

# POSTAL NEWS

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BUSINESS ASIA

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## **1. The Business Case for Reforming Japan Post**

A well-executed privatization could boost stocks and help kick deflation.

By NAOMI FINK

Investors have been watching Japan's government reshuffle closely for clues on the direction of economic policy. A key question is how the new government will handle one of the more controversial—and also more important—debates from the previous administration: postal reform. The postal bank's balance sheet totals roughly 200 trillion yen (\$2.26 trillion), about one-quarter of the nation's household cash savings. The bank's fate has important business and economic implications too, both inside and outside Japan.

Private-sector Japanese institutions have long been pressured by large-scale government interventions in the financial sector. Massive increases in public intermediary lending arguably obscure price-discovery mechanisms, and have in the past been followed by damage to private-sector profits, while achieving little to no net increase in country-wide lending to small businesses. Meanwhile, uncompetitive margins on private lending might be one reason why the plentiful liquidity provided by the Bank of Japan's loose monetary policies is clearly stopping at banks' doorsteps and flowing into "risk-free" government bonds, which grow more numerous as Tokyo struggles to get its fiscal house in order.

A well-timed postal privatization could provide immediate support to Japan's fiscal balance, to Japanese assets and to Japan Post itself. Earlier rounds of privatization, especially Japan Railways and the telecom NTT in the 1980s, were big money-makers for the government. If, as seems possible, a series of initial public offerings for large chunks of Japan Post were similar in size to that of NTT, the government would gain a one-time revenue boost of between \$70 billion and \$80 billion each time it went to market. Assuming competitive pressures over time transformed Japan Post into a profitable institution, this could be a gift that keeps on giving: The government could tax both the bank's profits and the dividends and capital gains of shareholders.

Privatization could also offer a lift to Japan's stock market. Earlier privatizations became catalysts for waves of other private-sector IPOs that tended to boost the market more broadly as successful offers reinforced appetite for new offers. A Japan

Post IPO might spark, albeit with a lag, a surge in IPOs of financial, insurance and possibly postal services companies if a newly competitive and transparent postal bank sets a higher standard for private-sector institutions, creating incentives for them to boost their own risk-adjusted profitability. A privatization IPO would be especially helpful now since the market is nearer its trough than its peak; without some spark there would be little interest in bringing other IPOs to market.

This in turn would benefit households and smaller enterprises. Retail investors are typically large buyers at privatization IPOs. Especially if Japan Post's IPO lifted the broader market like NTT and Japan Railways did, that increase in household investment income would itself be antideflationary—an alternative to employment income, which has been stagnant or shrinking.

A second wave of IPOs in a bull market also might provide capital to firms currently unable to tap traditional bank lending, which also would combat deflation. New equity capital from private-sector investors could give rise to demand, in a more competitive financial services sector, for productivity-enhancing investments in both capital goods and human resources. That's a recipe for the "positive cycle" the Bank of Japan has long sought to create.

All these are domestic reasons to privatize Japan Post, but there are international arguments, too. Japan's high propensity to save has made it an attractive market for foreign financial institutions, especially those in need of new capital after the financial crisis. Government intervention in the financial-services industry via its control of the country's largest savings institution is increasingly a sore point for foreign banks.

Japan Post is becoming an international trade headache Tokyo doesn't need right now. The U.S. Trade Representative reportedly is considering filing a complaint against Japan at the World Trade Organization over, among other things, the lack of a level playing field in insurance, noting the overwhelming presence of state-backed activity. U.S. financial institutions are expressing concern that expansion of Japan Post's savings cap would give it an unfair advantage over foreign competitors who would have to attract depositors without the postal bank's implicit government guarantee. In terms of savings deposits and loans (core businesses for Japanese banks), foreign banks hold roughly 1% market share in each.

Privatizing the postal bank and insurance company would be significant steps toward leveling the playing field for foreign institutions. Notably, this is one of those rare trade cases that is not exclusively beneficial to foreign firms—reduced government intervention might very well improve competition as a whole within the Japanese financial-services sector.

Major privatizations almost always face stiff political opposition, and Japan Post is no exception. The previous government had proposed stopping further moves toward privatization, while increasing deposit limits and insurance-coverage caps at the postal bank. Those plans are now on hold at least until after the July 11 Upper House elections. As the debate drags on, Tokyo needs to remember that in delaying postal privatization, Japan is missing a big opportunity to lift itself out of its deflationary funk.

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## **2. TNT - Landmark Change For Postal Services**

29 June 2010 - Steve Lawson - Editors Comment - © Hellmail Postal News

TNT it seems, has delivered a rather pragmatic, if not shocking approach to a declining letters market by deciding to savage its head count and possibly even drop deliveries to a mere three days a week.

I have to say, this comes as little surprise given the determination by the EU to see through postal reform, even if the expectation of enormous growth when liberalisation was first suggested, simply did not materialise. In reality, whilst we may value our postal services (in a nostalgic sense), we simply are not using them - with obvious consequences.

Much of the thinking behind 'postale liberalization' was to break monopolies, encourage the free-flow of goods as well as competitiveness (most operators being state-owned) and hopefully make postal services more cost effective, particularly for business. Unfortunately growth in technology has overtaken traditional postal services, leaving them in the 'slow lane' (some might say hard-shoulder) of the communications super-highway. In some cases, operators just don't have a clue as to where they should be investing and even where they do, investment is being sidelined by a more pressing need to reduce overheads.

True enough, the growth in ecommerce has seen a rise in packages and an even bigger battle in the parcels industry, but not nearly enough to offset the losses in stamped mail. Regulators who are often protective of the Universal Service (and what a great thing it is - in principle), rather miss the point that the vast majority of domestic mail customers could actually manage on three deliveries a week now. Our determination to preserve the USO, apparently at all costs, doesn't quite sit square when most of us now have access to a mobile phone or the internet.

I am somewhat more than confident that Richard Hooper's forthcoming report will simply reiterate the observations he made in 2008, but that there is now an even more urgent need to sell a sizeable chunk of Royal Mail letters, either that or some bright-eyed and thrifty individual will suggest that we scale back the expensive and barely profitable domestic mail market. With the government keen to make savings anywhere it can, the 6-day delivery service could be on the line here. To maintain it, we'll either need an even more radical change to efficiency, and that could include a greater number of part-time workers and even more 'junk' mail - undoubtedly some kind of shift into the private sector and hugely unpopular with trade unions, or the cost of providing the USO is passed on to the tax payer. The third choice is a noticeable reduction in the service now provided but it could even be a combination of all three.

More significantly, the fact that TNT is announcing this could see other operators follow suit. The global postal industry has already shed millions of jobs over the last ten years and it has for the most part busied itself with either ignoring or trying to fight electronic communications, or come in too late, or concentrated wholly on consolidation. Some (notably the USPS) are already under pressure to look at dropping one or more delivery days to make ends meet and lay-offs and redundancies are becoming the norm across the industry. Liberalisation in Europe hasn't generated new business. It may have broken the monopoly of large operators, but it has also spread services more thinly at a time when the industry is actually seeing a marked decline and helped hasten the demise of post offices.

I said right at the beginning that TNT's plans come as no personal surprise, and they don't. Shrinkage, with the onslaught of digital communications has been going on for some time. I just wondered which operator would be the first to announce its intention to actually scale back the USO to match the decline in letters and the reduced demands of consumers. Within the last four years, Hellmail Postal News has seen a gradual shift towards digital mail systems, including document exchange and hybrid services (particularly in the business sector) and around 25% of our output is given over to new technology as the defining line between traditional post and digital communications becomes ever more blurred.

Clearly we are steadily moving away from the letter and towards some kind of global digital mail service (of which we know little of for the moment) with more bells and whistles than conventional e-mail. The vendors are marketing these systems heavily and many operators have already bought or developed semi-digital mail services. We just can't seem to make that leap in one go, partly because postal operators are still 'hanging in there' and partly because, despite the decline, we still have a need for hard copy. The direct marketing industry in particular likes the return on mail shots and most operators have developed sophisticated databases for more accurate delivery which are updated frequently.

Responsibility for, and scale of the USO under 'postale liberalization' has never really been defined though - beyond passing responsibility to individual countries. clearly if the demand for stamped mail is in fairly consistent decline (and it appears to be), we will need to establish global standards for the next wave in communications and in a way that includes all. Deliveries will always be needed but increasingly such services will become more and more expensive to provide and could in time be provided by carrier services. Logically, the humble post box will vanish in time too.

Some may regard my reasoning as somewhat negative but to continue to provide a daily domestic service in a declining market needs some imaginative thinking, even with streamlined networks, efficiency drives and padding out mail pouches with advertising. For business and consumers this could be an exciting time, it just depends how operators respond to these trends and how soon we accept that a gold-plated mail service is going to be incredibly expensive unless ultimately we can live with fewer deliveries and presumably pay extra if its more urgent.

With the exception of parcels, most post can be sent digitally even if its to an e-mail box. The young have already grasped all this of course, born apparently with texting fingers. The rapid migration to digital platforms may not have been something

envisaged by those that supported the liberalisation of postal provision but it is now driving and shaping postal services throughout the world and TNT could well have set a landmark in all of this change.

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