

Postal Services: Quo Vadis?



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1 Introduction

This paper examines the dramatic changes that postal services and postal service providers worldwide have undergone over the last 50 years and assesses what changes the future may hold. By way of background Section 2 notes that the changes proposed in Rowland Hill (1837) – the introduction of a Universal Penny Post and the prepayment of postage by means of stamps – were copied worldwide very rapidly. Those services remained unchanged for more than a century.

1969 marked an important turning point. In Britain provision of postal services was delegated to a newly established statutory corporation.¹ Globally the Tokyo Congress of the UPU² introduced a system of “terminal dues” to remunerate the delivery of international letters. 1969 also marked the emergence of electronic communications as a competitor for postal services.³ Since then the status of postal service providers worldwide has changed radically. The most significant change is corporatization, the establishment of statutory corporations or state-owned limited liability companies to provide postal service. In more recent times, private capital has acquired some or all of the share capital of a few of these companies

¹“The Post Office” was established by the Post Office Act 1969 UKPGA 1969 c48 as an autonomous public authority. Section 6(5) of the Act declared that “... the Post Office is not to be regarded as the servant or agent of the Crown, or as enjoying any status, immunity or privilege of the Crown, or (subject to the express provisions of this Act relating to stamp duty) as exempt from any tax, duty, rate, levy or other charge whatsoever, whether general or local, and that its property is not to be regarded as property of, or property held on behalf of, the Crown.”

²Universal Postal Union.

³In 1970 35 per cent of households in the UK owned a telephone; by 1985 penetration had reached 81%. Source: <https://www.statista.com/statistics/289158/telephone-presence-in-households-in-the-uk/>

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(privatization). Of course it has always been the case that privately owned companies have been contracted to provide specific services to the postal service provider. Different responses to the changes demanded by the users of postal services and policy makers and the emergence of competing services, particularly those driven by electronic communication, are noteworthy. No longer is the scope of postal service providers' activities homogeneous. These and the other changes are discussed in Section 3.

Quo Vadis? Is there a role for government in the provision of postal services in the future? And what will those services look like? Will there be vertical or horizontal diversification or both? Section 4 examines the options.

2 Background

Postal services have been in existence since ancient times. The Roman Empire had a well-organized service – *cursus publicus*. By the fifteenth century, organized services between Britain, the Low Countries, the Hanseatic League, and the towns of the Rhine and northern Italy existed, in addition to private and governmental posts within individual countries.⁴ The middle of the seventeenth century saw the amalgamation of private and governmental posts and the establishment of postal monopolies. The Swedish Royal Postal Agency was established in 1636, and in 1657 Britain's "General Post Office" was established by Act of Parliament.

There were two objectives in establishing a state monopoly. The first was to enable surveillance of potential conspirators by state security and the second to secure a source of revenue for the government of the day. The latter offers an early example of franchising with individuals paying a fixed sum to the government for the contractual right to gather postal revenues as their own.⁵ For the next two centuries, postal services evolved to better meet the needs of users, but as Feldman and Kane (1975) observed, "It is one of the remarkable facts of Post Office history that all the really important innovations and reforms were the work of outsiders, who usually did not achieve success until the strenuous opposition of Post Office Officials was overcome." One such innovation was William Dockwra's "New and Useful Invention." No service for local letters within London existed until Dockwra launched a Penny Post in March 1680.⁶ It featured prepayment of charges and insurance cover and was unrivalled in terms of frequency and geographical scope. The service was eventually suppressed in November 1682 but reopened within a matter of days as a subdivision of the government's General Post Office.

The changes brought about by the Industrial Revolution had significant implications for national economies and citizens. The introduction of machine-based man-

⁴ See Duncan Campbell-Smith (2011) p. 5.

⁵ See Duncan Campbell-Smith (2011) p. 37.

⁶ See Duncan Campbell-Smith (2011) p. 59–60.

ufacturing gave rise to increased commercial activity and improved standards of living, although it might well be argued that it took over a hundred years for the full benefits to be achieved. An important consequence, so far as the Posts were concerned, was the consequential migration from rural to urban areas and also, for example, migration from Europe to North America and from Britain and Ireland to Australia and New Zealand. All this gave rise to the need for cheap, reliable, and efficient postal services.

In Britain, the campaign for Postal Reform gathered pace during the 1830s. In his pamphlet on Postal Reform, Rowland Hill (1837) presented a detailed business case for the introduction of a Universal Penny Post within the UK, based on simplified tariffs, faster services, and the prepayment of postage. The Penny Post started in January 1840, but postage stamps for the prepayment of postage, which became synonymous with the reforms, were not introduced until 6 May 1840.

The concept of postal service as we have known it until very recently has its origins in this pioneering work. As well as meeting the needs of commerce and trade, postal services played a vital part in cementing the social fabric of the nation, whether in Europe, which witnessed significant urbanization, or in new countries such as the USA, Canada, and Australia, which needed not only to ensure cohesion between vastly dispersed settlements but also to provide links with families still living in Europe. Postal services also played an important part in promoting culture and education, for example, the distribution of newspapers and books (Britain introduced a *Book Post* in 1855), and it fostered fiscal probity (Britain opened its Post Office Savings Bank in 1863). Postal services also played a key role in the development of railways, shipping, and, during the twentieth century, airlines by offering contracts for the conveyance of mails.⁷ The Posts were also willing to compete with the private sector, for example, in providing parcel services and in nationalizing services such as telegrams and telephones (see below).

The reforms introduced by Rowland Hill, and especially the use of postage stamps for the prepayment of postage, were copied worldwide very rapidly. By 1855 21 countries across the globe had adopted Rowland Hill's principles – see Table 1.

A postal conference organized in Paris in 1864 to introduce similar reforms in the international service led to the Treaty of Bern 1874 and the establishment of the UPU (Universal Postal Union). In its early years, the UPU was a significant driver of reforms. For example, the 1878 Congress recommended the establishment of an international parcel post at a time when the carriage of parcels in many countries was the prerogative of the private sector. A postal parcel service within the UK was introduced very soon following this recommendation, in 1882, but the USA did not introduce such a service until 1913.⁸ While the services were organized by govern-

⁷ See AIRMAIL CREATES AN INDUSTRY: Postal Act Facts Smithsonian National Postal Museum USA https://postalmuseum.si.edu/airmail/airmail/public/airmail_public_postal_long.html

⁸ See Hearn (2014) for further details.

Table 1 Introduction of prepayment by means of postage stamps

Year	Country
1840	UK (Britain and Ireland)
1843	Brazil
1847	USA
1849	France
1849	Belgium
1849	Bavaria
1850	Austria
1850	Lombardy (Italy)
1850	Spain
1850	Switzerland
1850	New South Wales and Victoria (Australia)
1851	Canada
1851	Denmark
1851	Sardinia (Italy)
1852	Luxembourg
1852	The Netherlands
1853	Chile
1853	Portugal
1855	New Zealand
1855	Norway
1855	Sweden

ments, important elements such as conveyance between post offices were outsourced to the private sector.

The emergence of new communications media such as the telegraph and the telephone was initially championed by the private sector. However, in many countries these services were eventually provided by the state's postal services. In such countries private companies lacked the resources to provide a reliable nationwide service. The labels P&T (Posts and Telegraphs) or PTT (Posts Telegraphs Telephones) became synonymous with the provision of postal and telephone services.

The homogeneous principles for the provision of postal services established during the second half of the nineteenth century went unchallenged for more than a century. There are eight key principles. The services were provided directly by governments. The services were provided on a non-contractual basis under public law. "Postage" was a nonnegotiable fixed charge. There were uniform charges within the state. Prepayment of "postage" was the norm. The "Post" acted as an intermediary between sender and addressee, rather than as the agent of either sender or addressee. "Postage" was a government tax payable by users of the service. The cost of providing the service was a charge on the Exchequer; which meant there was no matching of income and expenses. Hearn (2018) discusses the legal status of postal services in more detail.

3 The Last 50 Years

The last 50 years have witnessed different responses to the changes demanded by the users of postal services and policy makers and the emergence of competing services, particularly those driven by electronic communication. No longer is the scope of postal service providers' activities homogeneous.

3.1 *Corporatization and Privatization*

The status of postal service providers has changed radically. The most significant change is corporatization – the establishment of statutory corporations or state-owned limited liability companies to provide postal service. In more recent times, private capital has acquired some or all of the share capital of a few of these companies (privatization). Of course it has always been the case that privately owned companies have been contracted to provide specific services to the postal service provider. Table 2 summarizes the situation in the industrialized countries as defined by the UPU⁹:

Within the EU in only one country, namely, Cyprus, are postal services still provided by a government department.

3.2 *Business Volumes*

Hearn (2018) noted that there has been a significant reduction in the number of letters being sent since the EU's Postal Directive came into force. Copenhagen Economics (2018) reported that during the period 2013–2016, addressed letter post products declined by on average 4.2 per cent annually in the 31 countries surveyed. The UPU (2019) reports that the compound rate of decline worldwide in the last decade has been 3.1 per cent annually. About 87% of the total worldwide volume is attributed by the UPU to the group of industrialized countries.¹⁰ In these countries the annual rate of decline over the same period was 2.4%, but in 2017 there was a positive growth rate of 1.8 per cent.

⁹23 countries as listed in the table, but notably only including 14 of the 28 EU member states.

¹⁰See footnote 9 supra.

Table 2 Status of postal service providers in UPU industrialized countries

Country	Autonomous state enterprise	Limited liability company	Extent of state ownership
Australia	Yes		100%
Austria		1999	52.8%
Belgium		Yes	50% + 1
Canada	1981		100%
Denmark		PostNord	40% Denmark; 60% Sweden
Finland		Yes	100%
France		Yes	100%
Germany		1995	20.5%
Greece		1996	90%, remainder Postal Savings Bank
Iceland		1998	100%
Ireland		1984	100%
Israel		2006	100%
Italy		Yes	64.3%
Japan		Yes	Fully privatized
Luxembourg	Joint P&T corporation		
Netherlands		Yes	Fully privatized
New Zealand		Yes	100%
Norway		Yes	100%
Portugal		1992	100%
Spain		2000	100%
Sweden		1994, then PostNord	60% Sweden; 40% Denmark
Switzerland	1997		100%
UK	1969	2001	Fully privatized

Sources: UPU website, Status and structures of postal entities (See <http://www.upu.int/en/the-upu/status-of-postal-entities/about-status-of-postal-entities.html>) and annual reports of postal service providers

3.3 Service Provision

As already noted postal services have traditionally been provided under public law with the postal service provider acting as an intermediary between sender and addressee, the features of the services being nonnegotiable, and postage being prepaid.

Prepayment by postage stamps is no longer the norm, having been challenged by the use of online postage, franking meters, credit accounts, and other innovative payment methods. Stamps are now normally used only by private individuals and SMEs.¹¹

¹¹ According to the OECD, SMEs (small- and medium-sized enterprises) are non-subsidiary, independent firms which employ fewer than a given number of employees, normally 250 employees, as in the European Union, but as high as 500 employees as in the USA.

Analysis of An Post's 2017 Regulatory Accounts¹² shows that only 18.5% by volume and 20.2% by value of national postal services are prepaid by stamps.¹³ According to Copenhagen Economics (2018), the proportion of mail posted by private individuals has declined very significantly and, based on data from 13 countries, is now about 11 per cent of the total by volume.

Larger businesses, public authorities, and nongovernmental organizations¹⁴ (NGOs) generate most mail items. An Post's 2017 Regulatory Accounts show that 16.5% by volume and 16.1% by value of postal items are prepaid using franking machines. By inference at least 65% of national items are now paid for using non-traditional methods, including credit and other accounts.

Credit facilities are now a very important part of the offer by postal service providers. Royal Mail, the UK's postal service provider, offers a credit account, advertised as "The fast and easy way to pay for your mail." The key selling point is to "Take control of your budget and your cash flow with a credit account. You'll benefit from convenient payment terms - up to 30 days and volume-related discounts."¹⁵ This necessitates an increase in working capital. In the case of Royal Mail, trade receivables as of 25 March 2018 stood at GB£999 m or 9.8% of annual revenues. Six years earlier trade receivables as of 25 March 2012 stood at GB£759 m or 8.7% of annual revenues.¹⁶

It is not just the method and terms of payment that have changed. Business users often prefer provision of postal services under contract law, meaning that the postal service provider has a legal responsibility to the customer (normally the sender but sometimes the receiver). The EU Consumer Rights Directive (2011) requires the seller to be fully responsible for all aspects of the supply of goods, including delivery. Hearn (2014) observed that this is inconsistent with the use of the traditional postal services for delivery. Competing delivery services are invariably provided under private contract law.

Larger businesses often require postal service providers and competing delivery services to provide services which are specifically tailored to meet their requirements in terms of speed, pickup and delivery times, packaging, insurance, etc. The traditional "one size fits all" approach is inconsistent with these requirements. The challenge for postal service is to develop the capability to negotiate with such businesses rather than to sell the inflexible, in terms of price and features, traditional services.

¹²An Post has been used as an example solely because of the availability of information.

¹³It should be borne in mind that 12.4% of An Post's delivered traffic originates abroad, and because of this, the proportion of stamped mail may be overstated.

¹⁴Including charities and other "not for profit" organizations.

¹⁵See, for example, <https://www.royalmail.com/corporate/services/account>.

¹⁶Figures taken from Royal Mail plc Annual Report and Financial Statements 2017–2018 and Royal Mail plc.

Prospectus 27 September 2013.

3.4 *Mail (Letter) Services*

As quantified in Section 3.2, volumes have fallen significantly, but letters are still a very significant business. 271bn letters were posted in the industrialized countries during 2018.¹⁷ Although mail is more expensive than electronic communication media, mail remains one of the most effective channels for connecting with customers and generating new leads. According to Royal Mail, “In-depth studies into the effect of direct mail show that it makes customers feel more valued than other channels. Not only that, but mail is read, kept in the home, referred back to and shared with others.”¹⁸ There are emerging signs that it may be possible to halt the decline in letter volumes, including a small increase in business volume in the industrialized countries reported by UPU (2019).

The British Post Office introduced a two-tier letter service offering a choice between a D + 1 (next day) service and a slower D + 3 service as long ago as 1967, and many of the larger operators followed this trend. With the decline in business volumes, some operators have decided to reduce the quality of service provided by reducing the number of days on which letters are delivered or offering a very slow service, e.g., D + 5. Some operators, e.g., Poste italiane, Correos (Spain), and Post Danmark, have introduced a premium service similar to registered post and offering a D + 1 service.

3.5 *Parcel and packet services*

The decline in the letter business has been offset to some extent by a growth in packet and parcel volumes. According to the UPU (2019), parcel post volumes have increased by 7.1% per annum over the decade 2007–2017. There are however a number of caveats. In the past, packets and in some instances postal parcels were delivered along with the letter post. As parcel volumes increase, this model of delivery may no longer be sustainable. Furthermore, parcel delivery is a very competitive business, so while it is attractive to postal operators to exploit, there is no guarantee of profits sufficient to make up for losses from declining letter volumes.

A key issue that has to be addressed is the difficulty in delivering parcels at the first attempt as many addressees may not be at home when the postman calls. Alternatives implemented by some operators include the use of lockers,¹⁹ delivery to a parcel shop open 7–11 or 24/7,²⁰ and evening or weekend delivery.²¹ Postal

¹⁷ See footnote 9 *supra*.

¹⁸ See <https://www.royalmail.com/corporate/marketing-data/marketing/benefits-marketing-mail>

¹⁹ For example, Deutsche Post/DHL, Post Danmark, La Poste (France), bPost (Belgium), and Poczta Polska (Polish Post).

²⁰ For example, Posten Se.

²¹ For example, Royal Mail (UK), An Post (Ireland).

operators are often disadvantaged by obligations to deliver to the specified address and the limited opening hours of post offices and delivery offices.

3.6 *International Services*

The 1969 Tokyo Congress of the UPU introduced a system of “terminal dues” based on a flat rate charge per kg on the excess weight received.²² The following 50 years saw postal service providers compete with one another, developing services such as Remail²³ and acquiring regional and international networks for packets and parcels.

The distortions caused by the terminal dues system both in the postal markets and in related markets such as printing and distance selling have been well documented in Campbell (2016), but there has been a reluctance by governments to resolve the issues. However, the recent growth in ecommerce imports from Asia has prompted both the EU and the USA to take action.

The EU is focused on eliminating the low value tax exemptions on postal imports and ensuring that value added tax and customs duties are paid by commercial senders before the goods are dispatched.²⁴ The UK already has similar arrangements with certain territories, including Jersey.²⁵ Both these initiatives are bad news for postal operators. The elimination of the low value tax exemptions leads to a significant increase in the number of items to be presented to customs and therefore adds to costs. The new arrangements for the prepayment of VAT and Customs Duty will be more attractive to commercial operators and the Posts risk being left with expensive to handle C2C parcels.

The USA is taking a different tack. In October 2018, the US President decided that the USA should withdraw from the UPU because of concerns that the highly subsidized rate set by the UPU for delivery of lightweight packages from countries, such as China, puts American businesses engaged in e-commerce – from small retailers to large manufacturers – at a disadvantage.²⁶ Proposals to address the distortions caused by the UPU terminal dues system have not yet been approved by the UPU. On 7 June 2019, the UPU announced that 128 valid postal ballots had been received from UPU member countries in support of convening an Extraordinary

²² Payment was not paid for all mail delivered but only for the imbalance. For example, if Country B receives 100 tons of mail from Country A but sends 50 tons to Country A, it would be paid for 50 tons, and Country A would receive nothing.

²³ Arranging for mailings to be posted in a foreign company to avail of international rates cheaper than domestic rates in the destination country.

²⁴ See Council Directive (EU) 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods.

²⁵ See House of Commons Library Briefing Paper 4155 (2017).

²⁶ See “State Dept. Backs Plan for U.S. to Set Own Global Package Rates” <https://about.bgov.com/news/state-dept-backs-plan-for-u-s-to-set-own-global-package-rates/>

Congress to discuss the UPU terminal dues system in September 2019.²⁷ There are parallels with IATA²⁸ which, like the UPU, was an intergovernmental organization representing state enterprises. As the industry was liberalized, the price fixing and related regulations came under attack.²⁹ Within 5 years all those elements of the IATA regulations which might be considered to be anti-competitive were repealed. Will the UPU follow the same path?

3.7 *Divesting*

As discussed in Section 2, in the nineteenth and early twentieth centuries, new services such as telegrams, telephones, etc. were often provided by the postal service provider. During the last 50 years, this business model has been challenged. The main drivers were the necessity for dedicated management teams, the capital-intensive nature of the services, and the introduction of economic regulation within the EU (European Union). Most postal service providers have by now been divested of telecommunications services.

It might be observed, with hindsight, that divesting electronic communications has created the biggest threat to the long-term survival of postal services by facilitating the emergence of competing services. Hearn (2018) has noted that the traditional postal services are losing the competitive battle with electronic communication services such as text messaging (SMS), email, and mobile voice communication.

In some cases, postal service providers have also been divested of the network of post offices and some financial services. The main driver appears to be the need to allow postal service managers to focus on the development of the postal services but also to facilitate the retention of socially necessary services that might not be provided on a commercial basis. In the UK, the Post Office Ltd. was separated from Royal Mail Group in 2012 on foot of a recommendation in the Hooper Report³⁰; the former remained a state-owned company, and the latter was subsequently privatized. In Sweden, Postgirot Bank AB was divested in 2001. In 2018 An Post, the Irish postal operator, announced a structural separation between post offices and mail services.³¹ In Germany, the financial services of Deutsche Post were divested in 1990 with the formation of Deutsche Postbank AG.

²⁷ See http://news.upu.int/no_cache/nd/upu-member-countries-vote-to-hold-geneva-extraordinary-congress-on-terminal-dues-system/

²⁸ The International Air Transport Association.

²⁹ See Order 2007-3-23 issued by the USA Department of Transportation on the 30th day of March 2007.

³⁰ See House of Commons Briefing Paper Number 7550, 12 April 2019 “The Post Office.”

³¹ See An Post Annual Report 2017, p. 6.

3.8 *Diversification*

As the core mail services have declined in importance, many postal service providers have diversified into other activities. Unlike the reforms of the nineteenth century, however, a variety of approaches are discernible. These include diversification into logistics, marketing, printing, IT, and even financial services. Also some postal companies have diversified geographically, with one operator developing a global network³² and two operators developing substantial regional networks.³³ Many of the world's leading postal companies have positioned themselves to be successful in the coming decades. Table 3 provides examples of these diversification strategies.

These nine examples demonstrate that there is no consensus about the form of diversification that should be followed. What the examples show is that those service providers that have diversified into financial services have relatively small exposure to international markets and that access to capital and a significant domestic base is important for developing global or regional networks.

4 Quo Vadis

The changes of the last 50 years have been merely a transitioning toward a new order. The key assets of postal service providers are their conveyance and delivery networks, with their nationwide coverage and a committed, trusted, and well-trained workforce. There are two types of networks. The first is the letter (and small packet³⁴) delivery network, which normally aims to serve every delivery point on a fixed route. The other type of network, used for the delivery of parcels,³⁵ is more variable in routing. In practice there is some overlap between these two networks. In rural areas where letter delivery routes use vehicles, these routes will also deliver parcels. In urban areas when the percentage of packets is large, some items may be delivered by the parcel network, particularly those that require a signature to be obtained on delivery or if the item cannot be delivered through the delivery box at the house.

From the regulatory viewpoint, although the letter delivery network can be replicated, both legally and practically, there is no example where this has been done on a nationwide basis. Regulators must therefore ensure that postal service providers do not use the de facto monopoly over the letter delivery network to foreclose on upstream competition. The position concerning the parcel delivery network is somewhat different in that there are often competing networks and the postal service

³²Deutsche Post (DHL).

³³Royal Mail (GLS) and La Poste (France) (DPD).

³⁴Volume not greater than 0.027 m³ and weight not exceeding 2 kg.

³⁵That is, items larger than the limits for packets and normally with an upper limit of 0.1875 m³ and 30 kg.

Table 3 Diversification strategies

Operator/country	See note	State ownership	Total external revenue 2018	Product diversification ^a	Geographical diversification ^b
Deutsche Post (Germany)	1	20.5%	€61.5bn	€18.3bn (29.8%)	€18.8bn (30.6%)
Poste italiane (Italy)	2	64.3%	€10.9bn	€3.6bn (33.0%)	No material diversification
Swiss Post (Switzerland)	3	100%	CHF 7.7bn	CHF 2.7 BN (35.1)	84.5%
bPost (Belgium)	4	50% + 1	€3.9bn	€1.7bn (43.6%)	€2.5% (64.1%)
La Poste (France)	5	100%	€24.7bn	€11.3bn (45.7%)	€12.5bn (50.6%) Mail €5.5bn (22.2%) Banking
An Post (Ireland)	6	100%	€0.9bn	€0.6bn (66.7%)	€0.8bn (88.9%)
PostNord (Sweden and Denmark)	7	100%	SEK 37.7bn	SEK 35.8bn (87.7%)	SEK 22.1bn (58.6%) Sweden SEK 8.1bn (21.5%) Denmark
Royal Mail (UK)	8	NIL	GB£10.2bn	No material diversification	GB£7.6bn (74.5%)
PostNL (The Netherlands)	9	NIL	€2.758bn	€1.672bn (50.8%) Mail €1.547bn (47%) Parcels	€2.483bn (90.0%)

Note 1

International brand DHL

PRODUCT DIVERSIFICATION Post eCommerce Parcel Division

Other divisions: Express, Global Forwarding Freight, Supply Chain

Note 2

PRODUCT DIVERSIFICATION Mail, Parcels and Distribution segment

Other segments: Payments, Mobile and Digital, Financial services, Insurance services

Note 3

PRODUCT DIVERSIFICATION PostMail

Other segments: Swiss Post Solutions, PostalNetwork, PostLogistics, PostFinance, PostBus

Note 4

PRODUCT DIVERSIFICATION Mail and Parcels segment

Other segments: Logistic Solutions, Banking and financial products, Distribution, Retail and Other

Note 5

International brand DPD

PRODUCT DIVERSIFICATION Services-Mail-Parcels segment

Other segments: GeoPost (DPD), La Banque Postale, Digital Services, La Poste Network

Note 6

PRODUCT DIVERSIFICATION Letters and parcels, etc.

Other segments: Retail and Financial services, printing and database services

Note 7

PRODUCT DIVERSIFICATION Mail, logistics and eCommerce

Other products: Information logistics

Note 8

International brand GLS

Note 9

The Parcels segment includes the international activities of Spring. The product segments include an element of overlapping revenue streams that are eliminated on consolidation.

^a% of revenue from postal services as defined by operator in annual report^b% of revenue from home country

providers' market share is not great.³⁶ For example, in Ireland, DPD, UPS /Nightline, GLS, Fastway, and DHL all have competing networks. The key concern for regulators must be to ensure that the terminal dues payable to postal service providers do not distort the market for the delivery of packets, i.e., items less than 2 kg in weight.

Although there has been a significant reduction in the volume of letter post items, there is still a sufficient volume of letters to support the retention of the letter delivery networks of most postal service providers. The reduction in the frequency of delivery in some countries may be imprudent. The volume of packets appears to be increasing as a result of the growth in ecommerce. Daily deliveries are essential to meet the needs of this market.

However, the traditional postal service model providing for the collection, sorting, transport, and delivery of postal items under public law at a nonnegotiable tariff may not be sustainable for the vast majority of business customers. Rather the need must be to redefine the relationship between postal service provider and business customer as a partnership offering bespoke services under private contract law. To fully meet the needs of their customers and to maximize the potential of their delivery networks – including achieving the necessary economies of scale and scope – they will need to consider vertical diversification into upstream markets such as printing, database management, ecommerce platforms, etc.³⁷ The latter is quite important in that already some ecommerce platforms are in the process of acquiring delivery networks. As already identified this will need strong regulatory surveillance to ensure there is no abuse of a dominant position. Moreover, the need to address the issue of climate change will lead to significant changes in operational processes including the use of electric vehicles and the use of real-time software systems to ensure flexible routing and other efficiency measures.

The current international arrangements are not sustainable. Several postal service providers own and operate global or regional networks for parcel delivery.³⁸ And there are other global networks operated by private sector companies.³⁹ The UPU arrangements cannot compete with these networks in terms of price/cost and quality of service. Many smaller countries might find themselves unable to offer international services if these trends continue. As a minimum they would need to negotiate a business relationship with one or other of the global networks.

³⁶ See TPR (2015) and The European Economic and Social Committee (2016) which suggest market shares varying between 10% and 25%.

³⁷ Asendia, the joint venture between La Poste (France) and Swiss Post, is a 40% shareholder in eShopWorld, an eCommerce company that provides a technology platform to brands and retailers that wish to sell online into global markets.

Also the An Post website provides links to facilities to help new e-retailers, including a link to the platform “www.iloveshopping.ie.” See <https://www.anpost.ie/AnPost/GeneralTemplates/AboutUsStandard.aspx?NRMODE=Published&NRNODEGUID=%7b2C5300D3-CF17-4CB7-AACB-BEA4D9DDF8CD%7d&NRORIGINALURL=%2fAnPost%2fMainContent%2fBusiness%2bCustomers%2fecommerce%2feCommerce%2bExperts%2ehtm&NRCACHEHINT=Guest#Getting>

³⁸ Deutsche Post, La Poste, Royal Mail.

³⁹ UPS, FedEx.

The global and regional parcel operators do not generally offer services for letters, other than premium products for important documents. There is no obvious alternative to the UPU arrangements in letter post markets, but these are threatened by the American decision to withdraw from the UPU. Furthermore international letter markets are declining faster than domestic letter markets – down by 5.5% per annum compared with 2.4% nationally over the 10 years to 2017. The threat to the UPU is its role in price setting. It is clearly undesirable for governments to be involved in price setting when it causes distortions in competitive markets, but governments have a role to play in ensuring international connectivity for written communications and cultural material – books, educational material, etc. The extraordinary Congress of the UPU to be held in September 2019 should put in place a process to reform the UPU, focusing on ensuring international cooperation and avoiding any involvement in price setting. If this is agreed, then the USA might withdraw its notice of resignation.

The observations above relate specifically to mail and parcel services. The services provided at “post offices” present a completely different set of issues. Post offices have an obsolescent business model – very limited opening hours during the week and limited or no activity at the weekend. Postal service providers can, and do, offer their services over the Internet or by arrangement with other retailers operating 24/7 or 7 till late⁴⁰. In those countries that have been able to leverage the network of post offices to provide a viable range of financial and government services, it may be preferable, as in the UK, to divest these to separate government-owned companies. This would allow appropriately focused management teams address the future of two very different activities.

A key issue that will need to be addressed is “Is there a role for government in the provision of postal services in the future?” Although there is a demonstrable need to reduce, but not eliminate, government involvement in international postal services, the proper role of governments in providing national services is more abstruse. In the developed world, there are now very few examples where governments are directly involved in the provision of postal services. That is not to say that governments have ceased to have any involvement, but as in so many other areas of government activity, they have delegated their involvement to state agencies, including independent regulators.

A follow on is to ask what type of state agency and to what extent should these have access to private capital. The data presented in Table 2 suggests that the limited liability company is the preferred model in 19 of the 23 countries analyzed. There is less consensus as to the involvement of private capital; only 3 of the 23 postal service providers have been fully privatized. In Germany there is a relatively small (20%) state shareholding; in Belgium a 50/50 arrangement with the state holding a controlling share but elsewhere private capital is in a minority. The analysis in Table 2 suggests that private investors are willing to participate on the basis of a minority interest.

⁴⁰The term 7 till late is used as the normal opening times for such shops as the closing time varies considerably from country to country but typically would be 10 pm, 11 pm, or midnight.

Private capital may be needed in the future to ensure that operators adapt to the new order. All too frequently governments do not have sufficient funds for such investment, and, even when they do, the requirements of state aid rules, and similar antitrust legislation, present significant obstacles. Moreover, market changes may involve a greater degree of risk than governments are comfortable with. Finally, private capital perhaps can bring expertise in terms of risk management, income generation, and cost control without the need for day-to-day involvement in management.

To conclude, both mail and parcel services retain a significant future. Postal service providers will have a de facto monopoly over letter delivery, but in reality they will be competing, as they do now, with electronic communications services. To be successful postal service providers will need a more commercial focus on forming partnerships with business customers rather than offering nonnegotiable tariffs on a take it or leave it basis. The challenge for regulators will be to ensure that postal service providers do not use their de facto monopoly over letter delivery to compete unfairly on parcel markets. Given the international nature of ecommerce, it is difficult to identify a role for postal service providers in smaller countries other than as an agent for one of the global/regional networks. But this could lead to the introduction of capital to facilitate investment to develop the networks.⁴¹ Also there is a need to look at opportunities for vertical diversification similar to the investment by Asendia in eShopworld.

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⁴¹ See, for example, the acquisition of UK Mail by Deutsche Post and the subsequent investment over GB£21 m to support recent and future growth. See <https://www.theguardian.com/business/2016/sep/28/deutsche-post-agrees-to-buy-uk-mail> and [https://ukmail.com/news/2017/08/21/uk-mail-invests-over-21m-\(-23m\)-in-regional-network-to-support-growth](https://ukmail.com/news/2017/08/21/uk-mail-invests-over-21m-(-23m)-in-regional-network-to-support-growth)

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