

# POSTAL NEWS

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## 1. The Analysis: DHL Saves Face

Partnering with a competitor may help DHL salvage its business reputation in the U.S.

Anytime a company joins hands with a rival, it's bound to raise concerns. And yet "co-opetition"—the sharing of resources amongst competitors—has a successful track record in dozens of industries, from shipping to financial services to telecommunications. DHL's proposal to outsource its air shipments to UPS () is likely to benefit both companies, and it may also set a precedent for similar partnerships in the express delivery market, according to industry analysts.

"I think it's a brilliant stroke for both DHL and UPS," says Doug Caldwell, executive vice-president of ParcelPool.com, an Orem (Utah) logistics provider. He believes the extra freight from DHL customers will help UPS fill its planes to near-capacity, building efficiency and ultimately lowering costs.

To be sure, it's not the first such move in the industry. In 2000, Federal Express () forged a long-term agreement to carry U.S. Postal Service packages through its air network. In return, FedEx placed drop-off boxes in some 38,000 retail postal outlets across the country. The deal currently being negotiated between DHL and UPS is similar, but it would be the first of its kind between two private players.

"With fuel prices unlikely to ever come back down materially and with ever-increasing costs of maintaining these networks, it makes sense that you will see competitive sharing arrangements around the world," says John Mullen, CEO of DHL's global business. "It makes sense anywhere where you can generate productivity and a better use of assets."

Going Greener

It could also be an environmentally beneficial move, according to Jim LeRose, principal of logistics consultancy Agile Network. "If you share capacity, you are reducing the amount of planes, cars, and trucks that go to the same places—so perhaps this is a twist on a [green initiative] as well," he says.

Many critics believe the deal is a win for DHL customers because of the strong reputation of UPS. "You're going to be moving from essentially a DHL air network to a UPS air network, and there's really nobody better operationally than UPS," says Caldwell. "They run on time, they sort on time—they're very efficient."

It's less clear what effect the arrangement will have on prices across the industry. "DHL was a downside pressure on the market," says Dan O'Rourke, editor of trade magazine Parcel. "It was another major carrier, so that kept some pressure on the other major private carriers. Obviously that pressure has dwindled quite a bit now."

The clearest beneficiaries of the deal are shareholders of Deutsche Post World Net, DHL's German parent, who have suffered billions of dollars in losses while DHL waited to make a major strategy shift in the U.S. "This stops the bleeding as far as their situation in the U.S.," says ParcelPool.com's Caldwell. "The question has been up until now whether DHL is even going to be able to maintain a presence in the U.S. market, much less expand it. If they perform the transition well, it's possible that they could increase their market share in the future."

MacMillan is a staff writer for BusinessWeek.com in New York.

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(12-06-2008)

## **2. End of nation's postal subsidies in sight**

Viet Nam's postal sector may see tough times ahead, as the Government is considering cutting loss compensations in the sector to heal the ailing industry by 2013.

On the occasion of the ongoing 31st Asian Pacific Postal Executive Council (APPUEC) meeting in Ha Noi, Viet Nam News reporter Phi Hung sat down to speak with Information and Communication Deputy Minister Nguyen Thanh Hung about how the sector was preparing to stand alone, as well as the Government's farewell roadmap.

The Government will cut subsidies to the postal sector in 2013. How are the relevant authorities preparing for this?

The Government recently passed a public postal development plan, in which will gradually reduce subsidies to the postal sector, and completely end them in 2013. This was a very important decision, and it will have a strong impact on the sector.

We can see that the 2013 deadline is appropriate, despite the fact that it is unprecedented in Viet Nam. However, the separation is a little bit late and needs the efforts of both the postal sector and the Government.

Can you tell me more about what the Government will do for the postal sector, before leaving it alone?

First of all, we're giving the sector a 5-year transitional period, which will help it to prepare for the future.

Secondly, there will be two types of postal entities. One will belong to the Government and will be geared towards public service, while the other will be privately owned and will operate with market principles.

However, service prices at State-owned postal companies will be at least 10 times less than those of privately-owned companies.

n Is it true that the ministry is also considering an adjustment to the prices of some postal services?

This is a very hot topic. The Ministry of Information and Communication has directed the postal sector to create a price adjustment roadmap for the near future.

In fact, the current price of postage stamps is very low, well below operating costs. An increase to service prices would help local postal operators improve postal networks and invest in new technologies.

However, as the economy is facing difficulties now with skyrocketing inflation rates, timing for any hikes would not be decided until next year.

Can you tell me the ranges of the price hikes?

It will all depend on actual inflation rates. For the price of a postage stamp—the most common postal service—it may increase from the current VND800 per stamp to between VND1,200-VND1,500. — VNS

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### **3. EU's postal plans run into teething troubles[fr][de]**

Published: Thursday 12 June 2008

Germany's Deutsche Post yesterday (11 June) filed an official complaint with the European Commission against the Dutch government's decision to delay the opening of its mail market. The move comes amid increasing concern over the difficulties linked to the practical implementation of new EU rules.

Background:

The German Government decided last December to accompany the full liberalisation of its postal sector on 1 January 2008 with the introduction of a minimum hourly wage of €9.80 – some 20-30% higher than the Dutch postal operator TNT currently pays its German workers.

The move was immediately branded as protectionist by Dutch Junior Economy Minister Frank Heemskerk, who subsequently took the decision not to go ahead with his country's own planned 1 January 2008 liberalisation until a "more level playing field" was established in Germany (EurActiv 07/12/07).

TNT also lodged a lawsuit with a Berlin commercial court against the German government's decision and, on 7 March 2008, the court sided with the Dutch operator, ruling that the application of a minimum wage to all companies in the postal sector is illegal (EurActiv 10/03/08). The German government has however appealed the decision, with a higher court expected to rule in September.

The row comes just months after the EU pushed through plans to open up postal markets across the continent by 2011 by abolishing lingering monopolies (EurActiv 01/02/08).

Up till now, only Sweden, Finland, Germany and the UK have fully liberalised.

According to the statement from Deutsche Post, the Dutch government's decision not to end the existing mail monopoly as planned on 1 July, but to extend it "indefinitely" creates a "competitive advantage for Post TNT of the Netherlands".

A violation of EU law?

Deutsche Post is arguing that the Dutch government is "in clear violation" of EU law.

The allegation is rather surprising as under the EU's freshly adopted Third Postal Directive, countries are only required to carry out full liberalisation as of 1 January 2011.

But Deutsche Post argues that "under the European law, a member state may reserve the national postal market exclusively for one provider only if this approach plays an essential role in financing the universal service" – i.e. the obligation for postal operators to provide each and every citizen with mail collection and delivery services at least once a day, five days a week.

It points out that in the Netherlands, the Universal Service Obligation is not causing TNT to run a loss and that "the statements of the Dutch government clearly show that the renewed delay only serves the interests of TNT". "The Dutch government's activities are, therefore, a clear violation of European legislation," it concludes.

The company further adds that it had already made "extensive investments" in anticipation of liberalisation, and therefore calls on the Commission to "act promptly and to eliminate the unacceptable distortion of competition".

Commission spokesman Oliver Drewes said the Commission would study the complaint and decide whether further action was necessary.

An un-level playing field?

But Dutch Junior Economy Minister Frank Heemskerk insists that he cannot go ahead with full market opening until "a fair playing field" exists in both Germany and the United Kingdom.

He cites the "high" minimum salary imposed by the German government – over which TNT has also filed a formal complaint with the European Commission – and the fact that, contrary to its competitors, Deutsche Post enjoys a VAT exemption on 40% of its operations as proof that the German postal market is still far from offering a level playing field.

He also says he needs more assurances on the working and pay conditions for postmen in his own country before going ahead with the liberalisation plans. But under pressure from MPs to set a date, he promised to "undertake maximum efforts" to completely open the postal market by 1 January 2009.

EU drive for free mail markets

Last March, EU Commissioner Charlie McCreevy wrote to the German government asking it not to "hinder competition in the German market" with the introduction of "unsuitably high minimum wages and the retention of different sales tax rates".

While exempting postal services is allowed under existing EU legislation, the Commission believes that Germany is failing to apply this rule in "a way that minimises distortions of competition between former monopolies and market entrants".

Last July, it sent 'reasoned opinions' to Germany and the UK asking both to amend their legislation and threatening to refer the cases to the European Court of Justice unless they comply.

A Commission proposal for a Directive abolishing the VAT exemption right for public postal services, which dates back to an era when most operators were in state hands, has been blocked in the Council since 2003.

Teething problems

The dispute highlights the difficulties linked to the practical implementation of new EU rules on the opening up of European postal markets to competition.

In the UK – one of the few countries where full liberalisation has already taken place – a recent report commissioned by the government found that the liberalisation of the UK postal service has produced "no significant benefits" for either households or small businesses.

The report, carried out by an independent panel and published in May, further warns that the current situation poses a "substantial threat" to Royal Mail's financial security, and thus, to the continued provision of the universal service.

Royal Mail Chief Executive Adam Crozier said he "wholeheartedly" agreed with the report's finding that "the status quo is not tenable," pointing to estimates that show

that the Universal Service is "now in the red for the first time, having made an estimated loss last year (2007) of around £100 million".

A final report is due to come up with ideas for measures to provide Royal Mail with a "stable financial future" later this year.

The UK postal regulator Postcomm has suggested that Britain should follow Sweden's lead in allowing the partial privatisation of Royal Mail, but trade unions point to the "massive" job losses and "destruction of working conditions" that took place in Sweden when it liberalised.

Sweden's Posten AB Senior Vice-President Viveca Bergstedt Sten, whose country fully liberalised as early as 14 years ago, nevertheless remains optimistic that it is "perfectly possible" to operate the USO without any additional financing mechanisms.

Next steps:

24 Jun. 2008: Commissioners McCreevy (internal market) and Kroes (competition) to host conference on postal liberalisation.

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#### **4. Japan Post Holdings to farm out part of postal network to Secom - report**

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7 Stocks You Need To Know For Tomorrow -- Free Newsletter

TOKYO, Jun 12, 2008 (Thomson Financial via COMTEX) -- SOMLY | Quote | Chart | News | PowerRating -- Japan Post Holdings Co. plans to outsource some post office operations to major security services provider Secom Co. as the first step in efforts to maintain its network in rural areas, the Nikkei newspaper reported on Thursday without citing sources.

Japan Post, which began its 10-year privatization process last October, is required to maintain its nationwide network of more than 24,000 post offices but also needs to improve profitability.

It aims to address both issues by outsourcing to major corporations for the first time, the report said.

Japan Post Network Co. contracts basic post office services such as mail and postal savings to individuals, agricultural cooperatives, local government offices and others.

There are 4,296 such limited-service branches across Japan, but 454 had shut down as of May 31, mainly in rural areas, for such reasons as aging operators and dwindling users.

At its general shareholders meeting on June 26, Secom plans to submit a resolution revising its corporate charter to pave the way for it to serve as a banking agent.

At the same time, it will seek approval from the Financial Services Agency to provide such services, the Nikkei said.

(\$1 = 106.90 yen)

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