

Final Report

Postal and Express Delivery Services

Under the project

Trade in Services under the Possible India-EU Trade and Investment Agreement

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List of Abbreviations

Abbreviation	Meaning
AEO	Authorized Economic Operator
B2C	Business to Consumer
C2C	Consumer to Consumer
CB	Cross-Border Mail
CPC	Central Product Classification
CPO	Competitive Postal Operator
DoP	Department of Posts
E2E	End to End
EU	European Union
FBT	Fringe Benefit Tax
FDI	Foreign Direct Investment
GATS	General Agreement On Trade And Services
GDP	Gross Domestic Product
MDG	Millennium Development Goals
MFN	Most Favored Nation
MNC	Multi-National Corporation
MRDA	Mail Regulatory And Development Authority
NRA	National Regulatory Authority
SCM	Supply Chain Management
SDR	Special Drawing Rights
SME	Small And Medium Enterprises
TPL	Third Party Logistics
UNCPC	United Nations Central Product Classification
UPU	Universal Postal Union
US	Universal Service
USO	Universal Service Obligation
USP	Universal Service Provider
VAT	Value Added Tax
WTO	World Trade Organization
Country Code	Country Name
AT	Austria
BE	Belgium
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary
IE	Ireland

IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
SE	Sweden
SI	Slovenia
SK	Slovak Republic
UK	United Kingdom

Abstract

This study analyzes trade and investment opportunities in the postal and courier sector between India and EU member countries in the context of the India-EU Trade and Investment Agreement. It provides background information about the market structure, regulation, liberalization and nature of barriers in this sector both in India and the EU to develop a negotiation strategy for India. The domestic reforms that are required in India to enhance the productivity and global competitiveness of this sector are also outlined. The study is primarily desk-based; however, to understand the ground-level scenario, a survey was conducted with various courier companies which include both Indian as well as multinational companies and the views of other stakeholders have also been taken into consideration. Understanding the EU postal sector is difficult as it is riddled with a variety of restrictions; however, there is an impression that the EU market is open and EU players seek market access. On the other hand, India's courier sector is fairly open despite the feeling that the sector is quite closed. While negotiating with the EU, India needs to clear this paradox for a larger goal in achieving balance in the prospective FTA.

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1. Introduction

1.1 Postal Sector: Its role and contribution

With a postal service it is possible to send a letter or package to nearly any destination in the world for a small fee. Most postal services are government agencies, and they are often monopolies. They have been established to assure that mail is picked up and delivered on a regularly scheduled basis with speed and security. In an era of globalization, the role of the post office and as well as the services it provides has changed significantly. Today, postal services consist of pick-up, transport and delivery services of letters and printed matter (newspapers, journals, periodicals, brochures, leaflets, etc.); parcels for domestic or foreign destinations; post office counter services rendered at counters (sales of stamps, etc); and other postal services such as mailbox rental. The universal postal system is not only used to send and receive letters and parcels, but is now being used to send bank documents, pay utility bills, and deliver goods ordered through the Internet in addition to financial services. The industry is deeply engaged in the supply chains that have become an integral part of consumer and industrial product manufacturing and marketing. Consumers benefit not only from speed of delivery, but also from lower costs as a result of efficiencies of operation. Innovations such as overnight deliveries and time-definite deliveries have spurred global competition both by private carriers and by traditional national postal administrations. Moreover, major courier companies are also in the logistics business and these two sectors are closely integrated. The efficiency of supply chain industries is entirely dependant on the performance of these two sectors which makes both courier and logistics industries an essential component for increasing global competitiveness of industries as well as services.

As countries are members of the Universal Postal Union (UPU) and follow universal service obligations (USO) conventions, they are obliged to provide basic services with acceptable quality at affordable prices. The social obligation of the postal sector goes beyond merely offering universal services. As information is a powerful instrument in enhancing the development of a society, the role of the postal sector is significant. Technological upgrading in the postal sector is expected to make it an essential vehicle for future economic, social and cultural development. Postal services can be utilized for effective public campaigns regarding health and nutrition issues, spreading education, etc. Postal infrastructure in remote areas may be used for alternative activities such as schools and dispensaries; postal vehicles in many places act as mobile libraries; and post office may be used as birth and death registration offices. To build a global partnership for development, post offices can be used to

offer postal services and linked to other ICT initiatives including rural telephony and developing a house address system. Finally, the postal sector plays a role in mobilizing household savings. With such an overwhelming presence in society, many of the services offered by post offices worldwide may be considered as public good. In a UPU Symposium in 2005,¹ even Millennium Development Goals (MDGs) are linked with the postal sector. It highlights the fact that modernization of the postal system is essential to achieve development goals through disseminating information and using the physical structure and network of the postal system.

1.2 Snapshot of Global Features

According to the Universal Postal Union (UPU), during 2004-05 there were around 5.5 million people working as postal staff worldwide; globally, each staff member serves around 1180 people. However, the number of post offices declined by 1.3% on average during the period 1990-2003 and in 2004-05 there were around 666,000 post offices worldwide.

Global revenue was 204.8 billion Special Drawing rights (SDR) in 2006 and close to 52% of this was from letters. Among the new products hybrid mail, logistics services, and online internet services are increasingly popular. 60% of the countries in the world offer advertising mail services in their domestic service. On average around the world, advertising items represent 37.7% of letter-post items in domestic services and 11.5% of letter-post items in international services. Nationally the market share of postal departments in the case of letter-post is around 94% (internationally 75%), whereas in the case of parcels domestic service by postal departments consists of around 29% of market share. They capture only 18% of market share of the international traffic in parcels.²

As per UPU statistics in 2005, among the industrialized countries the USA has the highest level of domestic letter-post traffic in the world, with 199 billion items a year. Japan generates some 25 billion items, while Germany and the UK generate about 21 billion items each. Among developing countries, China generates the most domestic letter-post items at more than 23 billion, followed by Brazil with 8.6 billion and India with 7.3 billion.³ Each day, over 15 million letter-post items are sent beyond national borders. In 2005, this represented an annual traffic of 5.6 billion international items. Industrialized countries generate 72.9% of international letter-post traffic, followed by the Asia-Pacific region with 10.1%. The USA (about 830 million) and the UK (almost 450 million) are among the largest exporters of letter-post items. Of the developing countries, India (102 million) sends the largest numbers of letter-post items abroad.

In the case of revenue generation, as per 2003 statistics⁴ globally almost 58% of revenue was generated by letter-post followed by 23% by parcels and logistics services, 14% by postal financial services, and 5% by other services. However, it

¹ Global Information & Communication Technology Department of the World Bank organized the Universal Postal Union Symposium on 16th Nov. 2005.

² http://www.upu.int/statistics/en/2006-10-18_presentation_development_of_postal_services_in_2005_en.pdf

³ http://www.upu.int/news_centre/documents/en/brochure_the_worldwide_postal_network_in_figures_en.pdf

⁴ Postal Market 2004: Review and Outlook; published from UPU.

varies from one region to another. In Europe and CIS countries, letter-post generated 44% of postal revenue in 2003, followed by 26% by financial services and 24% from other products. Only 6% revenue was generated from postal parcels and logistics services. Most of these services are now provided by courier companies and the sector is fairly open and competitive. Hence, the share of the postal sector in these products has come down significantly. In contrast, in the Asia-Pacific region, 42% postal revenue in 2003 came from financial services and letter-post contributed 31%. Postal parcel and logistics services from the postal department generated 13% of revenue in 2003 and other products contributed 14%.

In industrialized countries during 2003, 85% of domestic and international services of the letter-post market was open for competition and the figure was 89% for domestic and international parcel services. In Europe and the CIS, 80% of the domestic services and 84% of the international services faced competition in 2003. In the case of postal services, 88% of both domestic and international services are now open for competition. In contrast, in the Asia-Pacific region, 82% of domestic and international services of letter-post market are facing competition and, in the case of postal services, 88% of the domestic services and 100% of international services are now open.⁵

No comprehensive sources of trade data pertaining to courier services have been identified. However, available information on the activities of the major courier service suppliers may shed some light on the economic environment for these services. Globally, the leading companies are DHL Worldwide Express (DHL), United Parcel Service (UPS), Federal Express (FedEx) and TNT. In the U.S. market, the large companies tend to specialize in overnight courier services, whereas the smaller companies more commonly provide same-day local delivery. Considering both the express and parcel market together, apart from these four major players, La Poste and Royal Mail also hold a significant share in EU-12.⁶ In these EU countries together, DHL's share in the express and parcel market was around 18% in 2006. La Poste controls 10.6%, TNT around 10.3%, Royal Mail 6.5%, UPS 7.8% and FedEx around 2.3% (as per figures in 2006).⁷ Hence the control of US companies in the major EU countries is relatively low. Worldwide the four major companies have varying degrees of control in different regions. But over the past 10 years the competition among them has increased many times with a systematic stream of acquisitions; DHL has bought more than 50 companies, mostly in Europe; UPS ever since it went public has also started acquiring companies; and FedEx mirrored this move by acquiring ground transportation brands. This breakneck speed of expansion and determination to service the entire supply chain along the most important service lines shows no sign of abatement.⁸ Figure 1 below provides a snapshot of the market share of leading postal and express companies in the EU.

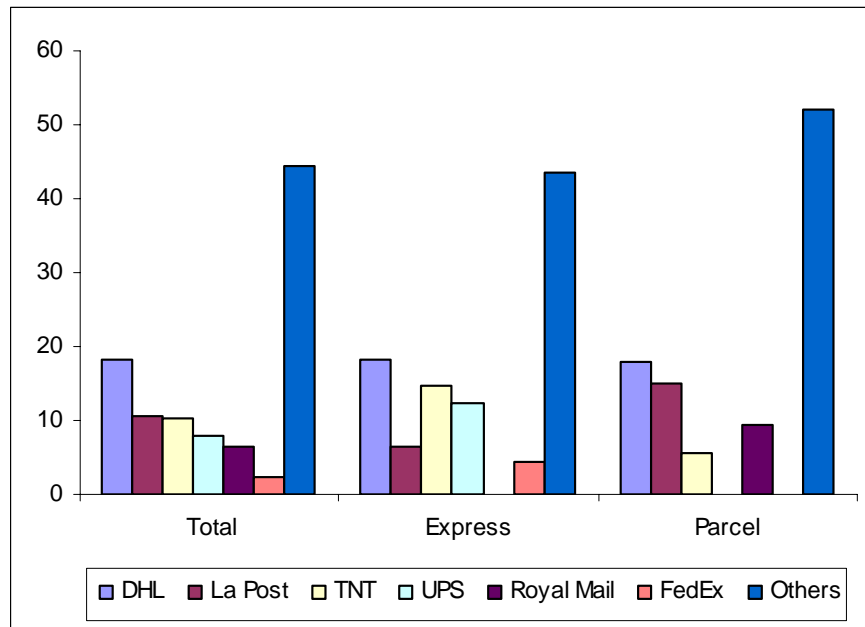
⁵ This is as per the survey by the UPU. Source: Postal Market 2004: Review and Outlook; published from UPU.

⁶ Datamonitor: European Express and Parcels Market 2008,

⁷ *ibid.*

⁸ <http://www.latinamericanlogistics.org/articles/ups-fedex-dhl-tnt---who-will-dominate-the-world-of-logistics.htm>

Figure 1: Market share (%) of leading Players in Postal and Courier Sector in EU-12 (2006)



Note: There is no information about market share of FedEx and UPS in the case of parcels, or Royal Mail in the case of the express sector.

EU-12: Germany, UK, France, Italy, Spain, Belgium, Netherlands, Sweden, Poland, Denmark, Norway and Finland.

Source: Prepared from Datamonitor: European Express and Parcel Market 2008.

1.3 Globalization and Changing Features of the Postal Sector

In view of worldwide structural changes, market liberalization and technological developments, postal services are also undergoing sea changes. The traditional postal system will have to face a dynamic business environment and the protection of its monopoly position is a major question. Currently, there are debates to ensure the sustainability of universal service obligation (USO) of the postal system. Universal service is a set of measures that aims to permanently grant all users in all points of a territory a sufficient level of service. These obligations take the form of constraints, and apply to a range of products or services. They involve quality, in the broad sense, and price controls. The existence of obligations means that, in their absence, the market may not provide a sufficient level of service, or the whole scope of products, or at least not at an affordable price level for all users. Some countries have tightened the regulations for the monopoly position of the government postal department; other countries have cross-subsidized the basic system and allowed courier companies to step in for value-added services; and some countries have even generated funds for USO. The postal sector is now at a crossroads. The major challenges are mainly two-fold: the future use of the postal network for revenue generation and making use of the private sector. These require framing of appropriate regulations, quality of service and restructuring of the sector. For this the scope of the postal services needs to be expanded and appropriate services to be devised and delivered.

One of the important challenges to postal and courier services, both public and private, is competition from other communications services such as facsimile, electronic mail, and data networks, particularly in the business-to-business and private-to-private market segments. However, other segment such as business-to-private mail may be less affected by new communications technologies, as long as public postal services are run in an efficient and customer-oriented manner and access to postal services remains more widely available to residential customers than in-home computer terminals.

1.4 Trade in Services in the Postal and Courier Sector

International trade in postal services is already open in most countries and the share of the postal department is increasingly coming down both in the letter-post and parcel markets. The share of private courier companies in these products has gone up over the years. Due to the growing communications market, many countries have opened the express delivery services to private players including foreign companies. The leading global companies such as DHL Worldwide Express (DHL), United Parcel Service (UPS), Federal Express, and TNT have established affiliates in foreign countries to capitalize on rapidly expanding global demand for express courier services. Trade in postal and courier services has traditionally been through cross-border supply among postal agencies (Mode 1). Due to the opening up of services, commercial presence (Mode 3) of companies has become the most important mode for international trade in this sector. Companies have either revenue-sharing business partners abroad who work like agents or they have joint ventures or wholly-owned subsidiaries. Competition is intense both in the letters as well as the parcel market. Large companies take advantage of superior technology to ensure quality and speed of delivery. Due to the infusion of IT, many companies have deep penetration in markets outside their home countries. It must be noted that some part of the domestic letter and postal market is still protected due to universal service obligation but the international letter and parcel market is significantly open and the nature of competition is intense.

The UPU forecasts that international mail will experience stronger growth, with low-income countries expected to have the highest average annual growth rate but will decline due to electronic mail, fax and telephones mainly in the developed countries. The decline, in the presence of upward forecasts for physical mail volumes, reflects the fact that the total communications market is growing at a faster rate than the postal market. The UPU cites economic factors which, however, vary greatly depending on region and socio-economic environment as the foremost determinant of letter traffic volumes. It ranks as second various postal factors such as quality of service. It describes these and other factors such as population growth and education as having a greater impact than technological factors and the substitution of other means of communications (such as electronic mail and the Internet) when the population as a whole is taken into account.

International trade in postal and courier services is now identified as one of the major sectors in GATS negotiations at the WTO. The core international postal services

consist of non-expedited delivery⁹ of letter-post mail (letters, small packets, printed matter, and publishers' periodicals). Countries are now seeking 'market access' and 'national treatment' in the postal and express delivery sector through GATS negotiations. Since 1994, 43 Members have scheduled commitments opening access to courier services but few commitments have been made in 'postal services' considering the sensitivity of the sector as a significant amount of the services offered by postal sector are 'public good' in nature. Many countries have agreed to unlimited access to courier services through cross-border supply or through commercial presence, without significant terms or conditions. Many have also committed to providing non-discriminatory access to foreign suppliers of courier services. Some Members that did not include courier services in their scheduled commitments have nonetheless allowed foreign courier service suppliers to operate in their markets. Since 2001, there have been six proposals focused on express delivery and postal and courier services – from the EC, Hong Kong, the U.S., Switzerland, New Zealand and Mercosur/Bolivia. All support the creation of a new category of express delivery services, which would recognize that the dichotomy between (public monopoly) postal and (private) courier services is increasingly obsolete as postal reform advances. Negotiators could then bargain for access for express delivery in key markets. India has not yet submitted any commitments in this sector considering its sensitivity. This is important to note as multilateral discussion in the sector has not yet been firmed up; many countries are attempting to include the postal and courier sector in bilateral/regional services agreements. The USA has done this through the US-Andean Pact and the US-Singapore agreement; the EU has included this in the EU-Chile Agreement. In contrast, India has not included it in the India Singapore Comprehensive Economic Cooperation Agreement, the only bill including services that India has signed as of Oct 2008. The large employment by India Post and the existence of numerous SME players in the sector have been causes of concern for the government.

1.5 Objective of the study

The objective of this study is to analyze trade and investment opportunities between India and EU member countries in the postal and courier sector in the context of the India-EU Trade and Investment Agreement. The paper discusses the market structure, regulation and liberalization in this sector in India and the EU, lists the trade barriers and suggests negotiating strategies for the Indian government. Reforms have been suggested which would enhance the productivity and global competitiveness of this sector and enable India to benefit from unilateral, bilateral or multilateral liberalization.

1.6 Methodology

The study is primarily desk-based. However, to understand the ground-level scenario, a survey was conducted with various courier companies which include both Indian as well as multinational companies. The views of the Postal Department and industry associations have also been taken to understand the perceived threats and opportunities due to the proposed Trade and Investment Agreement between India

⁹ In the case of non-expedited services, items are sent through the normal procedure and route which takes longer (2-3 days).

and the EU. The survey has covered companies' attitudes towards existing FDI policy in India, their investment in technologies, knowledge about the EU market, etc. It has also summarized companies' views regarding domestic reform in the Indian market.

The secondary research has mainly looked into the regulatory framework in the EU, analyzing EU postal directives and the state of the postal sector in various European countries. The study also reviewed the EU's offer in negotiating trade in services and how postal sectors of various EU members are gearing up in a liberalized market structure and its implications for the India-EU Trade and Investment Agreement. The study has analyzed the EU commitments on the basis of 'market access' and the 'national treatment' principle to understand the nature of limitations and existing barriers. Apart from this, the regulatory structure in EU countries is also discussed.

2. Coverage of Postal and Courier Sector under Various Trade Negotiations

2.1 Evolving Definition

In the GATS Services Sectoral Classification List (MTN.GNS/W/120), postal and courier services are listed as sub-sectors of communication services, which also include telecommunications and audiovisual services. In the UNCPC, these services are classified in the "post and telecommunications" sector, reflective of a long-standing but increasingly outdated tradition of postal and telecom services being offered by a single state monopoly. As the introduction of competition and other reforms has taken hold in the telecommunications sector, one of the first changes has usually been to allocate postal and telecom services to separate entities, with the postal service entities retaining monopoly rights more commonly than their telecom counterparts. In the case of courier services, parcel delivery or expedited mail services are often supplied by the postal monopolies but private courier companies are also in this business.

The definitional aspects of postal and courier services are very important to understand the coverage of the sector. The postal and courier sector has close links with other services such as logistics services. Also most postal operators offer financial services. The coverage of the sector is defined by United Nations Central Product Classification (UNCPC). It explicitly excludes air transport of mail (by courier companies) and financial services. In the original classification postal services were classified under the 7511 and courier services under 7512.¹⁰ The initial discussion in the WTO on postal and courier services was done on the basis of this classification and many countries still follow this definition. However, the classification has evolved over the years, expanding and redefining the scope built around the original classification. In UNCPC Ver 2.0 (draft)¹¹ postal services are classified under code 6811 and courier services under 6812. A new code has been given to local delivery services (6813). The subclasses are defined as follows:

¹⁰ The subclasses are as follows: 75111: Postal services related to letters, 75112: Postal Services related to parcels, 75113: Post Office counter services, 75119: Other postal services such as mailbox rental services, etc. (postal savings account services are carved out and classified in class 8111), 75121: Multi-modal courier services (courier services for mail are carved out and put in sub-class 73210), 75129: Other courier services.

¹¹ For details see <http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=25&Lg=1&Co=6811>

68111: Postal Services for letters

This subclass includes:

- collection, transport and delivery services for newspapers, journals and periodicals, whether for domestic or foreign destinations, rendered under a **universal service obligation**

68112: Postal Services related to parcels

This subclass includes

- collection, transport and delivery services for parcels and packages, whether for domestic or foreign destinations, rendered under a **universal service obligation**

68113: Post Office Counter services

This subclass includes:

- services rendered at post office counters, e.g., sales of postage stamps, handling of certified or registered letters and packets, and other post office counter services

68119: Other Postal Services¹²

This subclass includes:

- mailbox rental services, “poste restante” services, and public postal services not elsewhere classified

This subclass does not include:

- services related to postal giro and postal savings accounts, cf. 71
- telecommunications services, cf. 84

68120: Courier services

This subclass includes:

- collection, transport and delivery services, whether for domestic or foreign destinations, for letters, parcels and packages, as rendered by courier and using one or more modes of transport, other than those rendered under a universal service obligation
- messenger services of bicycle couriers

This subclass does not include:

- local freight delivery services, cf. 68130

68130: Local Delivery Services

This subclass includes:

- local delivery services of such items as food and other purchases

This subclass does not include:

- courier services including messenger services of bicycle couriers, cf. 68120

¹² This includes mailbox rental services, “poste restante” services, and public postal services not elsewhere classified.

In the case of 68111 (letters) and 68112 (parcels), collection, transport, delivery services are rendered under a USO. For the first time, USO has figured in the classification system. In the earlier version, services rendered by national postal administration were mentioned. In many countries, private players now also offer universal services. The changed circumstances necessitated the change in definition. Apart from this, local delivery services (68130) are separated from courier services (68120). This service includes local delivery of items such as food and other purchases.

As the definition evolved over time, several countries made attempts to bring clarity in multilateral as well as RTA negotiations by entering the text in their schedule explaining the scope especially for courier services.

2.2 Uruguay Round and thereafter

The UNCPC classification of services was adopted in the Uruguay Round and updated later by the United Nations Statistics Division. This gave rise to doubts about whether the WTO classification in future would be based on the UNCPC. The United Nations Task Force on Statistics of International Trade in Services looked into the issue and realized that there might be some weaknesses in the approach regarding postal services, in particular the unclear borderline between postal and courier services. It is worth noting that the use of the Services Sectoral Classification List, or UNCPC, for listing commitments is not obligatory. However, clarity with respect to the nature and scope of the services listed is important. Since 2000, WTO members have been flagging their negotiating priorities and their concerns regarding the classification of postal and courier services. For example, Australia and the European Community and its Member States raised the issue of the classification of postal and courier services in informal papers submitted to the WTO Committee on Specific Commitments. Since then a few other WTO members have also presented their proposals or expressed their opinions on classification.¹³

The USA has proposed the creation of a new sub-sector termed ‘express delivery services’ in addition to postal and courier services and encouraged countries to submit their commitments in this with no limitation on market access and national treatment. Further, the USA proposed that members may consider defining regulatory structure in this particular sub-sector. Express delivery services are time-sensitive, utilize advanced technologies for communication, and are integrated or controlled from end-to-end. Japan included commitments in an activity which Japan has classified as “correspondence delivery services supplied by Special Correspondence Delivery Business”. This is defined according to Japanese national legislation in terms of length and weight of the article/parcel, delivery time and price charged. This commitment is submitted under the courier services category. It applies to the handling of correspondence items, such as letters and postcards, under a licence regime. Switzerland and New Zealand’s proposals followed the classification followed by the EU.

¹³ Since 2001, proposals on express delivery and postal and courier services came from the EU, Hong Kong, the U.S.A, Switzerland, New Zealand and Mercosur/Bolivia

2.3 EU Proposal and its Implications

For the purposes of this study, we will now analyze the EU proposal in detail. The proposal suggests defining postal/courier services as “services related to the handling (clearance, sorting, transport and delivery) of postal items . . . by any type of commercial operator, public or private,” and divides the sector into eight sub-sectors:

- i) Handling of addressed written communications on any kind of physical medium, including hybrid mail services and direct mail;¹⁴
- ii) Handling of addressed parcels and packages (e.g., books, catalogs ,etc);
- iii) Handling of addressed press products (e.g., newspapers, magazines);
- iv) Handling of items referred to in (i) to (iii) above as registered or insured mail;
- v) Express delivery services for items referred to in (i) to (iii) above;
- vi) Handling of non-addressed items;
- vii) Document exchange;
- viii) Other services not specified elsewhere.

Express delivery services may include, in addition to greater speed and reliability, value-added elements such as collection from point of origin, personal delivery to addressee, tracing and tracking, possibility of changing the destination and addressee in transit, and confirmation of receipt.

Since 2002, the EU has been seeking more ambitious commitments for activities where liberalization is more advanced or that particularly facilitate integration in international trade (such as parcels and packages, express delivery services, press products, non-addressed items and document exchange) while in other sub-sectors (such as handling of letters) commitments are sought to a lesser extent, without undermining universal service provisions. The EU is in favor of explicit commitments on licensing and independence of the regulator, while explicitly recognizing the right of EU members to develop and safeguard universal service.

Postal and courier services are generally defined following three alternative approaches:

- i) The UNCPC approach considered by WTO which focuses on services provided for items such as letters or parcels or press matters and post office counter services, etc. Courier services are divided into multi-modal services and other services not elsewhere specified.¹⁵
- ii) The Japanese approach which differentiates correspondence delivery services in terms of length and weight of the article/parcel, delivery time and price charged for the services. It applies to the handling of correspondence items, such as letters and postcards, under a licence regime.
- iii) The EU approach which differentiates services in terms of ‘handling’ of the products.

¹⁴ Direct mail is a form of advertising in which published matter advertising a product or service and soliciting orders is mailed directly to large numbers of potential customers.

¹⁵ In the original UNCPC through codes 75121 and 75129.

All these approaches attempt to define USO services and value-added services which can be liberalized. The definitions have wide scope for interpretation which can be suitably used to narrowly define the universal services where monopoly can be maintained. For example, GATS encourages members to go for commitment with reasonable regulations to safeguard the universal service obligation. From that point of view the UNCPC approach is quite broad and can accommodate varied national definitions. However, it separates postal and courier services. Through the Japanese approach, the monopoly position of the national postal administration can be maintained in all services below a certain weight of the article. Liberalization through private participation is encouraged if the delivery is ensured in less than a certain time or if a high price (a certain multiple of basic services) is charged. Hence, the definitions incorporate the possibility of competition in all sectors with certain conditions. The EU definition provides a hypothetical segmentation of the market through product and mode of delivery which helps its member countries put their postal products in various components, and define the liberalization process accordingly. For example, handling of letters may generate several services such as pick-up, clearance, sorting, transport, delivery, and counter service. Some of these services may be kept under USO while for others competition may be invited. The item and mode of delivery matrix of EU definition is given in Table A1 of Appendix B which explains the segmentation of the market that helps policy makers to develop different regulatory structures in different segments.

International express carriers feel that there is a clear distinction between postal and express carrier services which have characteristics like end-to-end control, track-and-trace, and guaranteed delivery. However, EU definitions make express services a subset of postal services.¹⁶ Express operators are concerned that treating the postal and express services as one sector might encourage some countries to extend postal licensing arrangements to include express operators. Canada feels that the existing GATS classification structure distinguishes between postal services provided by national postal administrations, and courier services, which involve the carriage of letters and parcels by providers other than national postal administrations. New classifications in this field could invite legal uncertainty about existing GATS commitments, and would unnecessarily divert developing countries' time and resources from dealing with more pressing issues. The EU explains that their proposal better reflects market reality, and allows countries' WTO commitments to adapt to the "rhythm" of liberalization in each product category. **The EC proposal would avoid potential conflicts among sectoral categories, and would preserve technological neutrality in the scheduling of GATS commitments.** Brazil, on behalf of Mercosur, feels that for unreserved sub-sectors the reality is that both postal administrators and courier companies compete with each other (such as express mail offered by the postal department that competes with courier service). Since the services are provided in the same manner by both postal and courier businesses, it is no longer appropriate to classify the services according to provider (in contrast to the US proposal of defining express delivery sectors which are largely provided by private companies).

¹⁶ "Study of various proposals concerning the classification of postal services and courier services submitted to WTO", Memorandum by International Bureau to UPU, Berne, 2005.

2.4 EU Schedules on Postal and Courier services

Scheduling in services trade negotiation is done through a positive list approach. Countries need to mention market access and national treatment limitations along with the additional commitments. India until now has not submitted any offer in postal and courier services either multilaterally or bilaterally. In the India-Singapore CECA, this sector has been kept out. In contrast, the EU has followed its definition¹⁷ consistently both in multilateral as well as bilateral negotiations. The EU seeks commitments from negotiating partners especially in Mode 3 which is of particular importance for express delivery services. As a medium- or long-term goal, the EU seeks market access and national treatment, compatible with the universal service obligation in all sub-sectors as per its definition. Full commitments are sought in the short term for the following areas: courier/express delivery services, handling of addressed parcels and packages, handling of addressed press products, handling of non-addressed items, and document exchange. In the remaining areas, namely, handling of addressed written communications and items such as registered or insured mail, gradual market opening and national treatment is sought. In general, the EU seeks in-depth information on limitations concerning market access due to existing monopolies, licensing requirements, national treatment limitations or requirements for foreign service suppliers.

Limitations on market access and national treatment in the postal and courier sector could be of the following types: limitations on the number of service suppliers, limitations on the total value of service transactions, limitations on the total number of service operations, limitations on the total number of natural persons, measures which restrict or require specific types of legal entity or joint venture, and limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding, conditions and qualifications on national treatment, etc. The EU-Chile Proposals¹⁸ provide an example of how two parties have made their respective offers taking into account domestic sensitivity.

In its bilateral commitment with Chile, the EU has limited market access in the following way. For Modes 1, 2, and 3 licensing systems may be established for handling letters, packages, press materials registered mail, etc. for which a general Universal Service Obligation (USO) exists. These licences may be subject to particular universal service obligations and/or financial contribution to a compensation fund. Mode 4 is generally unbound except as indicated in the horizontal section. Independent national regulatory authorities have been established to ensure compliance with postal regulation and to deal with conflicts between commercial partners (public or private). The right to a postal universal service is ensured. On the other hand, Chile followed the divisions of services offered in the sector as defined by the EU but defined postal items in detail. Market access is limited in Modes 1, 2 and 3 by several decrees of the Internal Ministry and Ministry of Transportation and Telecommunications. Chile may exercise, through the *Empresa de Correos de Chile*, a monopoly on the admission, transport and delivery of postal items (*objetos de correspondencia*).

¹⁷ As per document S/CSS/W/61, 23 March 2001, WTO.

¹⁸ For details see Table A2 (in Appendix C) and Table A3 (in Appendix D)

In the latest submission (see Table A4 in Appendix E), the EU has clarified its market access and national treatment exceptions more clearly in the case of courier services. From the scheduling, it is clear that the EU still upholds individual member country's universal service provision (USP) and different levels of competitive environment. Most of the East European as well as new members have deeper commitments than western European nations especially on Modes 1 and 2. There are also several restrictions in Mode 3 and Mode 4. This provides room for India to pursue negotiations with the EU in courier services.

3. Postal and Courier Services in the EU: Market structure, Regulation and Liberalization

3.1 Features of the EU Postal Market

In 2004, postal services in the EU earned about €90 billion or 0.9% of the GDP and this has been recognized as an important sector for the economy. The direct contribution of the postal sector is around €40 billion or 0.4% of the GDP.¹⁹ Postal services are labor intensive and are also one of the principal public employers in Europe. Employment remains fairly stable with about 1.71 million persons in 2004 employed by universal service providers (USPs) (close to 0.8% of all employment in the EU). At the same time, more than 5 million jobs are related to postal activities, i.e., directly dependent on, closely related to or induced by the postal sector²⁰.

Most of the member countries have already or are in the process of changing the structure of their national postal administration, making them more commercially-minded and customer-oriented. They are now increasingly challenged by new entrants in their parcel and express business and, more recently, in their letter-post business. Corporatization and privatization of former postal administrations have made considerable progress and support the commercialization of the postal business. Financially strong private equity companies appear as new players in the market, backing medium-sized universal service providers and, sometimes, competitive postal operators. The experience of market opening for competition has not been smooth. National regulatory and competition authorities are increasingly engaged in complaints dealing with the abusive behavior of universal service providers who still dominate the national letter markets.

The market structure of the postal and courier sector is a direct outcome of EU postal policy which focuses on universal service providers (USPs) and the provision of universal service. Regulations related to universal postal service and universal service providers have a strong impact on the development and shaping of potential activities. The industry is increasingly divided into core and non-core activities allowing outsourcing of non-core activities. This development would be further promoted when allowing for downstream access and consolidation services. Mailers, especially large mailers, make increasing use of service providers by taking over tasks like mail design, printing and mail preparation. Medium-sized and small business mailers would benefit from emerging consolidation services. These developments provide

¹⁹ Main developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

²⁰ "On the application of the Postal Directive"; (Directive 97/67/EC as amended by Directive 2002/39/EC): Report From The Commission To The European Parliament And The Council, (Commission Staff Working Document, Sec (2006) 1293, Brussels, 18.10.2006).

additional business opportunities for new and existing companies including universal service providers. Currently many EU USPs are present in other member countries as Competitive Postal Operators (CPO) and in some cases they have developed JVs with domestic USPs. Table 1 provides a snapshot of the presence of EU USPs in domestic and other EU member countries.

Table 1: EU USPs in Domestic and other EU Member Countries

MCs	Domestic USPs	Foreign USPs (as CPOs) active in domestic letter-post market (upstream and E2E)	Other important competitors (E2E)
AT	Osterreichische Post AG	TNT (NL): Redmail (joint venture with Styria (publisher), distribution of addressed and unaddressed items)	
BE	De Post/La Poste	TNT (NL): Belgische Distributiedienst (distribution of unaddressed items)	
CY	Cyprus Post		
CZ	Czech Post S.E.	TNT (NL): dimar providing upstream and direct mail services and ADM (distribution of unaddressed items)	Mediaservis (owned by logistics company Fiege (DE))
DE	Deutsche Post AG	Finland Post (FI): Itella (Upstream services)	PIN Group:JV of big publishers and Pin AG (owned mainly by publishers)
		TNT (NL): EP Europost (JV logistic company Hermes and NL, E2E)	NET-DBS (JV of various local distributors; Pin 25%)
			West Mail (JV of publishers)
			Prime Mail (JV logistic company Hermes and Swiss Post) (addressed).
DK	Post Denmark		
		Finland Post (FI) : Itella (upstream services)	
		Posten Norge (NO): Citymail planned (E2E)	
EE	Eesti Post Ltd	Finland Post (FI): Itella (upstream services)	
ES	Post & Telegraphs S.A.	Deutsche Post (DE): Imopst (38% share, E2E)	
FI	Finland Post Corporation		
FR	La Poste	La Poste/De Post (BE): Asterion (upstream services)	ADREXO (published)
		Deutsche Post (DE): KOBA (upstream services).	Spir Communications)
		Royal Mail (UK): Crie Group (upstream services)	

MCs	Domestic USPs	Foreign USPs (as CPOs) active in domestic letter-post market (upstream and E2E)	Other important competitors (E2E)
GR	Hellenic Post (ELTA)		
HU	Hungarian Post Plc	Osterreichische Post (AT): Feibra Hungary (distribution of unaddressed items)	
		TNT (NL): Dimar (distribution of unaddressed items)	
IE	An Post		
IT	Poste Italiane s.p.a.	TNT (NL): Various companies (direct mail, distribution of unaddressed items, upstream activities)	
LT	Lithuanian Post	Finland Post (FI): Itella (upstream services)	
LU	P & T Luxembourg		
LV	Latvijas Pasts	Finland Post (FI): Itella (upstream services)	
MT	Maltapost Plc.		
NL	TNT	Deutsche Post (DE): Selekt Mail (E2E), MailMerge (delivery at P. O. Boxes)	Sandd (E2E) owned by private equity company
PL	Polish Post	TNT (NL): Dimar (distribution of unaddressed items)	
PT	Correios de Portugal, S.A. (CTT)		
SE	Posten AB	Finland Post (FI): Itella (upstream services)	
		Posten Norge (NO): Citymail (E2E)	
SI	Post of Slovenia		
MCs	Domestic USPs	Foreign USPs (as CPOs) active in domestic letter-post market (upstream and E2E)	Other important competitors (E2E)
SK	Slovak Post	TNT (NL): Shiculka & Macatch (distribution of unaddressed items)	
UK	Royal Mail Group Plc	Deutsche Post (DE): DHL Global Mail, Speedmail (E2E and upstream services), Williams Lea (upstream services)	DX Networks (demerger of recruitment group Hays in 2004)
		La Poste (FR) : Mailplus (upstream services and E2E), TNT (NL): TNT Mail UK (upstream services), Circular, Distributors Ltd. (distribution of unaddressed items)	Express Dairies (Arla Foods (DK) (market exit Nov. 2005)

Note: The country codes are given in the abbreviation list above.

CPO: Competitive postal operator, i.e. postal operators other than the universal service providers (the latter being equal to the public postal operator in all countries surveyed). E2E: End-to-end.

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

3.2 Express Delivery Industry in the EU

The express industry makes a significant direct contribution to the EU economy. Its direct contribution to EU GDP was over €10.5 billion in 2003, half of which is accounted for by the four ‘integrators’ – DHL, FedEx, TNT and UPS.²¹ For the express and parcel industries together, the expected average annual growth was around 3.7% till 2007.²² The express industry directly supports 250,000 full-time equivalent employees, including over 12,000 in the 10 new EU Member States. Indirectly, it helps to support at least 530,000 jobs in total, including those people employed in companies supplying the express operators and jobs dependent on the spending of express industry workers.

The express industry is one of Europe’s fastest-growing sectors. With demand for rapid, guaranteed delivery services growing strongly, direct employment in the express industry in the EU is expected to increase from the current 250,000 to 500,000 by 2013, if it is unconstrained. The express industry is expected to support over 1 million jobs in the EU by 2013. It is expected that the express and parcel market together will grow to €50 billion by 2012.²³

The most important role of the express industry is in facilitating the success of other parts of the European economy. EU companies are dependent on express services for around 3% of their sales on average – worth around €450 billion. Express services also allow companies to minimize their inventory costs. Nearly 40% of firms would possibly have to hold increased inventories to ensure that they could meet consumer demand if next-day delivery were no longer available. Others would have to hold higher stocks of raw material, sub-components and spare parts.

3.3 Organizational Structure in EU Member Countries

In the case of universal services providers (USPs), only in Cyprus is it a direct government department. In the Czech Republic, France, Spain, Greece, Luxembourg and Poland, USPs are state enterprises and in Estonia, Finland, Hungary, Ireland, Italy, Latvia, Lithuania, Portugal, Sweden, Slovenia, the Slovak Republic, and the UK USPs are corporatized and the government has offloaded some share. In other countries such as Germany, the Netherlands, Austria, Belgium and Malta, USPs are privatized. In countries like the UK, Finland, and Sweden no service is reserved for USP anymore and earlier USPs are now directly competing with other players for all services. In France, Denmark, and Germany, the domestic letter-post market is still controlled by USPs. In some other member countries, outgoing mail and domestic correspondence are still served only by USPs.

In Austria and the Netherlands, competitive postal operators (CPOs) have formed joint ventures with foreign USPs. In France, CPOs acted on their own and in Germany they have established networks with other companies. Currently, private equity companies have shown an interest in the sector (not so much in CPOs until now).

²¹ The Economic Impact of Express carriers in Europe: Oxford Economic Forecasting (2004). <http://www.oef.com/Free/pdfs/euroexpressfinal091104.pdf>

²² European Express and Parcel Market 2008: Datamonitor.

²³ Ibid.

Equity funds have started to flow into the postal sector. These equity players bring capital in better-performing CPOs and increase their share values.

Existence of foreign USPs is not uncommon in EU. Though business alliances by foreign players with the incumbent are a common strategy some companies take different routes to enter the foreign market. Feibra Hungary, the Hungarian market leader for unaddressed mail, has been acquired by Austria Post. With this acquisition Austria Post has refrained from the strategy to enter Eastern European markets via alliances with the incumbents but rather to acquire competitors. There are even cases where foreign players have left the market. The ownership and control of major USPs in the EU are given in Table A9 in Appendix K.

3.4 Market Structure and Nature of Competition

Some major companies hold a significant market share of the EU postal market. Deutsche Post alone controls 24% of the letter-post market, and other important players are Royal Mail (29%), TNT (7%) and La Poste (20%). The competition in the letter-post market increased between 2000 and 2005. Competition in general is very intense in un-addressed items and relatively high in the newspaper market. Currently, Spain appears to be the Member State with the highest level of actual competition in the letter-post market because letter-post services within cities are historically free of competition. Germany and the United Kingdom are the only Member States where significant parts of the postal market are open to competition and where consolidation services based on mandatory downstream access have been established.

The parcel market is generally more open in the EU than the letter market. The competition increased significantly between 2000 and 2005. Business-to-business consignments are the most competitive segment. DHL, TNT, UPS, La Poste, and Royal Mail are the most important parcel and express service providers in the Community (all except for UPS are major Universal Service Providers (USPs)). Recently, the European parcel and express service providers have been extending their business proposals to small and medium-sized mailers of parcels, notably DHL, GLS and UPS. B2C (Business to Consumer) and C2C (Consumer to Consumer) parcel services, which are to a large extent domestic services, appear to be dominated by national USPs in most Member States. However, competition in the B2C segment has been emerging (Germany, France, and the UK), and in the C2C segment successful market entry can be observed in one Member State (Germany), benefiting consumers and small mailers with well-priced parcel services. The nature of competition in postal and parcel markets is given in Tables A7 and A8 of Appendix I and Appendix J.

The major integrators in the European market are DHL, Royal Mail, TNT, UPS and La Poste. In the parcel and express market these few players cover more than 60% of the market. The companies' experience, their network, infusion of the latest technology and innovative marketing strategies have made the parcel market highly competitive. Table 2 below provides the estimated market share of these major players in the parcel and express delivery segment.

Table 2: Market share in the European parcel and express market

	Estimation by TNT (2004)	Estimation by Deutsche Post (2004)	Estimation by Datamonitor on EU-12 (2006)
DHL	23%	20%	18.1%
TNT	11%	11%	10.3%
UPS	6%	8%	7.8%
Fedex	2%	2%	2.3%
La Poste	58%	12%	10.6%
Royal Mail		8%	6.5%
Others		39%	44.40%

Sources: TNT (2004), Market statistics: Express and parcel services - intra-Europe; DPWN, Annual report 2005, European CEP market 2004 - market shares based on information from DE, ES, FR, IT, NL, and UK. European Express and Parcel Market 2008: Datamonitor.

3.5 Trends in Mail Traffic

The total letter-post volume in the EU market has increased slightly since 2002, from roughly 89 billion items to 90 billion items in 2004. In the new Member States letter-post grew at a lower rate than their GDP growth. The three largest USPs (Deutsche Post, La Poste, and Royal Mail) have more than 60 per cent share of the EU letter-post. The Scandinavian USPs (except for Finland), and the Dutch USP lost considerable volumes between 2000 and 2005, whereas other USPs achieved positive growth rates (at least after 2002).

It has been noticed that addressed direct mail has been growing faster than the economy (at 6 per cent per year) while the growth rate of unaddressed items distributed by USPs has been impressively high with more than 30 per cent per year. WIK-Consult estimated that about one-third of all unaddressed items in the Community are distributed by USPs or their subsidiaries.

There are no common trends in first- and second-class postal items.²⁴ In Scandinavian Member States the share of second-class items has been increasing, while it has been decreasing in southern Member States. However, in southern Member States and the new Member States, first-class services are still far less important than second-class services.

The growth rates for newspapers, magazines, and periodicals distributed by USPs are mixed. Some USPs achieved high growth rates (e.g., Austria, Finland, and Slovenia), and others lost considerable volumes (notably the Czech Republic, Italy, and the Slovak Republic) during the period 2004-05.

²⁴ First class mails are defined by same/next day delivery and second class mail by third-day delivery. In general terms, first and second class mails are defined by speed of delivery and hence priced differently. Source: Royal Mail: <http://www.royalmail.com/portal/rm/jump2.jsessionid=AQKD1SU5SJNCCFB2IGVUSPQUHRA0UQ2K?catId=400028&mediaId=400029&keyname=1CLASS>

As direct mail volumes continue to grow, the role of letter-post continues to shift away from two-way communication towards one-way distribution. The business-to-consumer (B2C) segment of the letter-post accounted for 62 per cent of total volume in 2005, up from 60.5 per cent estimated in 2004. More than 87.5 per cent of letter-post items are sent by businesses and organizations rather than individuals. About 72 per cent of letter-post items weigh less than 50 grams, and only about 7 per cent weighs between 50 and 100 grams.²⁵ These findings imply that the reduction of the weight limit (as per EU Postal Directive) for the maximum reservable area to 50 grams in 2006 has had a relatively minor effect in terms of volumes.

3.6 Regulatory Framework

The EU has taken unilateral steps to gradually open the sector. The liberalization process of the EU is governed by the Community postal policy framework which aims to achieve a single postal market within the EU. Until now, the EU has made substantial progress through the following directives:²⁶

- i) Postal Service Directive of 1997 (Directive 97/67/EC)
- ii) Postal Service Directive 2002 (Directive 2002/39/EC)
- iii) Commission's Proposal 2006
- iv) Postal Service Directive of 2008 (Directive 2008/6/EC)

With the adoption of the Postal Services Directive in 1997, the EU took the first step to get national postal monopolies to gradually open up to competition. A second Directive in 2002 succeeded in opening up a number of postal services including all outgoing cross-border mail but stopped short of liberalizing the market for the delivery of letters weighing less than 50 grams. On October 18, 2006, the European Commission adopted a proposal to open up postal markets to full, unrestricted competition by 2009. However, in 2008, through a new Directive the EU has postponed its full opening by one more year to 2010.

The 2006 proposal did not alter the main provisions of the existing legislation, including the obligation to ensure universal service provision to citizens. The main change is the removal of the concept of 'reserved areas' by which Member States can restrict access to certain operators. It focused on 2009 as the date from which the internal market for postal services is to be completed. The proposal also offers Member States alternative ways to finance universal service provision in a liberalized regime, and offers greater flexibility/clarity on how it can be achieved. It is for Member States to decide which model best suits their needs. The options provided, for example, are state aid, public procurement, compensation funds, and cost sharing. The directive also provides for retention of uniform tariffs (i.e., tariffs which are equal irrespective of the location of the addressee) for consumer/single-piece mail or for public policy reasons, but restricts their use in other circumstances. It reduces unjustified barriers to the entrance of new operators and strengthens consumer protection by measures such as extending mandatory complaint procedures to all operators.

²⁵ Commission Staff Working Document, SEC(2006) 1293, dated, 18.10. 2006, EU.

²⁶ For details see http://ec.europa.eu/internal_market/post/legislation_en.htm#proposal

Since January 1, 2006, the reserved area has been reduced (from 100 gm to 50 gm) which has now thrown open 7% extra letter-post to competition and thereby *de jure* been liberalized. Also the UK has fully opened up its postal market (joining the other two Member States, Sweden and Finland, that have *de jure* already fully liberalized their postal sectors).

As regards the final date for the implementation of the 2008 Directive, the date is now December 31, 2010, with the possibility for some Member States to postpone full market opening by a maximum of two more years and the inclusion of a temporary reciprocity clause applying to those Member States that make use of this transitional period.

Through the Postal Directive, the EU has attempted to provide access to a minimum range of services of specified quality at affordable prices. This also has set a common maximum limit on the extent of the postal reserved areas (which have gradually declined) which each Member State may grant to its provider(s) of the universal service and helped to develop a process of gradual and controlled market opening to competition. The Directive also intends to improve the quality of postal services by setting at Community level common quality of service standards for intra-Community cross-border mail and ensuring that standards for national mail are set. Through this directive a principle has been adopted to link tariffs with costs and ensure that the provision of universal service is carried out in a transparent manner compatible with Community law.

The internal market is slowly taking shape. Postal operators and users will have had a period of more than 12 years from 1997 to adjust to the necessary changes. All major changes are being phased in as the process continues and their impact is carefully monitored. Rather than disrupting the sector, Community policy tries to reconcile the interests of a number of key stakeholders – national postal operators, current postal operators, “would be” new entrants, and users/consumers – and to strike the right balance between increasing competition and the diminution of existing monopolies.

National policies have been derived from the Postal Directive. The office of postal regulator is now well-established across the EU and most are endowed with sufficient resources and the power to monitor and sanction postal operators for non-compliance with their obligations. National regulators are entrusted with a wide range of regulatory functions which stem from the EU and national legislation. These extend from specific functions such as ensuring compliance with quality standards and price setting to broader and more far-reaching tasks such as creating the conditions for the growth of competition and paving the way for new entrants into the sector.

The interests of citizens are being protected in a number of ways. For example, the 1997 Directive establishes that prices of postal services must be both affordable so as to ensure maximum access and geared to costs; this would minimize opportunities for excessive charges while at the same time ensuring the economic viability of the service. It also stipulates that postal operators providing universal postal services must not apply discriminatory tariffs and allows for the application of uniform tariffs. To ensure quality, the 1997 Directive requires Member States to set (quality) standards governing access to postal services and delivery targets. In the event of failures to deliver on these targets, Member States may take corrective action including the

imposition of fines. Community rules establish quality standards for cross-border mail. It also stipulates that postal users should have a simple and low-cost (but effective and accountable) redressal system which can deal with their complaints about access or quality of service.

**Box 1: EU Postal Directive: Description of key terms and requirements
(Original in 1997 and amended in 2002)**

All Member States provide a universal postal service for all users comprising of at least one delivery and collection five days a week;

Maximum part of the market reservable for the Universal Service Provider in each Member State: 100g in weight or three times the basic tariff of an item of correspondence (and 50g/ 2.5 times the basic tariff as of 2006).

Member States may establish authorisation procedures, which may include individual licences and a compensation fund in the universal service area;

Member States should ensure that all users are permanently provided with a postal service of specified quality throughout their territory;

Member States must ensure that tariffs, including special tariffs, for universal services are cost-based, transparent and non-discriminatory and that cross-subsidies from the reserved area to the competitive area are limited to the fulfillment of universal service obligations.

Member States must ensure that USPs should consistently apply transparent and separated cost accounting principles, and provide separate accounts for reserved and non-reserved universal services and non-universal services;

The Postal Directive sets quality of service targets for cross-border mail (85% for D+3, 97% for D+5 for the fastest standard category of service) and required Member States to define, measure and enforce compatible national targets;

Member States are to ensure that adequate consumer protection measures were in place, particularly with regard to complaints and redress procedures;

The Postal Directive aims to promote greater inter-connectivity between postal networks through greater technical standardisation;

Member States have to establish National Regulatory Authorities independent from the postal operators.

4. Postal and Courier Services in India: Market Structure, Regulation and Liberalization

4.1 Key Features of India Post

The Indian Postal Service under the Department of Posts is the world's biggest post office system with more than 155,333 post offices²⁷ (China at second place has 57,000 post offices) that employs more than 520,000 people. The Department of Posts is part of the Ministry of Communications and Information Technology of the Government of India and commonly known as 'India Post'. Most of these postal services are provided at manually-operated counters; however, counter operations are now being progressively computerized to provide a greater range of services to customers from a single window leading to services that are more responsive and error-free. With the infusion of new technology, India Post has enhanced the services of its premium value-added services (such as Speed Post, Business Post, etc).

India Post experienced a decline of 8.96% in mail traffic between 2004-05 and 2005-06. Total mail traffic in 2005-06 was 6700.72 million compared to 7360.36 million in 2004-05. The decline is more severe in unregistered post (by 9.15%) in contrast to registered post (by 2.6%). One reason is that it is losing the lucrative metro market due to competition from courier companies.

The challenge for India Post is to offer cost-effective as well as valuable services to customers. The total revenue increased from Rs. 44 billion in 2004-05 to Rs. 50 billion in 2005-06 to Rs. 53 billion in 2006-07. The rise in revenue reduced the deficit from Rs. 13.8 billion to Rs. 12.1 billion during 2004-05 and 2005-06. However, the deficit slightly increased to Rs. 12.5 billion in 2006-07.²⁸ Currently almost half of India Post's revenue comes from financial services which include Postal Savings Bank and savings certificates, and the increase in revenue is due to this head. Almost the entire revenue of India Post is used up in meeting operational costs. It is important to note that the revenue generated from savings banks and other financial services are not invested to obtain higher returns or for further capital generation for the postal sector.

Because of its Universal Service Obligation (USO) India Post sells products such as postcards at very low prices and is unable to recover the revenue from those products. For example, in 2004-05 the average cost of a postcard was around Rs.7 whereas the revenue generated was around 50 paise. In Book Post, Sending Acknowledgement Card, VP and even in Registration, losses are visible (see Table A6 in Appendix G). Money orders and postal orders also consistently generate losses. The situation is much better in parcels, foreign mail, etc. In the case of letters (posted in envelopes), the Postal Department had a deficit in 2001 but it has been converted into a revenue generating product in 2004-05.

In general, the postal departments of all countries incur losses in managing USOs but the loss is compensated through value-added services. In the case of India Post, the loss is in both USO operations and value-added services. In addition, revenues

²⁷ Indian Postal Statistics: Annual Report 2007.

²⁸ For details, see Table A5 in Appendix F.

generated through financial services do not fetch high returns as they are mainly used in government financing. India Post clearly is unable to use its extensive network which may be due to lack of an effective business development plan, marketing of products, low productivity, etc. Products remain uncompetitive mainly in the value-added segment where the market share of private courier companies is very high. More effective marketing strategies may be required to compensate the losses due to USO and high employment obligations.

4.2 Indian Courier Sector: Some insights

According to Care research, in 2006, the estimated size of the Indian express industry was about US\$1.60 billion. Though India's express industry is miniscule in terms of size as compared to the global express industry which was valued at around US\$149 billion in 2005, it ranks among the fastest growing sectors in India and has attained a size almost equivalent to that of the Indian shipping industry.

The express industry includes both the courier and logistics industries. There is no authentic database for the courier industry in India and hence it is difficult to get information about the market. The Indian courier industry consists of national, local and regional players. Integrators primarily concentrate on international operations though of late some of them are seriously looking into the domestic market as well. The national players mainly operate domestically with a gradual increase in their international operations. Regional players operate regionally. Local players are quite unorganized and they are key players in narrowly defined local markets. India Post is also a major player in the express delivery industry. The share of organized players is estimated at 65%. Of the balance, while EMS²⁹ (Indian Postal Department) holds a 10% share, 25% is held by the unorganized segment. The structure of the industry can be gauged from the fact that although there are more than 2,000 players operating in the country, only 20-25 players operate at a national level.³⁰

The industry operates on the hub-and-spoke model. Since large-scale integrated operations matter, several players of the organized segment have been ramping up their operating assets by adding fleets of cargo aircraft, commercial vehicles, branch/franchisee networks, etc. to equip themselves with the ability to handle larger volumes of business which is expected to emerge with sustained growth in the Indian economy. The large players concentrate on reach (distribution network), speed of delivery (major operations through air, their own fleet for surface delivery), reliability (time-bound delivery, insurance facility) and technology (tracking facility, web-enabled services).

Meeting increasing customer expectations, upgrading technology to deliver the best services, combating increasing cost and competition as well as expanding core activity to other services like Third Party Logistics (TPL) and Supply Chain Management (SCM) are some of the major challenges India's express service industry is expected to face in the coming years.

²⁹ Just in Time delivery of India Post

³⁰ <http://www.equitymaster.com/detail.asp?date=12/18/2006&story=4>

4.3 Liberalization in the Postal Sector

The Indian Postal Service is regulated by the Indian Postal Act, 1898. However, this old act has reserved letters in the hands of the Postal department but the definition of letter is not spelled out in detail. With the infusion of technology and possibilities of market opening, it has been felt that this act needs to be modified. There have been several attempts to amend this act. However, the Indian Post Office (Amendment) Bill (2006) still has not been cleared by Parliament. The proposed Bill intends to define letter-post with respect to weight and attempts to define USO around this. It amends Article 4 of the old Post Office Act, protects all letters below 300 gms, and allows private players to operate beyond this weight limit in all incidental services of receiving, collecting, sending, dispatching and delivering services. This proposal is being further revised and may be placed in Parliament sometime in 2008. In the revised version, the weight limit may be brought down further (possibly to 150 grams) and private players may be allowed within the reserved area through multiple price mechanisms.³¹ The Bill also proposes to set up a Mail Regulatory and Development Authority and Mail Disputes Settlement Tribunal. For private courier companies, the Bill intends to introduce registration as well as renewal fees. The fee structures are different for players opting only for the domestic market and for within and beyond India (Rs. 25,000/- registration fees and Rs. 10,000/- renewal fees for small and medium players, and Rs. 1,000,000 and Rs. 500,000 respectively for big players.)³². Big players are also required to pay USO fees as per the original proposal. However, the government is re-examining the issues related to USO fees.³³

Liberalization of the postal sector has been accentuated by allowing FDI in the sector. According to the Department of Industrial Policy & Promotion (DIPP) Press Note 4 of 2001 (see Appendix H), 100% FDI is allowed in the courier sector. The note implicitly has kept 'letters' outside the ambit of FDI which are defined as per existing law (Indian Post Office Act, 1898). This has clearly been specified in the FDI Policy (April, 2006).³⁴ FDI is allowed for carrying parcels and packages which do not come within the ambit of the Indian Post Office Act, 1898. However, the distinction between letters and courier products is not very clear in the 1898 Act and hence the area of operations for courier companies is not very clear. Meanwhile, several MNCs have already started their operations.

At present, couriers are under no proper regulatory framework. This leads to lack of legality, responsibility, transparency or concern for community. Non-regulation also leads to irregular pricing practices. The Mail Regulatory and Development Authority (MRDA) would regulate postal and courier services to ensure compliance with the terms and conditions prescribed by the government and also provide quality-of-service standards for mail service providers. The MRDA would also conduct a periodic survey of service providers to protect consumer interests. In many countries

³¹ In this case, private players may enter the reserved area (below 150 grams segment) but they have to charge 5 times the basic postage of the normal delivery and in case of express delivery 2.5 times of the speed post charges. This means private players will not have price fixing capability in this category.

³² See pages 23 and 24 of the Bill available at <http://www.eiciindia.org/frontsite/DRAFT%20Bill2006.pdf>

³³ http://www.prsindia.org/docs/bills/1167478552/bill84_2007010384_FAQ_on_Bill_2006.pdf

³⁴ http://dipp.nic.in/publications/fdi_policy_2006.pdf

well-defined guidelines are laid down by similar authorities mainly in the form of quality parameters (such as time delivery, safety of the article, right price, etc) which are systematically monitored to ensure consumer rights. There have also been discussions on limiting the FDI cap, but it is difficult to reverse the liberalization process.

The express industry in India is concerned about the several layers of segmentation in the market as proposed by the Bill and argues that this will provide an extra advantage to Department of Posts and kill the very objective of competition. According to them, the market will primarily be segregated between USO and non-USO. Within the non-USO segment, there will also be differences in registration and renewal charges. The earlier government also planned to skim big players to create a USO fund.³⁵ The Indian express industry argues that exclusive monopoly is sufficient for USO operations; levying further charges on players from non-USO areas is unwarranted and will not provide private companies with a level playing field. However, the Department of Posts justifies the proposed amendments by saying that the law makes a critical difference between a letter and a document and gives the state-run department the exclusive right to carry letters. Hence, private couriers are only permitted to carry documents, but since no one knows the distinction between documents and letters, private courier companies have exploited this ambiguity and have been carrying everything. This has caused the Department of Posts to lose ground to the private sector, with a consequent loss of revenue for the government. The loss-making USO will be compensated from non-USO services and provide local players with a level playing field. However, as the Bill has not yet been passed, perhaps many such concerns of the courier companies have already been communicated to the government which is now having a fresh look at the Bill.³⁶

Box 2: Lack of Clear Distinction between Letters and Courier Products

According to the Indian Post Office Act 1898 Article 2(i) the expression “postal article” includes a letter, postcard, newspaper, book, pattern or sample packet, parcel and every article or thing transmissible by post and Article 4 ensures exclusive privilege of conveying letters reserved to the Government (including incidental services such as receiving, collecting, sending, dispatching and delivery of letters while Article 4(2) states that “letters” includes postcards.

On the other hand, DIPP Press Note 4 of 2001 mentions that FDI up to 100% is permitted in courier services subject to existing laws and exclusion of activity relating to distribution of letters. FDI in this sector would be permissible with prior Government approval. FDI Policy (April 2006) spells out that FDI is allowed for carrying parcels and packages which do not come within the ambit of Indian Post Office Act 1898.

In contrast to other countries India has not yet defined a letter. The Amendment Bill which intends to do so is still pending. Currently, courier companies have the advantage of this fuzzy definition. Several multinational companies have already brought significant amount of FDI into the sector and are engaged in delivering letters also.

³⁵ The government is re-looking at this issue.

³⁶ For details go to www.eciindia.org

5. Barriers in Trade in Postal and Courier Services

5.1 Trade in Courier Sector between India and the EU

As detailed statistics about the trade in courier sector between India and EU are not available, we gathered the perceptions of companies through a survey. Among international companies DHL alone caters to more than 50% of small parcel and express mail between India and the EU. In addition, TNT and UPS are significantly involved in trade between India and the EU. Of late, several EU players (mainly USPs) are eyeing India to cater to international traffic or for specific services, and several large Indian players are also engaged in this trade. For some Indian companies, the Middle East and Chinese markets are also very lucrative. In the EU, Indian companies have a presence mainly in Western Europe. Indian players mostly concentrate on parcels and document transfer, because they find them profitable. For Indian players, the EU market as a percentage of their total international transaction varies between 10 and 35%. The revenue generated by Indian companies due to their business with the EU is close to 5 to 7% of their total turnover. Indian companies operate there primarily through commission agents and collaboration with local players. Some of them also have wholly-owned subsidiaries. Through agencies, business operations are conducted mainly on the basis of commission. In the EU, the major competition that Indian companies face is from DHL, TNT and UPS. However, Indian companies feel that EU regulatory structures inhibit foreign players from expanding their operations in the EU.

5.2 Issues in Bulk Mail in EU

Since 2002, there have been substantial changes in the scope and definition of universal service obligation, notably in the Netherlands and the UK. The most crucial point under discussion is the role of bulk mail services: whether or not they will be part of universal service. While in Germany and Ireland this question is still under discussion, in the Netherlands it has been decided that **bulk mail** outside the reserved area is to be considered as being outside universal service. In June 2005, Postcomm (UK) decided that two bulk mail products should be included in Royal Mail's universal service obligation and Royal Mail's licence was amended accordingly in June 2006. While Postcomm considers that there is a generic obligation for the universal service to include a bulk mail service, Royal Mail is specifically obliged to provide only two bulk mail products (mailsort 1400 and cleanmail) but not others. It is important to note that there are different views about bulk mail within the EU – whether to keep them within or outside the reserved area. Some countries still feel that some bulk mail products should be within USO. Hence, a proper definition of the reserved area is essential to define the scope of USO.

5.3 Asymmetric Liberalization in the EU Postal Market

As per the 2002 Directive, the reserved market is further reduced to 50 gms and limits the transportation charge to less than 2.5 times the basic tariff. However, in terms of volume liberalization this has a negligible impact as 72 per cent of letter-post items weigh less than 50gm, and about 7 per cent weigh between 50 and 100 gms. At present, all Member States have limited their reserved areas in accordance with the Postal Directive. Three Member States have abolished the reserved area and most

notably the UK completely repealed its reserved area on January 1, 2006. Consequently, the reserved area is today substantially narrower than the maximum limit set by the Postal Directive; the most important step in this regard seems to be the liberalization of direct mail which forms a substantial part of modern letter-post, and eight Member States (Austria, the Czech Republic, the Netherlands, Slovenia, Estonia, Italy, Latvia and Spain) have taken this step or have even fully abolished it (in Finland, Sweden and the UK). Different EU countries are at different levels of liberalization in terms of speed and coverage. The EU offers in WTO spell out a variety of limitations in market access and national treatment mostly among new members of the EU. Table 3 summarizes the services reserved for USP in Member States. It may be noted that inbound cross-border mail and domestic letter-post market are still controlled by USP. Direct mail is still not open in many countries.

Table 3: Services reserved for the USP in EU Member States

MS	Domestic & Inbound CB	Direct mail	Outgoing CB
FI, SE, UK	Liberalized		
AT, CZ, NL, SI, EE	X		
IT, LV, ES	X		X
BE, DE, DK, FR, IE, LT	X	X	
CY, GR, HU, LU, MT, PL, PT, SK	X	X	X

Note: For country codes, see the abbreviation list above.

CB: Cross-border mail. X: Services reserved for USP

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006

A significant development with respect to the reserved area in the past two years has been the firming up of plans to continue market opening in Germany and the Netherlands and to proceed faster with market opening than envisaged in the Postal Directive. Taking these two countries into account and adding them to those that have already fully or substantially opened the market, around 60% of the EU letter-post was effectively opened by the end of 2007. **It must be noted that in Germany, the Netherlands, and the UK competition is limited in the letter-post market as well as basic parcel market. However, traffic is significant in the value-added services and competition is very high.**

On the other hand, a significant number of Member States including Italy, Greece, and Hungary still use the possibility of reserving **outgoing cross-border mail**. This is, however, envisaged as an exception only in Article 7(i) of the Postal Directive.³⁷

³⁷ Article 7(i): To the extent necessary to ensure the maintenance of universal service, Member States may continue to reserve services to universal service provider(s). Those services shall be limited to the clearance, sorting, transport and delivery of items of domestic correspondence and incoming cross-border correspondence, whether by accelerated delivery or not, within both of the following weight and price limits. The weight limit shall be 100 grams from 1 January 2003 and 50 grams from 1 January 2006. These weight limits shall not apply as from 1 January 2003 if the price is equal to, or more than, three times the public tariff for an item of correspondence in the first weight step of the fastest category, and, as from 1 January 2006, if the price is equal to, or more than, two and a half times this tariff.

5.4 Regulatory Barriers in the EU

In principle the Postal Directive allows two different levels of regulatory controls depending on whether the postal activities fall outside or within the scope of the universal service. For postal activities outside the scope of the universal service, general **authorizations** may be introduced to the extent necessary to guarantee “essential requirements”. For postal activities within the scope of the universal service, but outside the reserved area, authorizations or individual **licences** may be introduced to the extent necessary to guarantee the “essential requirements and to safeguard the universal service”. Under the Postal Directive a Member State might also refrain from establishing authorization procedures altogether. Many Member States, such as Belgium, Italy, and Spain, are issuing individual licences for all universal services including parcel services, which can be considered as the strictest approach permitted by the Directive. However, countries that account for almost 3/4th of the letter-post market apply less burdensome procedures. For example, Germany, France, Poland, Sweden, and the UK require licences for some or all letter-post services within the universal service area; in five other Member States, a general authorization procedure has been implemented (Austria, Denmark, Ireland, Slovenia, and the Slovak Republic) and in two other Member States, no authorization procedures are applied (the Czech Republic and the Netherlands). **Though the EU is making an effort for a single market, the nature of regulations (especially in authorization and licenses) is widely different. There is a room for possible misinterpretation of the permitted conditions which could constitute a market entry barrier.** In this context, India needs to understand the range of regulations carefully before it starts negotiating with the EU regarding postal services.

5.5 Controls on Downstream Access in the EU

Although many countries have made provisions for a **compensation fund**, only Italy has established one. In the case of **downstream access**³⁸ the directive does not impose specific access rules. It is argued that downstream access could help facilitate market entry for upstream consolidators. New competitors who want to establish a delivery network could also use access for a transitional period to build up customer relationships and volumes, before being able to compete end-to-end with the incumbent. Using this model, consolidators and competitors, as well as major business customers could deliver part of the value chain process before handing mail over to the incumbent. The National Regulatory Authority (NRA) is given the responsibility of requiring downstream access. Germany, Denmark and Portugal use their NRA to encourage access. In Italy and Latvia once the USP has granted access to one customer, they have required the USP to give downstream access to all customers on a non-discriminatory basis. **As regards mandatory regulation of downstream access as well as the impact of the different arrangements, there are divergent policy positions in the EU.**

³⁸ Downstream access refers to access by third parties to the incumbent operator's infrastructure, particularly its sorting, pick-up, etc. In the UK, the term ‘downstream access’ (DSA) is used to describe mail which has been collected and distributed by a competitor (such as Onepost), but is handed over to Royal Mail for delivery (the final mile).

5.6 Price Controls in the EU

All Member States have adopted procedures and standards for regulating the **prices** of key universal services. Nevertheless, their effective implementation differs in terms of procedures (**ex ante, price cap and ex post procedures**), parameters (**product cost, volume and productivity increase**) and scope (**some Member States limit price controls to reserved, single-piece or market dominant services**). Putting the pricing principles of the Postal Directive and particularly the aim of affordable, transparent prices geared to costs into practice will require further attention from Member States. **Price control** is a complex issue that is dependent not only on the modalities of how it is carried out but also on appropriate price data collection. Within price controls, a variety of mechanisms are available. **In some countries prices are linked to speed of delivery, in some cases it functions as tax (e.g., VAT), and there are also a variety of discount options.** In countries like Spain, Finland, Latvia, and Sweden, there are VAT exemptions for USP. The **cost of capital** is a significant cost of doing business in the postal sector; favorable treatment of USPs may distort competition in some Member States but this issue has received little attention in most Member States. Differential application of **customs procedures** has the potential to significantly distort the operation of liberalized postal markets. In many Member States, special customs procedures developed by the Universal Postal Union are only available to USPs for currently competitive products such as parcels and express services. The potential for competitive distortions arising from unequal customs treatment will increase with full liberalization. **For parcel services,** price comparisons are significantly more complex than for letter-post because there is greater variation in parcel products offered by European USPs. **The EU has provided room for a variety of price fixation formulas but through a transparent mechanism.** India needs to study them carefully to understand the objectives of these different pricing mechanisms, how many of them act as market access barriers, and how many EU players use this advantage to seek market access in other countries including India.

5.7 Issues Related to Terminal Dues in the EU

Each administration receiving letter-post items from another administration shall have the right to collect from the dispatching administration a payment for the costs incurred for the international mail received. This provision explains the objective of the ‘terminal dues’ system³⁹, namely, to ensure that the postal administration that receives letter-post items from another postal administration is remunerated for that part of the international postal service that it provides. A national treatment obligation relating to access to the domestic service is required in this case. It provides that each administration shall make available to the other administrations all the rates, terms and conditions offered in its domestic service on conditions identical to those proposed to its national customers. **UPU articles provide MFN provision to terminal dues which implies that all international letter-post coming to the country is charged at MFN rates but bulk mail rates may be even lower than MFN rates if there is a bilateral or multilateral agreement in the case of terminal dues.** This is an important negotiation point for India and it can bargain for lower

³⁹ Terminal Dues: this is payment made by one country’s postal administration to another for mail delivered on the first country’s behalf. The rates are set by UPU or other superseding postal agreement.

terminal dues with the EU. Currently, the price for letter-post items, including bulk mail is established on the basis that the application of the rates per item and per kilogram reflects the handling costs in the country of destination and that these costs are in relation to domestic tariffs.

5.8 Barriers in the EU: Views of Indian Companies

As market information is very limited in India, a survey was conducted among the major players in India to understand various features of the market. Through in-depth interviews senior officials in the companies were asked about barriers in the EU and the regulatory structure and whether they are operating or intend to operate in the EU. Special questions were asked of EU-based MNCs about the single market in the EU and its Postal Directive.

Regarding the EU market, most players feel that quality standards are very high but **high license fees** and **other charges** may be considered as entry barriers. Some players feel that **custom clearance charges** are quite high in the EU. **Due to the high standards, it is difficult to get a license in the EU.** The **operating norms** (office insurance, fire fighting rules and regulations, etc.) in EU member countries are very stringent and increase the overhead costs phenomenally. As a result, significant numbers of Indian players prefer to do business in the EU through agents and collaboration with local players rather than setting up their own offices.

According to some Indian companies, the new act of **Authorized Economic Operators** (AEOs) may act as a barrier to Indian companies if they seek market access in the EU. On the basis of Article (5a) of the security amendments of the Community Customs Code (Regulation (EC) 648/2005), Member States will be entitled to grant AEO status to any economic operator that meets common criteria relating to the operators' control systems, financial solvency and compliance record. The status of the authorized economic operator granted by one Member State is recognized by the other Member States, but does not confer the right to benefit automatically in the other Member States from simplifications provided for in the customs rules. Some experts feel that the condition for AEOs including the requirement of security and safety standards may act as barriers to courier companies from other parts of the world. The issue requires further scrutiny.

5.9 Barriers in India

The survey questionnaire covered areas such as the profile of companies and their market share, their views about the nature of competition, and regulations and barriers in the Indian market. Separate questions were asked about their perceptions of the Postal Bill and USO in India. A summary of the findings is given below.

In general, companies do not have a very clear idea about the free trade agreement. Also very few have sufficient knowledge about the proposed postal bill in India, universal service obligations of India Post, and regulations in general. However, they have a fairly good idea about the nature of the competition, barriers that they face, their operational difficulties, etc. The majority is in favor of a regulator but could not comment in a structured way about its possible role.

The survey revealed that companies in India face little problem regarding remittances and receiving payments from their clients domestically and internationally. With the EU, companies never confront issues of double taxation. In the Indian market, no player considers procedures, policies, extra documentation, fees, etc. as obligatory/restrictive or discriminatory for their business operations. According to companies, there are no policy barriers regarding quality parameters, control on prices, license fees, downstream access, FDI percentage, etc. in India. However, the major policy obligation is the **tax structure** for courier companies. They need to pay service tax, FBT, etc. which are **negligible for Indian Post**. Some companies raised questions about the VAT implementation mechanism. The variable tax structure in India (at various levels – centre, State and even city) is a problem and they suggest that this should be unified. **Customs procedures are also cumbersome** in India and not very transparent. There is no proper policy which can categorize all the materials which are couriered. For example, there is **no proper definition** of gift, full supplement, non-allopathic medicines, etc., making it difficult to categorize products.

Some companies also pointed out that due to **poor infrastructure** especially road conditions, airport delays, procedural hazards, etc. they are unable to deliver articles/parcels on time and thereby unable to uphold the standards set by their companies. Some companies feel that the Indian government's attempt to **restrict FDI limit** will pose a major policy obligation on them. The same is true regarding the **proposal of price fixation** for document transfer as some multiple (2.5 times) of what India Post currently charges. Several companies want to enter the basic mail segment by paying this price multiple which is proposed to be reserved exclusively for India Post. It is natural that companies will raise their voice against this as currently they enjoy a liberal business environment.

Companies do not have sufficient knowledge about the universal service obligation on India Post, but most of them feel that India Post should not have monopoly power in business. One company feels that, like in many other countries, India Post may continue to have a monopoly in the reserved area (which should be substantially reduced), but it should develop alliances with other companies in the unreserved area in order to improve its efficiency and help them compete with other players. The vast network of India Post must be exploited commercially. India Post should be proactive in offering services and it must come forward in addressing issues related to procedural hazards especially in customs clearance.

Most companies, both Indian and MNCs, feel that there should be an independent regulator in India that introduces norms for the delivery of consignments, timelines and, most importantly, payment terms. The **absence of a regulator** in the Indian market **is a barrier because there is a lot of arbitrariness** in the market which increases their operating costs.

5.10 Detailed Analysis of Selected EU Markets from India's Negotiating Interests

It is amply clear that the EU has a widely divergent market structure and it is difficult to analyze all markets at one go. Markets in some new EU members are evolving as they need to shape their market structure following the EU Postal Directive. On the other hand, market size is not very large in countries where the postal sector is quite open (such as Finland and Denmark). Considering these facts, this section

concentrates on seven EU markets and analyzes their regulatory structure in detail. The selected markets are Belgium (BE), Germany (DE), Spain (ES), France (FR), the Netherlands (NL), Italy (IT) and the United Kingdom (UK). We intend to analyze the postal and courier sectors of these countries from India's negotiating interest. The comparative picture of all EU members together is available in the tables given in Appendices I to N. This section is dependent on WIK-Consult's (2006) Report based on a survey conducted in 2005. Eurostat (an EU data service provider) also has data for the period 2004-05. In the meantime, the market structure of these countries has been further opened but their detailed reports are yet to be made available.

Table 4 below provides a snapshot of the perceived competition both in basic postal as well as parcel products in selected countries. The degree of competition varies greatly among the segments. The segment of direct mail, unaddressed items, etc. is quite open and Indian companies may have some interest in these apart from parcel and express service. Foreign CPOs are quite common in the letter-post market of the selected countries. Though DHL, TNT, Royal Mail, and La Poste are present in other countries they may be competing in a few segments. For example, La Poste is present in the unaddressed mail market in Belgium, while Deutsche Post and Royal Mail compete in the upstream segment in France. Sometimes they form JVs with other players (maybe local ones) to access the network. M&A in the sector is also a common feature. TNT remains an active player in acquiring stakes in companies that operate in different countries. **Indian companies in the medium term could consider acquiring stakes in medium-sized postal/courier companies in the growing EU markets. Hence, India's strategy should consider this option while developing its negotiating stand. India may commit in the sector with the condition of reciprocity from the European nations in specific areas such as mail preparation and bulk mail of special type.**

Table 4: State of Perceived Competition in Postal and Parcel Products in Selected EU markets

Panel A: Postal Products

MS	Letter post (2000)	Letter -post (2005)	Items of Correspondence	Direct mail (addr.)	Newspapers, magazines, periodicals	Daily newspapers	Un-addressed items
BE	■	■	■	■	■ ■	■ ■	■ ■ ■
DE	■	■	■	■	NA	NA	■ ■
ES	■ ■	■ ■ ■	■ ■	■ ■	■ ■ ■	■ ■ ■	■ ■ ■
FR	■ ■	■ ■ ■	■	■	■ ■	■ ■	■ ■
NL	■	■ ■	■	■ ■ ■	■ ■ ■	NA	■ ■ ■
IT	■	■ ■	■ ■	■ ■ ■	■ ■	NA	■ ■ ■
UK	□	■	NA	NA	NA	NA	NA
EU -25	■ (0.7)	■ (1.3)	■	■	■ ■	■ ■	■ ■ ■

Panel B: Parcel and Express Service

MS	Parcel services (2002)	Parcel services (2005)	Express services (2000)	Express services (2005)
BE	■ ■	■ ■ ■	■ ■	■ ■ ■
DE	■ ■	■ ■	■ ■	■ ■
ES	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
FR	■ ■	■ ■	■ ■ ■	■ ■ ■
NL	■	■	■ ■	■ ■
IT	■ ■	■ ■	■ ■	■ ■
UK	■ ■	■ ■ ■	■ ■	■ ■ ■
EU-25	■ ■ (2.0)	■ ■ (2.1)	■ ■ (2.3)	■ ■ ■ (2.6)
□ None, ■ Emerging, ■ ■ Substantial, ■ ■ ■ Intense				

Note: Results are based on Internet survey that combined answers of National Regulatory Authorities (NRAs) and USPs.

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

The ownership structures of USPs have undergone major changes in these countries. In Germany, the UK, the Netherlands, Italy, and Belgium postal administration has been made corporate entities. In the Netherlands, government holding has come down to only 10%, whereas in the UK the government still retains 100% of the stake. In France and Spain postal administration is still a state enterprise. The control structure of these companies is given in Table 5.

Table 5: Ownership Structure and Control of USPs in Selected EU Countries

MS	Legal Status	Govt. ownership (%)	Governing body	Govt. appt'd directors	Total no. directors	Appoints govt. dirs	Term of dirs.
BE	Plc	50	USP Board	6	10	PM/ Council	6 yr
DE	Plc	42	USP Board	2	20		
ES	State enterprise	100	PM/ Council			PM/ Council	None
FR	State enterprise	100	USP Board	14	21	Min Post	5 yr
IT	Plc	100	Min Other				
NL	Plc	10	Min Other				
UK	Plc	100	Min Post	12	12	Min Post	3 yr

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

As mentioned earlier, most EU member countries have elaborative regulatory structures so that they can define competition in a sensitive sector like the postal and courier sector. Interestingly, the NRA has all the important roles mentioned by WIK-Survey in countries like the UK and Germany where postal sectors have intense competition. On the other hand in the Netherlands and Belgium, NRAs play a limited role. Apart from the Netherlands, NRAs of the selected countries require data from non-USPs. All NRAs have strict regulations regarding the requirement of accounting system of companies.

Table 6: Role of National Regulatory Authority (NRA) in selected EU Markets

MS	Information gathering			Basic enforcement			Additional powers		
	Require data from USP	Require acct'g system	Require new data studies	Cancel unlawful rates	Levy fines	Seek judicial order	Set new rates for USP	Require downstream access	Require data from non-USPs
BE	X	X			X	X			X
ES	X	X	X	X					X
FR	X	X	X	X	X			X	X
IT	X	X	X	X	X		X		X
NL	X	X	X		X	X			
DE	X	X	X	X	X	X	X	X	X
UK	X	X	X	X	X	X	X	X	X

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

All the selected countries have policies regarding tariff principles which might have indirect implications on trade in postal services especially through Mode 3. There are three basic procedures for price regulation. The first, “ex ante” regulation, requires that the USP receive specific approval from the NRA before price changes can be implemented. The second is the "price cap" regulation which allows the USP to change prices provided they remain below a pre-approved level or formula. The third type of regulation is “ex post” regulation which allows the USP not only to change prices without constraint but also allows the NRA to modify prices if, after investigation, it appears that prices are inconsistent with statutory or regulatory standards (e.g., “cost-based” or “affordable”). Any EU member country may choose to regulate some universal services by one method and other universal services by another method.

In most of the selected countries there are price limits on reserved areas; the price limit is 2.5 times the basic service within the reserved area. This means that companies are allowed to operate in the reserved area charging 2.5 times the price of the basic service charged by the postal administration. **In India, several companies also highlighted this issue and want this clause to be incorporated within the USO.** During negotiations, the EU might raise this issue also.

USPs in most of the selected countries enjoy **discounts on VAT. Several Indian companies mentioned that India Post also enjoys discounts along with a waiver on service tax; these should not be there. The issue may be raised by the EU during negotiation.** The findings of Table 7 below require mention in this context.

In all countries especially Germany, the UK, and France, uniform tariff rules are applied on universal and reserved or non-bulk services. **Special tariffs are quite common in bulk products. Some companies may get an undue advantage in negotiating special tariffs. India may have some interest in bulk mail. The issue may be negotiated for preferred market access in those markets. For further details on issues related to price caps and ex-post price regulation a separate study is required. The Indian government may seek that information from the EU/respective governments while negotiating postal services.**

Table 7: Pricing Policies in selected EU countries

MS	Price limit for reserved area*	Ex-ante price regulation	USP has special VAT Treatment	Uniform Tariff Rules	Scope of price cap	Ex-Post price regulation	Special tariffs for correspondence **
BE	2.5 times the basic rate	–	Yes	On Universal Service (US)	On other products	On US	AC
DE	2.5 times the basic rate	On US	Yes	non-bulk correspondence	No	Depending on market	(ABCD) Available to consolidators and private operators also
ES	2.5 times the basic rate	On US	–	On reserve services	On non-reserve US	Yes on US	ABC
FR	2.5 times the basic rate	On reserve services	Yes	On reserve services	On non-reserve US	–	AB Direct Mail included
IT	2.5 times the basic rate	On US	Yes	–	–	–	Only Direct mail
NL	3 times the basic rate	–	Yes	Non-Bulk US	US	–	ABD
UK	–	–	Yes	Non-Bulk US	US	Domestic mkt. opr	ABCD

Note: *multiples of rate for lowest weight Fastest Standard Category item.

**Sp. tariffs for correspondence: criteria (A: volume; B: mail preparation; C: transport; D: other).

#US: Universal Service

Source: Developed from the Annexure of 'Main Developments in the Postal Sector (2004-06)'; WIK-Consult Report, 2006.

The direct mail segment is another area of interest for India. Several countries including Belgium, France and Germany have reservations about direct mail. Direct mail is a method of advertising through postal and other delivery services to targeted customers. Generally, third parties use the postal network as well as an address database to send advertising materials, including postcards, letters, brochures, catalogs and fliers to the physical address of targeted customers. Several Indian companies including India Post may be interested in entering this segment. India Post may be interested in reciprocity with EU companies (such as with Royal Mail, La Poste, etc.) mainly for the NRI market in the case of remittances, festival packages like Rakhi cards or special direct mail products. Hence, protection in this area directly hampers India's trade interests.

Indian companies may also be interested in downstream access which includes outward and inward sorting, delivery, etc. **National regulatory authorities (NRAs) regulate the downstream access of postal services in Germany, France and the UK. Preferred market access in this area from India's side should also be explored.**

5.11 Barriers Affecting India's Market Access Interest: A Summary

Though India does not have serious market access interest at least in the short run in the EU market, in the medium run some companies may want to enter the big EU market in some sub-services through the JV mode. This section summarizes the barriers from that angle.

- The EU Postal Directive allows countries to have their own regulatory structure (see Table A12 in Appendix N) and hence India will get minimum market access even if the EU provides an opening to India. Though regulatory structure in a country is the same for all players, EU companies are already accustomed to this and will have a better hold on the market.
- Services such as direct mail, bulk mail, and out-going cross-border services, are still restricted in some EU countries. Indian companies may be interested in those segments and these may be negotiated.
- As EU's scheduling is done by 'handling' of services, the entire chain of services may not be equally open. There may be regulatory restrictions in some part of the services. India should negotiate for 'end-to-end' opening up in the concerned postal and courier products/services.
- Procedural and operational barriers in the EU are quite high. Getting licenses takes time. This is a barrier for medium-sized Indian companies and hence most of them are currently operating through agents and are unable to open up their own offices.
- Price controls vary across EU members. Price fixation is quite complex both in the case of letter as well as parcel segments. A separate exercise may be carried out to understand the exact price formation formulas and whether there is any room for negotiation.
- The new rule of Authorized Economic Operators (AEOs) may act as a barrier to Indian companies as most of them are from the medium-sized segment. To become an AEO, a company needs to invest a significantly higher amount.
- In the medium term Indian companies (including India Post) may want to offer FDI through the M&A route in sub-services (such as sorting, mail preparation, and handling unaddressed items). Though FDI norms are quite relaxed, setting up business in EU countries presents other barriers that vary from country to country. In the case of 'mail preparation' and similar services, Mode 1 is becoming increasingly lucrative where Indian companies can offer services through the Internet at a substantially lower cost. However, data protection and other issues may act as barriers to Indian companies.

6. Concluding Remarks

Negotiating Strategies and Requirements for Domestic Reform in India

6.1 Learning from the EU Experience

The EU has attempted to liberalize the postal services by defining them through ‘handling’ of various components of services. Postal products are also divided into various groups and the segregation is technology independent. This system provides an advantage to Member States as they can clearly perceive which products and services are to be liberalized. The EU Postal directive provides overall directions but domestic clauses are widely different. Most EU members divide their products and services following EU definitions of postal and courier services. Several conditions are applied on many sub-services which can limit market access; Member countries claim that these are not anti-competitive and the EU directive supports it. The structure of USPs among EU members also varies significantly; in some countries it is a government department, whereas in other cases it is a state enterprise or even a limited company. Equity funds have also started investing in the postal sectors of some countries. Either the ministry or the USP board has the controlling authority in most EU countries. In all countries, the government appoints the directors of the Postal Board. There are also divergences in the role and enforcement power of domestic regulators. Many members are bringing secondary laws regarding price regulation and accounting. The application of the Postal Directive in member countries depends in part on how regulatory responsibility is allocated among governmental bodies. Ideally, economic and administrative determinations should be vested in the most impartial and expert authorities available while respecting the need for politically-attuned bodies to set broad policy objectives. Even after setting up independent regulatory structures, the European postal system still remains exceptionally politically controlled. Till now, regulators have had moderate success in executing their power and correcting the market in favor of the consumer.

At this juncture, the most important learning for India Post as well as for the Government of India is that they need to design the organizational structure of India Post for the future. Whether it will remain a government department or become a PSU or even a corporate entity in the next 5 to 10 years is a major question that first has to be decided at the political level. This is necessary to increase the efficiency of the department. Second, USO products should be clearly defined. The proposed Postal Bill has been drafted in the form of an amendment of the 1898 Act and has left many portions subject to interpretation. Instead, the EU kind of definition through a (Product X Service) matrix can be considered as a basic structure to define our Postal services with necessary modifications to streamline the contour of products such as letter-post, bulk mail, parcels, and direct mail, and services such as pick-up, delivery, and express delivery. Currently, the Indian postal system offers all these services but they require more rigid definition to reduce confusion. This will further help us identify where courier companies will require authorization, licenses, etc. In some EU countries, service-wise license fees have also been charged whereas our proposed bill has an entry fee (registration charges) only for the overall sector. Multi-part tariffs (as in amusement parks) have always been helpful for the country to generate sufficient revenue without having many conflicts. In the case of regulation, the proposed Bill only discusses the regulator’s role, appointment conditions, etc. Instead, following

Table A11 (in Appendix M), the regulator's role and enforcement power should be clearly mentioned regarding information collection, authorization to charge fines, defining and ensuring quality parameters, etc. In some EU countries, regulators are also empowered to monitor USPs. The same may be debated in India as prima facie this might pressurize India Post to ensure basic quality of services.

6.2 India-EU FTA: Views of Courier Companies in India

Companies do not have a clear idea about free trade agreements and their impact. Also few of them have sufficient knowledge about the proposed postal bill in India, universal service obligation of India Post, the Single Market Directive of the EU and regulations, etc. However, all of them are quite knowledgeable about the nature of the market in India and the operating environment including the state of the competition. Regarding increased competition in a post-FTA situation, Indian companies are ready to face it. Some amount of M&A is inevitable. Indian companies feel that foreign competition will improve the quality of services. However, medium-sized and smaller companies may have to face fierce competition to maintain their market share. Some players feel that different degrees of competition may be introduced in different segments. For example, the direct mail and cross-border mail segments may be further opened in the short run. Hence, segmentation with proper definition is necessary for further development of the market. In contrast, one player feels that the lack of proper definition for each service and product in the postal industry does not pose any barrier/ problem to domestic or international players. More stringent definitions might infuse operational complexity; instead, this should be left to market forces.

The majority of companies, both Indian and MNCs, feel that there should be an independent regulator in India. The primary role of the regulator should be introducing norms for delivery of consignments, timelines and, most importantly, payment terms since domestic players have lots of bad debts. In addition, it should suggest basic requirements to open a courier company in order to control the mushrooming of companies in India. These small companies do not pay the service and other taxes and quote a lower rate to customers. This market can be identified as the gray market and absorbs a considerable amount of market share. However, a few players feel that currently there are quality parameters (self-defined) and industry organization is sufficient to look into regulatory issues. No companies could comment on the regulator's role on details such as the right to ask companies to reveal information, accounting practices, charge fines, and other powers. Most of them feel that the regulator should also have controlling power over the operations of India Post. The existence of a regulator is essential in a post-FTA situation to ensure healthy competition.

Regarding FDI, most players feel that the existing regime may be continued. In a post-FTA position, both private and public EU companies may enter India and big Indian players are ready to face the competition. Regarding this, they cited Deutsche Post taking over DHL and Dutch Post offloading shares from TNT. However, small players may face problems. Until recently MNCs concentrated only on international traffic, but both DHL and TNT have now turned their attention towards the domestic

market.⁴⁰ This will change the nature of competition in India. Also, a lack of definition for letters is currently helping companies to skim the market. Now, MNCs will also get their share in the game.

6.3 Negotiating Strategies for India

So far India has kept the postal and courier sectors outside the purview of any trade negotiations because of its sensitivity. As India Post employs a large number of people, it has certain social responsibilities. Also it is entrusted with providing universal services which always generates losses. The current market structure is such that on the one hand the monolithic India Post is moving ahead with a high deficit (supported by budgetary grants), and on the other hand courier companies are involved in cut-throat competition. The current business regime for courier companies is fairly open but competition is intense. FDI is allowed up to 100% in most areas. Direct and indirect employment in the courier sector is also significantly high and the sector is looking for more FDI, more collaboration and infusion of technology to meet consumer demand. At this juncture, no commitments in the sector will undermine the existing competitive environment. The government does not need to open the courier sector as it is already open. The question is whether and how scheduling should be done. The government may keep the postal sector protected and schedule the courier sector in such a way that it can be used as a bargaining tool. Moreover, most of the logistics companies also have courier businesses. The efficiency of the courier sector has to be viewed from the overall supply chain of the logistics companies. Highlighting the existing competitive scenario of the courier sector will build confidence in the logistics sector which will attract further FDI and technology to the sector. The main difficulty in scheduling at this moment is the uncertainty of the Postal Bill. But this should not stop the government from preparing its schedule and generating debate on the issue, particularly when it is expected that the Bill will be placed in Parliament soon.

Currently, Indian companies have limited interest in entering the EU market. Hence, the question is the net benefit to India if it schedules the courier sector in the EU-India Agreement.

Expected Benefits to India in Scheduling the Courier Sector:

- Several EU postal administrations are now attempting to enter other countries as competitive operators bringing in FDI. The same may be true for India. During the survey, Indian companies pointed out that FDI will improve the efficiency of the sector and consumers will benefit. Technological benefits such as installation of an EDI system will be enhanced through further FDI inflow.
- Currently, India Post does not provide services such as ‘pick-up’ services, ‘account holder’ services,⁴¹ ‘hold-in-your-office’ services,⁴² and payment at

⁴⁰ DHL offers cross-border services through its DHL Express, and domestic services through Blue Dart Express.

⁴¹ Regular suppliers of courier products may open an account with the company and pay their charges periodically. The same account can also be used to receive documents and packets.

receiver's end services. Foreign courier companies have already started bringing in these concepts which enhance the efficiency of the courier sector. Several courier companies offer special international delivery services where a courier travels with the consignment and personally delivers it. Emergency medicines and medical products, which require very rapid delivery, demand such services. As India Post currently does not provide these services, there will be a net benefit to consumers if India schedules the courier sector.

- The logistics sector will benefit as these two sectors are integrated. Most courier companies are also in the logistics sector. Hence the liberalization process of these two sectors needs to be synchronized.
- Not scheduling an already open sector will reduce India's bargaining position in other sectors where the EU wants to be protective. We may not have much benefit in scheduling an open sector but we can pressurize the EU to open sectors like audio-visual, where India has an interest and the EU is protective.

Scheduling Strategy and its implications

The EU's offer is full of conditions and market access limitations. It is important to note that in the revised schedule (submitted at the WTO) new EU members have offered deeper commitments than western European nations. However, in the case of bilateral agreements (such as in the EU-Chile Agreement), the EU has agreed to open the sector substantially keeping some licensing provisions on universal services. In the case of India-EU negotiations, the EU wants India to take full commitments in sub-sectors such as express delivery, parcels, and press products, and some commitments in the area of letters. The EU is interested in a transparent environment in the short run and an open market in the long run. Hence, India has to schedule strategically considering the interests of all stakeholders.

However, as the proposed postal bill has not yet been passed, the difference between letters and courier products and regulatory structure are yet to be defined. At this juncture, the challenge is how to schedule the courier sector in any negotiation. As we know the basic structure of the proposed Bill (which may undergo some changes before it is placed before the Cabinet Committee), we could have a condition in the schedule that the courier sector will be governed by the Bill and wait until the Bill is passed (as an additional commitment). The Bill will clearly define the weight restriction for letters, establishment of a regulator, registration, etc. Hence, there is no harm in preparing the schedule assuming that there will not be any significant changes in the final Bill.

The definition of weight in the case of letters will provide a level playing field to India Post. It will mainly affect domestic courier companies as a significant amount of their business is in this segment. Foreign courier companies have been mainly operating in the cross-border traffic segment which is already open. Only recently, foreign companies have begun looking for domestic business including the small

⁴² Through these services courier companies provide temporary warehousing to products before sending it to destinations.

weight segment. To provide incentives to Indian players, the government may define direct mail, bulk mail, etc. and some of them may be kept outside USO even if the weight is lower than the stipulated weight for letters. The expected loss in the letter segment by courier companies may be compensated through this as the volume of business in this segment is growing significantly worldwide.

In the post-liberalization situation, some amount of M&A is inevitable as we expect consolidation of the sector. This will make the sector more organized. SME players will remain more or less immune from this drive. In the USA and the EU, small domestic players still exist despite the overwhelming presence of MNCs; SMEs in those countries specialize in same-day local delivery (both intra-city services and inter-city services in neighboring cities and towns). This trend is expected to be the same in India.

How to Schedule Courier Sector

- In a more precise sense, the government may offer market access **only** in courier services in Modes 1, 2 and 3 highlighting the additional commitments that all players will be governed by the Post Office (Amendment) Bill, if and when it is passed.
- Postal products such as letters may be kept protected and unbound.
- ‘Direct mail’ and ‘bulk Mail’ may be kept outside the purview of the definition of ‘letter’ even when they are lower than the stipulated weight limit for letters.
- Market access limitation must be clearly spelled out through authorization, licences and renewal fees (as in the case of the EU-Chile Agreement).
- Business visitors may be kept unbound except for special delivery services.
- Cross-border mail and parcels, etc. may be completely opened as is the case under the current business environment.

What India should demand from the EU

- The EU regulatory structure in this sector is very divergent and Postal Directives are very generic in nature. As a result, an agreement with the EU will not provide significant benefits. For effective market access a bilateral agreement is more appropriate. Hence, India may ask the EU to bring some uniformity in the regulatory structure of various EU members so that the market access strategy can be streamlined.
- In several member countries, reservation exists in the case of direct mail, outgoing cross-border mail, regulating the access of post boxes, special VAT treatment to USPs, etc. The detailed barriers are available in Table A12 (in Appendix N). Some of them may be negotiated by the Government of India.

- As EU scheduling is always in terms of ‘handling’ of services, it is possible that different degrees of competition exist at different levels of the chain of services. India must negotiate for ‘end-to-end’ opening up in the segments where it has an interest in market access.
- India is looking for reciprocity mainly from EU USPs. India Post may be interested in some commitments if, similarly, it gets access to some niche areas within the reserved areas in respective countries (such as a window to serve NRIs for cash transfer, offering festival packages or selling direct mail like Diwali or Rakhi cards).
- India can demand more market access in other sectors scheduling the courier sector in the agreement.

6.4 Looking Beyond the Postal Bill

- The future organizational structure of India Post must be debated. Currently India Post is incurring losses in both letter-post as well as value-added services. It is unable to neutralize the loss in USO by other services (which is commonly done in most EU countries). In the EU, there are three possible organizational structures: government department, state enterprise, and public limited company (with the government as a major shareholder). Outright, we cannot privatize India Post as close to 5.5 lakh people are employed with India Post. There are several innovative ways to revive public service provider companies and many success stories. Those alternatives must be considered and debated before taking a decision. As service sector growth is higher than growth in the manufacturing sector, it is possible to turn around a service providing company in the medium run. For this to happen, technology infusion, aggressive marketing, professional management, possible cooperation in some services with other companies, outsourcing some non-critical services, etc. are required. Some companies look to exploit the large postal network by offering technical collaboration with India Post. This will be a win-win situation. However, some companies feel that a large network is not sufficient and the question is how India Post will use this network to increase its productivity. Increase in labor productivity is dependant on technology absorption and attitudes towards technology. If the labor force remains insular to technology absorption, productivity may not increase. India Post needs to gauge productivity increase through new technology by looking into the quality of the labor force. Only then can cooperation between private companies be helpful for India Post.
- The proposed amendment of the Postal Bill has defined letter-post using a weight criteria and there is no discussion about how this will gradually come down or whether it will be reduced at all. In contrast, the EU Directive always mentions the timeline and strategy for opening up. Other products have not been defined clearly. The private sector has already raised its voice regarding the weight limitation of letter-post. The government should note this and a timeline for liberalization may help them push the Bill through. Also, as mentioned above, the EU definition of products and services may help the government limit competition in certain areas at least in the short run.

- There has been discussion of registration and renewal fees and USO fees to be charged on private companies. Rather than setting the fee amount first, the government should leave it to the regulator to decide the fee structure. Also, instead of overall fees for all services the government should consider a multi-part tariff system (as in an amusement park, where there is one at the entry point and separate ones for different rides). For that, products and services should be clearly defined. In several EU countries, there are similar systems.
- The proposed Bill talks about the appointment of a regulator, etc. However, the most important issue is the 'independence' of the regulator which requires a clear definition. The role of the regulator in seeking information from companies, setting standards, charging fines, looking into accounting standards, price setting mechanisms, and the right to review the system must be spelled out taking private companies into confidence. Debate may be generated on whether the regulator will have any control on standards and prices charged by India Post. In several EU companies, regulators have control over USPs. This may put pressure on India Post to improve its efficiency.
- Several companies feel that India Post already has a monopoly in certain areas; this is sufficient for them to operate in those areas and a separate USO fund is not necessary. This debate has also been generated in the EU. The EU directive is silent about cross-subsidies. In India there is a feeling that a similar fund in the telecom sector is not being utilized properly. The regulator may be provided with the authority to look into the utilization aspect of the USO fund. It is learned that the government is re-examining the issue.
- India Post generates sufficient revenue through mobilization of household savings. Deutsche Post utilized these funds through Deutsche Post bank for further capital generation by investing in the right places and this revenue has helped Deutsche Post to sail through. In the case of India Post, revenue generated through mobilizing savings may be utilized partially in the capital market for further gains which can be used directly for the betterment of India Post.

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Appendix A

Definition of Postal and Courier Products & Services

Letter-Post

Letter-post items consist of letters and postcards, aerogrammes, printed matter (newspapers, periodicals), addressed or unaddressed advertising materials, small packets, commercial papers, samples of merchandise, postal packets, etc. This category includes items given special treatment, such as items forwarded post-free, cash-on-delivery items, registered items, insured items, recorded delivery items, express items and items with advice of delivery. Universal service obligations (USO) are generally categorized around the definition of letter-post items with respect to weight and size of the packets. USO operators generally have monopoly and need to serve under the environment of price ceiling. The operators can be public as well as private entities. However, in many countries, USOs are defined beyond letter-post items. Other products such as postal parcels and some types of bulk mail/direct mail may be part of USO in many countries.

Advertising items

Advertising mail refers to items which mainly contain advertising. They can be of two categories: addressed and unaddressed items. It often also comprises printed matter. Over the years, advertisement mail has become a major source of revenue for operators in many countries.

Hybrid mail

Hybrid mail is an electronic-based postal service whereby the sender posts the original message in either a physical or an electronic form, after which it is electronically transmitted and converted into a letter-post item for physical delivery to the addressee. It might also contain advertising items. The original transmission might be converted into other than physical means, such as fax, e-mail, or SMS. It might be converted to multiple means. Commercial market growth of hybrid mail is impressive worldwide.

Direct access

This refers to an administration offering another administration access to its domestic letter-post service at the same rates and on the same terms and conditions as it offers its own domestic customers.

Direct Mail

Marketing communications delivered directly to a prospective purchaser. This method of advertising uses postal and other delivery services to ship advertising materials, including postcards, letters, brochures, catalogs and fliers to the physical address of targeted customers. The use of direct mail is often administered by third-party companies that own databases containing not only names and addresses, but also social, economic, and lifestyle information.

Bulk Mail

Bulk mail consists of large numbers of identical items (circulars or advertisements) sent to individual addresses at less than first-class rates and paid for in one lot mail – the bags of letters and packages that are transported by the postal service.

Express Items

Items (documents and merchandise) forwarded and delivered in the most rapid way, including the EMS service.

Ordinary postal parcels

Ordinary postal parcels are parcels which receive no special treatment, as opposed to insured or cash-on-delivery parcels.

Consignment service

This is an optional service whereby postal parcels from a single sender and addressed to one or more addressees in another country are grouped together and forwarded in a single consignment.

Appendix B

Table A 1: Matrix item/mode of delivery proposed by the EU

Mode of delivery	Letter, Postcard	Parcel, Package	Press	Non- addressed items
Registered/insured	(iv)			(vi)
Express	(v)			
Document exchange	(vii)			
Other mode, including hybrid and direct mail	(i)	(ii)	(iii)	

Note:

- i) Handling of addressed written communications on any kind of physical medium, including: hybrid mail services; direct mail;*
- ii) Handling of addressed parcels and packages (e.g. books, catalogs , etc);*
- iii) Handling of addressed press products (e.g. newspapers, magazines)*
- iv) Handling of items referred to in (i) to (iii) above as registered or insured mail;*
- v) Express delivery services for items referred to in (i) to (iii) above;*
- vi) Handling of non-addressed items;*
- vii) Document exchange;*
- viii) Other services not specified elsewhere*

Appendix C

Table A 2: EU Schedule in EU-Chile Agreement

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector/Sub-sector Postal and Courier services ¹	Limitations on market access	Limitations on national treatment	Additional commitments
<p>Services relating to the handling² of postal items³ according to the following list of sub-sectors, whether for domestic or foreign destinations.</p> <p>Sub-sectors (i), (iv) and (v) may be excluded when they fall into the scope of the services which may be reserved, which is: for items of correspondence the price of which is less than five times the public basic tariff, provided that they weigh less than 350 grams⁴, plus the registered mail service used in the course of judicial or administrative procedures.</p> <p>(i) Handling of addressed written communications on any kind of physical medium⁵, including- Hybrid mail service, Direct mail</p> <p>(ii) Handling of addressed parcels and packages⁶</p> <p>(iii) Handling of addressed press products⁷</p> <p>(iv) Handling of items referred to in (i) to (iii) above as registered or insured mail</p> <p>(v) Express delivery services⁸ for items referred to in (i) to (iii) above</p> <p>(vi) Handling of non-addressed items</p> <p>(vii) Document exchange⁹</p> <p>(viii) Other services not elsewhere specified</p>	<p>1) 2) 3) Licencing systems may be established for sub-sectors (i) to (v) for which a general Universal Service Obligation exists. These licences may be subject to particular universal service obligations and/or financial contribution to a compensation fund.</p> <p>4) Unbound except as indicated in the horizontal section under (i) and (ii)</p>	<p>1) 2) 3) None</p> <p>4) Unbound except as indicated in the horizontal section under (i) and (ii)</p>	<p>Independent national regulatory authorities have been established to ensure compliance with postal regulation and to deal with conflicts between commercial partners (public or private). The right to a postal universal service is ensured.</p>

Note:

1 The commitment is listed according to the proposed classification that has been notified to WTO by the EC and its Member States on 23 March 2001 (WTO document S/CSS/W/61).

2 The term "handling" should be taken to include clearance, sorting, transport and delivery.

3 "Postal item" refers to items handled by any type of commercial operator, whether public or private.

4 "Items of correspondence": a communication in written form on any kind of physical medium to be conveyed and delivered at the address indicated by the sender on the item itself or on its wrapping. Books, catalogues, newspapers and periodicals are not regarded as items of correspondence.

5 E.g. letter, postcards.

6 Books, catalogues are included hereunder.

7. Journals, newspapers, periodicals.

8. Express delivery services may include, in addition to greater speed and reliability, value-added elements such as collection from point of origin, personal delivery to addressee, tracing and tracking, possibility of changing the destination and addressee in transit, confirmation of receipt.

9. Provision of means, including the supply of ad hoc premises as well as transportation by a third party, allowing self-delivery by mutual exchange of postal items between users subscribing to this service. Postal item refers to items handled by any type of commercial operator, whether public or private.

Appendix D

Table A 3: EU-Chile Agreement: Chile's Schedule

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Sector/Sub-sector	Limitations on market access	Limitations on national treatment	Additional commitments
Postal and Courier services	(1), (2), (3) – None, except that under <i>Decreto Supremo N°5037</i> of 4 November 1960 of the <i>Ministerio del Interior</i> (Ministry of Internal Affairs) and <i>Decreto con Fuerza de Ley N°10</i> of 30 January 1982 of the <i>Ministerio de Transporte y Telecomunicaciones</i> (Ministry of Transports and Telecommunications) or its successors, the State of Chile may exercise, through the <i>Empresa de Correos de Chile</i> , a monopoly on the admission, transport and delivery of postal items (<i>objetos de correspondencia</i>). Postal items shall mean: letters, simple and postage-paid postcard, business papers, newsletters and printed matters of all kinds, including printed matter in Braille, merchandise samples, small packages up to one kilo and special postal service consisting in the recording and delivery of sound messages (<i>fonos postales</i>). (4) Unbound, except as indicated in the Horizontal Commitments	(1), (2), (3) None (4) Unbound, except as indicated in the Horizontal Commitments	

The term “handling” should be taken to include admission (admisión), transport (transporte) and delivery (entrega) and “Postal item” refers to items handled by any type of commercial operator, whether public or private.

Appendix E

Table A 4: EU Schedule in WTO on Courier Services (CPC 7512) submitted in October, 2007

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons

Limitations on market access	Limitations on national treatment
<p>1) All Member States except AT, EE, LT, LV, PL: Unbound AT: Unbound except special delivery services where: None EE, LT: None LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p> <p>2) All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: None CZ, EE, LT, SK: None LV: Unbound except land-based courier services where: None PL: None except written correspondence, e.g., letters where: Unbound</p>	<p>1) All Member States except AT, EE, LT, LV, PL: Unbound AT: Unbound except special delivery services where: None EE, LT: None LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p> <p>2) All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: None CZ, EE, LT, SK: None LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p>
<p>3) All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: None CZ, EE, LT, SK: None LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p> <p>4) <u>ICT and BV</u> All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: Unbound except as indicated in the horizontal section CZ, EE, LT, SK: Unbound except as indicated in the horizontal section LV: Unbound except land-based courier services where: Unbound except as indicated in the horizontal section PL: Unbound except as indicated in the horizontal section except written correspondence e.g. letters where: Unbound</p>	<p>3) All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: None CZ, EE, LT, SK: None LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p> <p>4) <u>ICT and BV</u> All Member States except AT, CZ, EE, LT, LV, PL, SI, SK: Unbound AT, SI: Unbound except special delivery services where: Unbound except as indicated in the horizontal section CZ, EE, LT, SK: Unbound except as indicated in the horizontal section LV: Unbound except land-based courier services where: None PL: None except written correspondence e.g. letters where: Unbound</p>
<p><u>CSS:</u> All Member States: Unbound</p>	<p><u>CSS:</u> All Member States except EE, LV: Unbound EE: Unbound, except as provided in the horizontal section LV: Unbound except land-based courier services where: None</p>

Note: Intra-corporate transfers (ICT), Business Visitors (BV), Contractual service suppliers (CSS)

Appendix F

Table A 5: Revenue and Expenditure of India Post

(in Rs. million)

Particulars	Actuals 2004-05	Actuals 2005-06	Actuals 2006-07	%age Inc(+)/ Dec(-) over previous year
Revenue				
Sales of Stamps	7,986.58	7,585.60	6720.91	(-) 11.40%
Postage realized in Cash	12,971.13	14,699.92	16804.67	14.32%
Commission on Money Orders, Indian Postal Orders, etc.	3,268.94	3,341.01	3538.76	5.92%
Remuneration for Savings Bank / Saving Certificates Work	18,610.00	23,224.10	24900.00	7.22%
*Other Receipts	1,481.82	1,384.25	1260.05	(-)8.97%
Total	44,318.47	50,234.88	53224.39	5.95%
Expenditure				
General Administration	3,448.69	3,690.91	3895.31	5.54%
Operation	38,833.25	41,616.13	43472.37	4.46%
Agency Services	2,042.15	2,187.94	2372.77	8.45%
**Other	15,321.28	16,796.54	18050.75	7.47%
Total Gross Expenditure	59,645.37	64,291.52	67791.20	5.44%
Less Recoveries	1,508.45	1,957.80	2071.56	5.81%
Net Expenditure	58,136.92	62,333.72	65719.64	5.43%
Deficit (Net Expenditure-Revenue)	13,818.45	12,098.84	12495.25	3.28%

*This includes service charges retained by the Department of Posts from sale of Passport Application Forms, Passport Fee Stamps, Central Recruitment for Stamps, receipts from other Postal Administration, etc.

** This includes Wages, Office Expenses, Overtime Allowance, Rent and Taxes, Professional Services, Maintenance, Amenities to Staff, Pension charges, Supplies and Material, Machinery and Equipment, and Other Administrative Expenses.

Source: Annual Report, 2006-07, India Post and Annual Report, 2007-08, India Post.

Appendix G

Table A 6: Average Cost and Revenue of various Postal Products

(Figures in paisa)

Service	2000-01		2001-02		2002-03		2003-04		2004-05	
	Cost	Revenue	Cost	Revenue	Cost	Revenue	Cost	Revenue	Cost	Revenue
	(Actual)		(Actual)		(Actual)		(Estimated)		(Estimated)	
Postcard	534	25	665	46	706	50	664	50	696	50
Printed Postcard	555	200	667	283	707	550	666	600	688	600
Competition Postcard	375	400	463	483	512	917	472	1000	509	1000
Letter Card(Inland Letter)	555	200	665	200	700	242	663	250	697	250
Letter	620	499	743	728	792	946	734	946	843	1004
Regd. Newspaper-Single	701	23	829	37	903	39	825	39	972	39
Regd. Newspaper-Bundle	1321	48	1289	85	1454	88	1303	88	1703	79
Book, Post-Book, Pattern & S.Pkts.	701	511	828	753	905	767	825	767	1078	727
Book Post-Printed Books	1089	229	1290	337	1455	385	1303	385	1495	437
Book Post-Other Periodicals	981	427	1291	740	1459	1415	1305	1415	1497	944
Acknowledgement	512	200	598	283	623	300	585	300	617	300
Parcel	4716	4372	6243	5008	6679	5528	6736	5528	6647	5717
Registration	2966	1400	3298	1650	3369	1700	3303	1700	3357	1700
Speed Post	3585	4009	4505	3717	4473	3833	4460	3564	4588	3608
Value Payable Post	2149	399	2184	404	1978	398	2043	398	2355	407
Insurance	3993	6600	4259	6597	4421	5347	4409	5347	4506	5321
Money Order	4823	2090	5271	2535	5386	2689	5380	2535	5761	2737
Tele-Money Order	6270	2290	6774	2735	6938	2889	7028	2735	7591	2937
Indian Postal Order	1887	133	1999	136	2105	166	2163	136	2424	218
Foreign Mail	2872	3064	1651	2368	1590	2242	1392	2242	2040	3556

Source: Handbook of Information, India Post.

Appendix H

**Government of India, Ministry of Commerce & Industry, Department of Industrial
Policy & Promotion, Secretariat for Industrial Assistance
PRESS NOTE NO. 4 (2001 SERIES)**

Subject: Revision of existing sectoral guidelines and equity cap on Foreign Direct Investment (FDI), including investment by Non Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs)

With a view to further liberalising the FDI regime, Government have effected the following changes in the FDI policy:

- I. FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceutical, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology, and specific cell / tissue targeted formulations. FDI proposals for the manufacture of licensable drugs and pharmaceuticals and bulk drugs produced by recombinant DNA technology, and specific cell / tissue targeted formulations will require prior Government approval.
 - II. FDI up to 100% is permitted in airports, with FDI above 74% requiring prior approval of the Government.
 - III. The defence industry sector is opened up to 100% for Indian private sector participation with FDI permissible up to 26%, both subject to licensing.
 - IV. FDI up to 100% is permitted for development of integrated townships, including housing, commercial premises, hotels, resorts, city and regional level urban infrastructure facilities such as roads and bridges, mass rapid transit systems; and manufacture of building materials. Development of land and providing allied infrastructure will form an integral part of township's development, for which necessary guidelines/norms relating to minimum capitalisation, minimum land area, etc., will be notified separately by the Government. FDI in this sector would be permissible with prior Government approval.
 - V. FDI up to 100% is permitted on the automatic route in hotel and tourism sector.
 - VI. FDI up to 100% is permitted in courier services subject to existing laws and exclusion of activity relating to distribution of letters. FDI in this sector would be permissible with prior Government approval.
 - VII. FDI up to 100% is permitted on the automatic route for Mass Rapid Transport Systems in all metropolitan cities, including associated commercial development of real estate.
 - VIII. NRI investment in foreign exchange is made fully repatriable whereas investments made in Indian rupees through rupee accounts shall remain non-repatriable.
 - IX. FDI up to 74% is permitted for the following telecom services subject to licensing and security requirements:
 - a. Internet service providers with gateways;
 - b. Radio paging; and
 - c. End-to-end bandwidthProposals with FDI beyond 49% shall require prior Government approval.
 - X. FDI up to 49% from all sources is permitted in the banking sector on the automatic route subject to conformity with guidelines issued by RBI from time to time.
2. The provisions of Press Note No. 2 of 2000 stand modified to the above extent.

(M. S. SRINIVASAN)
Joint Secretary

No. 5(6)/2000-FC I dated: 21 May 2001.

Appendix I

Table A 7: Perceived Degree of Competition in Domestic Letter-Post Market in the EU, 2005

MS	Letter-post (2000)	Letter-post (2005)	Items of Correspondence	Direct mail (addr.)	Newspapers, magazines, periodicals	Daily newspapers	Un-addressed items
AT	□	■	NA	■	■ ■	■ ■ ■	■ ■
BE	■	■	■	■	■ ■	■ ■	■ ■ ■
CY	□	□	□	□	■	■ ■ ■	■ ■
CZ	■	■	■	■ ■	■ ■ ■	■ ■ ■	■ ■ ■
DE	■	■	■	■	NA	NA	■ ■
DK	■	■ ■	NA	NA	NA	NA	■ ■ ■
EE	□	□	□	■	■	■	■ ■
ES	■ ■	■ ■ ■	■ ■	■ ■	■ ■ ■	■ ■ ■	■ ■ ■
FI	■ ■	■ ■ ■	■ ■ ■	NA	NA	■ ■ ■	■ ■ ■
FR	■ ■	■ ■ ■	■	■	■ ■	■ ■	■ ■
GR	□	■	■	■	■	■	■
HU	□	■	■	■	■ ■	■ ■	■ ■ ■
IE	□	□	□	□	■ ■	NA	■ ■ ■
IT	■	■ ■	■ ■	■ ■ ■	■ ■	NA	■ ■ ■
LT	■ ■	■ ■ ■	■ ■ ■	NA	■ ■ ■	■ ■ ■	NA
LU	■ ■	■	■	■	■	■	■ ■ ■
LV	■	□	□	□	■	■	■ ■
MT	□	■ ■	■	■	■	■	■ ■ ■
NL	■	■ ■	■	■ ■ ■	■ ■ ■	NA	■ ■ ■
PL	□	■	■	■	■ ■ ■	■ ■ ■	■ ■ ■
PT	■	■	■	■	■	■	■ ■ ■
SE	■	■	■	■	■	■	■ ■ ■
SI	■	■	■	■	■ ■	■ ■ ■	■ ■ ■
SK	■	■ ■	■ ■	■ ■	■ ■ ■	■ ■	■ ■ ■
UK	□	■	NA	NA	NA	NA	NA
EU-25	■ (0.7)	■ (1.3)	■	■	■ ■	■ ■	■ ■ ■
□ None ■ Emerging ■ ■ Substantial ■ ■ ■ Intense							

*Note: Results are based on an Internet survey that combined answers of NRAs and USPs.
 Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.*

Appendix J

Table A 8: Perceived Degree of Competition in EU Parcel Market (2000 and 2005)

MS	Parcel services (2002)	Parcel services (2005)	Express services (2000)	Express services (2005)
AT	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
BE	■ ■	■ ■ ■	■ ■	■ ■ ■
CY	■ ■	■ ■ ■	■ ■	■ ■ ■
CZ	■	■ ■	■ ■	■ ■ ■
DE	■ ■	■ ■	■ ■	■ ■
DK	■ ■ ■	■ ■ ■	■ ■	■ ■
EE	■	□	■	■ ■
ES	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
FI	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
FR	■ ■	■ ■	■ ■ ■	■ ■ ■
GR	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
HU	□	■	■ ■	■ ■
IE	■ ■	■	■ ■	■ ■ ■
IT	■ ■	■ ■	■ ■	■ ■
LT	■ ■	■ ■	■ ■	■ ■
LU	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
LV	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
MT	■ ■	□	■ ■	■ ■
NL	■	■	■ ■	■ ■
PL	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
PT	■	■ ■	■	■ ■ ■
SE	■ ■	■ ■	■ ■ ■	■ ■ ■
SI	■ ■	■ ■	■ ■	■ ■
SK	■ ■ ■	■ ■ ■	■ ■ ■	■ ■ ■
UK	■ ■	■ ■ ■	■ ■	■ ■ ■
EU-25	■ ■ (2.0)	■ ■ (2.1)	■ ■ (2.3)	■ ■ ■ (2.6)
□ None ■ Emerging ■ ■ Substantial ■ ■ ■ Intense				

*Note: Results are based on an Internet survey that combined answers of NRAs and USPs.
 Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.*

Appendix K

Table A 9: Ownership and Control of USP

MS	Legal Status	Govt. ownership	Governing body	Govt. appt'd directors	Total no. directors	Appoints govt. dirs.	Term of dirs.
AT	Plc	51					
BE	Plc	50	USP Board	6	10	PM/Council	6 yr
CY	Govt. Dept	100	Other				
CZ	State enterprise	100	Min Post				
DE	Plc	42	USP Board	2	20		
DK	Plc	75	USP Board	?	?	Min Post	
EE	Plc	100	Min Post	7	11	Other	5 yr
ES	State enterprise	100	PM/Council			PM/Council	None
FI	Plc	100	USP Board	1	7	Min Post	None
FR	State enterprise	100	USP Board	14	21	Min Post	5 yr
GR	State enterprise	100	Min Other	?	11		
HU	Plc	100	Other				None
IE	Plc	100	USP Board	12	12	Min Post	None
IT	Plc	100	Min Other				
LT	Plc	100	Min Post	1	1	Min Post	4 yr
LU	State enterprise	100	USP Board	8	12	PM/Council	5 yr
LV	Plc	100	USP Board	6	6	Min Post	3 yr
MT	Plc	65	Min Other			Min Other	
NL	Plc	10	Min Other				
PL	State enterprise	100	Min Post	6	6	Min Post	None
PT	Plc	100	USP Board	?	5	Min Other	3 yr
SE	Plc	100	USP Board	7	10	Min Post	1 yr
SI	Plc	100	USP Board	?	?		None
SK	Plc	100		?	?	Min Post	
UK	Plc	100	Min Post	12	12	Min Post	3 yr

BE	Govt. ownership	50% of shares, less 1, owned by DK Post and CVC Capital Partner, Ltd.
CY	Governing body	Commission of Public Service
CZ	Governing body:	Aided by advisory board
DE	Govt. ownership	All shares held by KfW Bankengruppe, a govt-owned development bank.
DE	Total no. directors:	1 Director appointed by govt., 1 by KfW; 10 appointed by employees
DK	Govt. ownership	25% of shares owned by CVC Capital Partners, Ltd.
EE	Appoints govt. dirs	3 appointed by Ministry of Finance; 4 by Postal Ministry
FR	Total no. directors	7 appointed by employees
GR	Governing body	Ministry of Finance & Economy and Ministry of Transport & Communicat
HU	Govt. directors	State Privatization and Holding Company appoints USP CEO who appoints supervisory board.
IT	Govt. ownership	65% owned and 25% owned by Cassa Depositi e Prestiti, a govt-owned development bank.
IT	Governing body	Ministry of Economy appoints CEO; no board of directors.
LT	Legal status	Plc from Jan 3, 2006.
LV	Appoints govt. dirs	Directors are appointed by Council which is appointed by Postal Ministry
MT	Govt. ownership	35% owned by New Zealand Post.
PT	Appoints govt. dirs:	Directors appointed by Ministry of Finance and Postal Ministry.
SE	Total no directors	Three directors represent employees.

Source: *Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.*

Appendix L

Table A 10: Specific requirements (postal outlets)

Requirements	
No specific requirement	AT, CY, CZ, ES, FR, GR, IT, LU, MT, SE
Minimum number of postal outlets	DE, DK, LV, NL, PL, SI
Minimum distance	DE, DK, EE, HU, (in towns), IE, LT, NL, SK, UK
One postal outlet per municipality	BE, DE, FI, HU, LT, LV, NL, SK
<p>Notes:</p> <p>CZ: Decree of 2001 has set minimum distance criteria. In every district one postal outlet shall be placed.</p> <p>DE: Secondary legislation on universal service retirements (PUDLV) is under consideration.</p> <p>FR: Secondary legislation is still pending; according old legislation, 90% of the population of each country needs to have a post office within 5 km and 20 minutes by car.</p> <p>MT: Implementation of specific legal requirements planned (i.e., minimum number of postal outlets).</p> <p>PT: Definition of requirements is under consideration.</p>	

Source: Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.

Appendix M

Table A 11: Enforcement powers of National Regulatory Authority (NRA)

MS	Information gathering			Basic enforcement			Additional powers		
	Require data from USP	Require acct'g system	Require new data studies	Cancel unlawful rates	Levy fines	Seek judicial order	Set new rates for USP	Require downstream access	Require data from non-USPs
AT	X	X							
BE	X	X			X	X			X
DK	X						X		X
GR		X			X	X		X	
LT	X	X			X	X			X
LU		X				X			X
LV	X		X			X	X		X
CZ	X	X	X	X	X		X		
EE	X	X	X					X	X
ES	X	X	X	X					X
FI	X	X	X		X			X	
FR	X	X	X	X	X			X	X
HU	X	X	X		X	X		X	X
IE	X	X	X	X		X	X		
IT	X	X	X	X	X		X		X
NL	X	X	X		X	X			
PL	X	X	X	X	X	X			X
PT	X	X	X	X	X			X	X
SE	X	X	X			X			X
SI	X	X	X		X		X	X	X
CY	X	X	X	X	X	X			X
DE	X	X	X	X	X	X	X	X	X
MT	X	X	X	X	X	X	X	X	X
SK	X	X	X	X	X	X	X		X
UK	X	X	X	X	X	X	X	X	X

Source: *Main Developments in the Postal Sector (2004-06); WIK-Consult Report, 2006.*

Appendix N

Table A 12: Policy obligations and potential barriers

	Austria	Belgium	Cyprus	Czech Republic	Germany	Denmark	Estonia	Spain	Finland
Reserved Area and Special Rights									
1. Is there a reserved area?	Yes	Yes	Yes	Yes	Yes	Yes		Yes	
2. Does reserved include correspondence?	Yes	Yes	Yes	Yes	Yes	Yes		Yes	
3. Weight limit for reserved area	50g	50g	50g	50g	50g	50g		50g	
4. Price limit for reserved area (multiple of rate for lowest weight FSC item)	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x		2.5x	
5. Whether reservation exists over direct mail		Yes	Yes		Yes	Yes			
6. Whether reservation exists for outgoing cross-border mail			Exist					Exist	
7. Economic study on scope of reservation?		Yes							
8. Does USP have special VAT treatment?	Yes	Yes	Yes	Yes	Yes	Yes		Yes	
9. VAT: USP products covered	US	US	All postal servs	US	US	US	US	res. Serv.	
10. USP products given UPU customs rules (A: letter-post; B: M-bags; C: low-value parcels; D: high-value parcels; E: express; F: freight).	ABCDEF	ABC	CDF			ABCDE	ABCDEF		
11. Does NRA regulate downstream access to USP?					Yes	Yes			
12. Does NRA regulate PO box access?					Yes				
13. Does NRA regulate address database?					Yes	Yes			
14. Does USP have special right to	Yes		Yes					Yes	

	Austria	Belgium	Cyprus	Czech Republic	Germany	Denmark	Estonia	Spain	Finland
place collection boxes along public highway									
Tariff Principles									
1. Scope of price regulation	US	US	US(md)	US	US(md)	US	US	US	US
2. NRA determines product costs?									
3. NRA determines product volumes?					Yes			Yes	
4. NRA regulates unit costs (productivity)?					Yes				
5. Scope of uniform tariff rule	US	US	US(md)		non-bulk correspondence	non-bulk correspondence	US	res. Serv.	non bulk corr.
6. Delivery as percentage of total costs					50				
7. Individual agreements as percentage of letter-post									
8. Are individual agreements geared to cost?		Yes			Yes				
9. Has NRA adopted standard for affordability?					Yes				
10. Annual cost of postage for non-business mailer (Euro)		15		84	50				
11. Scope of ex ante price regulation	Res. Serv.		US(md)	non-bulk US	USP correspondence(md)	Res. Serv.	US	res. Serv.	
12. Scope of price cap price regulation		US				non-res. US		non res. US	
13. Index used in price cap regulation					General Price Index	General Price Index			
14. Scope of ex post price regulation		Others	US(USP)	US(USP)	Market domestic op.		US(USP)		US
15. Does NRA ensure terminal dues are cost-based?				Yes					
16. Does NRA have complete data on special tariffs?		Yes	Yes		Yes		Yes		

	Austria	Belgium	Cyprus	Czech Republic	Germany	Denmark	Estonia	Spain	Finland
17. Can NRA calculate avoided costs for special tariffs?					Yes				
18. NRA's definition of "avoided costs"					Retail minus				
19. Special tariffs offered for correspondence?	Yes	Yes			Yes	Yes	Yes		Yes
20. Sp. tariffs for correspondence: criteria (A: volume; B: mail preparation; C: transport; D: other)	ABC	AC	AB		ABCD	B	A	ABC	ABC
21. Sp. tariffs for correspondence: maximum discount (%)			15		1	2	5		15.3
22. Sp. tariffs for correspondence: based on avoided costs?	Yes	Yes			Yes			Yes	
23. Sp. tariffs for correspondence: % of all correspondence									
24. Sp. tariffs for correspondence: transparent?			Yes		Yes		Yes		
25. Sp. tariffs for correspondence: available to consolidators?	Yes	Yes	Yes		Yes		Yes		
26. Sp. tariffs for correspondence: available to private operators?	Yes	Yes	Yes		Yes				Other
27. Sp. tariffs for direct mail: maximum discount (%)					1	6			
28. Sp. tariffs for direct mail: % of all direct mail									
29. Sp. tariffs for parcels: maximum discount (%)									
30. Sp. tariffs for parcels: % of all parcels									

	France	Greece	Hungary	Ireland	Italy	Lithuania	Luxembourg	Latvia	Malta
Reserved Area and Special Rights									
1. Is there a reserved area?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Does reserved include correspondence?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. Weight limit for reserved area	50g	50g	50g	50g	50g	50g	50g	50g	50g
4. Price limit for reserved area (multiple of rate for lowest weight FSC item)	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x	2.5x
5. Whether reservation exists over direct mail?	Yes	Yes	Yes	Yes		Yes			Yes
6. Whether reservation exists for outgoing cross-border mail?		Exist	Exist		Exist		Exist	Exist	Exist
7. Economic study on scope of reservation?									
8. Does USP have special VAT treatment?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
9. VAT: USP products covered	US	US	all postal serv	all postal serv	all postal serv	res serv	US	res serv	US
10. USP products given UPU customs rules (A: letter-post; B: M-bags; C: low-value parcels; D: high-value parcels; E: express; F: freight).	ABC			ABCDE			ABCDE	BCDE	ABCDEF
11. Does NRA regulate downstream access to USP?	Yes		Yes				Yes		Yes
12. Does NRA regulate PO box access?									
13. Does NRA regulate address database?	Yes	Yes							Yes
14. Does USP have special right to place collection boxes along public highway?			Yes	Yes	Yes		Yes		
Tariff Principles									
1. Scope of price regulation	US	US	res serv	US	US	US	US	US	US
2. NRA determines product costs?		Yes				Yes	Yes		Yes

	France	Greece	Hungary	Ireland	Italy	Lithuania	Luxembourg	Latvia	Malta
3. NRA determines product volumes?		Yes				Yes			Yes
4. NRA regulates unit costs (productivity)?				Yes	Yes				Yes
5. Scope of uniform tariff rule	res. Serv.	US	res serv			US	US	US	US
6. Delivery as percentage of total costs									
7. Individual agreements as percentage of letter-post	48		40	0	0		80		
8. Are individual agreements geared to cost?	Yes		Yes	Yes	Yes				Yes
9. Has NRA adopted standard for affordability?									Yes
10. Annual cost of postage for non-business mailer (Euro)	45	106	2400	25			15		
11. Scope of ex ante price regulation	res. Serv.	US		res serv	US		res serv	US	US
12. Scope of price cap price regulation	non res US		res serv			US			
13. Index used in price cap regulation	consumer price index for services	Consumer price index (partially taken into account)	General price index		real inflation rate			CPI	
14. Scope of ex post price regulation				US(USP)			non res US		
15. Does NRA ensure terminal dues are cost-based?				Yes		Yes			
16. Does NRA have complete data on special tariffs?		Yes	Yes			Yes			
17. Can NRA calculate avoided costs for special tariffs?									
18. NRA's definition of "avoided costs"				cost minus					
19. Special tariffs offered for correspondence?	Yes	Yes	Yes	Yes		Yes	Yes		
20. Sp. tariffs for correspondence: criteria (A: volume; B: mail preparation; C: transport; D:	AB	ABCD	ABCD	ABCD		ABC	ABC	AB	

	France	Greece	Hungary	Ireland	Italy	Lithuania	Luxembourg	Latvia	Malta
other)									
21. Sp. tariffs for correspondence: maximum discount (%)	1			4.2		10	8	3	
22. Sp. tariffs for correspondence: based on avoided costs?	Yes		Yes	Yes		Other	Yes		
23. Sp. tariffs for correspondence: % of all correspondence	48	10	10	25			80		
24. Sp. tariffs for correspondence: transparent?		Yes	Yes	Yes		Other	Yes		
25. Sp. tariffs for correspondence: available to consolidators?	Yes	Yes	Yes	Yes		Other	Yes		
26. Sp. tariffs for correspondence: available to private operators?		Yes	Yes	Yes		Other	Yes		
27. Sp. tariffs for direct mail: maximum discount (%)	1	0.5		20.8			9	10	
28. Sp. tariffs for direct mail: % of all direct mail	100		30	100	100		10		
29. Sp. tariffs for parcels: maximum discount (%)		7	3		25		10	3	
30. Sp. tariffs for parcels: % of all parcels			40		82		50		

	Netherlands	Poland	Portugal	Sweden	Slovenia	Slovakia	UK	Iceland	Norway
Reserved Area and Special Rights									
1. Is there a reserved area?	Yes	Yes	Yes		Yes	Yes		Yes	Yes
2. Does reserved include correspondence?	Yes	Yes	Yes		Yes	Yes		Yes	Yes
3. Weight limit for reserved area	50g	50g	50g		50g	50g		50g	50g
4. Price limit for reserved area (multiple of rate for lowest weight FSC item)	3x	2.5x	2.5x		2.5x	2.5x		2.5x	2.5x
5. Whether reservation exists over direct mail?		Yes	Yes			Yes		Yes	
6. Whether reservation exists for outgoing cross-border mail?		Exist	Exist			Exist			
7. Economic study on scope of reservation?			Yes						Yes
8. Does USP have special VAT treatment	Yes	Yes	Yes			Yes	Yes	Yes	
9. VAT: USP products covered	US	all postal serv	all postal serv			US	all postal serv	letter-post	
10. USP products given UPU customs rules (A: letter-post; B: M-bags; C: low-value parcels; D: high-value parcels; E: express; F: freight).		ABCD		ABC	ABCDE	ACDE	AB	ABCDE	ABCD
11. Does NRA regulate downstream access to USP?			Yes		Yes		Yes		
12. Does NRA regulate PO box access?	Yes		Yes	Yes			Yes		
13. Does NRA regulate address database?							Yes		
14. Does USP have special right to place collection boxes along public highway?	Yes	Yes	Yes			Yes	Yes		
Tariff Principles									

	Netherlands	Poland	Portugal	Sweden	Slovenia	Slovakia	UK	Iceland	Norway
1. Scope of price regulation	US	US	US	US	US	US	US	res serv	US
2. NRA determines product costs?			Yes			Yes	Yes		Yes
3. NRA determines product volumes?			Yes			Yes	Yes		
4. NRA regulates unit costs (productivity)?			Yes		Yes		Yes		
5. Scope of uniform tariff rule	non bulk US	US	Letter-post	non bulk US	US	US	non bulk US	res serv	res serv
6. Delivery as percentage of total costs									
7. Individual agreements as percentage of letter-post						0			
8. Are individual agreements geared to cost?			Yes				Yes		
9. Has NRA adopted standard for affordability?		Yes	Yes		Yes	Yes	Yes		
10. Annual cost of postage for non-business mailer (in Euros)	20		2.4	30		220			200
11. Scope of ex ante price regulation			res serv		US	US		res serv	res serv
12. Scope of price cap price regulation	US			non bulk Letter-post			US		
13. Index used in price cap regulation	price cap based on labor wage index		CPI	CPI			retail price index		
14. Scope of ex post price regulation			non res US	US(USP)			mkt dom op		US(USP)
15. Does NRA ensure terminal dues are cost-based?			Yes						
16. Does NRA have complete data on special tariffs?			Yes	Yes		Yes	Yes	Yes	Yes
17. Can NRA calculate avoided costs for special tariffs?			Yes			Yes	Yes		
18. NRA's definition of "avoided costs"			Other			retail minus	cost	cost	

	Netherlands	Poland	Portugal	Sweden	Slovenia	Slovakia	UK	Iceland	Norway
							minus	minus	
19. Special tariffs offered for correspondence?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
20. Sp. tariffs for correspondence: criteria (A: volume; B: mail preparation; C: transport; D: other)	ABD	ABC	ABD	ABC	ABC	ABC	ABCD	AB	ABCD
21. Sp. tariffs for correspondence: maximum discount (%)	1	2	0.5	14	0.5		7	2.5	19
22. Sp. tariffs for correspondence: based on avoided costs?			Yes	Yes	Yes	Yes	Yes	Yes	Yes
23. Sp. tariffs for correspondence: % of all correspondence	92			73			40		
24. Sp. tariffs for correspondence: transparent?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
25. Sp. tariffs for correspondence: available to consolidators?	Yes		Yes	Yes	Yes	Yes		Yes	Yes
26. Sp. tariffs for correspondence: available to private operators?			Yes	Yes	Yes	Yes		Yes	Yes
27. Sp. tariffs for direct mail: maximum discount (%)	7		2	15		10		2.5	10
28. Sp. tariffs for direct mail: % of all direct mail				100		98		90	
29. Sp. tariffs for parcels: maximum discount (%)			6				9		
30. Sp. tariffs for parcels: % of all parcels							50		

	Bulgaria	Croatia	Romania
Reserved Area and Special Rights			
1. Is there a reserved area?	Yes	Yes	Yes
2. Does reserved include correspondence?	Yes	Yes	Yes
3. Weight limit for reserved area	350g	100g	50g
4. Price limit for reserved area (multiple of rate for lowest weight FSC item)	5x	3x	2.5x
5. Whether reservation exists over direct mail?		Yes	
6. Whether reservation exists for outgoing cross-border mail?	Exist		
7. Economic study on scope of reservation?			
8. Does USP have special VAT treatment?	Yes		
9. VAT: USP products covered	Other		
10. USP products given UPU customs rules (A: letter-post; B: M-bags; C: low-value parcels; D: high-value parcels; E: express; F: freight).	ABCDE	ABCE	
11. Does NRA regulate downstream access to USP?		Yes	Yes
12. Does NRA regulate PO box access?			Yes
13. Does NRA regulate address database?			Yes
14. Does USP have special right to place collection boxes along public highway?	Yes		Yes
Tariff Principles			
1. Scope of price regulation	US	res serv	US
2. NRA determines product costs?			
3. NRA determines product volumes?			
4. NRA regulates unit costs (productivity)?			
5. Scope of uniform tariff rule	US	US(md)	US
6. Delivery as percentage of total costs			
7. Individual agreements as percentage of letter-post		80	
8. Are individual agreements geared to cost?			Yes
9. Has NRA adopted standard for affordability?	Yes		
10. Annual cost of postage for non-business mailer (in Euros)			2

	Bulgaria	Croatia	Romania
11. Scope of ex ante price regulation	US	res serv	US
12. Scope of price cap price regulation			
13. Index used in price cap regulation			
14. Scope of ex post price regulation	Other		US(USP)
15. Does NRA ensure terminal dues are cost-based?			Yes
16. Does NRA have complete data on special tariffs?	Yes		
17. Can NRA calculate avoided costs for special tariffs?			2
18. NRA's definition of "avoided costs"			
19. Special tariffs offered for correspondence?	Yes	Yes	Yes
20. Sp. tariffs for correspondence: criteria (A: volume; B: mail preparation; C: transport; D: other)	ABC	A	AB
21. Sp. tariffs for correspondence: maximum discount (%)	0.5	3	6
22. Sp. tariffs for correspondence: based on avoided costs?			
23. Sp. tariffs for correspondence: % of all correspondence	80		
24. Sp. tariffs for correspondence: transparent?	Yes	Yes	Yes
25. Sp. tariffs for correspondence: available to consolidators?	Other		
26. Sp. tariffs for correspondence: available to private operators?			
27. Sp. tariffs for direct mail: maximum discount (%)	0.5		
28. Sp. tariffs for direct mail: % of all direct mail	90		
29. Sp. tariffs for parcels: maximum discount (%)	3		
30. Sp. tariffs for parcels: % of all parcels	40		

Source: Compiled from Appendix of "Main developments in the European postal sector (2004 – 2006)" by Wik-Consult Report – 2006.

