

POSTAL NEWS

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1. Postmaster General: focus on customers, not struggling downtowns

As it adapts to a reduction in mail volume, the Postal Service needs to meet customers where they already shop, says Postmaster General John Potter.

By Dave Cook Staff writer / March 11, 2010
Washington

As e-mail and electronic billpaying reduce the volume of mail nationwide, the Postal Service can't maintain post offices just to prop up struggling downtown areas, says Postmaster General John Potter.

At a Monitor-sponsored breakfast with reporters on Thursday, Mr. Potter acknowledged the Web's role. "The tipping point is that the Internet is really starting to erode our mail base and if we stay status quo ... we will have nothing but, you know, future losses."

Last week Mr. Potter released a comprehensive plan for how the Postal Service could deal with what he estimated could be \$238 billion in cumulative losses by 2020. The service is being squeezed by sliding sales of first class postage, and costs continue to rise as the number of addresses to which the service must deliver increases.

Potter is seeking Congressional permission to make a series of changes including eliminating Saturday delivery, making more flexible use of a smaller Postal Service workforce, gaining more freedom to price products, and changing the way it covers the cost of employee retirement benefits.

Perhaps no proposed solution to the Postal Service's financial woes is more politically difficult than what Potter calls "expanding access." By that he means providing more postal services at grocery stores, pharmacies, and office supply stores while closing some of the 26,000 money-losing post offices among the 32,000 the service operates.

"I am not an advocate of just closing a post office," Potter said. "People need to have access to postal services. But think about it. Does that access have to come in a facility that we have today," where on average 600 people walk in during a week, he asked. The average post office foot traffic of 600 people per week compares to 10,000 per week at the average pharmacy, and 20,000 at the average grocery store.

“So I would just as soon have our products and services where people are and where the traffic is than ... in a location that in some cases is out of the way,” Potter said. “And it doesn’t have to be a postal clerk that sells them – it could be anyone.”

And in language that may be hard for officials in struggling communities to hear, Potter added, “We don’t want to be the anchor for the revitalization of some downtown area that is pretty much vacant because some big strip malls have been built up outside of the downtown area. We need to be where the people are.”

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2. Postal Bank Could Cost up to \$10Bln

12 March 2010

By Anna Baraulina and Tatyana Voronova / Vedomosti

Vneshekonombank expects that the creation of a postal bank based on Svyaz-Bank and Russian Post will cost \$5 billion to \$10 billion, Vedomosti has learned.

VEB is planning to create the postal bank, and on Feb. 17 it invited partners from private business to participate in the project. The state corporation is to discuss preliminary results of the talks next week.

The project's cost could be from \$5 billion to \$10 billion, a banker interested in the partnership told Vedomosti. The information was confirmed by Svyaz-Bank chairman and VEB first deputy chief Anatoly Tikhonov.

Investments could be less than the lower end of the estimate if minibank offices are opened at the majority of Russian Post offices, where clients could open accounts, apply for consumer loans and so forth, Tikhonov said.

Creating full-fledged bank branches offering all of the main services in most post office locations, or even separately, would require investments closer to the higher end, he said. But if offices are not opened everywhere and they offer varying levels of service, the total investment would be lower.

Russian Post has 41,000 branches, including about 1,000 where Svyaz-Bank has a presence.

"You need to treat these figures with caution, since these are only preliminary estimates, which could be corrected," Tikhonov said. The scenario ultimately used will depend largely on the opinions and capabilities of the private investor, he added.

Initially, the charter capital of the postal bank will be increased by 25 billion rubles (\$848 million), from the current 24 billion rubles (from Svyaz-Bank), Tikhonov said. The investment will come from a private investor, VEB, as well as Russian Post or the Federal Property Management Service (as a federal state unitary enterprise, Russian Post is not allowed to be a bank co-owner).

Tikhonov said they would not contribute post offices to the bank's capital. Russian Post, a spokesperson said, offered that VEB exchange its shares — if it were to become a joint stock company — for shares in the postal bank. The postal service's management estimates its capitalization at no less than \$12 billion to \$15 billion.

Renovations and construction of branches and offices will require 12.4 billion rubles, purchasing and installing equipment will require 8 billion rubles, and 3 billion rubles will be needed for the IT platform, Tikhonov said. The majority of the expenses would be in the first three years.

Additional funds would be required in the third year to cover losses and develop the project, Tikhonov said, but it is unclear how much.

The project should have an operating profit in its fourth year and "hit full stride" in the fifth year, becoming a "serious competitor to Sberbank," he said. Unlike Sberbank, the postal bank will not close unprofitable locations in distant regions, trying instead to cover those losses with profits from other branches. He said the project should recoup investments in seven to eight years.

If an investor is found quickly, the project could be launched by the end of this year, Tikhonov said. "We're the Development Bank, and one of our tasks is to create infrastructure. On the other hand, the government has long been trying to figure out how to make the postal service more effective," he said, referring to VEB's interest in the project.

VEB owns 99.47 percent of Svyaz-Bank, which ran into financial difficulties during the crisis.

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3. Post office won't cut mail to 3 days

Posted on Thu, Mar. 11, 2010

WASHINGTON - Cutting mail delivery to as few as three days a week would damage the Postal Service brand and isn't worth considering, Postmaster General John Potter said.

"I think that would negatively impact our business," he said yesterday on Bloomberg Radio, rejecting a consultant's recommendation.

McKinsey & Co., one of three firms the Postal Service commissioned to look at its future, said last week that the agency should consider halving its delivery days. The agency, facing a \$238 billion deficit by 2020 as it projects a 15 percent drop in mail volume, has asked Congress for permission to reduce service from six days a week to five. - Bloomberg News

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Collected by Chairul Anwar, Bandung, Indonesia.

E-mail address : chairulanwar49@operamail.com, uyungchairul@plasa.com.

