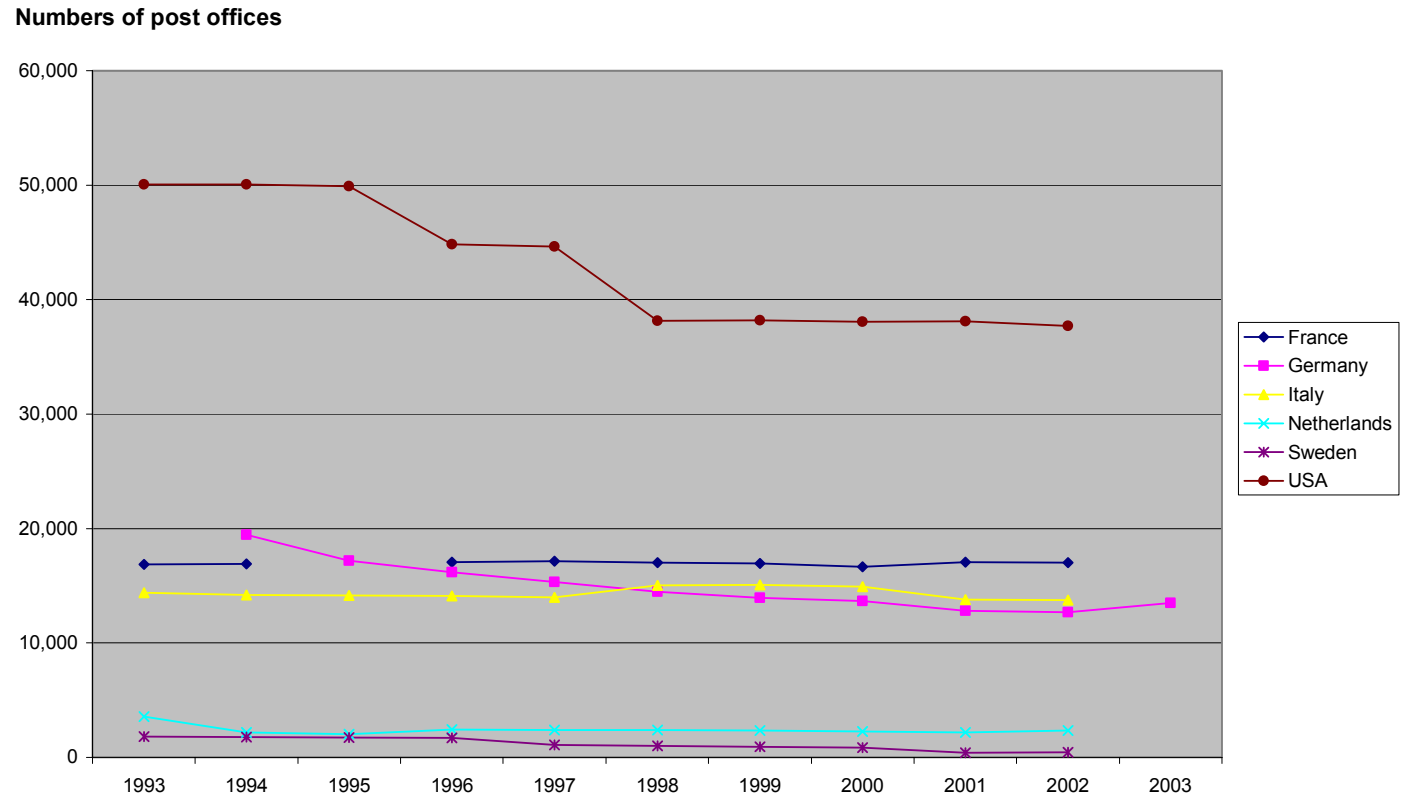
Agency offices											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France	3,092	3,068		3,039	3,040	2,990	2,933	2,924	2,891	2,850	
Germany		761	3,500	5,000	5,235	6,535	7,991	8,072	7,486	7,652	8,000
Italy	0	0	0	0	0	0	0	0	0	0	
Netherlands	1,321	1,400	1,211	1,530	1,560	1,604	1,661	1,663			
Sweden	337	419	465	543							
USA	9,059	9,106	9,131	11,113	11,113	4,546	4,488	4,382	4,412	3,992	

Agency offices as per cent of all offices											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France	18	18		18	18	18	17	18	17	17	
Germany	0	4	20	31	34	45	57	59	58	60	59
Italy	0	0	0	0	0	0	0	0	0	0	
Netherlands	37	64	60	63	65	67	70	73			
Sweden	18	23	27	32							
USA	18	18	18	25	25	12	12	12	12	11	

3. Analysis and Conclusions



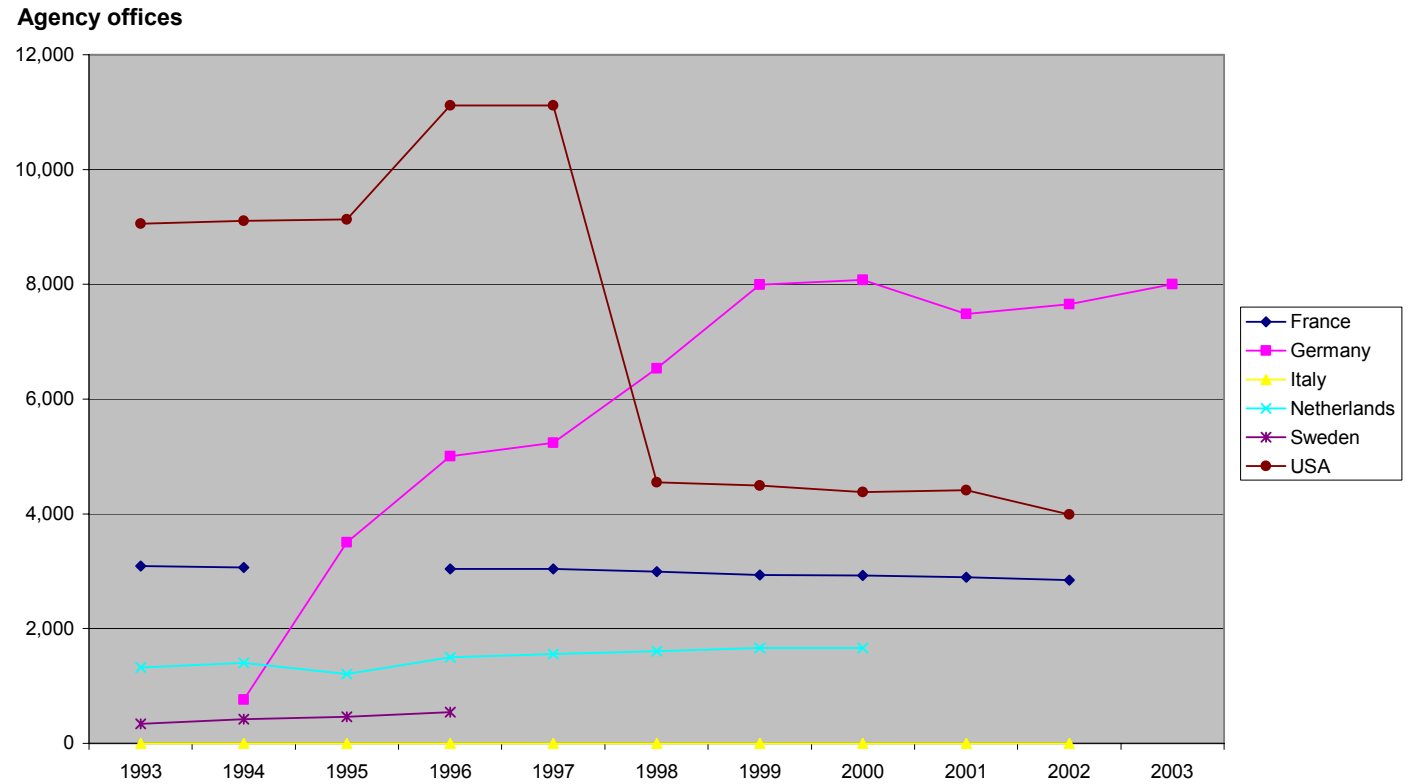
Chart 3.1 All offices



3. Analysis and Conclusions



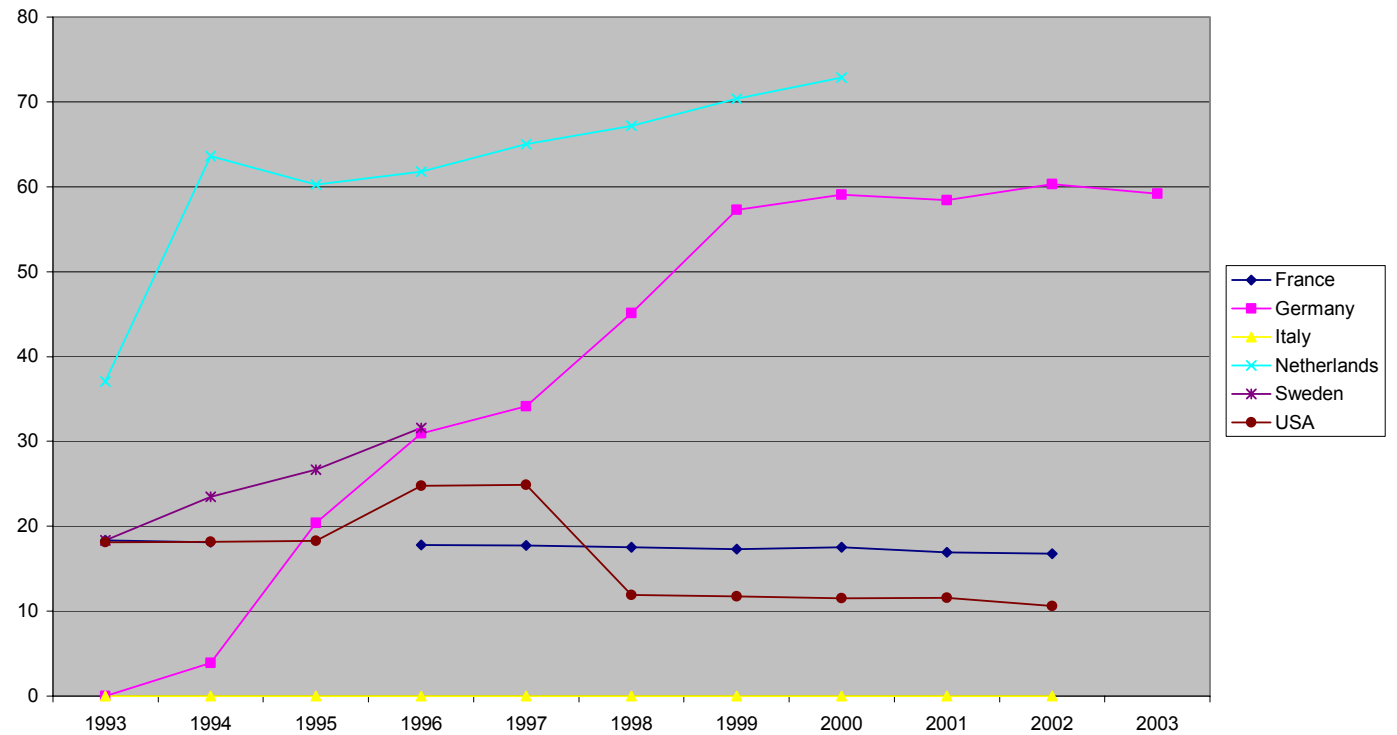
Chart 3.2 Agency offices



3. Analysis and Conclusions



Chart 3.3 Agency offices as percentage of all offices

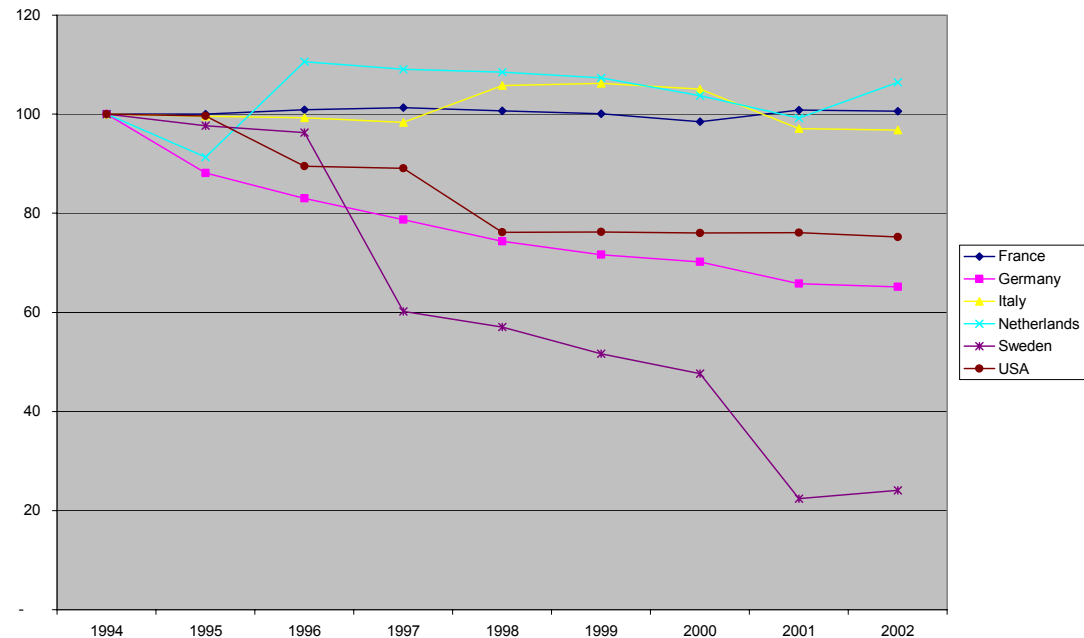


3. Analysis and Conclusions



Chart 3.4 Index of all offices, 1994 = 100

Plotting the total number of offices in each country as an index with 1994= 100 it is seen that the number in France has remained stable with Italy and the Netherlands also fairly stable. In the USA and Germany there has been a significant reduction of offices and in Sweden the reduction has been drastic.





Conclusion

In the countries studied apart from France, Italy and the Netherlands, the size and structure of the post office networks has changed significantly over the past decade. In France the network has been considered as part of “managing the territory” rather than as a commercial operation that should at least break even in its own right. In Italy the emphasis over the past few years has been to revitalise the letter service. As this process continues with apparent success, attention is turning to the network of post offices.

In the USA the total post offices network has been reduced, with agency offices falling in percentage terms. By contrast, there has been a significant shift towards converting own-staff offices into agencies in the two privatised incumbents, DPWN and TPG.

The conclusion is that USPS has made cost savings by reducing the overall network, while DPWN and TPG have reduced the overall network and/or converted own-staff offices to agencies where possible. By contrast La Poste and Poste Italiane have not so far discerned a financial benefit in reducing their networks overall and/or converting own-staff offices into agencies. Both see the future of their networks in increased banking and financial services (see later). In these circumstances their strategy may be to maintain their existing wide geographical presence to give them an advantage over the banks.



3. Analysis and Conclusions

3.3 Services provided by post office counters

The traditional role of post offices owned by the incumbents has been

- ▲ supplying services that were adjuncts to the mail and parcel services, for example receiving bulk letters, parcels, registered and express items;
- ▲ banking and money transmission services on behalf of a post-bank owned by the postal administration;
- ▲ governmental transactions such as issuing licences and the encashment of benefits.

Some administrations, notably NZ Post, have seen the attraction of offering complementary products in their post offices, typically stationery, greeting cards and books, but in the other administrations such concepts do not seem to be part of the main strategy.

In some of the countries, unlike the UK, the incumbent administrations historically assumed that counter services could and should be provided from the same building to which letters and parcels were collected and from which they were delivered over the final mile. The result is that many post offices include the delivery of letters and parcels and are still sited in high streets and town centres. This principle has always been flawed. Delivery offices for letters and parcels need cheap floor space and plenty of parking for vans and staff cars. It is sensible to site them away from the high street.

At the same time the volume of traditional transactions over the counter is likely to fall in coming years. In Sweden, for example, the decline has already begun. Electronic payment methods for paying government benefits direct into bank accounts significantly reduce the need for cash transactions over the counter. Licence applications can be printed from the Internet.



3. Analysis and Conclusions

3.3 Services provided by post office counters

The right location for post office counters has changed as well. High streets in many big cities have seen a steady increase in the numbers of clothes boutiques, estate agents, coffee shops, antique dealers and restaurants. At the same time supermarket chains have developed sites outside town centres with ample parking space. The new pattern of shopping by car has developed into shopping away from town centres for the essentials of life and in town centres for the non-essentials of life.

The traditional operations of post offices such as selling stamps and simple money transfers belong, if anything, to the essentials of life. This implies that they should move into the supermarkets. By contrast, if they change their focus to selling sophisticated financial products such as mortgages and investment, they may be able to stay put in town centres, but they will have to spruce up their image. It is difficult to see how both markets can be served from one set of premises.

Conclusion

Under pressure from the Internet, traditional post office networks are having to rethink their role. Answers are not obvious. Sweden's Posten decided to sell its banking arm. By contrast DPWN is preparing its banking arm for an imminent flotation. La Poste, Poste Italiane, TPG and NZ Post all see a bright future in developing their banking and financial services. The balance of opinion lies clearly in favour of these.

3. Analysis and Conclusions



3.4 Formal or informal regulations that determine the location of post offices and their opening hours

With the exception of USPS, incumbents have an interest in making profits and hence in closing uneconomic offices. The profit motive no doubt is strong in USPS as a form of self-preservation, but the heavy hand of the Postal Rate Commission and Congress's political influence in holding down prices has meant that losses could occur without the risk of insolvency faced by private companies.

As noted in the previous section, the location of many post offices in the countries concerned is unsuitable and expensive. Incumbents pay staff for the time they work, and agencies for the number of transactions carried out. The time that it takes for customers to reach the post office and return home represents an inconvenience (i.e. a hidden cost) to the customer that does not affect the incumbent's P&L account. For monopoly transactions that can only be done at a post office counter, such as obtaining a specific government licence, the incumbent knows that the customer cannot go elsewhere. However circumstances are changing. Much banking can be done over the internet and the importance of cash transactions is falling. This trend will accelerate as broadband connections and faster PCs make the transactions easier and more secure and able to be undertaken from home at any time of day or night. The sections of the population for whom post office counters remain the preferred or only way of carrying out the transactions increasingly will be the old, the lowly paid, the unwaged and the poorly educated: in short the most vulnerable members of society.

For this reason governments in all the seven countries have retained varying powers to influence post-offices' location. Formal regulations are found in **Germany** where by law there must be an outlet in each community of 4,000 inhabitants or more and in each community designated a "local centre" by planning regulations. In urban areas customers must be no further than 2,000m from an outlet, and mobile services must be provided by postmen in areas not covered or where offices have shut.

3. Analysis and Conclusions



3.4 *Formal or informal regulations that determine the location of post offices and their opening hours*

Formal regulations are also found in the **Netherlands** where under the Postal Decree (BARP), TPG Post must comply with the following guidelines in siting their offices:

- ▲ Residential areas with more than 5,000 inhabitants need to have a postal outlet with a full range of services within 5 km.
- ▲ In residential areas with more than 50,000 inhabitants an additional outlet with a full range of services is required per 50,000 inhabitants.
- ▲ The provision of service for residential areas with less than 5,000 inhabitants should, where possible, be comparable with the standards mentioned above.
- ▲ A minimum of 95% of the total population of the Netherlands must have an outlet that offers a full range of services within a distance of 5 km.
- ▲ A minimum of 85% of the total population of the Netherlands in less densely populated areas (rural areas) must have an outlet that offers a full range of services within a distance of 5 km. This includes all residential areas with less than 5,000 inhabitants.

3. Analysis and Conclusions



3.4 Formal or informal regulations that determine the location of post offices and their opening hours

The approach in the **USA** is less about the siting of new post offices in relation to the population but rather on making it difficult for USPS to close a post office in the first place. The law lays on the incumbent the burden of proof when trying to do so. Thus, the USPS, in making a determination whether or not to close or consolidate a post office shall consider –

- (i) the effect of such closing or consolidation on the community served by such post office;
- (ii) the effect of such closing or consolidation on employees of the Postal Service employed at such office;
- (iii) whether such closing or consolidation is consistent with the policy of the Government that the Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining;
- (iv) the economic savings to the Postal Service resulting from such closing or consolidation;
- (v) such other factors as the Postal Service determines are necessary.

Clearly these requirements give ample scope for political argument and influence.

In **France**, as noted earlier, the concept that the post office network is part of “managing the territory” again means that post offices should be sited alongside other civic institutions, notably the town hall, the police station and the church.



3.4 Formal or informal regulations that determine the location of post offices and their opening hours

A similar line is taken in **Italy** where, to fulfil territorial and social cohesion requirements, Poste Italiane is required to keep a post office in each municipality, and offices are closed only if there is an alternative office within the same municipality or within a reasonable distance. The “small town” project, signed between ANCI (the national association of Italian municipalities) and Poste Italiane involves the integration of the activities of post office branches and Italian municipalities (towns with up to 8,000 inhabitants), with the development of a package of communications services for the public, municipal authority functions and tourist information.

In **New Zealand** and **Germany** there are numerical thresholds for the minimum number of post offices.

In **Sweden** there is less pressure to close uneconomic offices because, if the government requires Posten to keep them open, a subsidy for doing so is made.

The opening hours of post offices are typically 8am to 5pm or 5.30pm from Monday to Friday, with closure around 1pm on Saturdays.



Conclusions

In all the countries concerned it is recognised that there is a conflict between a strictly commercial approach to the total number of post offices and their siting, on the one hand, and providing a reasonable service to consumers, on the other. The two countries that appear to have reached satisfactory solutions from an economic point of view are **New Zealand** and **Sweden**. Because NZ Post is profitable and visibly successful, the burden, if any, of maintaining the existing network of post offices does not seem problematic and has been lightened anyway by branching into new services, notably the creation of the Kiwibank.

Sweden's Posten has been reasonably successful and generally profitable since the full liberalisation of the letter market. However, the government's recognition that Posten should not be compelled to subsidise loss-making post offices without any reserved area from which to do so means that the government of the day transparently shoulders the cost of any such burden that it may impose on the incumbent.

By contrast, in Germany DPWN has recently threatened that if the regulator imposes tariff cuts on letters, DPWN will respond by closing a number of uneconomic post offices. This is an overt admission that profits from the reserved letter area are needed to support losses on the counters network. To the extent that DPWN provides banking and other financial services from its counters in competition with the private sector, there may be market distortion, actual or potential, if the network of post offices is subsidised in this way.



3.5 Government grants to the counters network

It is clear that governments should pay fees to incumbent post offices for services rendered. How the fees are set is a matter for negotiation which is not in the public domain. Even if the fees paid were at a suitable level for, say, 80% of the offices, either a higher per-unit fee should be paid to smaller offices with fewer transactions or the incumbent should receive a specific grant to keep such offices open. At present only **Sweden** has taken the latter course.

In **France**, the cost of running uneconomic postal outlets in rural and urban deprived areas is estimated to be €680 million (£456 million) per annum. La Poste receives 85% local tax relief for keeping uneconomic post offices open. According to research carried out by the French government in 2000, this tax relief represents an indirect government subsidy of €230 million (£150 million). This means that La Poste has to find about €450 million (£300 million) a year from internal sources to cross-subsidise the unprofitable parts of the counters network. The tax relief contract will continue under a newly signed contract between the State and La Poste over the period 2003-2007. The post offices network will be restructured and tax relief money saved will be distributed to the postal network based on specific economic criteria under the new system called *Fonds national de péréquation territoriale*.

In **Germany** there have been no overt government grants to the counters network.

In **Italy** the State's compensation is intended to cover all Universal Service Obligation (USO) costs and is not specifically intended to cover costs related to the maintenance of the counters networks. We believe that in 2001 State compensation was €439 million (£294 million).

3. Analysis and Conclusions



3.5 Government grants to the counters network

For the **Netherlands** we found no specific information, but since Postkantoren BV is a partly privatised company that makes a profit it is unlikely that the government gives grants to the network.

In **New Zealand** Government subsidies to NZ Post's counters network ceased on 5 February 1988 and 432 post offices were closed to become "post only" agencies. There is no reason why subsidies should be reintroduced while NZ Post remains successful and profitable.

As noted earlier, the **USPS** is supposed to breakeven taking one year with another, but is estimated to have accumulated \$90 billion (£51 billion) of debt. The prices charged, notably for letters, are the mechanism for controlling its P&L account overall and there is no mechanism for subsidising the counters network separately.

Conclusion

In the context of state subsidies, the Dutch Postkantoren BV is the only model of a profitable counters network. The Swedish government makes a direct subsidy for uneconomic offices that it wishes to remain open. The French government gives a subsidy in the form of tax relief and will continue to do so until 2007 at least. DPWN is too profitable, thanks to its highly profitable reserved letter business, to be able to make a case for subsidising any part of the counters network. The same applies to NZ Post though it has no letter monopoly. Poste Italiane has a state subsidy for the USO generally rather than the counters network in particular. In the USA there is no state subsidy as such, but the US government is effectively a guarantor of the USPS's losses wherever they arise.



3. Analysis and Conclusions

3.6 Internal cross-subsidies to the counters network from within the incumbent administration

In the **Netherlands** Postkantoren publishes separate accounts but in other administrations a requirement to separate out the accounts of the counters network has not been seen as necessary. To the extent that they do not compete with the private sector, separate accounts might seem superfluous. However, the more that the counter networks develop banking and financial services, the more important it will be that their accounts are made public. The case for separating post office networks into independent operating companies, within or without the incumbent administrations, will become increasingly compelling and will make it difficult or impossible to conceal internal cross-subsidies.



3.7 Attempts to reinvent the counters network

We have already discussed the strategies adopted in different countries to make their post office networks profitable or less unprofitable. Reducing the size of the network, changing some offices into agencies and relocating those that remain must be regarded as seeking increased efficiency rather than reinventing the network as such.

The main strategy, adopted in France, Germany, Italy, the Netherlands and New Zealand has been to develop banking and financial services. Only Sweden has moved in the opposite direction, selling off its banking arm. In the USA it is likely that any attempt for the USPS to become a bank or a retailer of financial products and services would meet strong hostility in Congress.

Another form of reinvention has been the espousal by different incumbents of the Internet and the e-revolution. For example DPWN has introduced electronic services such as ePost that provides subscribers with an e-mail facility. Other services such as eOutlet and ePaket are seen as complementary rather than a threat to the traditional network of post offices.

In France, La Poste is expanding its services through a network of Post Points. These are shops that handle a limited number of services, notably acting as agents for courier services and parcel deliveries, and offering cash withdrawals of up to €150 (£100) a week.

Poste Italiane aims to play a key role in modernizing the country, making the post office network an electronic access point for public sector services generally. It is unclear whether this will be a long-term plan or rather one that is targeted towards individuals who do not have Internet access at home.



3. Analysis and Conclusions

3.7 Attempts to reinvent the counters network

Postkantoren BV, including its subsidiary Bruna, offers customers not just the products and services of TPG Post and the Postbank but also additional services of business partners. In a similar way since 1999 NZ Post has run a joint retail venture with Blue Star Consumer Retailing called “Books & More” selling books and videos, greeting cards, stationery and postal services.

Rather surprisingly Sweden’s Posten, which led the way by being the first to advocate and then welcome the abolition of the letter monopoly in 1993, has shown the least initiative in reinventing its counters network in terms of new products and services. The USPS also appears to lag in this field.

Conclusions

The common asset that all the administrations studied possess is a network of offices that is larger and more widely spread than those of individual banks or even of several banks combined. The image is likely to be that of solid trustworthiness.

The problems facing the networks is that some are still or were until recently staffed by civil servants (France and Italy, for example) and may continue to have a historical outlook of service to the community rather than being commercial, profitable and dynamic.

Two of the most successful networks, Postkantoren in the Netherlands and NZ Post have formed working relationships with the private sector. Other historically conservative administrations such as La Poste and Poste Italiane are staking their future on banking and financial services. Sweden’s Posten seems to have lost its way, and interestingly its annual accounts show a high and rising number of staff sickness days, usually a sign of internal malaise. The USA remains tied by its non-commercial status and the continuing answerability to Congress and presidential influence.



4.1 The chain of responsibility for the national post office network

France has a cool attitude towards postal liberalisation and its potential impact on employment and post office closures. So far, France has not complied with EU regulation and the establishment of an independent postal regulator. The Ministry of Economics, Finance and Industry regulates the postal market but is not an independent regulator as defined in the EC Directive as it is responsible for the financial interests of the French Government with respect to the public postal operator. At the end of January 2004, the French Senate voted on the amendments to the postal regulation that extend the responsibility of the Authority for Telecommunications Regulation to the postal market as well renaming it the Authority for Post and Telecommunications Regulation (ARTP).

As a state-owned company, La Poste and particularly its post office network has always been a key element in the French Government's policies regarding the regions ("Aménagement du Territoire"). The recently signed contract between the State and La Poste for the period 2003-2007 enforces the need for collaboration between La Poste and local authorities for closures or changes to the retail network. In the meantime, the contract once again stresses the importance of the retail network to the economic and social welfare of the regions.

The State recognizes the need for La Poste to "adapt its local presence and opening hours to the need of its customers". In addition, La Poste always faces strong opposition from local politicians and unions to the closure of post offices. During the debate for the new postal regulation, Nicole Fontaine, Minister for Industry stressed the need for the presence of La Poste over all French territory particularly in rural areas and deprived urban areas. However, she also recognized the need to adapt the postal network to consumers' requirements: "People often talk about postal presence as the physical presence of a post office. However, it is more important to consider the accessibility to postal services than just the presence of a post office that only provides limited services."



4. Country Report - France

4.1 The chain of responsibility for the national post office network

In the new contract, the State recognizes the need to create a safeguard fund for tax relief to finance the local outlets in rural areas. The fund will be named Fonds national de péréquation territoriale. The money saved from the tax relief will be redistributed among the post offices.

In 2000, M. Herisson President of the Commission for Economic Affairs at the French Senate estimated the total costs of maintaining uneconomic local outlets at €580 million (£388 million) including €80 million (£50 million) for maintaining postal counters in deprived urban areas.

In the contract, La Poste also identifies the need to improve the quality of service (customer service, security) and has established a programme to tackle those issues with surveys of customers' perception of the services provided including clean offices, queuing time, etc.)



4.2 Trend in office numbers

As shown in the table below, in 2002 the retail network comprised 17,015 post offices of which

- ▲ 14,165 were postal counters, directly run by La Poste; and
- ▲ 2,850 were “contact points” or agencies

The post offices are sited in 11,000 cities; 1,048 offices (6%) are located in urban deprived areas and 10,089 offices (59%) are located in rural areas (conurbations with 2,000 inhabitants or less).

Differences in terms of status exist within the agencies:

- ▲ Postal agencies are contracted out to private individuals or in some cases to the Army
- ▲ Postal Community agencies (approximately 1,000) are run via a contract with the Town Hall
- ▲ Postal points (“Points Poste”) are run by shop owners
- ▲ “Maisons de service public” (“Houses for the public service”) are those offices that provide public services such as government services and services for EDF (Electricite de France), France Telecom and La Poste

3.5 million people visit post offices on a daily basis. However, in its annual report, La Poste also confirms a reduction in the number of visits per day due to the increasing usage of Internet, ATMs and Minitel.



4. Country Report - France

4.2 Trend in office numbers

The postal network has approximately 80,000 employees:

- ▲ 13% are office managers
- ▲ 49% are counter clerks
- ▲ 9% are financial advisers
- ▲ 29% are rural mail deliverers
- ▲ 1% are youth contracts

The table below shows the trend in the number of post offices directly run by La Poste and other agencies. Since 1993 the total has increased 0.8%, the increase coming from those staffed by La Poste's officials and with a slight reduction in those staffed by people outside La Poste.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of permanent offices staffed by administration officials	13785	13851	Not available	14030	14108	14048	13997	13738	14170	14165
Number of permanent offices staffed by people from outside the administration	3092	3068	Not available	3039	3040	2990	2933	2924	2891	2850
Total number of permanent post offices	16877	16919	Not available	17069	17148	17038	16930	16662	17061	17015

Source: Universal Postal Union Statistics.

The number of post offices has been very stable over the last ten years. According to the Commission for Economic Affairs, the number of post offices “has not really changed since 1914”.



4. Country Report - France

4.3 Services provided by post office counters

Based on figures provided by La Poste in its 2002 annual report, the post office network generated €2.5 billion (£1.6 billion) revenue for postal services including €2.1 billion (£1.4 billion) for mail activities, €0.2 billion (£0.1 billion) for parcels services, €97 million (£65 million) for Chronopost (courier) and €98 million (£66 million) for other stationery services.

Post offices provide mail, parcels and express services to private individuals and businesses. Stamps and pre-paid envelopes are also available at newsagents and hypermarkets.

34,000 newsagents sell stamps and 2,600 of them also sell pre-paid envelopes. Similarly, postal services are also available in 150 Carrefour, 24 Auchan and 250 Leclerc hypermarkets.

We understand that financial services represent 23% of La Poste's total revenue. Key services are:

- ▲ Postal banking and giro accounts (28 million customers with 10 million giro accounts)
- ▲ Saving accounts (Livret A - 20 million saving accounts)
- ▲ Deposits: €201 billion (£135 billion)
- ▲ Debit/credit cards
- ▲ ATMs (4,169 cash machines in 2002)
- ▲ Insurance contracts in collaboration with the CNP
- ▲ Life insurance with the CNP
- ▲ Mortgages
- ▲ Unit trusts and structured funds
- ▲ Electronic purse (Moneo)
- ▲ Home banking via telephone, internet, minitel
- ▲ Money orders (domestic, international, Western Union)
- ▲ Some Post Offices act as sub-contractors for commercial banks, allowing their clients to use postal counters for their financial transactions (effective on revenues but limited in commitment)



4.3 Services provided by post office counters

In addition, customers can also access self-service products at post offices such as:

- ▲ 4,169 cash machines
- ▲ 7,136 self-service postage machines
- ▲ 1,900 change machines
- ▲ 245 ready-to-post dispensers

Post offices provide governmental services including the distribution of more than €700 million (£470 million) of social benefits every month.

Finally, post offices have developed stationery products such as photocopying, fax facilities and Internet access. Customers can have access to the Internet via Cyberposte terminals at 1,000 post offices. Consumers can purchase pre-paid cards and have access to the Internet as well as an email address with La Poste.net.



4.4 Formal or informal regulations that determine the location of post offices and their opening hours

On average, there is a density of one postal counter for 3,400 inhabitants. However, according to the Commission for Economic Affairs, a postal network designed on population demographics about 100 years ago is totally irrelevant to the current consumer's needs and lifestyles.

According to research done in 2002, 10% of the postal counters generate more than 50% of the total revenue (mail, parcels and financial services). Out of the 17,000 postal counters, 6,500 have less than 4 hours of activity during the day and among these 3,700 have less than 2 hours of activity during the day.

This is particularly true in rural areas: the 6,700 postal outlets located in rural areas (less than 1,000 inhabitants) have the same volume of work as the 500 postal outlets located in cities of 200,000 inhabitants and more. According to the Commission, there is a lack of post offices in cities of 15,000 inhabitants and more. 2,990 post offices are located in towns of 10,000 inhabitants or more.

There is no formal regulation to determine the opening hours of post offices. They usually open from 9am to 6pm Monday to Friday and 9am to noon Saturday. Some post offices in urban areas open until 8pm whilst the post office close to the Louvres Museum in Paris opens until midnight. In contrast, some post offices in rural areas only open 4 hours a day.



4.5 Government grants to the counters network

Based on figures published by the French Senate, the cost of running uneconomic postal outlets in rural and urban deprived areas was estimated to be €680 million (£460 million). La Poste receives 85% local tax relief for keeping uneconomic retail outlets opened. According to research carried out by the French Government in 2000, this tax relief represents an indirect government subsidy of €230 million (£150 million) per annum.

The newly signed contract between the State and La Poste confirms that La Poste will still benefit from this tax relief over the period 2003-2007. In addition, the Commission will analyse the need to adapt this tax relief with the restructuring of the postal network. The money saved from this tax relief will be distributed to the postal network based on specific economic criteria under the new system called *Fonds national de péréquation territoriale*.

4.6 Internal cross-subsidies to the counters network from within the incumbent administration

La Poste does not publish any figures on internal cross-subsidies. However, it is thought that the postal network is heavily subsidised by La Poste's other activities. Based on figures published by the French Senate, noted above, the net cost of maintaining the postal network is €450 million (£300 million). If €230 million (£150 million) come from tax relief, the balance of €220 million (£145 million) must come from other sources of income, presumably letters.

The French private operator grouping UFEX (French Union for Express) is fighting a lengthy legal battle against Chronopost which it accuses of receiving aid in the form of access to La Poste's network of 14,000 post office outlets.



4. Country Report - France

4.7 Attempts to reinvent the counters network

The Government and La Poste are currently investigating various options in order to reinvent the post office network. The post office network was set up primarily in order to ensure the universal service provision. However, this is now irrelevant as mail distribution is only managed by major mail distribution centres. Therefore, the government prefers to talk about “accessibility to postal services”. The French Senate has discussed the possibility of enforcing access to postal services by law. The law would define specific criteria for the location of post offices based on the following criteria:

- ▲ Distance: the law would have to specify the distance to post office as well as the access time to services.
- ▲ The State would support financially post offices located in rural areas or deprived areas.
- ▲ Local authorities would have the possibility to receive funding for post offices.

Therefore, local authorities and politicians are closely involved in the discussions over the reinvention of the post office network.

La Poste itself would like to develop a multiple approach to reinventing the counters network. It wishes to

- ▲ develop partnerships with hypermarkets for the provision of stamps and ready-to-post products;
- ▲ increase the number of “Points Poste”; and
- ▲ increase the number of partnerships with newsagents. 8% of newsagents are currently selling postal services and La Poste would like to increase this number to 30%.

4. Country Report - France



4.7 Attempts to reinvent the counters network

According to Jean-Paul Bailly, chairman of La Poste, the French national postal services group is launching one of its new Points Poste outlets every day. Shop owners who choose to set up a Point Poste sign an agreement with La Poste that allows them to act as agents for courier services and parcel deliveries, and to offer cash withdrawals of up to €150 (£100) a week. For this they receive €130 (£85) a month, as well as commissions on the products sold. About 50 French Departments now have about 150 Points Poste between them.

La Poste wants to develop its financial services. So far, French law forbids La Poste from issuing consumer credits and mortgages not linked to prior saving accounts, but the French Senate passed an amendment at the end of January to allow La Poste to offer credit.

La Poste is preparing for the planned launch of its banking subsidiary in 2005. The main difficulty for the company is expected to be the provision of capital for the new bank; it has been estimated that La Poste would be able to provide up to €3 billion (£2 billion) in equity capital for the bank. This is thought to be sufficient to comply with the regulations. The company's plans have been strongly criticized by banks, which fear that their share of the market could be threatened. The presidents of France's seven largest banking networks have recently written to the French prime minister in order to complain about the plans. La Poste claims that the creation of the postal bank is essential in order to stabilize its share of the financial services market, which has now dropped to 9%.



5.1 The chain of responsibility for the national post office network

Since 1995 the German Post Office, now called Deutsche Post World Net (“DPWN”) has been readying itself for full privatisation and the end of its monopoly on postal services. Currently DPWN is a plc of which the Government owns 69% of the shares. The company is split into four divisions. The retail outlets are included in the banking division, which made a profit of €522 million (£350 million) in 2001.

The activities of DPWN come under the regulator, known as RegTP. The regulator’s function is to ensure that DPWN does not abuse its still dominant position in a market that is due to be fully liberalised in 2007. There is tension and negotiation between DPWN and the regulator. In February 2003, Deutsche Post announced that 800 post offices would close over the next two years, taking the network down to the legally required minimum of 12,000 offices. It had warned that the German regulator’s demand for a cut in postage rates from 2003 could lead to post office branch closures, thousands of job cuts and a €1.5 billion (£1 billion) reduction in profits by 2007.

RegTP has stated that it is not in a position to intervene in contract negotiations between DPWN and post office outlets unless their number were to fall from 12,800 at present to below 12,000. Some retail associations in Germany have accused Deutsche Post of reducing remuneration for its 7,800 counters in outlets such as foodstores, and of closing smaller outlets in its drive to slim down its office network.

DPWN rejects the accusations, arguing that it is simply taking steps to improve the profitability of its network of outlets, and comments that, out of those in-shop outlets contacted, more than 70% have opted to renew their contracts. DPAG agency contracts usually have a cancellation period of at least six months leaving DPAG with ample time to open a new office. For unforeseen events a three-month period is allowed to restore the network. DPWN has also attempted to calm fears that its pilot project involving a network of in-shop outlets in the stationery outlets of the mail order group Quelle might signal a move away from post office counters in corner shops.



5.1 The chain of responsibility for the national post office network

The Federal Cartel Office (Bundeskartellamt) also has a role in relation to DPWN's activities. It has performed an in-depth audit of the new contracts with its independent outlets.

Germany does not have a consumer body comparable to Postwatch in the UK. It does, however, monitor customer satisfaction with regards to the service provided by the retail outlets. 120 researchers carry out about 26,000 checks a year by way of mystery shopping and other surveys in order to establish:

- ▲ knowledge and sales quality of the staff
- ▲ appearance of the buildings
- ▲ queuing times
- ▲ friendliness of retail staff

A list of 400 questions is used.

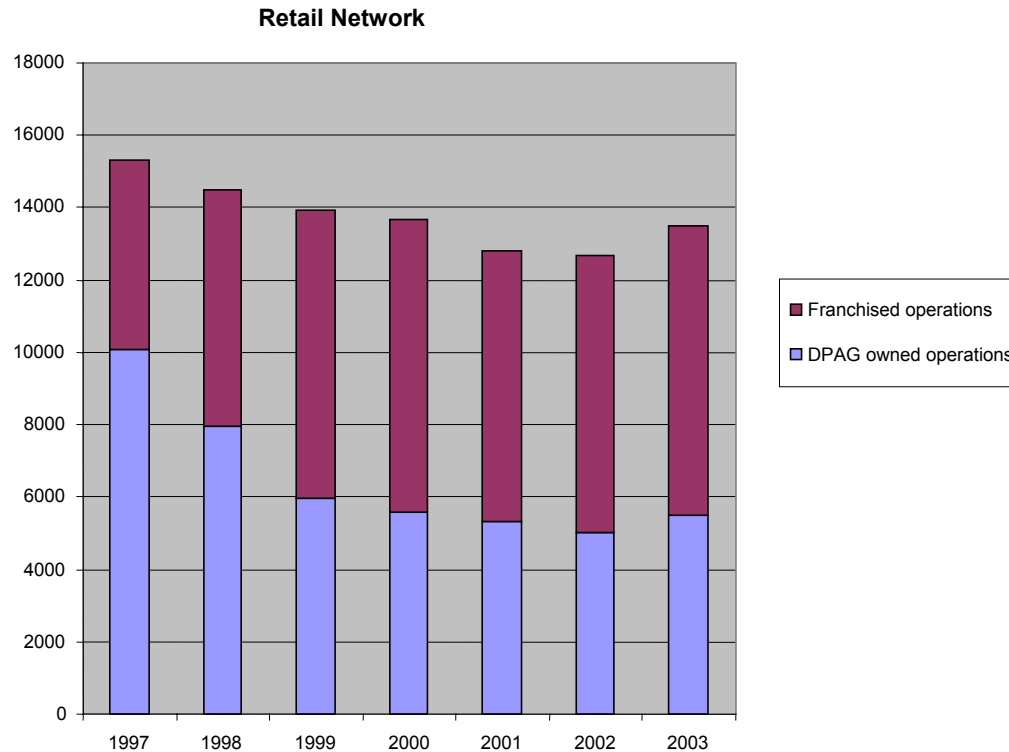
5. Country Report - Germany



5.2 Trend in office numbers

As shown in the table following, for some years the number of post offices was in decline, but this was arrested in 2002. Dr Klaus Zumwinkel, chairman of DPWN, has said that is currently planning no large-scale closures of post offices across Germany. He also said that his group would not necessarily go through with its plans of reducing the number of post offices in Germany to 12,000.

Under §2 section 1 and §3 of the Post-Universaldienstleistungsverordnung (“PUDLV”), the Postal Universal Service Ordinance, there have to be at least 12,000 post offices throughout the country at which mail and parcel related transactions can be made, of which at least 5,000 are to be staffed with DPAG’s own personnel.



5. Country Report - Germany



5.2 Trend in office numbers

Date of foundation	1997	1998	1999	2000	2001	2002	2003
DPAG owned operations	10096	7947	5957	5591	5332	5031	5514
Franchised operations	5235	6535	7991	8072	7486	7652	8000
Total	15331	14482	13948	13663	12818	12683	13514

Under the regulation, there must be a post office in every community of 2,000 or more as defined under regional planning regulations. Furthermore all users in urban areas have to be within 2kms of a post office. There must be a post office for every 80km². Mobile post offices must be provided in the areas not covered.

Press reports from the first half of 2002 reported that DPWN had announced plans to open 328 new offices. This came after a decision to increase its presence in areas where the population exceeds 2,000 compared with the previous figure of 4,000. Most of the branches will be in eastern Germany. The press suggested that opening the new branches was the political price the company has to pay for the extension of Deutsche Post's monopoly for letters weighing up to 200 grams to 2007.



5.2 Trend in office numbers

There is a continuing programme to re-site post offices. DPWN cancelled its contracts with around 2,000 postal agencies after they refused to accept major changes to their contracts and their remuneration packages. The group, which has until now has had around 8,000 postal agencies announced, however, that the cancellation of the contracts does not mean that it will close many of its post offices. Postal agencies are operated mainly by small stationery or food shops in rural areas of Germany. It remains unclear how many of the 2,000 cancelled contracts will result in branch closures.

DPWN recently sent a letter to Germany's minister of economy and all regional prime ministers with plans to open up to 1,500 new outlets in order to improve services in villages and small towns. DPWN intends to start its expansion programme next year, but will not increase its total number of outlets of around 13,000. It gave a commitment to altering the opening hours of branches according to the local demand. In future, branch closures will be announced three months in advance.

The rural service provided by DPAG consists of mobile facilities, i.e. 18,500 postmen who provide post office services as part of their round (Monday to Saturday) including stamps, collection of letters and parcels. They used to provide payments into and out of Postbank accounts but stopped doing so as demand was negligible.

5. Country Report - Germany



5.3 Services provided by post office counters

Apart from letter mail, parcels and transactions for third parties such as utility companies, the main financial activities offered by the post offices network are those of Postbank. Postbank offers an extensive range of services in competition with other banks including current and savings accounts, credit cards, loans, overdrafts, money transfers, mortgages, mutual funds, investment and brokerage, and life and non-life insurance.

Some of these services are offered online via DPWN's eFiliale subsidiary and replace the corresponding transaction over the counter.

DPWN pays out 24 million pensions through its bank accounts but does not offer local or central government services because it is not profitable to do so.

Financial services account for 25% of business over post office counters. Some of these services are also available over the telephone and online. Postbank is profitable and, with 10 million customers, claims to be the country's leading retail bank. However, its return on equity of 10% compares with a peer group average of 17.4%. It is clear that if Postbank's profitability could be increased to that of its peer group the value of the operation would be dramatically enhanced. It therefore considers the time right to sell shares in Postbank.

Deutsche Post plans to benchmark Postbank against eight European banks to value its financial services arm when it is floated later this year. DPWN intends to sell 50% less one share of the retail bank to raise up to €3 billion (£2 billion) in what would be one of Germany's biggest IPOs for years. The group intends to use the proceeds to cut debt and boost investment in its pan-European infrastructure. In essence, cash from the flotation would provide a war chest for DPWN's frequently proclaimed intention to continue with its aggressive expansion into other postal and related companies world wide. Its ability and willingness to buy Royal Mail, should the latter be offered for sale by the British government, can be assumed.

Deutsche Post is expected to float Postbank on June 21 2004, earlier than a previously announced date in the autumn. Postbank, said in December it expected 2003 pre-tax profits of €500 million (£335 million) and was aiming for a pre-tax return on equity of 15% in 2004.

5. Country Report - Germany



5.4 Formal or informal regulations that determine the location of post offices and their opening hours

The German government has set access criteria to be monitored by the regulator. These require Deutsche Post to provide:

- ▲ 12,000 outlets including 5,000 operated by in-house staff;
- ▲ an outlet in each community of 4,000 or more and each community designated a “local centre” by planning regulations
- ▲ in urban areas customers must be no further than 2000m from an outlet;
- ▲ mobile services via postmen in areas not covered or where offices have shut.

These criteria are due for review in 2005. The costs of maintaining this network are borne by Deutsche Post — there is no public subsidy.

There are no legal provisions on opening hours. The post offices owned by DPWN (Postaemter) are normally open Monday to Friday 8am to 6pm and Saturday 8am to noon. A restricted range of services is available beyond these hours at offices in or beside main train stations in large cities.

Agencies operate in department stores, supermarkets and elsewhere are paid a lump sum and can decide how to cover costs, employ staff and fix opening hours. Normally the postal services were offered during opening hours but under the revision of their contracts some agencies felt that the hours required of them were too long to be profitable and did not renew.

5.5 Government grants to the counters network

There have been no overt government grants to the counters network.

5. Country Report - Germany



5.6 Internal cross-subsidies to the counters network from within the incumbent administration

Transactions undertaken at post offices for Postbank, the postal, parcel and other operations use common facilities and staff. At present DPWN makes public the Postbank's accounts, which show profitability, but it does not declare whether these profits are applied to pay for losses on other parts of the network of post offices. Since the latter has been substantially reduced nearly to minimum of 12,000, the main loss-making offices must have been closed or converted into agencies.

When 50% of Post Bank is offered to the public (see the following section) any use of Postbank's funds to subsidise any aspect of DPWN's operations would become illegal. If the remaining activities carried out by the counters network were profitable or broke even, no subsidy would be needed.

However, we noted earlier that DPWN warned that the German regulator's demand for a cut in postage rates from 2003 could lead to post office branch closures, thousands of job cuts and a €1.5 billion (£1 billion) reduction in profits by 2007. This could be tactical rhetoric, but taken at face value it means that the profitable and highly priced letter service is needed to keep the network of post offices at its present size. In essence, some form of covert cross-subsidy is indeed occurring.

Since Enron and the collapse of the accountant Arthur Andersen it has been even clearer that internal accounting within multi-function companies can be misleading. Further, DPWN has been fined by the European Commission in the past for cross-subsidies. In June 2002 it was ordered to repay €572 million (£383 million) in illegal state aid. DPAG was found to have used that money as a cross-subsidy to undercut private-sector rivals in the package delivery market between 1994 and 1998. DPWN has said it plans to appeal against the fine.

When 50% of Postbank's shares are held by the private sector it should have an obligation to pay DPWN a fair market rate for its use of post office facilities and staff. However, so long as DPWN holds just over 50% of the shares it will be hard for Postbank's managers to get tough with the majority shareholder. Thus the potential for Postbank to covertly subsidise parts of the network of post offices will remain but would be extremely difficult to prove.



5.7 Attempts to reinvent the counters network

Historically, German post offices have primarily provided postal services - they did not provide government services and were not seen as having a wider role in the community. Nor did they have competition for many of their services. With a view to making Postbank more user-friendly, €450 billion (£300 billion) has been spent on modernising post offices. The aim was to serve customers in friendly open plan offices by the end of 2000 assisting DPWN in expanding its role in the financial services sector. As part of this strategy, 750 remodelled offices have meeting rooms where financial matters can be discussed confidentially.

Further specialisation among offices has taken place. 400 centres have been designated to deal with financial advice. Others cater for the needs of small and medium enterprises. In such offices suitable space has been provided for financial advice to be given privately.

In another development, in 2003 DPWN signed an agreement with the large mail-order and retail chain company, Quelle, for about 1,000 Quelle shops to offer basic postal services – selling stamps, receiving letters and parcels and taking in registered post. DPWN aims to increase the turnover of its products by linking them with other items such as stationery either on its own premises or in those of partner companies. Additionally other services currently being planned include vehicle registration and pay-TV.

The overall strategy is to become more competitive in financial services which will run in parallel with e-services offered by DPWN. It is not a matter of “reinvention” so much as improvement in what the network already does. Electronic services such a public e-mail network, eOutlet and ePaket are seen as complementary rather than a threat to the traditional network of post offices.



6.1 The chain of responsibility for the national post office network

Poste Italiane SpA was established as a joint stock company on 28 February 1998 with the Ministry of Economy and Finance as the sole shareholder. Since 1998 it has undertaken a programme of renovation and modernisation that has enabled it to guarantee an efficient global postal service and to offer financial services all over Italy through its network of 14,000 post offices. As part of this development, a requirement was identified for an enterprise-wide training programme that could be centrally managed.

Until 1998, the Ministry of Post and Telecommunications determined the scope of postal services and was responsible for setting postal tariffs as a whole. Tariffs laid down by law were set below cost price for economic and social reasons. In return Poste Italiane received financial compensation.

After the creation of Poste Italiane Spa the Ministry of Communication (Ministero delle Comunicazioni) became the postal regulator under decree No. 261 dated 22 July 1999.

Article 2 of this legislative decree states:

(D) - The Ministry of Communication has the power and the responsibility to guarantee the exercise of l'obbligo del servizio universale¹ (USO) (see Article 3 below)

(E) - The Ministry of Communication determines and assures the parameter of the quality of services and organises a regular check to guarantee that the quality system is respected.

Within Article 3 of this legislative decree, the “Servizio Universale ” (USO) for which Poste Italiane is responsible, guarantees that:

- (a) Each postal service is at the same level as other European Union member post offices
- (b) The service must be guaranteed for the entire year
- (c) Postal prices must be uniform across the network.

¹ Servizio Universale: ensures that the Italian postal service is provided in the entire Italian territory with accessible price for all consumers.

6. Country Report - Italy



6.1 The chain of responsibility for the national post office network

Within Article 3 there are also points which establish tariffs and opening hours for the Italian postal network. These issues are outlined later.

Two standing committees are in charge for the postal sector within the Italian parliament: “IX Committee for Transport, Postal and Telecommunication services” at the Chamber of Deputies and “VIII Committee for Public Works and Communication” at the Senate.

There are no specific watchdogs for postal services equivalent to Postwatch. Poste Italiane has official relationships with 14 national consumer organisations and two local ones. A conciliation procedure was established between Poste Italiane and the most important consumers’ associations for the settlement of disputes relating to complaints.

During 2002 Poste Italiane was involved in negotiations with national trade union organisations. The outcome of these negotiations resulted in an agreement known as Contratto Collettivo Nazionale di Lavoro Poste (national collective agreement). The new national collective agreement mainly dealt with the change from public to private employment and sets up two bargaining levels in postal services: a national sectoral level and a decentralised level. Within Poste Italiane SpA, the decentralised level will be the regional level, while for its subsidiary companies the decentralised level will be the company level. Decentralised bargaining will be responsible for dealing with the pay system based on productivity and competitiveness, working time for post office counter staff, and the social consequences of the company's reorganisation and transformation processes. Other issues included in the national collective agreement were focused on delivery, logistics and postal network.

6. Country Report - Italy



6.1 The chain of responsibility for the national post office network

With regards to customer satisfaction, Poste Italiane's survey (2002) stated that the Italian post network has improved its quality of service. Before 1998 Italian postal services had poor quality levels compared with other European operators' standards. Since the 1998 transformation, Poste Italiane has experienced considerable improvements including more sophisticated control and monitoring systems of the major products' internal and external processing. These have reduced operational costs.

Additionally, a customer assistance service was set up to guarantee assistance in resolving operating problems, to promote Poste Italiane's services and to monitor the degree of customer satisfaction. Special toll-free telephone numbers were set in order to process customer enquiries and claims automatically, through the centralised office in Rome and two international exchange offices.

Post boxes turned in satisfactory results, with numbers increasing to 190,000 from 168,000 in 2001 an increase of around 13%, an indication that customers are increasingly interested in this new Poste Italiane service.

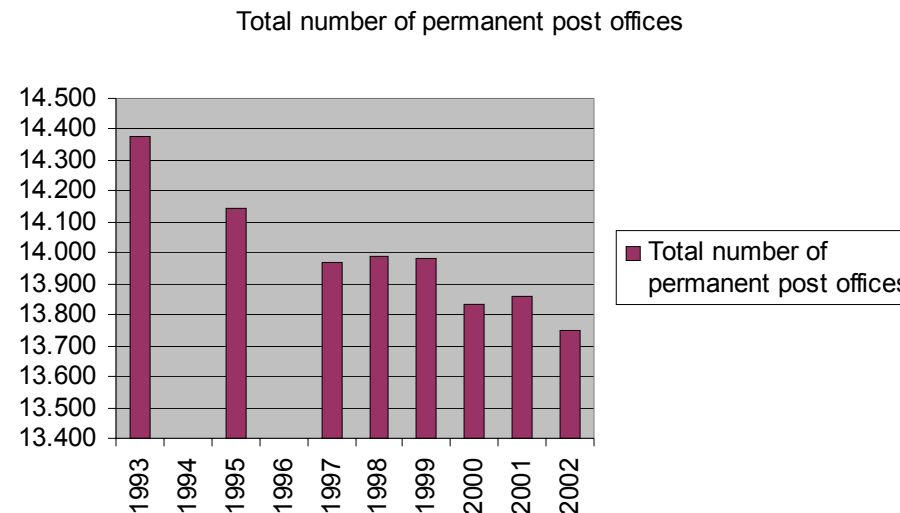
6. Country Report - Italy



6.2 Trend in office numbers

In 2002 Poste Italiane had about 13,800 post offices. Offices are still being set up, relocated or merged to deal with gaps, poor location or over-provision. For example in 2001 there were 1,800 changes resulting in 347 closures, 760 offices becoming part time and 692 becoming multitask operators (i.e. operating as both subpostmaster and postman). Counters at all outlets are automated.

The graph below shows the total number of permanent post offices. There has been a fairly steady reduction over the past 10 years.



Source: Poste Italiane

In 2002 Poste Italiane had approximately 13,800 post offices, which represent the main access channel to all its products and services, as well as offering in some places the only point of reference for social and public services. The post office network is managed by the Area Network Division, which is broken down into areas, branches and post offices.

6. Country Report - Italy



6.3 Services provided by post office counters

Poste Italiane generates a turnover of more than €4 billion (£2.6 billion) from postal services and more than €2.5 billion (£1.6 billion) from financial services. The group Poste Italiane includes SDA Express Courier, Postel (a hybrid electronic mail service), Poste Vita (life insurance company) and PosteCom (Internet services).

With its Bancoposta service, Poste Italiane provides payment and saving services throughout Italy. In the past two years there has been a considerable effort to extend the traditional Bancoposta offering with new products such as the Bancoposta account, bonds, life insurance products and loans. Many Bancoposta services are also available on the www.poste.it website, which offers online post office services.

Poste Italiane also offers financial services which include current accounts, personal loans and mortgages, debit cards, credit cards, tax refund payments (for the Ministry of Finance), equity bonds, bureaux de change, money grams and life insurance products. In some offices it is possible to find Internet points

At about 2,700 counters in Italy it is possible to pay electricity bills using automatic equipment. However, in order to benefit from this service it is necessary to have an account with Poste Italiane. The service is available seven days a week. Users can also read the gas meter, sign a new contract and verify the payment of old bills.

At the counters it is also possible to recharge mobile phones. Each transaction is charged an extra commission which varies according to the different networks.

In some post offices within Rome it is also possible to renew and obtain a passport. However, this facility is offered only to those who live within Rome jurisdiction. On the Poste Italiane website, users can find a list of all the post counters where this service is available.

In order to modernise the image and friendliness of post offices, some areas larger post offices have been designed like a traditional shop where customers can browse and choose various products. These include books, mobile phones, accessories, CDs, DVDs and also children's products.

6. Country Report - Italy



6.3 Services provided by post office counters

For those who live in small villages, Poste Italiane offers a new service called Porta Letture that allows customers to order books directly at the counters.

In addition to these new services Poste Italiane is working to reduce queuing times. In post offices with a single queue, the monitoring of correct counter management and compliance with current quality standards has continued through the measuring of waiting times. During the second half of the 2003 a queuing system was introduced on an experimental basis allowing. The initiative was tried out in six post offices and will be extended to a total of 150 in the first quarter of 2003.

Other innovations have been tried. A “Pensioners’ afternoon” initiative provides for afternoon opening for payment of pensions in the first few days of each month at busy post offices. Following a decline in use of the service, the number of post offices involved has been reduced from 450 to 376.

In connection with the immigrant workers’ regulation plan (ELI) special stands were set up for distribution of regularisation kits, along with counters to receive the applications at the busiest post offices

At the end of March 2002, a third-party service counter was launched for local authorities, involving the provision of various services relating primarily to municipal procedures, and institutional and tourist information. The launch attracted considerable interest from local authorities and around 100 agreements have been signed with municipalities.

To improve counter service 3,000 post offices were equipped and trained to manage the whole process of opening a Bancoposta account: 3,300 for over-the-counter securities trading, 3,900 for dealing in mutual funds, 500 for dealing with mortgage applications and 7,300 for dealing with loan applications.



6. Country Report - Italy

6.4 Formal or informal regulations that determine the location of post offices and their opening hours

² The legislative Decree No 261/99 proclaims the Ministry of Communications as the National Regulatory Authority (NRA) for the postal sector.

Poste Italiane's autonomy regarding the location and number of post offices is subject to both political and regulatory constraints. According to an agreement between Poste Italiane and the State, known as Contratto di programma, Poste Italiane is obliged to communicate to the NRA² any post office reduction.

To fulfil territorial and social cohesion requirements, Poste Italiane is required to keep a post office in each municipality (ie offices are closed only if there is an alternative office within the same municipality or within a reasonable distance). The "small town" project, signed between ANCI (the national association of Italian municipalities) and Poste Italiane involves the integration of the activities of post office branches and Italian municipalities (in towns with up to 8,000 inhabitants), with the development of a package of communications services for the public, municipal authority functions and tourist information.

With regards to opening time, Post offices are open Monday to Friday from 8am to 1.30pm and Saturday from 8am to 12.30pm. However, flexibility in opening times has been adopted to respond to poor services demand in rural areas. Around 1,000 subpostmasters also act as postmen. They close their offices for three hours while they make deliveries.

6.5 Government grants to the counters network

In Italy the State compensation is not specifically intended to cover costs related to the maintenance of the counters networks. Instead it is intended to cover all Universal Service obligation (USO) costs. We believe that in 2001 State compensation was €439 million (£294 million).

With its decision of March 12, 2002 the European Commission closed the proceedings against the Italian Government initiated in 1998 following a complaint by TPG regarding the alleged provision of State aid to Poste Italiane. It ruled that the measures examined all the support measures granted by the State to the national postal agency beginning in 1953 and concluded that the transfer did not produce any overcompensation of the net extra cost of the universal service obligation entrusted to Poste Italiane. If the Commission had ruled differently, Poste Italiane could have faced a potential liability of up to €28 billion (£19 billion). The economic analysis conducted by the Commission on aid measures was based on an assessment of the cost of universal service as shown in the accounts, which confirmed their accuracy.

6. Country Report - Italy



6.6 Internal cross-subsidies to the counters network from within the incumbent administration

No public information was found about internal cross-subsidies.

6.7 Attempts to reinvent the counters network

In 2002 Poste Italiane revamped its corporate structure and image. The “Sprint method” programme included postal network re-organisation. This new programme aims to develop better customer relations by using consulting rooms to create an environment specifically dedicated to offering products with greater added value and enhanced customer relations content.

Poste Italiane has made a major effort to modernise Bancoposta. Within only three years Poste Italiane’s specialised technicians put in place almost 60,000 work stations, 14,000 servers and an entire telecommunication network that connected 14,000 post offices. Bancoposta has three million customers with current accounts, and all of the financial services offered are supported by online applications with huge databases.

In 1997 Poste Italiane lost €1.4 billion (£0.9 billion) but in 2002 it made a profit of €22 million (£15 million) – and in five years much better results are expected. Some of this success is attributed to the implementation of the new IT system.



6.7 Attempts to reinvent the counters network

Learning from these successes Poste Italiane plans to expand both the postal service and financial service businesses with new value-added services. Thanks to its widespread counter network, Poste Italiane is developing a wide range of integrated products and services designed to provide a prompt and flexible response to all customer needs. These include:

- ▲ increasing services integration
- ▲ exploiting the various interfaces with its customers (post offices, call centres, Internet and sales networks)
- ▲ developing systems for handling payments
- ▲ promoting the status of certifying authority
- ▲ introducing new services for retail customers, corporations and public administration bodies

Above all Poste Italiane aims to play a key role in modernizing the country making the post office network an electronic access point for public sector services generally.



7.1 The chain of responsibility for the national post office network

The Directorate General for Telecommunications and Post used to be part of the Ministry of Transport, Public Works and Water Management, but since July 2002 it has been part of the Ministry of Economic Affairs. TPG Post is the universal service provider in the Netherlands. TPG was corporatised in 1989 and 45% of its shares are owned by the government. The other 55% of the shares were sold in two stages: 30% in 1994 and 25% in 1995. TPG is listed on the stock exchanges of Amsterdam, London, New York and Frankfurt.

On June 1, 2000 the Postal law was revised. This law sets the basic guidelines for TPG Post. The Postal Outlet Policy 2001-2005 uses these guidelines as a basis and encompasses some additional agreements, which are discussed later.

On January 22, 2004 the Minister of Economic Affairs presented a postal memorandum on the future postal market dealing with the steps towards liberalisation. With regard to postal outlets, maintaining quality levels will be based on the number of post offices stipulated for the period up to 2005, which is to be the same as in 2001. Good accessibility to postal services will also be provided by post offices after 2005, assuming that the service level allowed for in the postal outlet plan by and large remains intact in the years following.

7. Country Report - Netherlands



OPTA – Independent Post and Telecommunications Authority

OPTA is an independent regulatory authority of the Ministry of Economic Affairs regulating post and telecommunications in the Netherlands. OPTA has the responsibility to determine whether or not there are enough post offices and service points and whether they are spread over the country according to the law. In order to check this TPG Post has to report to OPTA, before March each year, about the number and location of the outlets. TPG Post also has to make a declaration of public accounts before the 1st March.

OPTA's president Jens Arnbak has said that it is difficult to monitor TPG Post adequately in rural areas because the rules for maintaining post offices in these areas are not described clearly enough in the law known as BARP, discussed later.

Postkantoren BV - The Dutch post office counters network

The post office counters network, Postkantoren BV is a joint venture formed between TPG Post BV (part of TPG NV) and Postbank NV (part of the ING group) in 1993. It is the national physical distribution arm for TPG Post, the Postbank and other business partners. Each party owns 50% of Postkantoren BV and since Postbank NV is owned by a private company and TPG Post is 55% privatised (30% since 1994 another 25% since 1995), the office counter network is effectively also privatised.

Postkantoren BV aims to be an effective retail organisation for its business partners and made a profit after taxes (including that of the subsidiaries) of €9 million (£6 million) in 2002.

Customer satisfaction surveys

TPG Post likes to know what clients think of its service provision. Intomart, an independent research agency, interviews more than 12,000 (business) customers on a yearly basis about customer satisfaction, with questions about the service provision of TPG's employees and satisfaction with mail delivery. In 2003 86.7% of private customers and 87.4% of business customers were satisfied with TPG Post's service provision. These numbers cannot be compared to previous years, because the method of questioning was changed in 2003.

7. Country Report - Netherlands

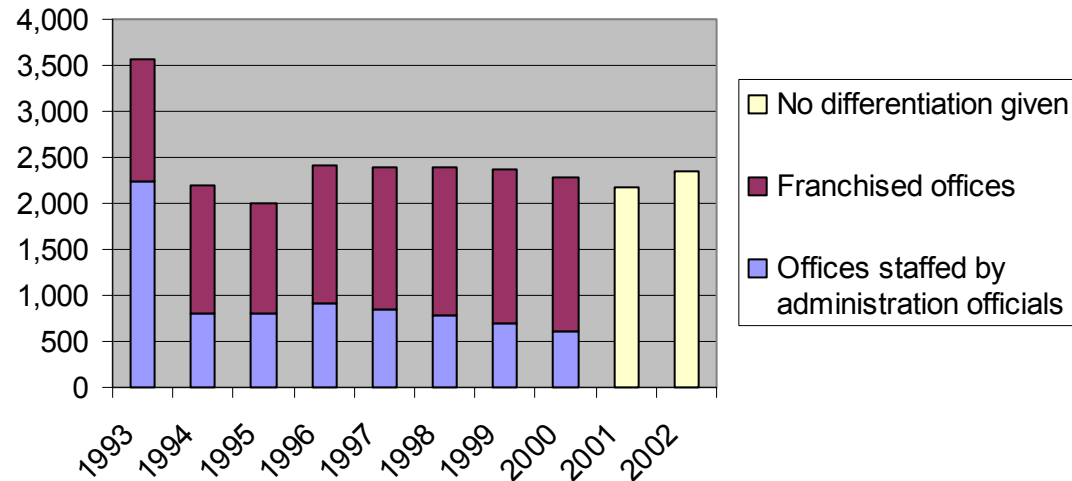


7.2 Trend in office numbers

The postal counters network was remodelled in the period 1991-2000. The main changes included an initial closure of 325 post offices and the introduction of limited service outlets that sell the basic assortment to replace mobile post offices in rural areas. Other changes introduced included the change from wholly owned post offices into agents and the introduction of new retail formulas.

The graph below shows the total number of permanent post offices over the period 1993-2002. The number of post offices declined significantly in the first couple of years but then stabilised at about 2,400.

Post Office Network 1993-2002



Criterion/Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total number of permanent post offices	3,567	2,200	2,009	2,433	2,399	2,387	2,361	2,282	2,183	2,342
Offices staffed by administration officials	2,246	800	798	903	839	783	700	619		
Franchised offices	1,321	1,400	1,211	1,530	1,560	1,604	1,661	1,663		
No differentiation given									2,183	2,342

Source: UPU

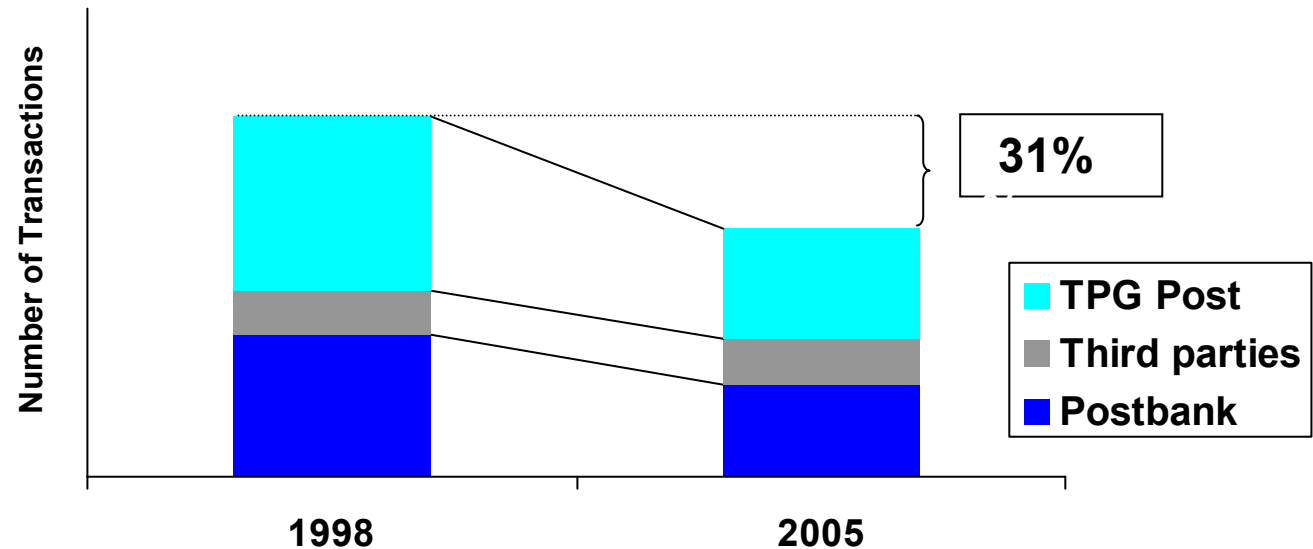
7. Country Report - Netherlands



7.2 Trend in office numbers

The number of transactions handled by the post office is expected to decline by 31% over the period 1998-2005. As can be seen below, the diminishing number of transactions is mainly occurring in the Postbank and TPG Post services and is due to the following factors:

- ▲ No foreign exchange transactions. Owing to the introduction of the euro the number of foreign exchange transactions decreased so much that in November 2003 the post office stopped selling foreign currencies
- ▲ Increased acceptance of cash dispensers
- ▲ Increased usage of Internet banking
- ▲ Increasing number of shops that sell stamps has diminished the number of transactions at the post office
- ▲ Increasing use of online shopping





7.2 Trend in office numbers

TPG Post has therefore, in conjunction with the government set up a new Outlet Policy for the period 2001-2005. The changes in this policy should be in place in 2005 and encompass the following:

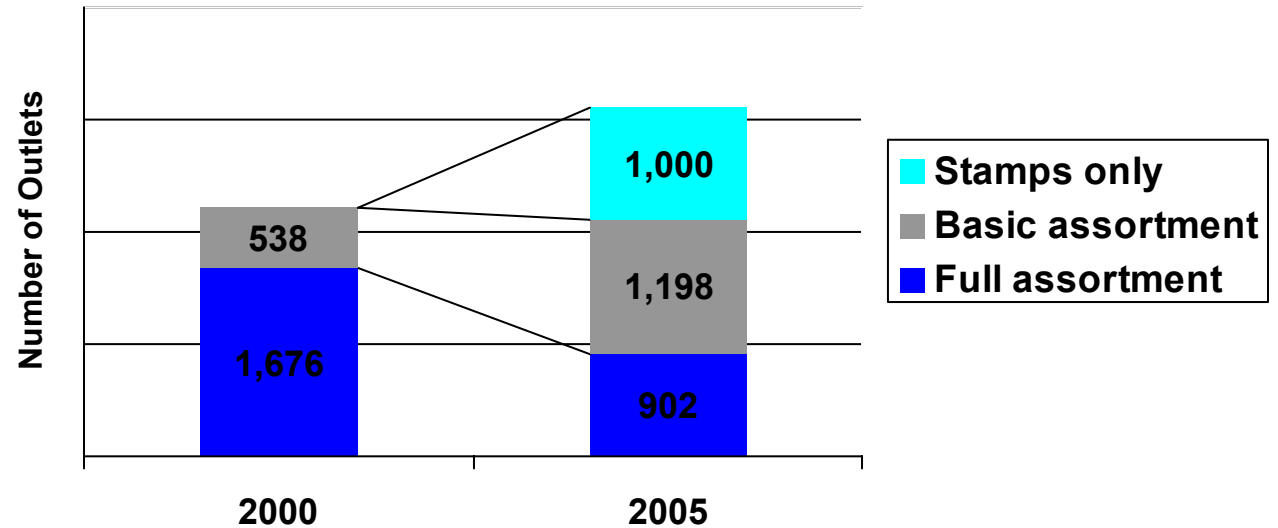
- ▲ 800 Post Offices – Post Offices will sell all the products of TPG Post and the Postbank. Supplementary products of third parties, such as public transport tickets and telephone cards will also be available at these outlets.
- ▲ 1,300 TPG Service Points, of which 100 will have a full range of products and services. TPG Service Points can be used to buy stamps for letters and packages, and to send packages and registered mail. They are located in supermarkets, bookshops, chemists and drug stores.
- ▲ 6,800 stamp selling points. Consumers can buy stamps at 5,800 places (supermarkets, bookshops, petrol stations etc). This covers almost all places that sell greeting cards. There are plans to add another 1000 sales points where a wider assortment of stamps will be sold.
- ▲ 250 TPG Post Business Points. The business points will be specifically focused on the requirements of small and medium sized businesses.

7. Country Report - Netherlands



7.2 Trend in office numbers

The graph below shows predicted effects of the change in the outlet policy of Postkantoor BV between 2001-2005.



In July 2003 the situation was as follows:

Formula	July 2003	2005
Post Office	1,250	800
TPG Service Points	850	1,300
TPG Business Points	190	250
Stamp Selling Points	6,350	6,800
Total	8,640	9,150

Sources: Annual Report TPG 2002 page 18

7. Country Report - Netherlands



7.3 Services provided by post office counters

Postkantoren BV, including its subsidiary Bruna, offers clients the products and services of TPG Post, Postbank and several third parties. The outlets located in Bruna's shops sell the range of the Bruna stores, namely stationery, books and DVDs alongside the assortment of Postkantoren BV.

The following services are offered:

Postbank Financial Services

- ▲ Savings accounts
- ▲ Credit cards
- ▲ Loans
- ▲ Investment schemes
- ▲ Insurances and mortgages

Government Services

- ▲ Vehicle licences (for cars and fast motor boats)
- ▲ Information leaflets
- ▲ Students can collect their 'free' public transport card at the post office
- ▲ Fishing permits

Telecom Services

- ▲ Phone cards for public pay phones
- ▲ Top up cards for mobile phones
- ▲ Some post offices sell phones

Public Transport Tickets

- ▲ Train tickets for trips within the Netherlands
- ▲ Bus/tram/metro-tickets (multiple use, weekly, monthly and annual tickets)



7.3 Services provided by post office counters

Energy Companies

- ▲ Payment of bills
- ▲ Green power products

Ticket Service

- ▲ 150 post offices sell tickets for concerts and events

Other Services

- ▲ AgeKey activation on bank cards, in order to check age of owner when he/she is buying cigarettes out of a machine
- ▲ Sale of gift certificates for the cinema, flowers, restaurants etc
- ▲ Sale of lottery tickets
- ▲ Fax service
- ▲ Moped drivers licences
- ▲ Payment of local social service benefits
- ▲ Special edition coins can be bought at the post office after they are issued
- ▲ Western Union Money transfers

7. Country Report - Netherlands



7.4 Formal or informal regulations that determine the location of post offices and their opening hours

Postal Decree

Under the Postal Decree (BARP), TPG Post must comply with the following guidelines in their postal outlet policy:

- ▲ Residential areas with more than 5,000 inhabitants need to have a postal outlet with a full range within 5 km.
- ▲ In residential areas with more than 50,000 inhabitants an additional outlet with a full range of services is required per 50,000 inhabitants.
- ▲ The provision of service for residential areas with less than 5,000 inhabitants should where possible be comparable with the standards mentioned above.

National coverage should mean:

- ▲ A minimum of 95% of the total population of the Netherlands has an outlet that offers a full range of services within a distance of 5 km.
- ▲ A minimum of 85% of the total population of the Netherlands in less densely populated areas (rural areas) has an outlet that offers a full range of services within a distance of 5 km. This includes all residential areas with less than 5,000 inhabitants.

International packages:

According to the law the sending of international packages should be possible from each office where on average 1 or more packages a day are offered to be sent abroad.

7. Country Report - Netherlands



7.4 Formal or informal regulations that determine the location of post offices and their opening hours

Service points in homes for the elderly and hospitals:

TPG Post tries to maintain or even increase the number of service points in hospitals and old people's homes. Before changes and closures of these services the boards of these institutions must be consulted.

Post office closures:

Closing the last post office in a residential area is allowed when:

- ▲ There is no shopping centre (a maximum of 4 shops); and
- ▲ There is another post office within 5 km that sells (almost) the full assortment; and
- ▲ The sale of stamps in the last year was less than €11,354 (£7,605).

Opening Hours

The opening hours of post offices differ from office to office. Exact opening hours, locations and the services offered by post offices can be found through an online search machine. In general post offices are open Mondays to Fridays from 9am – 5.30 pm and on Saturdays from 10am – 1pm. Some post offices also have an evening opening on late shopping nights (either Thursday or Friday).

The offices that focus specifically on the requirements of small and medium sized businesses, have different opening hours and are open Mondays to Fridays from 7.30am – 6.30pm.

7. Country Report - Netherlands



7.5 Government grants to the network

No specific information was found, but since Postkantoren BV is a partly privatised company that makes a profit it is highly unlikely that the government gives grants to the network.

7.6 Internal cross-subsidies to the counters network from within the incumbent administration

No information was found, but it is very unlikely that there are internal cross-subsidies within the counters network, since Postkantoren BV is partly owned by a bank. Banking services are in one of the most highly regulated markets and therefore it is unlikely that their activities are cross-subsidised.

Cross-subsidies in the system are also unlikely because one of OPTA's tasks is to make sure that TPG Post does not misuse its monopoly position to finance services in liberalised markets with illegal cross-subsidies.

On the other hand OPTA's president Jens Arnbak has said that under the current laws it is difficult to check whether or not TPG Post uses cross- subsidies.

7.7 Attempts to reinvent the counters network

As described in previous paragraphs the Dutch post office has made several attempts to reinvent the counter network, most of them successful. The Post Office counter network remodelling in the 1990s showed a significant reduction in the number of post office counters. The number of franchised organisations has grown during this period and is expected to continue to grow. Over the period 2001-2005, however, the total number of outlets will increase, but 1000 or the outlets will sell stamps only.

The Post Office has also reinvented the counter network in the sense that it offers services for a number of third parties. Postkantoren BV, including their subsidiary Bruna, offers customers a range of products and services of TPG Post and the Postbank with additional services of business partners. These products and services generate additional turnover and footfall.

The main reinvention of the postal counters network in the Netherlands is that the post office in the Netherlands has been partly privatized and less than half is owned by TPG Post.



8. Country Report - New Zealand

8.1 The chain of responsibility for the national post office network

New Zealand Post (NZ Post) has been a limited liability company since 1987, although all shares are owned by the Government. The shares are held in the names of the Minister of State-Owned Enterprises (SOE) and the Finance Minister. The company is registered under the Companies Act 1993 and the State-owned Enterprises Act 1986³. The company is governed by a Board of Directors appointed by the Government for three year terms. The Board has all operational powers, including pricing and service performance standards.

In February 1998 a Deed of Understanding was drawn up between the Government (the Minister of Communications) and NZ Post. A framework of social obligations was formulated, of which the following passage is relevant to the country's counters network:

13	NZ Post shall maintain a network of at least 880 postal outlets and post centres, excluding stamp retailers.
14	NZ Post shall...maintain at least 240 postal outlets, provided that NZ Post may reduce the number of postal outlets below 240 by converting postal outlets to post centres at the rate of up to 8 postal outlets for every \$2 million per annum reduction in service contract revenues after the date of execution of this deed.
15	For the purposes of clauses 13 and 14 of this deed: "Post centre" means an outlet that offers over the counter postal services to the public, including, but not limited to, the purchase of stamps and the postage of postal articles, pursuant to an agreement with NZ Post. "Postal outlet" means an outlet that offers the services offered by a post centre, plus agency and/or other services.
16	Postal outlets or post centres may be operated by NZ Post or by a person other than NZ Post under an agreement with NZ Post.

³ State-Owned Enterprises Act 1986

Where government services may be managed as commercial operations, the State-Owned Enterprises Act allows the Government to provide these services through a similar organisational form as private sector enterprises. State-owned enterprises (SOEs) have been established as Crown companies charged with achieving a commercial return on the Government's equity investment



8. Country Report - New Zealand

8.1 *The chain of responsibility for the national post office network*

A Finance and Expenditure Select Committee is the key means by which State Owned Enterprises are held accountable by the owners' representatives. Other parliamentary committees sometimes play a role. During a financial review of NZ Post in 2000/2001, the Parliament's Privileges Committee intervened to order NZ Post to divulge information to the Finance and Expenditure Select Committee about failed consultancy projects in Malta, Spain and South Africa. Furthermore SOEs are required under the SOE Act to produce a Statement of Corporate Intent (SCI) which has to be submitted to Parliament on an annual basis before the start of the new financial year. In the Cabinet Manual the role and responsibilities of ministers is described thereby illustrating the mandate given to NZ Post.

The SCI is prepared annually in accordance with Section 14 of the State-Owned Enterprises Act 1986 and details the company's strategic direction and financial performance targets for the next three years. The SCI drawn up in 2001 for a three year period included, for the first time, the implementation of a retail bank as a key commercial objective for NZ Post.

State-owned enterprises are owned by the government but are required by statute to operate as commercial businesses. They are established under the State-Owned Enterprises Act 1986. State-owned enterprises are listed in the First Schedule to the State-Owned Enterprises Act.

All state-owned enterprises are registered as companies and are bound by the provisions of the Companies Act 1993. State-owned enterprises have their own boards of directors, which take full responsibility for running the businesses. Each board of directors is accountable to the relevant shareholding ministers for the performance of the state-owned enterprise.

8. Country Report - New Zealand



8.1 *The chain of responsibility for the national post office network*

The role of ministers is prescribed in the State-Owned Enterprises Act. Each state-owned enterprise has two shareholding Ministers, the Minister of Finance and one other, generally the Minister for State-Owned Enterprises. The shareholding ministers are responsible to Parliament and their functions include:

- ▲ appointing directors;
- ▲ setting dividend levels;
- ▲ monitoring performance;
- ▲ agreeing to and tabling in the House the state-owned enterprise's statement of corporate intent and tabling the annual report.

Most state-owned enterprises are subject to ministerial direction on certain matters, under section 13 of the State-Owned Enterprises Act.

The Crown Company Monitoring Advisory Unit provides the government with advice that enables the shareholding ministers to hold boards of state-owned enterprises accountable for their performance.

Political parties in New Zealand such as the Labour Party, the Party of New Zealand and the Liberal party ACT make broad statements regarding the influence the government should have on state-owned enterprises in general and NZ Post in particular. An incident with the South African government regarding a consultancy project Transend (NZ Post's International Consultancy Division) had undertaken led to criticism from political parties. Their general stance on these issues and the level of involvement they would ideally like the government to have could influence the way outlets are managed and maintained.

8. Country Report - New Zealand



8.1 The chain of responsibility for the national post office network

The performance of NZ Post's network is managed by judging its performance against the following objectives:

- ▲ Revenue
- ▲ EBIT
- ▲ Productivity
- ▲ Presentation
- ▲ Customer surveys
- ▲ Internal staff surveys
- ▲ Banking customer acquisition

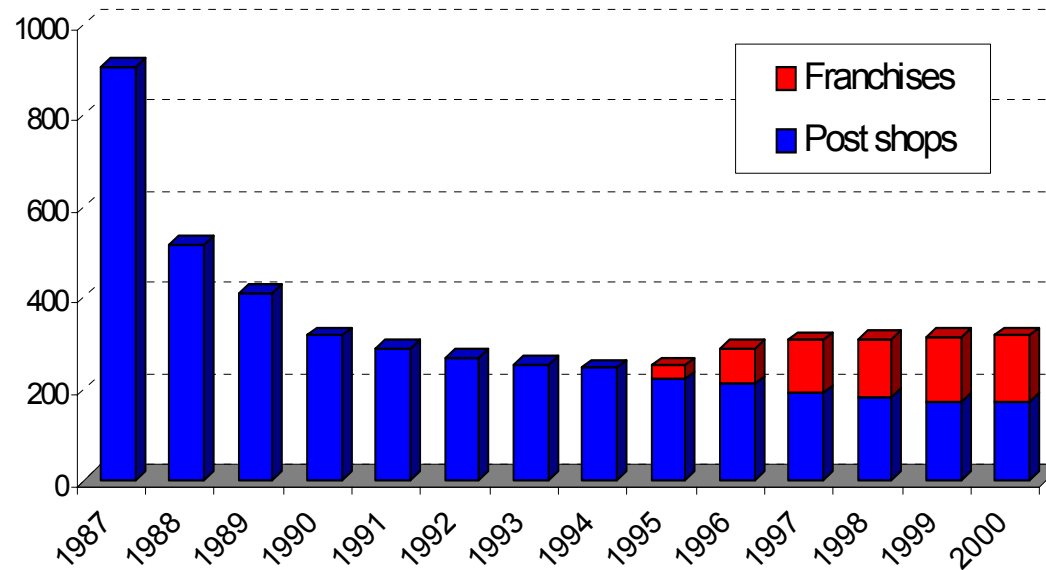
Customer satisfaction is measured by independent research

8. Country Report - New Zealand



8.2 Trend in office numbers

Following the corporatisation of NZ post there was a drastic reduction of post shops, i.e. staffed by NZ Post. The reduction in post shops has continued though more slowly, and in 1995 it was reversed by the introduction of franchises. From 1997 the total of public post offices stabilised at about 300, but the conversion of post shops into franchises continues slowly. These figures exclude about 700 post centres which, as noted, offer a more limited range of services. Also, there are about 3,000 stamp retailers.



The table above lists the number of post shops and franchises over the period between 1987 and 2000.

NZ Post's retail network in 2003 consisted of:

- ▲ 313 Post shops
- ▲ 697 Post centres
- ▲ 2,848 stamp resellers

8. Country Report - New Zealand



8.3 Services provided by post office counters

Post shops are outlets staffed by NZ Post personnel. They offer a full range of postal services and provide agency services on behalf of other businesses and government departments.

Post centres are outlets owned and operated by people other than NZ Post, that offer services such as sale of stamps, postage of parcels and letters and mail collection over the counter or by private box. Post centres provide a valuable additional line of business to many rural businesses in small rural districts.

Stamp retailers' only postal business is the sale of stamps, as an adjunct to their regular business. Since late 1991 NZ Post has significantly increased the number of stamp retail outlets to include supermarkets. Many of these retailers are located in city suburban areas, with a street post box located nearby.

Other outlets for NZ Post's offerings are the "Books and More" chain of stores. These shops have a diverse inventory, selling things such as stamps, greeting cards, magazines, books and gifts. "Books and More" is a joint venture with the Blue Star Consumer Retailing Group.

In 2002 NZ Post, as part of government policy, opened the Kiwibank Limited in the majority of its post shop and Books & More branches. The roll out of Kiwibank services envisaged that, by 2003, 283 post shops would be offering current and savings accounts, business banking, home loans etc.

8. Country Report - New Zealand



8.3 Services provided by post office counters

Post shop services include

- ▲ Sending letters and parcels
- ▲ Money Services
 - ▲ Sending and receiving money
 - ▲ eBill
 - ▲ Household bills
 - ▲ Bonus bonds
 - ▲ Banking
 - ▲ Foreign currency
 - ▲ Household bills (payments and deposits)

Payments or deposits can be made at any post shop or Books & More for any of the following

- ▲ Tickets (sport, music, tourist attractions)
- ▲ Changing addresses: redirection and a hold services
- ▲ Customer enquiries: For general enquiries, or complaints, and to apply for compensation for CourierPost, international or national items.
- ▲ Postcode Finder: To find the postcode by street, location or box number.
- ▲ Protecting your mail: For mailbox design, and features to protect mail.
- ▲ RuralPost service for changing details, or to send mail to and from a rural mail box.
- ▲ Private boxes and bags
- ▲ Faxlink
- ▲ Post shop locator: To find nearest Post Shop, including details of opening hours and services offered.
- ▲ Electoral registration, gun licences, payment of court fines.

8. Country Report - New Zealand



8.4 Formal or informal regulations that determine the location of post offices and their opening hours

Post shops throughout the country provide a full range of services from 8.30am to 5pm, Monday to Friday, with some also opening on Saturday mornings. Post centres are part of an existing business, such as a dairy, chemist or bookshop and may adapt their opening hours accordingly.

There appears to be no formal regulations regarding opening hours and location choices. However, political influence through local MPs and/or relations between senior management within NZ Post and government officials could influence decisions related to the location of a postal outlet.

8.5 Government grants to the counters network

Government subsidies to the counters network ceased on 5 February 1988 and 432 post offices were closed to become "post only" agencies.

NZ Post's annual report, 1998 states that a significant proportion of costs are determined on a variable/direct basis. Payments to owner/drivers, rural contractors, franchised post shops and post centres are directly related to business transacted.

NZ Post's annual report of 2003 gives financial information about the performance of Kiwibank.

8.6 Internal cross-subsidies to the counters network from within the incumbent administration

NZ Post does not produce separate accounts for the main operations. However, in the annual report 2003 the retail network is said to being monitored in terms of independent financial solvency.

Each year NZ Post adopts a number of performance targets and measures in its statement of corporate intent. Collectively, the SCI targets give an indication of the financial performance of the company. In the annual report of 2003 NZ Post reports having achieved most of the SCI performance targets and exceeded all of their financial performance targets. NZ Post looks at their operations as a portfolio of businesses of which Retail and Kiwibank are two.

8. Country Report - New Zealand



8.7 Attempts to reinvent the counters network

The NZ Post Office has found ways to franchise services. As noted, in February 1999 it launched a joint retail venture with Blue Star Consumer Retailing called “Books & More” selling books and videos, greeting cards, stationery and postal services.

The company is increasingly relying on technology to meet the growing range of communications needs of its customers. Examples of services are:

- ▲ Travel Money by Phone - Travelex offers currency collection at over 300 NZ Post Shops and any Travelex branch throughout New Zealand. Customers can order foreign currency and travellers’ cheques for overseas trips, and collect it at any Travelex branch or participating NZ Post Shop.
- ▲ Tickets can be bought at over 300 Post Shops throughout New Zealand or online.

However, the major change has been to embrace the concept of retail banking through setting up the Kiwibank with the expectation that this will become profitable within the next 2-3 years.



9.1 The chain of responsibility for the national post office network

The Ministry of Transport and Communications has overall responsibility for regulation in the postal sector. It initiates legislation and has supervisory functions as the owner of Sweden Post. However there is an independent regulatory body called the National Post and Telecom Agency (PTS), which was established to regulate competition and service quality. Its specific responsibilities include supervision of the USO, the postal market and all letter delivery companies (not just Sweden Post), administration of undeliverable letters; administration of the state's social commitments and participation in international activities, such as the Universal Postal Union (UPU) and the European Conference of Postal and Telecommunications Administrations (CEPT).

Posten AB (Sweden Post) is a plc, owned by the government. It operates in a liberalised market. It is currently losing 200 million kr (about £15 million) a year but plans to return to profitability by the end of 2005.

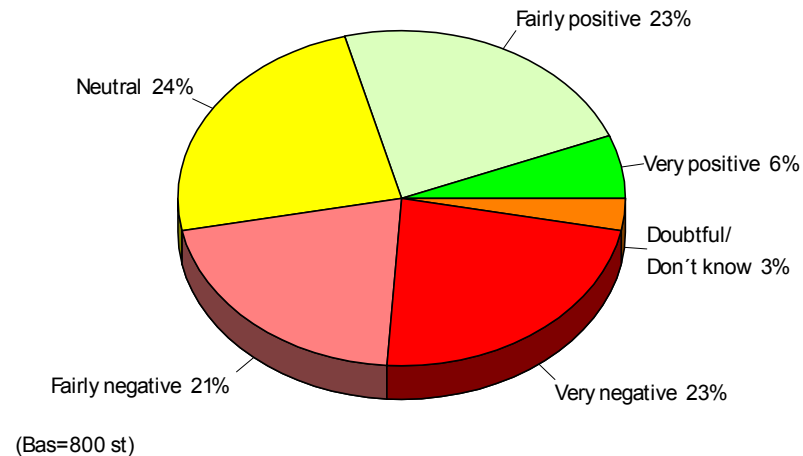
The Postal Services Act vests responsibility for universal service in “the Government or an authority appointed by the Government”. The Government has authorised PTS to “issue the implementation regulations necessary to apply the Postal Services Act as regards delivery of letters, non-deliverable letters and supervision as the regulator of the postal sector”. PTS has attached universal service obligations to the licence of one provider of postal operations, Sweden Post. The Sweden Post licence sets out the details of the universal service requirement.



9.1 The chain of responsibility for the national post office network

Sweden Post measures its customer satisfaction continually using the Customer Satisfaction Index (CSI). The new service network, rolled out in 2002, led to a decline in the index. In the 2000 Annual Report it is reported that the Cashier Service Index (KSI) which reflects the score that customers give to their local cashier service, declined sharply in the second half of 2000. The reason for the decline according to the Annual Report was that Sweden Post has not been able to inform customers about which cashier transactions would be possible at Sweden Post in the future. Customers were also uncertain about the changes that were to be implemented in the post office network.

Figure 1.1 Customer satisfaction, 2002





9.2 Trend in office numbers

Sweden Post's network is made up as follows.

4090 directly run post centres offer pre-paid postal stationery, stamps and parcel collection, PO boxes and mailroom management for businesses. They are open plan and have low security as no financial transactions take place. Each office has several hundred PO boxes, a rack of prepaid postal stationery, a single position counter and a public terminal which gives access to Sweden Post's website. There are also two large recycling boxes so people who come to collect their business post from a PO Box can sort it putting much of it straight into the recycling bin. The counter is very simple with a computer, scales and a few rolls of stamps in dispensers similar to those used for lottery cards in the UK.

There are 1,800 letters and parcels service outlets in supermarkets and petrol stations in cities and malls (often run by multiple chains). These have a large display of pre-paid postal stationery, stamps and parcel collection and have a free public helpline. There is a special Sweden Post till that is manned only when needed. Parcels and registered letters are located in a storage room. Each person who works in the outlet is given 1-2 weeks training so they are able to man the Sweden Post counter. One person is given extra training and is regarded as 'the responsible person'.

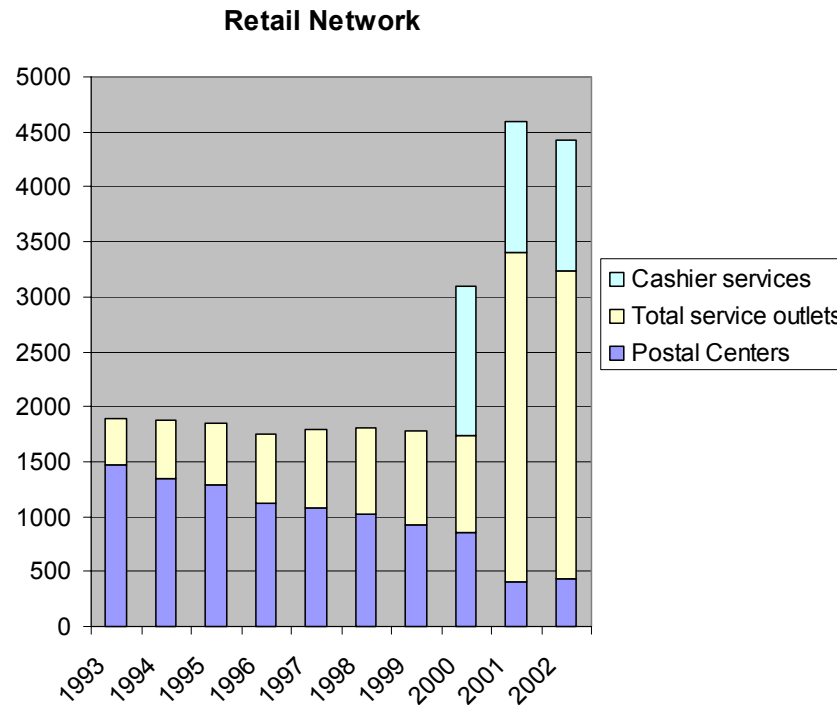
There are 1,000 letter service outlets located in convenience stores, petrol stations, airports and hospitals. These do not offer parcel collection services and offer a limited range of pre-paid postal stationery and stamps with two small display shelves behind the counter. The checkout assistant can ring for help if a query arises up which cannot be dealt with at the outlet.



9.2 Trend in office numbers

1,200 cashier services outlets offer withdrawals and deposits on behalf of four banks, along with bill payment.

The following graph and table show the number of postal outlets from 1993 to 2002.



9. Country Report - Sweden



9.2 Trend in office numbers

Sweden's counter network, 1993 - 2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Postal Centers	1473	1341	1289	1117	1075	1019	922	851	400	430
Total service outlets	419	537	564	640	720	781	853	890	3000	2800
Cashier services								1350	1200	1200
Total service outlets	2311	2415	2417	2397	2515	2581	2628	3981	4600	4430

Source: Annual Reports

Sweden Post does not favour the use of rigid rules or accessibility criteria to determine post office provision. Instead, it aims to make post office services reasonably accessible to everyone. It therefore offers post office services via 2,700 rural mail carriers (i.e. postmen) in those areas of Sweden where it judges that the local population is too thinly distributed to support a post office. In practice, this means almost everywhere outside the three main cities of Stockholm, Malmö and Gothenburg.

The 2,700 rural carriers serve 700,000 customers and provide delivery to the front door of postal services (stamps, parcel pick-up, delivery of items too big for the addressee's roadside post box) and basic cash withdrawal, deposit and bill payment services. Any rural customer can ask for the cash or bill payment service to the door twice a week. The Swedish Government pays Sweden Post approximately £31 million a year to carry out this service. Delivery of mail is to a roadside post box except in special circumstances such as disabled or elderly persons.

9.3 Services provided by post office counters

Parcels must be collected from post offices (except in rural areas where the rural carrier delivers them), unless an extra fee is paid. No other operators offer their services through post offices. Citymail, the main competitor, does not have access to the network of post offices.

9. Country Report - Sweden



9.3 Services provided by post office counters

Financial services

In 2001 PostGiro was sold to Nordea bank, following Sweden Post's decision to move out of financial services. Cashier Services outlets were set up following public outcry, particularly from pensioner groups, over Sweden Post's withdrawal from providing financial transactions.

There are currently 1,200 Cashier Service outlets often in old post offices (250 are linked to business centres) and reflecting the size of the old post office network, some 400 are also in partner outlets. Services are provided on behalf of four banks, including deposits, withdrawals and bill payment. However, people's habits are changing rapidly and the rate of decline in use of cashier services has recently been 15-20% per annum. Each transaction attracts a charge – cashing a cheque costs 25kr (exchange rate is ~13kr = £1); making a deposit costs 35kr and rises with the amount deposited; paying a bill costs 35 or 45kr depending on the bill; cash withdrawal costs 20-30kr.

Sweden Post is linked to the banks' systems, so all transactions take place in real time – but are based on paper, not on plastic cards. The Cashier Service Office is busiest at opening time when its main customers – elderly people who like to do face-to-face transactions – come in. The other main customers are those who are too young to have a bank account.

Government Services

Postal voting is offered throughout the country. A search function on Sweden Post's website enables voters to locate the nearest polling station. Voters can also call Sweden Post's customer service department. In areas where the new service network has not been rolled out, ballots may be cast at Post Offices and Post-in-Store locations. Other services include getting an ID-card and picking up and paying for a motor vehicle licence.

Other retail services

No other services are offered. Sweden Post used to sell stationery, entertainment products etc to fill up space in its shops, but this is now seen as a distraction from its core business.



9.4 Formal or informal regulations that determine the location of post offices and their opening hours

The following section from the Basic Counter Act (SFS 2001:1276) describes the obligation of Sweden Post regarding the provision of post office counter services:

Section 1

There shall be a nation wide counter service throughout Sweden whereby everyone shall have a possibility of effecting and receiving payments at uniform prices. The counter service (as specified in the above paragraph) shall be provided by the state-owned company which has also been assigned the task of receiving ballots according to chapter 11 of the Election Act (1997:157). The Government may issue further regulations concerning the services, which the counter service shall include.

Section 2

The Government or an authority appointed by the Government shall monitor that the counter service fulfils the needs of the community.'

Sweden Post is not required to maintain a specific number of retail outlets, but the regulator (National Post and Telecom Agency) does monitor the policy regarding closures. Where the outlets are not commercially viable the State undertakes to pay compensation to Sweden Post.

Post Centers are open on Monday to Friday 8am to 8pm. Letters and parcels service are usually open between 9am to 9pm seven days a week. Letter service outlets are open during business hours. Cashier services outlets are open 10am - 6pm on weekdays and 10am - 1pm on Saturdays



9.5 Government grants to the counters network

In 2001 the Government passed a law, which set up a Universal Service Obligation for financial services and placed on Sweden Post the duty of providing all citizens with the right to make and receive payments at uniform prices. Cashier Services has been set up as a separate business unit with separate outlets to provide cashier services for any banks which want to use it and to run postal voting.

Sweden Post received SEK200 million (£15million) from the Government in 2001 to provide these services in non-commercial areas, with SEK400 million (£30 million) allocated for 2002. Post offices no longer carry out any financial transactions (though the 2,700 rural carriers will continue to provide financial services). Cashier Services is working to widen its clients from Postgirot for payment transactions and Nordea for all bank transactions.

9.6 Internal cross-subsidies to the counters network from within the incumbent administration

Sweden Post is reimbursed by the state for providing legislatively mandated service in sparsely populated areas where no alternatives exist. This business generates an annual loss of about SEK 400 million (£30 million). The reimbursement programme was reviewed and approved by the European Commission. The non-subsidised segment of the Cashier Service operation reported an operating loss for 2002 of SEK 260 million (£20 million).

Sweden Post's board has sanctioned measures aimed at achieving a break-even position by 2005 at the latest. Action is required in several areas, primarily with regards to the number of offices, pricing and products.



9.7 Attempts to reinvent the counters network

In the 1970s there were 4,000 post offices, but by the 1990s this had shrunk to around 1,400 as customer behaviour changed (e.g using other channels for banking). In 1999 a review set out a 10-year strategy for post offices. This meant:

- ▲ becoming more accessible to customers
- ▲ improving service
- ▲ simplifying products
- ▲ being cost effective
- ▲ having more channels

Sweden Post's aim was to close all post offices and to re-open two low cost outlets to replace each one. They have succeeded in doing this.

Sweden Post decided to keep business centres in-house to keep a strong brand, to reduce dependency on partners and to maintain contact with businesses. It also decided to sell all its property and instead rent what was needed.

The largest letters and parcels partner is ICA grocery chain, which has post offices in 800 of its 2,200 stores. The best location for postal services here is the tobacco counter, where impulse purchase goods are sold, usually to one side of the main tills.



9.7 Attempts to reinvent the counters network

The largest letters-only partner is Pressbyran, a convenience store chain with 330 outlets, all of which have post offices. Each partner store normally serves 2,000 - 3,000 people. Sweden Post and partners can link products; e.g. pre-paid packaging for Easter eggs, stamps with a recipe card (to encourage people to buy the food for the recipe in the same store) and valentine's cards with a voucher for flowers.

The timetable for implementation was:

- ▲ July 2000 to April 2001 strategy development
- ▲ April to November 2001 pilots in four areas
- ▲ November 2001 to November 2002 roll out to all 89 areas

Sweden Post's approach was to break the population down into groups of 2,000 - 3,000 and then produce a ranking of local outlets where a post office could be located. Whole areas were converted at once to avoid confusion, and it took thirty weeks of planning before each change. It ended all previous partnership agreements, about 500 in all, which had been negotiated at the local level so varied greatly. It moved to simple products and a single contract.

Partnership contracts are for five years so will need to be renegotiated for 2006. Partners are paid by means of commission on stamps, prepaid packages and the number of parcels collected. There is also a fixed fee based on the number of customers in the area. Partners are managed on a local basis for post centres, which also supply them with parcels.



9.7 Attempts to reinvent the counters network

So far staff satisfaction levels are up, partners' satisfaction levels are high, but customer satisfaction has fallen. There were hundreds of negative press articles during the period of change including suggestions that all post offices would close. Sweden Post believes that the fall in customer satisfaction arises from people not liking change, initial teething problems (eg people going into a business centre by mistake) and the infrequency with which people visit post offices (average 1.6 times a year, compared to 88.2 visits to the supermarket). They expect customer satisfaction to rise as they become familiar with the new system. In the new stores where parcels can be picked up, the time it takes for customers to do this has fallen from an average of 11 days when they were picked up at post offices, to 4 days.

The new post office network model has its own problems, ensuring the brand is maintained and getting people to change their habits – to think of postal services as another product they buy while getting their groceries. That said, the very low number of annual visits to post offices coupled with increasing use of the Internet and the falling number of transactions at counters mean that the challenge facing Sweden Post's network of post offices is particularly acute.



10.1 The chain of responsibility for the national post office network

The United States Postal Service (USPS) was created from the Post Office Department by the Postal Reorganization Act of 1970 as an independent but Government-owned entity. The USPS is part of the Executive Branch of the Government in a sub-class known as a Federal Independent Agency. Its Board of Governors which oversees the USPS was also formed by the Postal Reorganization Act of 1970. The Board of Governors is appointed by the President of the United States.

The Board of Governors is composed of 11 members appointed in accordance with this section. Nine of the members are appointed by the President with the advice and consent of the Senate, not more than five of whom may be adherents of the same political party. The Governors elect a Chairman from among the members of the Board. The Governors are chosen to represent the public interest generally, shall not be representatives of specific interests using the Postal Service, and may be removed only for cause. The Governors and the Postmaster General appoint and have the power to remove the Deputy Postmaster General, who is a voting member of the Board.

As analysed later in our research, the USPS does not have the latitude to manage its infrastructure due to restrictive statutory requirements and political resistance to the closing of post offices and postal facilities. The Postal Reorganization Act orders that no “small post office shall be closed solely for operating a deficit.”

In its Transformation Plan released in 2002, USPS introduced the concept of its Retail Network Optimization programme with the objective to optimize its retail network based on customer demand. This concept is described later.



10.1 The chain of responsibility for the national post office network

The Postal Rate Commission (PRC) is an independent establishment of the executive branch that is composed of five full-time Commissioners, who are appointed by the President, with the advice and consent of the Senate, to six-year staggered terms. Among other things, PRC Commissioners review proposed changes to domestic postage rates and fees and appeals of USPS decisions to close post offices. By law, Commissioners are chosen on the basis of their professional qualifications and may be removed only for cause. Not more than three of the five Commissioners may belong to the same political party. No other qualifications or restrictions are specified in law. In addition to the five Commissioners, the PRC has a staff of about 40 full-time employees.

The PRC's remit is narrower than that of a typical EU regulatory body. It has no remit to examine performance issues or to balance the interests of private mailers. There is, however, a 'Consumer Advocate Department' within the PRC and consumer groups and competitors are all invited to make representations to the PRC on rate cases. The PRC is clearly aware of consumer and competitor pressures but operating, quality and commercial relationships with the USPS are not the subject of formal regulation.

Early in 2003, President Bush established a special Commission to gather the opinions of postal experts, customers, partners, competitors, and employees and craft a vision 'to ensure the efficient operation of the United States Postal Service while minimizing the financial exposure of the American taxpayers.

10. Country Report - USA



10.1 The chain of responsibility for the national post office network

The President's Commission reported in July 2003 and recommended that the PRC be transformed into an independent Postal Regulatory Board, "with broad authority to safe-guard the public interest without micromanaging day-to-day postal operations." The PRB would be an independent establishment of the executive branch of the US government, composed of three individuals of significant stature, appointed by the President of the United States and confirmed by the Senate."

"Rather than a sole focus on rate-setting and mail classifications, the Postal Regulatory Board would be tasked with broad public-policy oversight, including: ensuring financial transparency; guarding against the cross-subsidization of competitive products; reviewing the scope of the postal monopoly; limiting the prices charged for non-competitive products; overseeing the scope of the universal service obligation; reviewing worksharing and other discounts; reviewing changes to service standards that may have a substantial and negative national impact; and ensuring the Postal Service meets its statutory obligation to compensate its employees at a level comparable to (but not exceeding) the private sector."

The President's Commission was supportive of private sector involvement in the postal value chain through the promotion of worksharing as well as "designing a smaller, stronger, new postal network". In order to reduce the infrastructure costs, the President's Commission recommended the rationalization of the postal network both in terms of mail deliveries and post offices and that the USPS should be able to take advantage of the efficiency opportunities. It proposed the outsourcing of postal services to private sector companies by bringing "a wider range of postal services to consumers in grocery stores, pharmacies and other convenient locations".



10.1 The chain of responsibility for the national post office network

In addition to outsourcing the provision of postal services to the private sector, the President's Commission suggests that the maintenance of "low-activity" post offices should be linked to the universal service provision: "If, on the other hand, the Postal Service determines that a post office is no longer necessary for the fulfilment of its universal service obligation, then the Postal Service should have the flexibility to dispose of that facility as it sees fit, including through the facility's sale."

With the findings from the President's Commission and intervention from President Bush himself, postal reform including that of the post offices network is possible in 2004. The Bush Administration is now urging Congress to pass reform legislation. The President called on Congress to pass significant postal reform that provides affordable and reliable mail service to every American, and allows the Postal Service to be self-supporting and respond to a competitive market place.

In recent years, a number of lawmakers, including Rep. John McHugh, R-NY, and Sen. Thomas Carper, D-Del, have championed postal reform. McHugh introduced reform legislation in each Congress since 1996. In its Postal Accountability and Enhancement Act of 2003, Carper mirrored several of McHugh's proposals. Many of the changes urged by McHugh and Carper were reflected in those recommended by the President's Commission.



10.1 The chain of responsibility for the national post office network

On the other hand, on 14 August 2003, Senator Harry Reid, D-NV proposed a law that would curb the US Postal Service's ability to close post offices in rural areas and allot federal grants to mitigate economic effects when it does make a closure. The “Rural Post Office and Community Preservation Act of 2003” would require the USPS to prove that closing post offices in areas with populations of less than 20,000 would have a positive effect on the economy and quality of life in the area.

According to Congress:

- “(1) a 1993 study by the National Trust for Historic Preservation found that approximately 80 percent of people in small communities plan their trips around a visit to a post office;
- (2) the Postal Service is increasingly closing small, rural post offices in the centre of town and replacing such services with more distant post offices on the outskirts of such communities; and
- (3) closing Post Offices in the centers of small, rural communities removes the hub of such communities and has a deleterious effect on the economies and quality of life in such communities.”

The USPS would have to presume that the closure would have a negative effect unless it proved otherwise. If the USPS determined that a post office in a rural community should be closed, it would have to develop a plan to rehabilitate the building according to the wishes of the people of the community, according to the proposal. The bill would allocate \$10 million (£6 million) a year from 2003 to 2007 for the USPS to award funding for such efforts.



10.2 Trend in office numbers

The establishment as well as closing of post offices in the USPS is highly regulated. Title 39 (section 403) of the US Code orders the USPS to “to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.”

Under Title 39 (section 241) of the US Code, post offices are classified into four different categories based “on the allowable postal revenue units for the second preceding fiscal year as follows:

- (1) First Class. Post offices having 950 or more revenue units.
- (2) Second Class. Post offices having 190 but less than 950 revenue units.
- (3) Third Class. Post offices having 36 but less 190 revenue units.
- (4) Fourth Class. Post offices having less than 36 revenue units.”

The US Code defines stations as “established within the corporate limits or boundary, and branches are established outside the corporate limits or boundary of the city, town, or village in which the main post office is located. Stations and branches may be designated by number, letter or name. As a general rule, branches are named.



10.2 Trend in office numbers

(2) Stations and branches transact registry and money order business, sell postage supplies, and accept matter for mailing. Delivery service, post office boxes, and other services may be provided when directed by the postmaster.

(3) Stations and branches, except non-personnel rural stations and branches, are designated as independent when registered and other mail is received or dispatched without passing through the main office.

(b) Classification--(1) Classified -Operated by postal employees in quarters provided by the Federal Government.

(2) Contract - Operated under contract by persons who are not Federal Government employees. Persons operating contract stations and branches are independent contractors and neither the contractors nor any person employed by them to assist in the conduct of contract stations or branches shall be employees of the Federal Government for any purpose whatsoever.”

Based on figures provided by the USPS in its annual report, the following bar chart and table below represent the number of post offices, community post offices, classified as well as contract stations and branches for the past five years.



10.2 Trend in office numbers

From the following table and bar chart it is seen that between 1999 and 2003 the total number of post offices fell by 590 (1.5%), which is modest by comparison with reductions to the networks in several EU states. However, between 1993 and 1998 there was a significant reduction from 50,056 to 38,159 in what appears to have been a much more fundamental attempt to rationalize the network.

	1999	2000	2001	2002	2003
Post Offices	27,893	27,876	27,876	27,791	27,556
Classified stations and branches	5,788	5,802	5,835	5,900	5,796
Contract stations and branches	2,903	2,833	2,876	2,500	2,777
Community Post Offices	1,585	1,549	1,536	1,492	1,450
Total	38,169	38,060	38,123	37,683	37,579

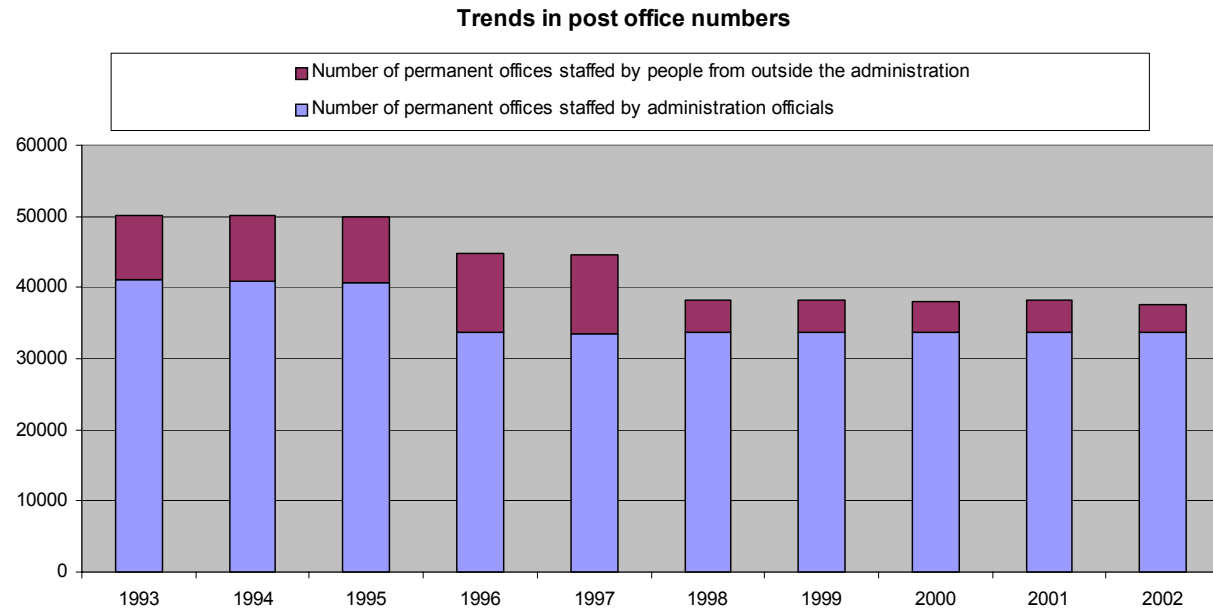
Source: USPS, Annual Report 2003.

Figures from the Universal Postal Union differentiate permanent offices according to the status of the staff employed in those offices. The bar chart and table below show that the number of post offices staffed by administration officials has decreased by approximately 18% over the last ten years whilst the number of post offices staffed by private personnel has decreased by 56%. According to the UPU, the sharp decline in the “number of permanent offices staffed by people outside the administration” between 1997 and 1999 is due to “a change in classification of post offices”.



10.2 Trend in office numbers

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Source: Universal Postal Union Statistics

10. Country Report - USA



10.2 Trend in office numbers

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of permanent offices staffed by administration officials	40997	40981	40775	33710	33506	33613	33681	33678	33711	33691
Number of permanent offices staffed by people from outside the administration	9059	9106	9131	11113	11113	4546	4488	4382	4412	3992
Total number of permanent post offices	50056	50087	49906	44823	44619	38159	38169	38060	38123	37683

Source: Universal Postal Union Statistics



10.2 Trend in office numbers

As stated in the previous section, the regulatory framework with regard to the closing of post offices is particularly rigid in the US. According to the US Code, “The Postal Service, in making a determination whether or not to close or consolidate a post office –

- (A) shall consider –
 - (i) the effect of such closing or consolidation on the community served by such post office;
 - (ii) the effect of such closing or consolidation on employees of the Postal Service employed at such office;
 - (iii) whether such closing or consolidation is consistent with the policy of the Government that the Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining;
 - (iv) the economic savings to the Postal Service resulting from such closing or consolidation; and
 - (v) such other factors as the Postal Service determines are necessary; and
- (B) may not consider compliance with any provision of the Occupational Safety and Health Act.

Detailed procedures are laid down about proposals to close a post office including the timing and rights of appeal to the Postal Rate Commission.



10.3 Services provided by post office counters

Under section 259.1 of Title 39 of the US Code, the USPS performs services for other federal agencies: “whenever the overall costs to Government will be reduced. Assistance in a number of special projects and programs is provided when the knowledge and abilities of postal employees are helpful.”

For those services performed on behalf of other federal agencies, USPS “establishes reasonable fees and charges for non-postal services performed for agencies. In establishing such fees and charges, the Postal Service considers the value of time of the personnel directly involved in the performance of the service, including direct supervision and supporting functions, plus the cost of materials and supplies specifically sold, used or consumed. Also included is an element representing a reasonable share of Postal Service general overhead costs which are not attributable or assignable specifically to any product or service. The establishment of such fees and charges shall be reasonably consistent with the methods employed in establishing rates and fees for postal services then in effect.”

The President’s Commission recommended that “an appropriate mission for the Postal Service is to allow the Postal Service to engage in one additional set of limited activities: providing other governmental services when in the public interest and where the Postal Service is able to recover the appropriately allocated costs of providing such services.”

A postal historian from Oxford University, Gerald Cullinan, explains the reason for giving the USPS this role. In the “Non-postal Functions” section of his historical account, Cullinan states that “because of its ubiquity in American life” the Post Office “was called upon to perform a bewildering number of non-postal functions pro bono publico.” Also, Mr. Cullinan explains, “there has been a steady accretion of minor federal functions . . . mainly because, in many communities, the post office is the only federal office in town and the centre of local activities.”



10.3 Services provided by post office counters

Similarly, the US Code clearly stipulates that “The Postal Service and the Red Cross cooperate to maintain communication between the individual and the community during times of disaster. This applies only to natural disasters such as those caused by floods, tornados, hurricanes, earthquakes, fires, explosions, etc., and not to those caused by enemy action.”

Post offices staffed by administration officials provide the following services:

- ▲ Postal products and services
- ▲ PO boxes
- ▲ Stamps and philatelic services
- ▲ Money transfer
- ▲ Passport application and hunting licences
- ▲ FedEx drop-off boxes
- ▲ Stationery products
- ▲ Cash machines
- ▲ Bill payment
- ▲ Greetings cards

The privately run retail units provide limited counter services. Finally, customers can purchase stamps through the mail, from the 32,000 vending machines, online or at 40,000 commercial retail outlets and ATMs.

According to a research undertaken by the USPS, approximately 31% of customers visit post offices for stamps only.



10.4 Informal and formal regulation that determine the location of post offices and their opening hours

The location of post offices is clearly determined by USPS as the US Code stipulates that the USPS shall have the following specific powers, among others: “to determine the need for post offices, postal and training facilities and equipment, and to provide such offices, facilities, and equipment as it determines are needed”.

However, the decision to close or relocate a post office is often influenced by members of the Congress to retain or relocate small town post offices in their districts. In addition, Clause 7 of the US Constitution clearly stipulates that “The Congress shall have Power to establish post offices and post roads.”

No evidence on formal regulation on opening hours was found. Post offices are usually open from 9am to 5pm Monday to Friday and from 9am to 12pm on Saturday.

10.5 Government grants to the counters network

All financial decisions are controlled by the US Treasury. According to its annual report in 2003, the USPS generated revenues of approximately \$68.8 billion (£38.7 billion) whilst its expenditures decreased by \$2.5 billion (£1.4 billion) to \$64.9 billion (£37 billion). The main reason for reducing its expenses was the retirement reform with a \$3.4 billion (£1.9 billion) reduction for Civil Service Retirement System. This net income will help the USPS with its estimated \$6 billion (£3.4 billion) debt to the US Treasury since postal reorganization in 1971.



10.5 Government grants to the counters network

According to the President's Commission, the Postal Service has more than \$90 billion (£51 billion) debts and unfunded obligations and an unstable financial outlook. Based on some research by the Institute for the Future, the President's Commission has established the following revenue and expenses forecasts for the future.

	2002	2003	2007	2012	2017
Mail volumes	202	202	208.9	201.5	181.7
Operating revenue	\$66 billion (£37 billion)	\$68 billion (£38 billion)	\$75 billion (£42 billion)	\$81 billion (£46 billion)	\$83 billion (£47 billion)
Operating costs	\$67.1 billion (£37.8 billion)	\$64.4 billion (£36.3 billion)	\$74 billion (£42 billion)	\$85.5 billion (£48.2 billion)	\$91.5 billion (£52 billion)
Net income (loss)	(\$0.67 billion) (£0.37 billion)	\$4.5 billion (£2.5 billion)	\$1 billion (£0.6 billion)	(\$4.5 billion) (£2.5 billion)	(\$8.5 billion) (£4.8 billion)
Cumulative net income (loss)	(\$6 billion) (£3.4 billion)	(\$1.5 billion) (£0.8 billion)	\$4.2 billion (£2.4 billion)	(\$6.7 billion) (£3.8 billion)	(\$47.5 billion) (£26.8 billion)

Source: President's Commission, Embracing the Future, 2003

The main reason for transforming the USPS is to avoid the tax-payer covering all debts and unfunded obligations due by the Postal Service.

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10.6 Internal cross-subsidies to the counters network

As a property of the US Government, the USPS is constituted on a very different philosophy from that of a commercial body:

- ▲ Its objective is to break even in the longer term rather than be consistently profitable. There must be no cross-subsidisation of any product. To achieve this aim, every postal price must be fixed so that it produces no profit and no loss for the USPS.
- ▲ All its processes, including price regulation, have to be ‘transparent’ with all documentation in the public domain (unless a commercial confidentiality dispensation is obtained).

10.7 Attempts to reinvent the counters network

In its Transformation Plan, The USPS has developed four key points for its new retail strategy for the future:

- ▲ “Move simple transactions out of the post office;
- ▲ Create new low-cost retail alternatives;
- ▲ Optimize the retail network; and
- ▲ Develop new retail services that increase consumers’ value and postal revenue.”



10.7 Attempts to reinvent the counters network

According to its research, the USPS could significantly reduce the costs by shifting simple transactions (stamps) to existing retail alternatives. The table below compares the transactions costs for stamps sold at different premises:

Stamps sold at	Share of sales	Cost to the USPS per \$	Customers aware of service
PO counters	80%	\$0.24 (£0.13)	100%
Retail shops	7%	\$0.016 (£0.009)	70%
USPS vending equipment	6%	\$0.140 (£0.07)	64%
Contract Postal Units	5%	\$0.1 (£0.05)	n/a
ATM's	1%	\$0.016 (£0.009)	18%
Stamps purchased online, by mail.	1%	n/a	n/a

Source: USPS, Transformation Plan, 2002

Therefore, as specified in its Transformation Plan, the USPS wants “to communicate aggressively with customers” to make them aware of available alternatives.

In addition to establishing commercial partnerships with retailers, the USPS wants to develop self-services by expanding online capabilities or products available at vending machines.

The USPS wants to “optimize the post office network” by using a criteria based methodology to consolidate the network. Criteria such as operating costs, revenue, demographics, productivity, logistics and technology connectivity will be compiled to re-organize the network. “Low value access points will be replaced by alternative access methods”. This approach was echoed by the President’s Commission.



10.7 Attempts to reinvent the counters network

Finally, the USPS wants to expand the range of products available from post offices by providing additional services that complement traditional services. Similarly, the USPS would like to provide additional government services.

Below are some measures taken by the USPS in order to meet the objectives set in its Transformation Plan:

- ▲ A nationwide television advertisement and direct marketing campaign to increase customers' awareness of stamps purchasing alternatives;
- ▲ Self-service platforms/Automated Postal Centres will replace obsolete vending machines for the provision of mail or parcels services (postage, weighing, etc.)

It has a commercial agreement with Hallmark for the provision of postal services at 1,200 Hallmark stores.