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1. What if We Replaced the US Postal Service Two Years from Now?

Written by Staff and Wire Reports Alerts Oct 13, 2010

Two notes before I begin: I will be in New York City next Wednesday, and maybe Tuesday or Thursday. I will be meeting with potential investors. If you would like to hear what I am up to, e-mail me, and maybe we can get together.

Also, if you have a moment, have a look at my friend Cody's website that deals with applications for mobile devices. He seems to have found an interesting new niche.

When I was a kid, I remember reading a story about a business that started a letter delivery service in a major American city, I think it was Philadelphia. They undercut the US Postal Service by about 20% or so, and they began to attract a decent amount of volume, such that government came and shut them down, because USPS has a monopoly on delivering non-urgent mail.

Unfortunately for USPS, it has a much larger lower cost competitor: the Internet, which is eating into its high margin businesses, forcing prices up as it tries to maintain its subsidy to activities that lose money.

The Internet improves and destroys. The economics of newspapers has been destroyed by the internet. Should we be surprised that the economics of a similar business, the Post Office, is suffering similar troubles? Delivering paper mailings to addresses seems to be populated by junk mailers and a variety of businesses that could deliver via e-mail. I get few personal letters for my family, and many of those could go via e-mail.

This is a system that is looking for a kick to get it to move from an unstable equilibrium, perpetually asking for price increases, and service decreases, to a stable equilibrium where people receive almost all mail traffic over the internet. So, what if we replaced the postal service two years from now?

If there were two years of lead time, older folks would be forced to adapt to e-mail, and advertisers would find new means contacting clients. Some clever businesses would buy up post office sites, perhaps UPS and Fedex, and augment their businesses.

It would be likely that the cost of purely local mail delivery would go down in densely populated areas, but that delivery outside of major urban areas would be considerably more expensive, and would depend on the location of both the sender and the receiver.

The price differences would become similar to the price of a person traveling from one place to another. Is it hard and costly for you to go from point A to point B? It would be the same for mail. Sending a piece of mail from one low density area to another would be expensive.

Now, I don't think the postal service will go away in two years. But ten years down the road the answer might be different. Here are two alternative visions of the future:

■Post Office Shows Where U.S. Is Headed: Kevin Hassett
■Testimony of the current Postmaster General

Now, I think Hassett is mistaken when he says, "We need only write regulations that require firms that compete for postal business to provide universal service." The US is a big place, with a lot of sparsely populated areas. The countries that have privatized are typically more compact, making it possible to have netorks that deliver everywhere at a reasonable cost. Universal service will come with astronomical pricing for low density deliveries.

But I think the Postmaster General is mistaken when he estimates the total amount of demand over the next ten years. I think that more and more will go online, with many businesses making people pay extra to receive paper bills, statements, etc. Paper mail is not only costly to deliver, but costly to create.

People will also evaluate the postal service on convenience as well. As the number of days for delivery declines to five, and local post offices and local delivery diminish in rural areas, people will begin asking for more to be delivered via e-mail.

One final note: I find it tragic/comical that USPS does with its employee benefit plans what all companies and governments should do: fully fund them. But now they are looking to raid the funds to support current services, and push back on the Federal government to absorb more of certain shared costs. I think it is amazing to call funding 30% of retiree healthcare and 80% of pensions to be "fully funded," because those are the average levels of many corporations. Raiding the funds may help today, but ten years out, as postal workers age and retire, this will place even more expense pressure on postage rates.

Eventually the economics of a situation prevails. The proposed move with the employee benefit plan is desperate. Eventually a significant change will have to be made to the US Postal Service. It would probably be better to think about an integrated plan today, than let ten years elapse, and face a larger crisis.

Given the nature of the US, and the short-termism that plagues us today, I suspect that we get the crisis.

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2. Nigeria: Postal Service to Partner Schools on English Language Failure

Mahmud Lalo
13 October 2010

Jos — The Nigerian Postal Service (NIPOST) in Plateau State has indicated its readiness to partner with secondary schools to check failure in English Language.

The Area Postal Manager in the state, Mr. Alex J. Bature, who disclosed this at an event to mark this year's World Postal Day in Jos, said NIPOST is willing to partner with schools to enhance students' performance in English language.

"The post is willing to partner with post primary schools to enhance essay and letter writing skills among students by organizing essay and letter writing competitions," he said.

Bature said the failure to utilize opportunities provided by writing competitions was one of the reasons why many candidates failed English language.

"Many schools have not shown interest in the scheme thus resulting in the failure of English language by candidates who sit for the SSCE. In both WAEC and NECO examinations, there is a section on essay writing and another on letter writing and if a student does not answer the questions in these sections very well, he/her cannot pass English language with a good grade," he said.

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EUROPE BUSINESS NEWSOCTOBER 13, 2010, 11:28 A.M. ET.

3. U.K. Takes Steps Toward Privatizing Postal Service .

By TOMMY STUBBINGTON
The U.K. government on Wednesday took the first step towards privatization of the national postal service as it announced a bill which, if made law, would allow the government to sell shares in Royal Mail for the first time.

The decision is likely to prove controversial. Several governments have backed away from privatizing the postal service in the past, fearing a public backlash, and labor unions are likely to threaten strikes in protest at a time when the government is facing wider union unrest due to public-spending cuts.

The government maintains that only privatization will provide new funds to complete the modernization of the service and reduce the burden on the taxpayer.

The Royal Mail has three divisions—the Post Office, which provides mail and financial services from its outlets; the Royal Mail, which handles the collection and delivery of most of the U.K.'s mail; and Parcelforce, which handles distribution of packages.

The government wants the Post Office network, which still has branches across the country despite a recent shutdown of hundreds of branches, to become more of an alternative to the banks as a financial-services provider. Under the bill, the Post Office would stay in public ownership or be given mutual status, giving power to staff and customers in deciding how it is run, Business secretary Vince Cable said. He added that there will be no further program of post-office closures.

However, Royal Mail and Parcelforce would be privatized. Both units have been struggling for years. Royal Mail has seen mail volumes decline by 15% since 2005 as the popularity of e-mail and the Internet has increased, and it has a large pension deficit to tackle. Parcelforce is struggling with competition from other parcel distributors.

"Deregulation of the U.K. postal-services market is long overdue," Royal Mail group chief executive Moya Green said. "We need more capital, deregulation to allow us to compete fairly while safeguarding the universal service obligation, and the removal of the historic pension deficit. I hope that the bill published today can deliver on that."

Mr. Cable said the U.K.'s coalition government is keeping open its options regarding the potential sale of Royal Mail, which could take the form of an initial public offering or a trade sale. Mr. Cable said the government is remaining flexible to ensure it gets the best price for the service, although he gave no timetable for the sale and no indication of a valuation. "We couldn't possibly put a value on it. It would depend on market conditions," he said.

A lack of interest from potential buyers could, however, hamper the privatization process. Dutch mail and express company TNT NV made a move to compete in the U.K. mail market in 2004 in the hope of getting a bigger chunk of the market when Royal Mail was privatized. However, fed up with a lack of progress on the privatization, TNT last year withdrew from talks exploring a partnership with Royal Mail. TNT's attention is now focused elsewhere as it is splitting itself in two.

"TNT has other priorities and is focusing on implementing the recently announced 'Strategy Vision 2015,' which includes the intention to separate its Mail and Express businesses, of which the internal separation is expected to be implemented January 1, 2011," TNT spokeswoman Daphne Andrriesse said.

Mr. Cable didn't rule out the possibility of a sale to a foreign competitor such as TNT or Germany's Deutsche Post AG. "We are not nationalists in this government—we don't object to companies simply because they are foreign-owned," he said.

Deutsche Post declined to comment on any potential interest in Royal Mail. It is also doubtful whether Royal Mail will attract a lot of interest from private-equity firms because of its dependence on a large number of employees and the existence of a number of well-established competitors.

The most likely contender could be London-based CVC Capital Partners, which already has a 49.9% stake in Belgium's national postal service, bpost, and put in a proposal to buy 30% of Royal Mail when a privatization was mooted last June. "It will definitely be monitoring the process as and when it kicks off," said a person familiar with the situation.

Mr. Cable said the privatization bill would ensure that Royal Mail's obligations to collect and deliver letters at a uniform, affordable price, would be maintained. Opponents of a sale worry that service would decline under privatization.

Under the bill, the government would assume the historic net liabilities—recently estimated at £8 billion—of Royal Mail's pension scheme, Mr. Cable added.

The main labor union representing Royal Mail workers immediately attacked the decision, even though employees would hold at least 10% of the company's shares after privatization.

The Communication Workers' Union, which represents all nonmanagerial staff at Royal Mail, said Royal Mail could survive in the public sector if it had freedom to borrow money from sources other than government, and if certain regulatory issues were resolved. It also called the plans a "death sentence for local [Post Office] branches. Universal services will be reduced by a privatized company interested in the bottom line, not the communities served by Royal Mail," general secretary Billy Hayes said. "The separation of Royal Mail from the post-office counters is a fatal step. The commercial imperative will be for a privatized Royal Mail to use retail services other than the Post Office."

Separately, labor union Unite said the privatization is misguided and unnecessary. "The Postal Services Bill shows that the government has no idea how to implement its policy of a selloff. There is little interest in the market for a high value selloff and the population of the U.K. already owns the Royal Mail.," said Unite national officer Paul Reuter.

—Anna Marij van der Meulen in Amsterdam and Marietta Cauchi in London contributed to this article.

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Collected by Chairul Anwar, Bandung, Indonesia.
E-mail address : chairulanwar49@operamail.com, uyungchairul@plasa.com.