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**Postal Universal Service Obligation (USO) International Comparison  
International Postal Liberalization –  
Comparative Study of US and Key Countries**

August 2008



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## Abbreviations

<b>AR</b>	Argentina	<b>DK</b>	Denmark	<b>JP</b>	Japan	<b>NZ</b>	New Zealand
<b>AU</b>	Australia	<b>EE</b>	Estonia	<b>LI</b>	Liechtenstein	<b>PL</b>	Poland
<b>AT</b>	Austria	<b>ES</b>	Spain	<b>LT</b>	Lithuania	<b>PT</b>	Portugal
<b>BE</b>	Belgium	<b>FI</b>	Finland	<b>LU</b>	Luxembourg	<b>RO</b>	Romania
<b>CA</b>	Canada	<b>FR</b>	France	<b>LV</b>	Latvia	<b>SE</b>	Sweden
<b>CH</b>	Switzerland	<b>GR</b>	Greece	<b>MT</b>	Malta	<b>SI</b>	Slovenia
<b>CY</b>	Cyprus	<b>HU</b>	Hungary	<b>MX</b>	Mexico	<b>TR</b>	Turkey
<b>CZ</b>	Czech Republic	<b>IE</b>	Ireland	<b>NL</b>	Netherlands	<b>UK</b>	United Kingdom
<b>DE</b>	Germany	<b>IT</b>	Italy	<b>NO</b>	Norway	<b>US</b>	United States

<b>CAGR</b>	Compound Annual Growth Rate
<b>N/A</b>	Not available
<b>n.a.</b>	Not applicable
<b>NRA</b>	National Regulatory Agency
<b>PAEA</b>	Postal Accountability and Enhancement Act
<b>RA</b>	Reserved Area
<b>USO</b>	Universal Service Obligation
<b>USP</b>	Universal Service Provider
<b>USPS</b>	United States Postal Service
<b>VAT</b>	Value Added Tax

## Executive summary

### Objective of the study

The objective of the study by Accenture, based on United States Postal Service (USPS) terms of reference, is to provide a structured, unbiased overview of the postal Universal Service Obligation (USO), current changes to the USO, and liberalization experiences of postal markets in other countries as postal-service competition increases. Analysis in this study includes:

- Status of the postal Universal Service Obligation
- Theory and guiding principles behind postal liberalization
- Context and outcome of existing liberalization experiences
- Comparative study, based on four key components, of the US and other key countries

### Approach and limitations

Accenture based this study primarily on secondary research, supplemented by our experience in the postal industry. The study focused on EU15 countries, New Zealand, Australia, Japan, and Canada. The study also included further analysis of eight key countries representing stages of liberalization (Sweden, New Zealand, the United Kingdom, Germany, Italy, the Netherlands, France, and Canada).

The study includes four key comparison components:

- Description and comparison of the Universal Postal Service specifications
- Relative liberalization upside potential
- Macro / micro economic relative exposure in the context of liberalization
- Flanking measures put in place to manage liberalization

The study details limitations to the approach and secondary research used. Comparisons are relative and directional only. Readers should not take these comparisons out of context.

Also, it is important to note that the USPS has provided US and USPS positions, not necessarily Accenture's.

Following the USPS terms of reference for this study, Accenture did not provide analysis of the comparative study's implications for the USPS, nor recommendations for the USPS to prepare for or address liberalization.

### **Liberalization theory**

Nations around the world recognize postal services as critical to their societies and economies. Despite development of new communication tools, direct and transactional mail remain important and relevant.

Until recently, governments supported provision of a universal postal service by granting a monopoly to a universal service provider (USP). Over the last decade, while USPs have seen decreasing overall volumes of mail, governments have gained experience from the liberalization of other industries. This experience led to alternate approaches to providing universal postal service while allowing for greater competition in the marketplace. Countries are reducing or even eliminating postal reserved areas, those areas in which the national USP has a monopoly. Instead, governments rely increasingly on the market to provide postal services while implementing "flanking" measures to manage and secure this transition.

### **International experiences and lessons learned**

The EU provides one example of this trend in postal liberalization. Since 1994, the EU and member states have been implementing legislation to liberalize the postal market, specifically to allow for the creation of scaled operators. The governments have two, inter-related objectives. The first is to eliminate all postal reserved areas by 2013. The second is to promote universal services through market forces supplemented by other measures as needed (e.g., specific funding for residual costs of the USO). This study explores these and other measures in detail in later sections. As of today, a number of countries have already eliminated their reserved area. All EU countries plan to do so by 2013.

When analyzing these recent or current liberalization experiences, it's important to recognize that postal liberalization is new for most countries. It also is important to remember that the context in which the posts operate differs greatly from one country to the next. Nevertheless, this study identified some significant trends:

- Competition is emerging even though most USPs remain dominant in their respective markets

- New entrants introduce new business models, which give customers better targeted and/or lower cost services
- Large mailers have been the primary beneficiaries to date, with improved quality of service, lower prices, and innovation, while consumers and small businesses have seen limited change or improvement
- USPs are making important changes, including aggressive cost reductions, increased pricing flexibility, improved service quality and innovation, and diversified revenue, all in response to or in anticipation of postal liberalization

### **International comparison - universal postal specifications**

Universal Postal Service has three key dimensions: (1) Scope of service, (2) Quality Standards, (3) Affordability. Compared with the countries reviewed in this study, the US lies in the higher range of the USO scope requirements for most parameters. That is especially true for quality standards, including frequency and coverage. Other quality standards remain statutorily unspecified. The US approach to service affordability is generally consistent with that of most other countries.

### **International comparison - liberalization upside potential**

This study uses four criteria to evaluate the relative upside potential from postal liberalization across countries:

- **Quality of Service:** Relative postal performance from customer's viewpoint
- **Price Competitiveness:** Relative price position and trend
- **USP Efficiency:** Relative productivity and operational efficiency of USP
- **Customer Choice:** Extent of customer choices available in postal market

Based on these criteria, the upside potential appears relatively lower for the US postal market. That is especially true for price competitiveness, USP efficiency due to the scale of USPS operations, and customer choice.

### **International comparison - relative exposure to liberalization**

The evaluation of a USP's relative exposure to liberalization falls into two categories: macro- and micro-economic. The relative exposure of the USPS is relatively to significantly higher than for other USPs in both areas. Macro-economic criteria include market density, which leaves the USPS exposed to potential cream skimming. Micro-economic criteria include high dependency on mail revenue and relative cost disadvantages.

### **International comparison – balance of flanking measures**

The transition to a liberalized regime carries risks for a national USP. To mitigate challenges and risks, liberalized or liberalizing countries employ one or more "flanking measures." They may either support or restrict the USP and new entrants. The study includes a detailed description of these measures. The overall balance of flanking measures in the US highlights the relatively lower level of support provided to the USPS compared with other posts.

### **Comparison summary**

This study shows that it is challenging to make one-to-one comparisons of the various liberalized or liberalizing developed countries. Each country is in a unique situation and uses specific measures to address challenges and opportunities. This analysis shows the US to be no exception.

Given the lower potential upside and the higher exposure of the USPS relative to other national postal services, the US postal market can be considered as "high risk" with respect to postal liberalization.

## Objective and approach

### Objective

According to the USPS's Terms of Reference, this study should seek to provide a structured, unbiased overview of the postal USO, its approach, and its evolution outside the US. The study's purpose is to help inform discussions on possible changes to the USO and monopoly in the US. In particular, this study has looked at the following dimensions:

- Status of the postal Universal Service Obligation
- Theory and guiding principles behind postal liberalization
- Context and outcome of existing liberalization experiences
- Comparative study, based on four key components, of the US and other key countries

The study focuses on fact-based insights to help address the following questions:

- **US relative position:**
  - How does the definition of universal service in the US compare internationally?
  - Considering the USPS performance today, what is the relative potential upside to be expected from liberalization in the US, compared with other countries?
  - Considering the differences in macro and micro-economic context, what is the likely relative exposure of the USPS to liberalization compared with other Posts?
  - What degree of protection or support does the USPS receive to adapt to a liberalizing environment, relative to other Posts?
- **International experience:**
  - How comparable are various international experiences of liberalization (or pending liberalization) to the US context?
  - What are the observable impacts on the various stakeholders (customer/consumer, USP, new entrants)?

## Approach and scope

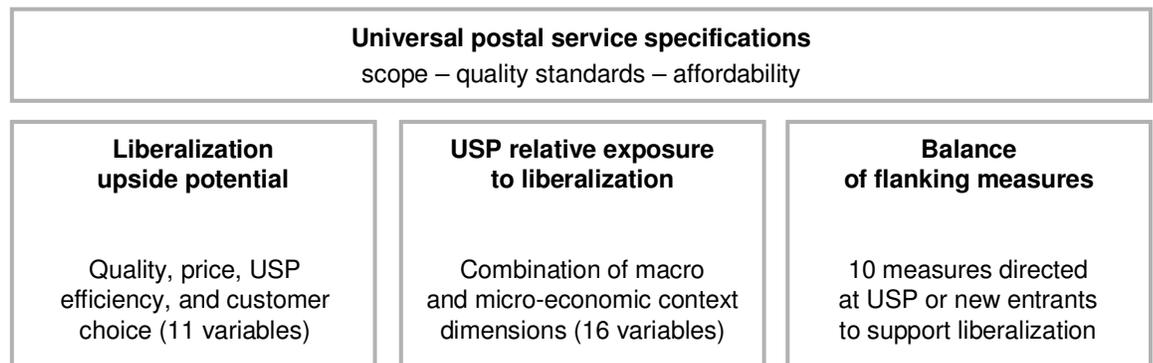
In accordance with the Terms of Reference, Accenture based this study primarily on secondary research, supplemented by our experience in the postal industry. For a list of resources explored, please see Appendix A.

The scope of the study includes a compilation of findings from available industry reports. The study focuses on EU15 countries, New Zealand, Australia, Japan, and Canada.

The study also takes a closer look at postal liberalization (or reform) efforts in eight countries representative of different liberalization stages or contexts:

- Historically liberalized (Sweden in 1993 and New Zealand in 1998)
- Recently liberalized (UK in 2006 and Germany in 2008)
- Partially liberalized (Italy, Netherlands, and France)
- Non-liberalizing (Canada, though with significant steps to reform)

Central themes of this study include comparison of countries' specific postal liberalization contexts and understanding of how comparable they are to the US. To develop a rigorous, fact-based understanding of each country's situation, the study applied the following analytical framework:



## Universal postal service specification

The framework starts by comparing definitions various countries use to describe universal postal service. This is a critical step because different levels of expectations can lead to significantly different starting points and constraints for each USP. Different levels of expectations generally involve variances in scope, quality standards, and affordability.

### **Liberalization upside potential**

The framework then looks at the liberalization upside potential of each country. It does so by assessing the relative level of performance of the postal service against a series of metrics that market liberalization is supposed to improve. These metrics are service quality, price, efficiency of the USP, and customer choice. The lower the relative level of performance of a given USP on each of those dimensions, the higher the potential upside from liberalization.

### **USP relative exposure to liberalization**

The third element of this framework focuses on the USP and understanding its relative exposure to market liberalization. The relative degree of exposure of a given USP can arise due to uncontrollable factors. Uncontrollable macro-economic factors include relative size and maturity of the market. Uncontrollable micro-economic factors include relative burden from a legacy cost structure or the degree and type of dependence on mail revenue.

### **Balance of flanking measures**

The last dimension in this framework looks at pre-existing or recently implemented conditions associated with transitioning to a liberalized market environment. As countries liberalize, they often implement a number of "flanking" measures (generally regulations), directed at the USP, new entrants, or both. Understanding the relative balance of flanking measures helps assess the relative degree of support provided to each USP in the event of effective opening of the postal market to competition.

To verify a rigorous, fact-based qualification of a studied country's situation, the study assessed each dimension of the framework and quantified it wherever possible. The study used a standard set of variables from available secondary research. Looking at the spread of positions across analyzed countries, the study analyzed each of the four elements of our framework to determine the position of each country relative to the referenced peer group, that is, countries in the scope of this study.

The results of this fact-based analysis serve as the basis for evaluating the comparability of each country's specific situation to the US context as well as the US relative position (and specific differences) across each dimension of the framework.

## Limitations

The study based its analysis primarily on available secondary research, supplemented by our industry experience and qualitative inputs from secondary sources. As a result, the following limitations apply:

- Availability and time periods of secondary research information limited the choice of quantified variables used in the framework
- Comparing countries across variables required combining various sources that may yield to possible differences in definitions or information gathering methodologies
- Validity of analysis depends on the quality and accuracy of the original research used to build it
- Information and data on the US market and the USPS come from the USPS. While we have documented sources and the rationale whenever available, it is important to note that all are open to interpretation and as such reflect a USPS position and not necessarily Accenture's
- While steps were taken to update information whenever possible, the fluidity and rapidly changing environment and some parameters of the postal industry may have already become obsolete

For these reasons, the presented comparisons are relative and directional only and should not be taken out of their context.

Finally, as per our Terms of Reference, conducting detailed economic analyses of the various countries' USO costs or other components was out of the scope for this study. As a result, the study based the estimated relative benefit or risks associated with the postal liberalization across the analyzed countries (and in the US in particular) on a limited number of available proxies. They are directional only and do not serve as a substitute for a rigorous economic analysis. The Terms of Reference also excluded deriving from the comparative study implications for the USPS and recommendations for the USPS to prepare for or address liberalization.

## Postal liberalization: theory

### **Social and economic importance of mail**

Without question, postal services around the world play a critical, daily role in keeping their country, their economy, and their people connected. The Universal Postal Union (UPU) International Bureau estimated that in 2002, the posts processed more than 425 billion domestic pieces of mail a year, with 5.2 million employees, across 660,000 post offices worldwide.

The US situation is no exception as exemplified by the following:

### **Scale**

The USPS processes +200 billion pieces a year, compared with 8 billion in the package and service sector (e.g., FedEx, UPS), at a significantly lower price point.<sup>1</sup>

### **Ubiquity**

As the chart on the next page shows, the USPS delivers mail to virtually every single address in the country (148 million addresses) six days a week, while the Internet reaches 72% of US households and only 50% of lower-income households despite outstanding adoption rates.<sup>2</sup>

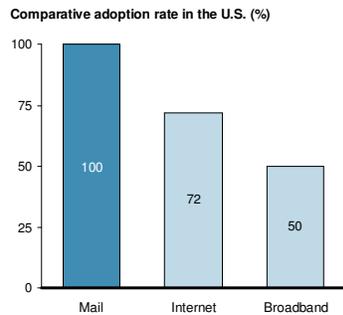
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<sup>1</sup> USPS DMQ 2007; E&PS provider websites and customer service; Accenture analysis.

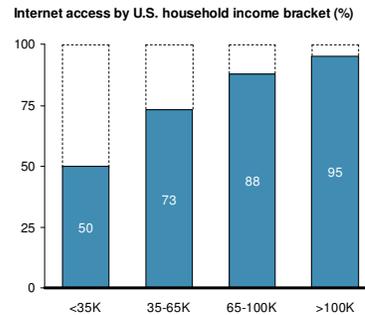
<sup>2</sup> Report AI; Accenture analysis.

## Mail and internet comparative penetration in the US

Penetration of alternative modes of communication in US households still below that achieved with postal universal coverage.



All the more so as when considering lower income households.



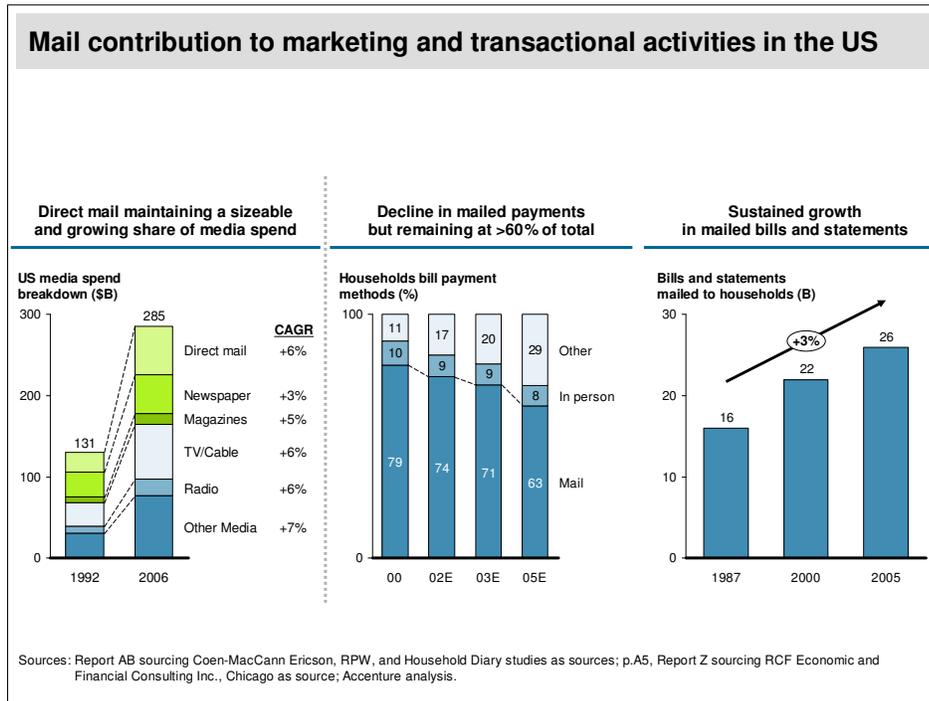
Sources: Report AI; Accenture analysis.

### Economic impact

Despite the rise of newer communication media (e.g., cable, Internet), the chart on the next page shows that direct mail revenue remains one of the fastest growing categories in media spending. Similarly, while electronic payments are growing at a very fast pace, the number of bills and statements mailed to households is growing 3% a year and represent +25 billion pieces a year. Likewise, mail remains the preferred payment method for 63% of all households' bill payments.<sup>3</sup>

<sup>3</sup> Report AB sourcing Coen-MacCann Ericson, RPW, and Household Diary studies as source; p. 45 Report Z sourcing RCF Economic and Financial Consulting Inc. as source; Accenture analysis.

## Mail contribution to marketing and transactional activities in the US



## Liberalization of postal services

Since the 1657 Post Office Act created the UK's Royal Mail, countries have come to support the sustainable provision of a universal postal service with postal monopolies. From experience, governments recognize challenges to USPs. Each post faces the competitive burden of maintaining large fixed-cost networks to serve everyone, everywhere in the country. Each post also has to operate under uniform rates with underlying cross-subsidies of higher-cost areas by lower-cost areas. That makes the posts vulnerable to competitors who target the most profitable segments. This complex situation potentially saddles each post with higher cost segments, which threaten the posts' ability to maintain a viable economic position or universal service.

The last decade has brought significant changes to each national post. Despite the growth in direct mail revenue and certain mail segments, numerous new communications technologies plus rising customer demands for new options (including the willingness to pay for better, more targeted services) produced a flattening if not drop in mail volumes relative to the growth in population and economic activity. That is particularly true in the most industrialized countries. Postal operators realize that the volume decline is not temporary.

They see that the convenience, speed, and lower costs of emerging communications will create lasting changes.

Several studies indicate that physical communication networks will remain a viable, relevant, reliable alternative means of exchanging information. For example, the Universal Postal Union (UPU) says:

Substantive and sustainable development in the information society of the 21<sup>st</sup> century cannot be conceived and achieved on a worldwide basis without integrating all existing and future communication infrastructures and services, including postal and other physical communication services. Postal services are not part of a sunset industry, but rather will continue to play a significant role in the world's economy and information society for years to come."<sup>4</sup>

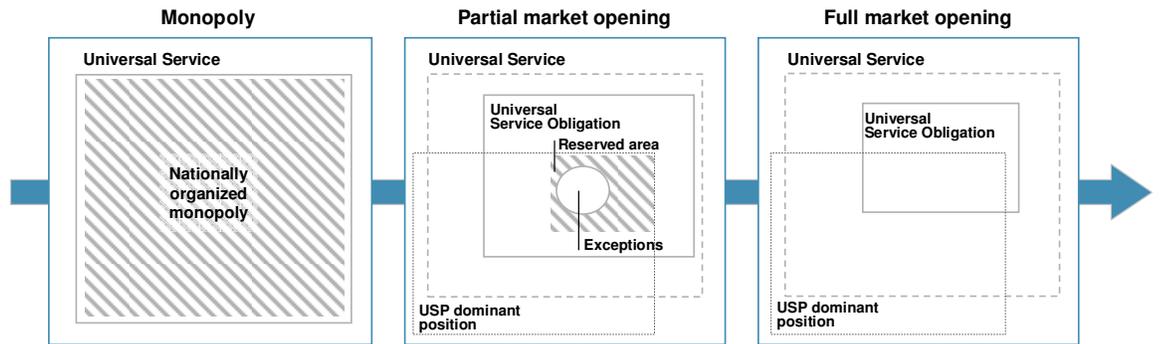
At the same time, many countries have privatized utility sectors formerly dominated by state-owned companies in such areas as telecommunications, energy, water and waste disposal, and public transportation. That trend led most developed countries to consider similar competition for the postal sector to achieve improved quality of service, lower price, increased customer choice, and improved service provider productivity.

Central to the liberalization theory is the notion that one cannot justify reserved areas (portions of the market reserved for the Universal Service Provider to operate free of competition) as the preferred or even sole means of guaranteeing universal service. It holds that market forces alone or with limited public intervention can accomplish the same outcome.

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<sup>4</sup> Report V.

This theory departs from the traditional monopoly concept and produces several forms of liberalization described below:



### Monopoly

In this situation, the universal service is defined in extensive terms and its provision guaranteed by a nationally organized monopoly matching the scope of the universal service.

### Partial market opening

The extent of universal service may remain the same (or have slight modifications), but market forces provide partial service. Regulatory or legislative intervention establishes USO, limited to services inadequately provided by market forces. Independently, the USP may maintain a dominant market position (i.e., relative market share) beyond the reserved area.

### Full market opening

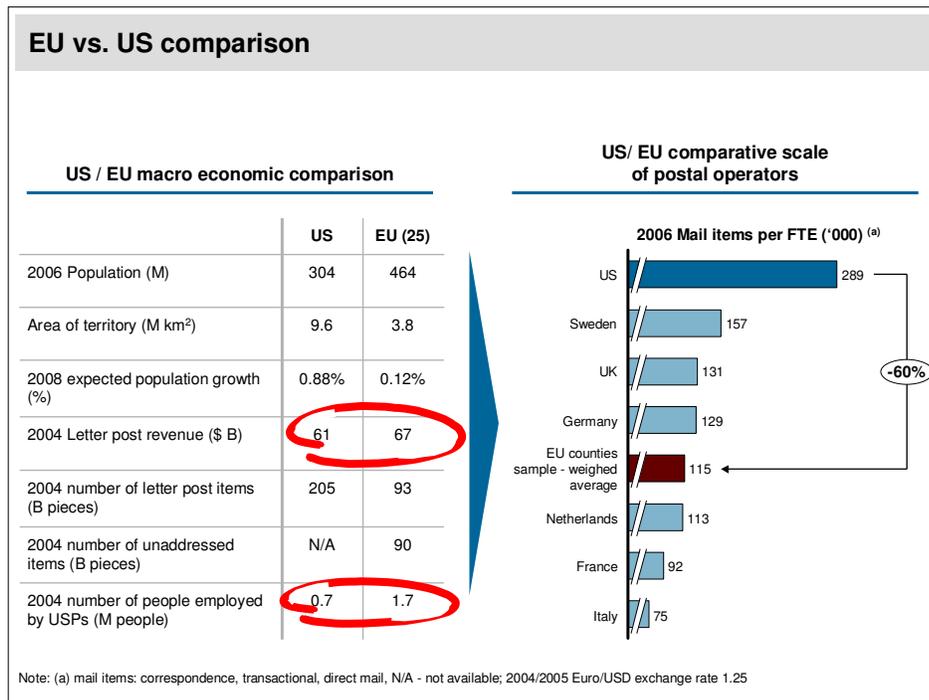
Market forces provide universal service without reserved areas. Independently, the USP may maintain dominant market position (relative market share) in some or most of the market segments.

## Postal liberalization: international experience

### The European example<sup>5</sup>

Starting in 1994, the European Union reached reconciliation for a gradual, controlled opening of its postal markets to competition. The EU guaranteed the sustainability of universal service as a main objective of its Community Postal Policy.

A driving force behind the EU's postal liberalization was an expectation that new scaled operators would create competition within a single European market. The following illustration shows how the US and the USPS handle far more mail with far fewer employees than the EU and its major postal operators.<sup>6</sup>



<sup>5</sup> Report A; Report AC; Report AD; Report AE; Accenture analysis.

<sup>6</sup> Report AJ; CIA world fact book; USPS annual report, 2007; p.25, report AB.

By 1997, the EU had established a regulatory framework to guarantee universal service and set limits for postal services, which Member States could reserve for their universal service provider. The EU confirmed that gradual, progressive reduction of reserved areas was a priority. It set initial timetables for further market openings.

In 2006, the EU confirmed that the sustainable provision of a postal universal service under the quality standards the Member States defined could be secured without the requirement of a reserved area.

In 2008, the EU announced its plan, shown below, to eliminate the postal monopoly laws in Member States by 2011-2013. The reserved area will no longer be the preferred solution for financing the USO. Member States would ensure universal service through either market forces or designation of one or several regulatory mechanisms to support such service. Examples include the ability to use external financing to fund residual net costs of the USO as needed, the use of general authorizations and individual licenses to regulate market access, and the ability to regulate employment conditions in the postal services sector (assuming that it does not lead to unfair competition). The study includes a description of these and other measures in more detail below.

#### EU Postal Directive Overview<sup>7</sup>

Topic	1997	2008
Rationale and objective of postal liberalization	<ul style="list-style-type: none"> <li>• Creation of internal market in postal sector of proven importance for the economical and social cohesion of the Community</li> <li>• Postal services as an essential instrument of communication and trade</li> </ul>	<ul style="list-style-type: none"> <li>• Confirm main EU postal policy objective as reconciling the gradual, controlled opening of market with sustainable guarantee of universal service</li> <li>• Reaffirm importance of postal services as:               <ul style="list-style-type: none"> <li>○ services of general economic interest</li> <li>○ essential instrument for communication and information exchange</li> <li>○ promoting social, economic, and territorial cohesion</li> </ul> </li> <li>• Identify changes in the postal market:               <ul style="list-style-type: none"> <li>○ competition requires proactive, pro-development stance to ensure benefit for EU citizens</li> <li>○ changing user needs, automation, electronic communication, market opening, new funding sources support diversification of USPS' activities</li> </ul> </li> </ul>

<sup>7</sup> Directive 97/67/EC dated 01/21/98; Directive 2008/6/EC dated 02/20/08; Accenture analysis

<p>Universal service definition</p>	<ul style="list-style-type: none"> <li>• Require Member States to ensure all users the right to universal service               <ul style="list-style-type: none"> <li>◦ Permanent provision of postal service of specified quality at all points of territory and at affordable prices</li> <li>◦ One clearance and one delivery to home or premises of every legal or natural person (by derogation to applicable installations), every working day, 5+ days/week</li> <li>◦ 2+ kg postal items, 10+ kg postal packages</li> <li>◦ Services for registered and insured items</li> </ul> </li> <li>• Require detailed, up-to-date information for users on universal service features (general access conditions, prices, quality standards)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct mail may be considered as item of correspondence</li> <li>• Require appropriate density of access points to postal service in rural and remote regions</li> <li>• Confirm that market opening should not compromise continuation of services for blind and partially sighted people</li> <li>• Permit Member States to designate multiple USPs for different elements of universal service and/or different parts of national territory, subject to periodic review</li> <li>• Permit Member States to ensure universal service through public procurement, contracting, or negotiation</li> </ul>
<p>Service price</p>	<ul style="list-style-type: none"> <li>• Must ensure affordable prices such that all users have access</li> <li>• Price must be geared to costs</li> <li>• Uniform tariffs may be required so long as they do not prevent USP from entering into individual agreements with customers</li> <li>• Prices must be transparent and nondiscriminatory</li> </ul>	<ul style="list-style-type: none"> <li>• Prices to reflect normal commercial conditions and costs, except to protect public interest:               <ul style="list-style-type: none"> <li>◦ allow Member States to continue uniform pricing for single piece mail</li> <li>◦ extend uniform pricing to books and newspapers</li> </ul> </li> <li>• Recognize need for more flexible pricing mechanisms for business and bulk mailers to account for cost avoidance</li> <li>• Require nondiscrimination in offering discounted rates with respect to similarly situated users, including other USPs supplying equivalent services</li> </ul>
<p>Quality of service</p>	<ul style="list-style-type: none"> <li>• Require quality of service standards to be set and published for universal service</li> <li>• Monitoring of actual service quality to be conducted at least once a year by independent body under standardized conditions</li> <li>• Transparent, simple, and inexpensive procedures to be implemented to deal with customer complaints</li> </ul>	<ul style="list-style-type: none"> <li>• Same conditions to be applied beyond USP (i.e., new entrants)</li> <li>• Extend complaint procedures to multi-provider situations</li> <li>• Direct Member States to create out-of-court mechanisms for resolving disputes between users and postal providers</li> <li>• Extend joint/organizational standing to complaints within universal service (not merely USP)</li> </ul>
<p>Reserved areas</p>	<ul style="list-style-type: none"> <li>• Authorize each Member State to use reserved areas as necessary to maintain universal service</li> <li>• Set maximum weight and tariff restrictions for reserved areas</li> <li>• Prohibit inclusion of document exchange in reserved area</li> <li>• Retain national authority for: placing of letter boxes on public highways, philately, registered mail service for judicial or administrative procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Confirm that sustainable provision of universal service matching quality standards defined by the Member States can be secured throughout the EU by 2009 without the need for reserved area or special rights</li> <li>• Recognize that USP may be allowed to further diversify in order to face competition, cope with new customer requirements, and secure new funding sources</li> </ul>

<p>Authorization of postal providers</p>	<ul style="list-style-type: none"> <li>• Permit Member States to introduce authorization procedures, including individual licenses, for services outside of reserved areas, as needed to guarantee compliance with essential requirements and to safeguard universal service</li> </ul>	<ul style="list-style-type: none"> <li>• Permit Member States to condition licenses on universal service or service requirements (for designated USPs), contribution to universal service fund or National Regulatory Authority costs, or duty to respect working conditions per national law</li> <li>• Allow Member States to apply one or a combination of approaches: provision of universal service by market forces or designation of one or several undertakings to provide different elements of the service in different part of the territory</li> <li>• Recommend Member States ensure no overlap between providers when more than one undertaking is being considered</li> </ul>
<p>Funding of universal service</p>	<ul style="list-style-type: none"> <li>• Authorize Member States to establish compensation fund, administered by body independent from beneficiary, when provision of universal service leads to unfair financial burden on Universal Service Provider</li> </ul>	<ul style="list-style-type: none"> <li>• Allow Member States to establish mechanism to compensate USP from public funds</li> <li>• Allow Member States to establish mechanism for sharing net universal service costs among providers and/or users, including but not limited to a compensation fund</li> <li>• Allow Member States to decide whether profits accrued from other activities outside of universal service can be assigned, fully or in part, to the funding of the universal service obligation</li> <li>• Specify that special services should not be subject to compensation fund mechanism</li> </ul>
<p>Financial reporting</p>	<ul style="list-style-type: none"> <li>• Require separate accounting between reserved and non-reserved areas and, within non-reserved area, between universal service and other services</li> <li>• Establish cost accounting system and permit Member States to adopt other systems compatible with Directive principles</li> <li>• Require independent audit and National Regulatory Authority review of compliance with cost accounting requirements</li> <li>• Permit NRA to forego accounting mechanism where no reserved area, compensation fund, or state aid</li> </ul>	<ul style="list-style-type: none"> <li>• Clarify that accounting provisions apply only to USPs</li> <li>• Reorient cost accounting around separation between universal service and non-universal service offerings, reflecting elimination of reserved areas</li> <li>• Allow Member States to require accounting separation for postal providers contributing to compensation fund</li> </ul>
<p>National regulatory authority (NRA)</p>	<ul style="list-style-type: none"> <li>• Require Member States to implement one or more National Regulatory Authorities, legally separate and operationally independent from USP</li> <li>• NRA shall ensure compliance with the obligations arising from the Directive and, if so charged by the Member State, compliance with competition rules in the postal sector</li> </ul>	<ul style="list-style-type: none"> <li>• NRA to be authorized to gather appropriate, relevant, and proportionate information from postal service providers and take necessary measures to preserve confidentiality</li> <li>• Create independent appeal mechanism for users and USPs affected by NRA decision</li> </ul>

Miscellaneous	<ul style="list-style-type: none"> <li>• Permit Member States to maintain or implement more liberal measures at their discretion</li> </ul>	<ul style="list-style-type: none"> <li>• Require Member States to ensure transparent, non-discriminatory access to elements of postal infrastructure or services within scope of universal service (postcodes, address database, P.O./delivery boxes, change of address, forwarding/return service), whenever necessary to protect users or promote effective competition</li> <li>• Authorize Member States without prejudice to regulate employment conditions in the postal service sector so far as it does not lead to creating unfair competitive situation</li> </ul>
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**Status of the postal liberalization across major developed economies**

Finland, Germany, Japan, New Zealand, Sweden, and the UK phased out all reserved areas in their domestic postal markets. Italy, the Netherlands, Poland, Spain and Sweden took steps to exclude (or have historically excluded) bulk, addressed mail from the reserved area. The Netherlands considers advertising mail (AdMail) outside the scope of the USO. Despite elimination of their reserved area, many USPs remain dominant in their domestic markets or part of their domestic market.

European countries maintaining reserved areas have all reduced the scope of those areas as per the European Directive and have scheduled total elimination of reserved areas by 2011-2013.

By contrast, Australia, Canada, and the US currently maintain significantly higher reserved areas. As shown below, the weight threshold is more than five times higher than most EU countries.

## Postal reserved areas<sup>8</sup>

	Single Piece and inbound cross border <sup>1</sup>	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
<b>Australia</b>	< 250 g		< 250 g	< 250 g			
<b>Austria</b>	< 50 g, 2.5 x BT		< 50 g, 2.5 x BT	< 50 g, 2.5 x BT			
<b>Belgium</b>	< 50 g, 2.5 x BT		< 50 g, 2.5 x BT	< 50 g, 2.5 x BT			
<b>Canada</b>	< 500 g	< 500 g	< 500 g	< 500 g			
<b>Finland</b>	Dominant	Dominant	Dominant	Dominant			
<b>France</b>	< 50 g, 2.5 x BT		< 50 g, 2.5 x BT	< 50 g, 2.5 x BT			
<b>Germany</b>	Dominant	Dominant	Dominant	Dominant			
<b>Italy</b>	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT				
<b>Japan</b>	Dominant	Dominant	Dominant	Dominant			
<b>Netherlands<sup>3</sup></b>	< 50 g, 2.5 x BT		< 50 g, 2.5 x BT				
<b>New Zealand</b>	Dominant	Dominant	Dominant	Dominant			
<b>Poland</b>	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT		< 50 g, 2.5 x BT		Dominant
<b>Spain<sup>2</sup></b>	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT				
<b>Sweden</b>	Dominant						
<b>Switzerland</b>	< 100 g, 3 x PRI		< 100 g, 3 x PRI	< 100 g, 3 x PRI			
<b>UK</b>	Dominant	Dominant	Dominant	Dominant			
<b>US</b>	<354.4 g, <6 x BT		<354.4 g, <6 x BT	<354.4 g, <6 x BT	(6)	(6)	(6)

	Reserved area		Reserved area, scheduled elimination by 2011-2013		Competitive <sup>3</sup>		Dominant		Competitive but USP dominant <sup>4</sup>
									BT = Basic tariff PRI = Priority tariff 50 g = 1.76 oz

Notes: 1) Single Piece assumed to refer to IPC definition of Standard Letter; Inbound cross-border data limited, and assumed to have same properties as Standard Letter for EU countries; 2) Spain's Reserved Areas exclude intra-city mail postal service; 3) Competitive - no Reserved Area; if market share known, < 90%, otherwise assumed competitive when > 1 competitor; 4) when market share known if USP share is > 90%, or USP only provider; market share refers to estimated total combined market share of USP in addressed mail delivery (measured in no. of items delivered); includes both reserved and non-reserved areas; 5) Netherlands have postponed liberalization from July 2008 to undefined date as of May 2008; 6) Due to mailbox monopoly, these items cannot be delivered to letterbox without bearing postage

## Lessons learned from international experiences

Conclusions must be cautious, particularly when trying to extrapolate the experience and results of the postal liberalization. With a few exceptions, liberalization of the postal industry has only just begun in some countries. It remains a work in progress in most. The context of each country's operations can differ greatly, which we address below.

These examples offer insights about the early stages of the liberalization process. But the amount of change that has already affected the postal industry in the past decade suggests unforeseen new roles, business models, relationships, and regulatory schemes will emerge in the years ahead.

<sup>8</sup> Reports M; Report N; Report T; Accenture analysis.

Despite those contextual differences and the overall lack of historical perspective, we have identified a few common themes or trends around four dimensions:

- **Competitive landscape:**
  - How is the competitive landscape shaping up?
  - What factors likely explain the differences in situations observed across countries (macro-economic environment, USP response, flanking measures implemented)?
- **New entrants**
  - What types of competitors enter into a liberalized postal market?
  - What is their strategy and value proposition, and what critical success factors are likely to determine their relative success?
- **Customer impacts:**
  - What impacts do various customer segments experience generally by liberalization of the postal market?
  - Who mostly "benefits" or "loses" from liberalization?
- **USP Response:**
  - What response does liberalization of the postal market generally require from the USP (beyond supporting flanking measures implemented by National Regulatory Agency)?

### **Competitive landscape**

The competitive landscape that followed liberalization of the postal industry is evolving slowly, even in New Zealand and Sweden, where liberalized postal services have existed for a longer time. Economic factors, competitive responses from USPs, and regulatory schemes may have limited the evolution process in some countries. The table below describes the current competition among postal service providers within countries and highlights factors that may have contributed to a slow evolution.

## Competitive landscape – international comparison<sup>9</sup>

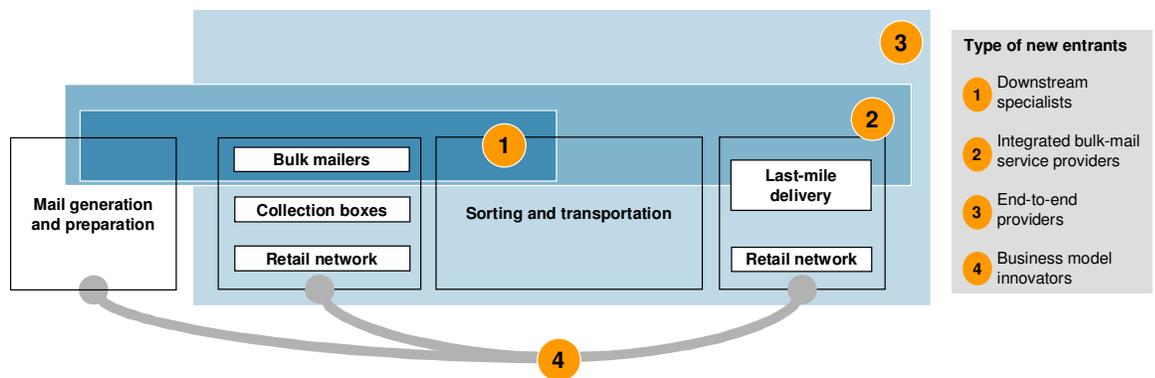
Note: N/A = not available; n.a. = not applicable

Country	Liberalization	Competition market share	Competitive landscape	Potential limiting factors		
				Macro-economic factors	USP response in mail market	Flanking measures
SE	1993	9% (single letter) 13% (bulk)	One sizeable competitor, CityMail (subsidiary of Norway Post) and ~30 smaller scale operators	Small mature and declining market	Aggressive commercial practices (e.g., loyalty rebates, price increase targeting customers reducing volumes)	Limited supporting environment provided to new entrants and postal wage constraint
NZ	1998	5% (total market)	~25 small scale operators, focused on urban areas primarily	Small market	Aggressive pricing	n.a.
UK	2006	3% (in licensed area) <1% (last mile)	~20 operators – primarily specialized in bulk mail and downstream access Limited growth in end-to-end mail services.	n.a.	Low access prices reducing market attractiveness for end to end operators	VAT exemption viewed as important factor restricting competition
DE	2008	10%	Large number of AdMail/bulk distributors mostly focused on niche markets (e.g., geography)	n.a.	Aggressive commercial practices leading to legal disputes (e.g., PO box and address database access)	Competitors exiting or reducing market presence (e.g., TNT, PIN Group) following introduction of constraining labor Laws
NL	AdMail (historically)	12% (addressed)	~11 operators ranging from distribution of addressed direct mail to upstream activities for addressed printed matter	High population density reducing competitors' ability to build cost advantage High quality standards	n.a.	VAT exemption viewed as primary restriction to competition
IT	AdMail (historically)	1-2% (bulk mail)	Number of localized operators and business mailers delivering addressed AdMail in major urban centers for many years	Relatively unattractive market (postal scale, low transactional mail volumes)	Price reduction (from high base) Coo-petition (downstream access agreement and upstream collaboration)	Lack of clarity driving competition to pace investments
FR	Reserved areas reduced	N/A	Large network of local mail houses and consolidators (including foreign posts) due to long history of worksharing – niche players focusing on addressable market out of reserved areas	n.a.	Historical practice of worksharing and downstream access	USO obligation Lack of clarity driving competition to pace investments (e.g., USO funding)
CA	Not liberalizing	N/A	Few competitors specializing in upstream value-add services	n.a.	n.a.	Reserved area

<sup>9</sup> Reports A (Annexes), I, L, M,W, X, AA, AB, AL, AN; company websites; Consumer Postal Council country profiles; Accenture analysis.

## New entrants

The study defines the four possible segments for competitors entering a liberalized postal market. As shown below, they include: downstream specialists, integrated bulk-mail service providers, end-to-end (E2E) providers, and business model innovators. Each category focuses on making different value propositions and adopting different business models. Much of the competition today resembles the first two categories. It is hard to find scaled examples of successful E2E service providers or business model innovators.



Note: Illustrative; actual business model may vary by competitor

### 1. Downstream access specialists

Downstream access specialists focus on large bulk mailers. Their business model aims to aggregate demand to build scale and bypass USP operations so that they can be more cost effective and use the USP network for last-mile delivery. They build their value proposition around providing customers with a lower price option, a more specialized service, and the benefit of vertical integration (service bundling). Critical to their success is their ability to access the USP network, develop the right mix of specialized services (particularly upstream), provide marketing skills (for AdMail services), and expand customer relationships from existing upstream portfolios of businesses.

### 2. Integrated bulk-mail service providers

These players cater to large/medium-sized bulk mailers. They tend to replicate the USP's bulk mail operations and seek to build scale and density through geographic specialization and/or reduced service levels. These providers use the USP's network in exceptional cases, such as in areas the provider's network does not serve. Their value proposition is similar to that of downstream access specialists in that they also offer low prices and specialized services that benefit from vertical integration. Critical success factors include

the ability to generate enhanced market coverage (value/density), employ existing distribution networks such as unaddressed mail operations and publishing networks, capitalize on their marketing skills, and expand existing customer relationships.

### 3. End-to-end service providers

E2E service providers target as many customers as possible. They attempt to replicate elements of the USP’s value chain. As with integrated bulk-mail service providers, E2E service providers focus on geographical areas such as city centers. They also seek to provide lower service levels to build scale. Their value proposition employs lower priced solutions or improved, tailored services. To succeed, these providers must use assets and scale from pre-existing bulk or unaddressed mail business and improve quality of service.

### 4. Business model innovators

Business model innovators target mid-sized businesses and consumers with innovative solutions that bypass the traditional mail chain. They offer lower priced solutions and increased convenience. To succeed, these providers must innovate, segment the market, and exploit existing retail networks.

The table below provides representative examples of companies across liberalized or liberalizing countries.<sup>10</sup>

1) Downstream access specialists	2) Integrated bulk-mail providers	3) E2E providers	4) Business model innovators
<ul style="list-style-type: none"> <li>▪ <b>Rinaldi</b> (IT)</li> <li>▪ <b>DHL Global Mail</b> (FR) – adds upstream value services following Koba acquisition</li> <li>▪ <b>Euromail</b> (NL)</li> <li>▪ <b>TNT Post UK</b> (UK)</li> <li>▪ Other locally specialized niche providers</li> <li>▪ Some large, vertically integrated mailers (AdMail/transactional bulk)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Uniposta</b> (IT)</li> <li>▪ <b>Citymail</b> (SE) – focuses on Stockholm, Gothenburg, Malmo, and surrounding areas</li> <li>▪ <b>DHL Global Mail</b> (UK) – B2B delivery for 22 London postcodes</li> <li>▪ <b>Adrexo</b> (FR) – nationwide delivery network; focuses on direct marketing packaging and heavier documents</li> <li>▪ <b>Sandd and Selekt Mail</b> (NL) – low price, 2 deliveries/week</li> <li>▪ <b>Mailmerger</b> (NL) – delivery to PO boxes</li> <li>▪ <b>Citpost AMP</b> (UK) – niche B2B markets</li> <li>▪ <b>DX Group</b> (UK) –</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>PIN Group</b> (DE) – has nationwide network of publishers</li> <li>▪ <b>Europost</b> (DE) – nationwide network of independent operators</li> <li>▪ <b>NZ Document Exchange</b> (NZ) – uses parent Freightways Group’s air, rail, and line-haul network; multiple drop box locations</li> <li>▪ <b>TNT Post UK</b> (UK) – delivery test in Liverpool</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Pete’s Post</b> (NZ) – provides personalized prepaid mail products and stamps</li> <li>▪ <b>UK Mail</b> (UK) – i-Mail service: prints, envelopes, and transfers e-mail sent from customers to Royal Mail for last-mile delivery</li> <li>▪ <b>Fastway Post</b> (NZ) – store-in-store network of franchisees; has its own delivery couriers for mail delivery</li> <li>▪ <b>DX Group</b> (UK) – retail office-to-retail office delivery with convenient pre-9 a.m. and post-5 p.m. store hours and “signed for” secure mail services</li> </ul>

<sup>10</sup> Reports A (Annexes), I, L, M,W, X, AA, AB, AL, AN; company websites; Consumer Postal Council country profiles; Accenture analysis.

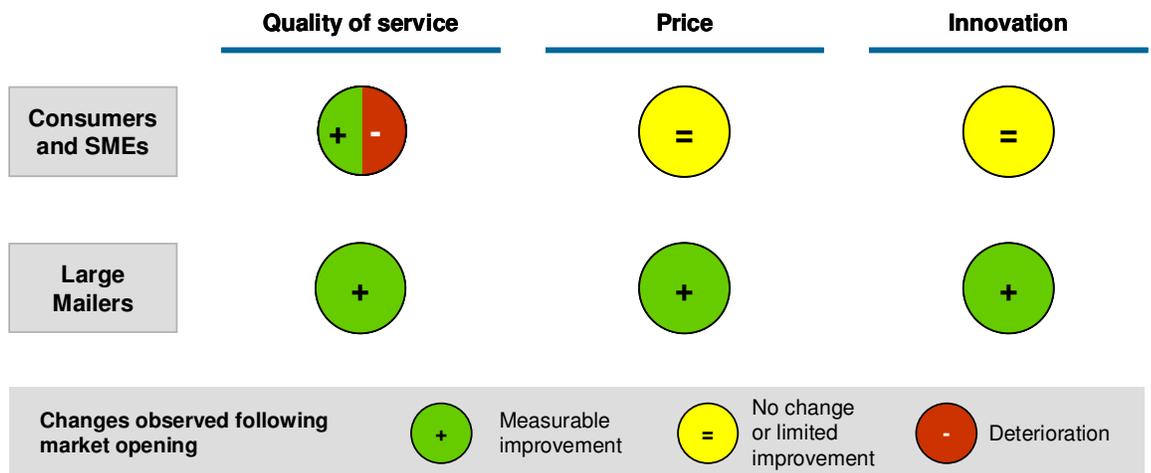
	London delivery to “high streets” and business district exclusively ▪TNT Post UK (UK)		
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### Customer impacts

The study looks at the impact of quality of service, price, and innovation on customers by reviewing the generally accepted (or at least expected) benefits brought by liberalizing previously monopolized industries.

The figure below shows customer impacts as experienced by consumers, small and medium-sized enterprises (SMEs), and large mailers across the three dimensions of quality of service, price, and innovation.

#### Customer impact overview



At the upper levels, large mailers that experience measurable improvements capture the benefits of the three dimensions. By contrast, consumers and small-mid sized companies experience limited changes or improvements and generally only in urban areas. This is somewhat expected, since large mailers have been the focus of new entrants’ efforts.

### Quality of service

Liberalizing countries have established, at a minimum, clear nationwide transit time agreements and have been improving performance as measured by aggregated volumes delivered the next day [D+1] and second day [D+2]. USO discussions have led to additional explicit definitions of standard level agreements. Many countries concurrently are implementing more customer-

centric, quality performance metrics, such as volumes by cut-off time or retail accessibility metrics.

Generally, urban retail networks have improved their services, including breadth of services and service accessibility, such as hours of operation. Conversely, remote/rural areas often experience a reduction in service levels because of aggregated nationwide service level commitments and the closing of less productive offices/depots. Customer protests often accompany these service level reductions.

### **Price**

Retail prices have remained relatively stable, net of inflation. Some notable exceptions include Sweden, which experienced a 34% increase in the price for first class mail between 1990 and 2004, and a 253% increase in price for parcels.<sup>11</sup>

Many countries have implemented some level of price controls and price caps in parallel with the liberalization of the postal market. Other liberalizing industries, such as power and public transportation, have experienced significant increases in retail prices (at least in areas with less competition.)

In contrast, competition from new entrants leads to a sizeable reduction in average prices for large mailers. This is because many competitors enter the market with a value proposition aimed at undercutting the USP's prices.

### **Innovation**

Innovative solutions on the consumer front are rare because new entrants focus on large mailers to build scale. Small to mid-sized businesses sometimes benefit from USPs that introduce upstream value-added services in response to or in anticipation of competition. Large mailers also benefit from the introduction of new offerings (primary targets of new entrants) and from the increased flexibility introduced by USPs.

### **USP response**

In response to a liberalizing postal market, most USPs take major steps along one or more dimensions, including: (1) cost reduction, (2) pricing, (3) service quality and innovation, and (4) revenue diversification.

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<sup>11</sup> p. 7, Report X; CPC country profiles.

### **Cost reduction**

Using the opportunity presented by new, clear USO specifications, USPs tend to align and improve their networks and infrastructure. One key strategy they pursue is to reduce rural post office networks by up to 30-40% by closing locations and/or by establishing franchises.

Many USPs downsize their workforce by up to 10-40% over 4-6 years by modifying their infrastructure and implementing operational efficiencies such as automation and outsourcing.

### **Pricing**

USPs maintain or increase retail prices, some to a significant degree. Sweden, for example, increased the price of first class mail by more than 31% between 1990 and 2004.

Price reductions (when observed) target large mailers and result from the introduction of more flexible and differentiated pricing schemes such as:

- Level of mail preparation (all countries)
- Better alignment with cost-to-serve - zoned pricing (e.g., DE, NL, NZ, SE, US), differentiated rates by volume (e.g., FR, NZ), differentiated rates by size (e.g., NL), rates by weight breaks (e.g., UK), and differentiated service levels such as delivery time (e.g., NL)
- Other commercial considerations include customer loyalty programs (e.g., SE) and dissuasion of competitor usage (e.g., SE)

### **Service quality and innovation**

Many USPs invest to improve service quality, particularly with respect to transit times (France +16%, 2003-2007) and accessibility to retail networks in urban areas. They expand opening hours and combine their own operations with that of franchises. On a more limited basis, some USPs introduce additional innovations that target residential customers by providing electronic certified mail and automated parcel drop-off centers.

However, most efforts focus on introducing new service offerings and extending product portfolios for large mailers:

- Upstream mail preparation services - transactional or AdMail printing, folding, inserting, sorting, transport
- Added value services - sophisticated targeting, campaign performance monitoring, customer data base management

### **Revenue diversification**

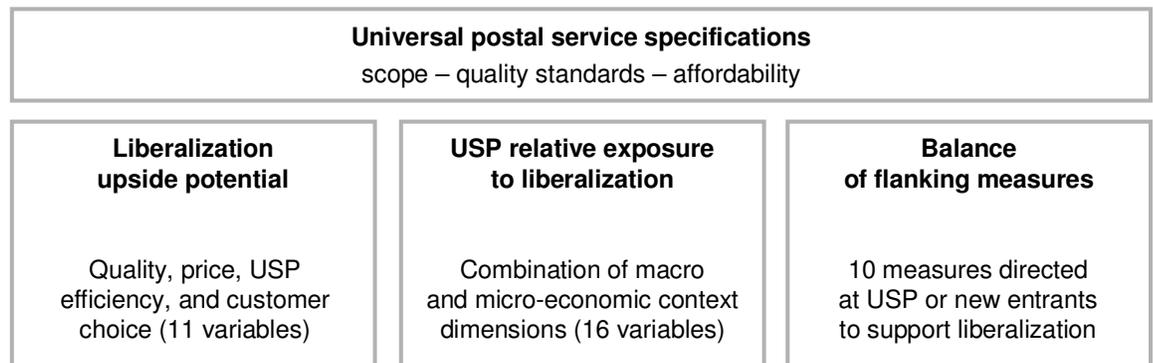
The studied USPs have taken steps to diversify beyond their core businesses by adding one or more diversification strategies to:

- Expand in other transport adjacencies such as express, freight, or logistics (CA, DE, NL)
- Use their existing post office network as a platform to launch new services such as banking or office supplies (FR, NZ, IT)
- Expand their presence in services that traditionally compete with mail, such as telecommunications, internet access, e-payment platforms (UK, SE, IT)
- Increase international presence (DE, NL)

The study includes further descriptions and illustrations of these strategies.

## International comparison overview

The study based international comparisons on the framework in the figure below.



The framework starts by comparing the definitions that various countries use to describe the universal postal service obligation. This is a critical step in the comparison process since different levels of expectations around scope, quality standards, and affordability can lead to different starting points and constraints for each USP.

The framework then looks at the liberalization upside potential of each country by assessing the relative performance level of the postal service against a series of criteria expected to improve in the event of a market liberalization. The criteria are service quality, price, efficiency of the USP, and customer choice. The lower the relative performance level of a given USP for each of those dimensions, the higher the potential upside expected from liberalization.

The third element of this framework focuses on the USP and on understanding its relative exposure to opening the market to competition. The relative degree of exposure of a given USP can be due to uncontrollable macro-economic factors such as the relative size and maturity of the market, more micro-economic considerations such as the relative burden from a legacy cost structure, or the degree and type of dependence on mail revenue.

The last dimension analyzed through this framework looks at the pre-existing or recently implemented conditions associated with the transition to a

liberalized market environment. A number of 'flanking' measures, regulatory dispositions taken by the government of liberalizing countries, are generally implemented and directed at either the USP, the new entrants or both. Understanding the relative balance of flanking measures would help assess the degree of support provided to each USP in the event of opening the postal market to competition.

The analyses presented here show only relative positions across countries, not absolute ones. The study includes the explanation of US positions in the appendix.

## International comparison – USO specifications

### Postal universal service definition

Postal services are generally considered a public service with an associated expectation of universal service.

In the US, the universal postal service is described as the provision of prompt, reliable, and efficient services, including the receipt, transmission, and delivery of written and printed matter, parcels, and like materials to patrons in every area and the provision of postal services to communities at fair and equitable rates. Additional requirements specify the provision of a uniform rate for sealed letters. The law requires the postal service to fulfill other social policy objectives that range from reducing rates for the mail of non-profit organizations to providing non-zoned rates for books, films, and like matter to specialized labor protection.

In the European Union (EU), member states must ensure that postal users enjoy universal services through quality postal service within their territories at affordable prices. In principle, the universal service provides one clearance and one delivery to the homes or premises of each natural or legal person each working day, even in remote or sparsely populated areas.

The Universal Postal Union (UPU) states that, to support the concept of a single postal territory of the Union, member countries shall confirm that users/customers enjoy the right to universal postal service. This involves the permanent provision of quality postal services at each point in their territory, at affordable prices.<sup>12</sup>

Three common themes emerge from these definitions:

- 1) Scope
  - a. USP must accept and deliver postal items identified in the Universal Service scope under specific quality standards
  - b. Two primary dimensions – users and products/services

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<sup>12</sup> Report AF; Report Z (Appendix U); Report AD; Article 21 of Report AE; Article 3.1 of Universal Postal Union.

- 2) Quality standards
  - a. Minimum service levels such as transit times
  - b. Minimum access requirements such as location of post offices
- 3) Affordability
  - a. Transparent, cost-geared, and market competitive pricing
  - b. Some degree of territorial price uniformity, such as geographical averaging, differentiated by class of service

### Scope of universal service obligation

Countries define the scope of the USO along three dimensions: (1) the type of users (consumers, small-medium companies, large companies), (2) the type of products/services (single-piece letter, single-piece parcel, bulk), and (3) within those products/services, specific attributes such as format, weight, or destination.

As the table below shows, the US is at the upper end of the USO scope requirements for many parameters.

### International comparison – scope of service<sup>13</sup>

	Ref.	Minimum obligation	Countries' relative position		Maximum obligation
Users	A	Sender: consumer, small, medium business	(DE)	Most countries US	All
	B	Addressee: consumer, small, medium business		Most countries US	All
Single piece letter	C	Addressed only	ES, FI	US	Addressed and unaddressed
	D	Letter format only	AR, NZ	US	Large envelope (flats)
	E	Correspondence only		AT, CA, CH, DE, ES, IT, JP, NL, SE, UK, US	Correspondence and printed material
	F	Less than 20 g / .71 oz	AR	AU, US (dom.), IT, PL, UK, US (int'l)	Up to 2 kg / 4.4 lbs
	G	Domestic and IB cross-border		AT, AU, BE, CA, DE, ES, FI, FR, IT, JP, NL, PL, SE, UK, US	Domestic and international
	H	Delivery only		AU, AT, BE, CA, CH, DE, FR, JP, NL, PL, UK, US	End to end
	I	Less than 10 kg / 22 lbs	ES, PL (dom.), NL (dom.)	FI, PL Int'l, AT, BE, CH, DE, FR, IT, NL Int'l, SE, UK, US	Up to 31.2 kg / 70 lbs
	J	Domestic and Inbound cross-border		BE, FI, NL, US	Domestic and international
Single piece parcel	K	Delivery only		BE, US	End to end
	L	Letter only	NL, ES, SE	UK, US	Letter and parcel
	M	Small customer only	UK	US	All Customers
Bulk services <sup>1</sup>	N	Domestic and Inbound cross-border		NL, US	Domestic and international
	O	Delivery only	(DE)	US	End to end

Notes: Only countries with defined USO parameters included on continuum; notes for select country positions provided  
 Dom. – domestic  
 1) Bulk services do not include products such as express (i.e. US equivalent of Competitive products)

<sup>13</sup> Report L; Report F; Report N; Report AM; Accenture analysis.

## Scope of universal service – country notes

Ref.	Notes
A, B	Germany's NRA (BNetzA) has recommended that universal services should include only postal services that consumers and small business customers demand as senders (e.g., postal items at single tariff) and to postal users as addressees (p. 45, Report L)
C	Finland's USO describes "addressed letter mail (1st class) up to 2 kg" (p. 38, Report N) Spain's USO describes provision for "addressed letters and postcards" (Report F)
D	Argentina's USO describes "ordinary letters up to 20 g" as "in scope" (Report F) New Zealand's USO describes as to "cover at least standard letters" (p. 86, Report N)
E	Many EU countries, including Austria, Belgium, France, Germany, Spain, Italy, Poland, and the UK describe newspapers, books, and periodicals as being in scope of the USO, while few specify unaddressed mail (Report F, Report N)
F	Argentina's USO describes "ordinary letters up to 20 g" as in scope (Report F) Australia's USO covers "standard postal articles (letters) up to 250 g" (p. 5, Report N)
G	Most countries describe USO as including domestic and international services for letter mail (Reports F, N)
H	Most countries, including Austria, Australia, Belgium, Canada, Germany, Spain, Finland, France, Italy, Japan, Netherlands, Poland, Sweden, and UK describe USO as including "conveyance" or "collection, sorting, transportation, and distribution of letter mail" (Reports F, N)
I	Spain's USO covers parcels up to 10 kg (p. 108, Report N) Finland limits USO for domestic parcels up to 10 kg, 20 kg for international "economy" parcels, and 30kg for inbound parcels (p. 38 Report N) Poland limits USO for domestic parcels up to 10 kg, and up to 20 kg for inbound parcels (p. 92, Report N) The Netherlands limit USO for parcels is up to 10 kg for domestic and 20 kg for international (Report AH) Austria, Belgium, Switzerland, Germany, France, Italy, Sweden, and the UK have limit of 20 kg for parcels (Report N)
J	Belgium's USO requires "the whole universal postal service at national and international levels" for parcels of 10 kg or less, but Inbound cross-border for up to 20kg, would do delivery only (Report F)
K	Belgium's USO requires end-to-end services for parcels < 10kg, but delivery only for IB cross-border parcels of up to 20 kg (Report F)
L	The Netherlands' USO covers "bulk mail items of correspondence up to 50 g..." which covers bulk transactional mail – it considers AdMail out of USO scope and reserved area (p. 83, Report N) Spain considers "Direct Mail" as part of USO scope (p. 108, Report N) Sweden includes "bulk mail" in scope of USO (p. 165, Report A, Annexes) The UK lists various mail services in scope of USO, including Mailsort 1400 (1st and 2nd class bulk mail product) for small customers (p. 120, Report N)
M	The UK's Cleanmail targets small business customers (p. 45 Report L)
N	The USO scope for bulk mail includes cross border bulk mail up to 2 kg (p. 83, Report N)
O	Not addressed through available sources, however, as stated earlier, Germany's NRA is considering excluding bulk mail services to large customers from USO, with the exception of delivery

## Quality standards

Many countries use various parameters to describe the statutory quality requirements of the universal service. Key parameters include:

- Geographical coverage: the entire country, with or without exceptions
- Frequency of service: collection and distribution
- Quality of service: definition of target and performance reporting for routing time and other service levels
- Network accessibility: requirements for post office and collection box density

As the table below shows, the US is on the upper end of quality standards, especially with respect to frequency and coverage, but other quality standards remain statutorily unspecified.

### International comparison – statutory quality standards<sup>14</sup>

	Ref.	Minimum Obligation	Countries' relative position			Maximum Obligation
<b>Geographical coverage</b>	A	Some restrictions	BE, ES, NZ	FI	CA, FR, DE, IT, JP, NE, PL, SE, UK, <b>US</b>	Everywhere without restrictions
<b>Collection frequency</b>	B	5 times a week, with exceptions	AT, ES, FI, NZ, SE	BE, CA, PL, IT	DE, FR, JP, NL, UK, <b>US</b>	6 times a week, no restriction indicated
<b>Distribution frequency</b>	C	5 times a week, with exceptions	AT, AU, CA, ES, FI, NZ, SE	BE, PL, IT	DE, FR, JP, NL, UK, <b>US</b>	6 times a week, no restriction indicated
<b>Transit time</b>	D	No requirements	NZ	<b>US</b>	AT, AU, BE, CA, DE, ES, FI, FR, IT, JP, NL, PL, SE, UK	Set and publicized standards (time commitment and % of mail)
<b># of post offices</b>	E	No requirements	AT, CA, ES, IT, NZ, SE	BE, FI, JP, FR, PL, UK, <b>US</b>	AU, DE, NL	Specific requirements with respect to # of post offices, minimum distances, per municipality or other parameters
<b>Retail service quality</b>	F	No requirements	Most countries, <b>US</b>		DE, BE, PT	Opening hours, max. wait time requirements
<b># of letter boxes</b>	G	No requirements	AT, CA, ES, IT, NZ, SE	AU, BE, FI, FR, JP, PL, UK, <b>US</b>	DE, NL	Specific requirements with respect to # of letter boxes, minimum distances, per municipality or other parameters
<b>Complaint mechanism to USP</b>	H	No defined resolution process		AU, BE, CA, DE, ES, FI, IT, NL, PL, SE, UK, <b>US</b> <sup>(1)</sup>	FR	Defined process and associated service level commitments (e.g., response turnaround time)

Notes: Only countries with defined USO parameters included on continuum; notes for select country positions provided  
 1) Required by PAEA, implementation in progress

<sup>14</sup> Report F; Report L; Report N; Report AM; Accenture analysis.

## Quality standards – country notes

Ref.	Notes
A	In Belgium, mailboxes must be situated at arm's length of public roads, with some exceptions (p. 11, Report N) In Spain, households in remote areas such as archipelagos and mountain districts, are exempt from USO (p. 111, Report N) Finland has the freedom to take into account "local circumstances," but the USP must deliver mail at a "reasonable distance from their homes" (Report F)
B	Finland's collection requirements state, "at least once every working day, derogations due to difficult circumstances at least once a week" (p. 38, Report N) Belgium's collection requirements state, "Once a day at least five days a week" (p. 11, Report N) Canada's collection requirements state that, "street letter boxes (are) to be cleared several times per day in high volume areas, and minimum of once per business day elsewhere." (p. 18, Report N) Germany's requirements state, "Once per day from Monday until Saturday" (p. 44, Report N)
C	Canada's distribution requirements state, "Five times per week once a day – except for remote areas where frequency may be less" (p. 18, Report N) Italy's distribution requirements state, "Once every working day and not less than five times per week" (p. 63, Report N) France's distribution requirements state, "Once per working day, six days a week, exceptional circumstances excluded" (p. 41, Report N) UK's distribution requirements state, " Six times per week, once every working day, including Saturday for letters" (p. 120, Report N)
D	New Zealand claims, "No requirements" for transit time quality (p. 86, Report N), however NZ Post's commercial presentations indicate next day delivery within city, day + 3 nationwide, and longer delays for select remote areas
E	Austria claims, "No specific number required" for the number of post offices (p.8, Report N) Finland states requirements of "at least one facility per municipality, taking into account population needs" (p. 38, Report N) Australia requires a "Minimum of 4,000 retail outlets, of which 2,500 must be located in rural/remote areas – in metro areas, 95% of residences must be within 2.5 km of postal outlet" (p. 5, Report N) Although France has no specific requirements, annual service quality survey measures the percentage of national and sub-regional population at 10 km or less from closer contact points (Report AO)
F	Post offices in Germany must be opened throughout the entire year (Annex 4, table 2, of report AM) Belgium requires less than 4 minutes for average waiting times in post offices (Annex 4, table 2 of report AM) Portugal requires the longest waiting time in post offices to be less than 10 minutes on more than 70% of occasions (Annex 4, table 2 of report AM)
G	Spain states, "No formal requirements" (p. 108, Report N) Japan states that "Current level of letter boxes must be maintained" (p. 66, Report N) Netherlands requires that for "Residential centers with > 5,000 inhabitants there must be minimum of one letter box within 500m radius; outside these centers letterboxes must be within 2.5 km" (p. 83, Report N) Although France has no specific requirements, the annual service quality survey measures and reports metrics such as the percentage of letterboxes with cut-off times of 1 p.m. or earlier and of 4 p.m. or earlier (Report AO)
H	Canada states that "Extensive corporate customer service processes are in place" – independently operated Office of the Ombudsman serves as complaint mechanism (p. 18, Report N) France requires that USP must address complaints in "less than two months" (p.41, Report N)

## Affordability

Pricing requirements for single items and bulk services can be defined using three parameters (1) obligation of pricing uniformity, (2) implementation of price control mechanism, and (3) obligation to provide special pricing for certain public services.

The US approach to service affordability is consistent with that of many other countries across the three parameters, as shown in the table below.

International comparison - affordability<sup>15</sup>

	Geographically uniform pricing			Price control	Special pricing for public services of general interest
	Legally required	Practiced but not required	Not practiced		
Single items	AT, AU, BE, ES, PL, FR, NL, SE, UK, FI, US <sup>1</sup>	IT, CA, DE, NZ		No price cap NZ Price cap CA, DE, FR, IT, NL, SE, UK, US <sup>4</sup>	AU, CA, FR, IT, PL, UK, US <sup>2</sup>
Bulk services	ES, UK, US <sup>3</sup>	FR	DE, NL, NZ, SE,		

Notes: Only countries with defined USO parameters included on continuum; notes for select country positions provided; for detailed comparison on actual retail prices, see next section.

- 1) Title 39 USC, sec 404 (c) states that USPS "...shall maintain one or more classes of mail....The rate for each such class shall be uniform throughout the United States..."; whether or not FC mail can be zoned has not been legally tested – differing opinions; single piece parcel is zoned with the exception of Media Mail
- 2) Title 39 USC, sec 3626, 3627, and 3629 address discounts for qualified non-profits, free matter for the blind, and reduced rates for voter registration
- 3) Discounts available based on entering different points of the network (e.g., DDU, DSCF, DBMC)
- 4) Title 39 § 3622, 3626, 3633

<sup>15</sup> Report A; Report F; Report L; Report N; Title 39 USC; Accenture analysis.

### Affordability– country notes

Type	Category	Notes
Single piece	Legally required	<p>Austria, Belgium, Spain, and Poland require uniform pricing for universal services (p. 81, Report L)</p> <p>Australia's USO requires delivery of standard postal articles &lt; 250 g at uniform rates (p. 5, Report N)</p> <p>France requires uniform pricing for reserved areas (p. 81, Report L)</p> <p>The Netherlands, Sweden, and the UK require uniform pricing for non-bulk items under scope of universal service</p> <p>The Netherlands limits scope of USO to reserved areas (p. 81, Report L)</p> <p>Germany and Finland require uniform pricing for non-bulk correspondence (p. 81, Report L)</p>
	Practiced but not required	<p>Italy has no legal requirement to maintain uniform tariffs (p. 81 Report L)</p> <p>The Canada Postal Corporation (CPC) Act does not impose uniform rates, but CPC has maintained this by choice; for remote locations, CPC receives a cost subsidy from the Canadian government (Accenture industry experience)</p> <p>New Zealand has no requirement for uniform pricing, but practices it for letters (p. 87, Report K)</p>
	Not practiced or required	No example found of zoned pricing for single piece
Bulk services	Legally required	<p>Spain requires uniform pricing for universal services, which includes bulk mail (p. 81, Report L)</p> <p>The UK's pricing for Cleanmail, "entry level" bulk mail products targeting small businesses must be uniform (p. 45, Report L)</p> <p>To date, Postcomm has rejected Royal Mail proposals for bulk mail zonal pricing (Annex 5, table 5, Report AL)</p>
	Practiced by not required	France's does not impose price uniformity on the USP for bulk mail, but still applies it (p. 57, Report A, Annexes)
	Not practiced or required	<p>The Netherlands, Sweden, Germany, and the UK require uniform pricing for non-bulk items under scope of universal service; the Netherlands limits scope of USO to reserved area (p. 81, Report L)</p> <p>New Zealand has VolumePost service, with tiered pricing based on volume (Appendix D, Report K)</p>
Special pricing for public service mission		<p>Australia has special rates for medical/educational material to/from remote localities (Report F)</p> <p>Poland's postal items containing literature for the blind are exempt from postal charges (p. 92, Report N)</p> <p>Canada Post receives revenue compensation from government equivalents to forgo postage revenues for materials for the blind; special rates for shipments of nutritious foods to remote areas (p. 18, Report N)</p> <p>France requires routing and distribution of newspapers, periodicals, and items for the blind (p. 41, Report N)</p> <p>Italy provides reduced pricing for non-profit organizations and publishing sector (p. 62, Report N)</p> <p>The UK offers free postal services for the blind and partially sighted (p. 62, Report N)</p>

## International comparison – liberalization upside potential

### Framework overview

The study uses four criteria to evaluate the relative upside potential from postal liberalization across countries.

- Quality of service: relative postal performance from the customer's point of view
- Price competitiveness: relative price position and trend
- USP efficiency: USP's relative productivity and operational efficiency
- Customer choice: extent to which customers benefit from the availability of choices in the postal market

### Quality of service

To assess the upside potential associated with the quality of service, the study considered four variables:

- 1) Percentage of first class (or equivalent) mail that USPs deliver the next day (D+1). Lower relative transit time performance implies that the upside potential may increase
- 2) Collection/distribution frequency – More frequent delivery (days/week) implies higher service quality and therefore lower upside potential
- 3) Number of staffed retail postal offices per 10,000 inhabitants – The lower the number of post offices per 10,000 inhabitants, the more likely the upside potential from increasing the number of competitors and customer choices. Postal administration personnel or people outside the postal administration can staff post offices. It is important to note that USPs in many countries have targeted adjacencies (e.g., banking, insurance) that drive the need for and ability to provide more post offices
- 4) Percentage of surveyed users rating service as “good” or better – Higher customer satisfaction scores on postal service surveys suggest a higher overall perceived quality of service and thus lower potential for upside

### **Price competitiveness**

We estimated price competitiveness by reviewing two variables:

- 1) First class stamp price of a 20 g (0.70 oz) letter at purchasing power parity - The higher the relative stamp price, the more room for improvement with respect to price. Stamp prices in each country's native currency were converted to USD (January 2007) and adjusted them to purchasing power parity using Organization for Economic Cooperation and Development (OECD) estimates. The price of bulk mail is an important consideration for this metric; however, no comparable data across countries was available for this study. In the US, standard mail revenue/lb. has decreased 1% each year, adjusted for inflation, from 1996 to 2006.
- 2) Average annual stamp price change (2000-2005) - Increasing price trends indicate a higher expected upside potential compared with a decreasing trend

### **USP efficiency**

With regards to USP efficiency, three key variables help gauge the potential for operational improvements within the USP:

- 1) Percentage of mail handled by machinery - Lower levels of automation suggest that there is a potential upside to liberalization. Automation figures can vary depending on a USP's underlying assumptions for automation calculations, but generally, the figures include automated sorting measurements
- 2) Operating profits of USPs as percentage of revenue - Lower profit margins suggest that there are opportunities for operational improvements
- 3) Average number of mail items processed by Full Time Equivalent (FTE) - The lower the labor productivity, the higher the available potential upside. Unaddressed mail volumes handled by USPs are included to calculate this metric (when mail employee breakout is available), since this category of mail drives significant volume in other countries

### **Customer choice**

Since there are essentially no true, end-to-end (E2E) service providers that compete with the USPs, the focus of these variables is largely on choices for large mailers. Two variables were used in this study:

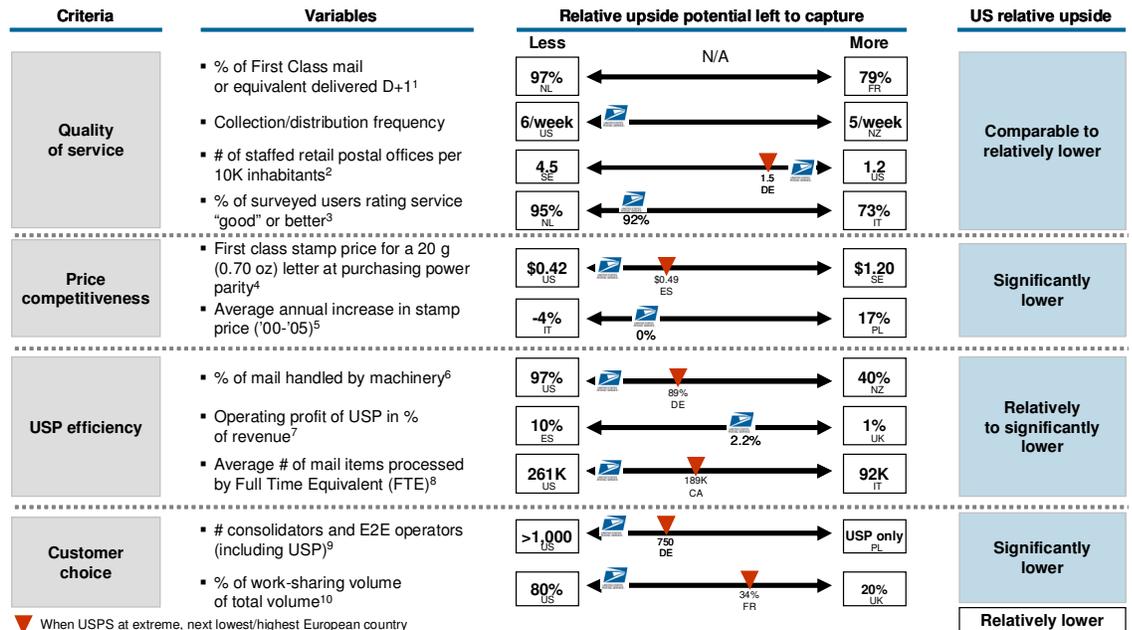
- 1) Number of consolidators and E2E operators (including USP) - The more operators, the more choices users have, and thus less potential for

upside improvement. In some countries, including the US, work sharing has been around for years, so there are multiple consolidators already in the market. The few niche E2E operators are primarily in bulk AdMail and/or transaction mail. Even fewer nationwide E2E mail delivery operators compete with USPs.

- 2) Percentage of work sharing volume versus total volume – A large proportion of work sharing volume indicates customers’ ability to use USP service alternatives and therefore less upside potential.

### US comparison – liberalization upside potential

Based on these criteria, as the table below shows, the upside potential seems to be relatively lower for the US. This is especially true for price competitiveness (lower retail price at purchasing power parity), USP efficiency (higher percentage of mail handled by machinery and number of items processed by FTE), and customer choices (long history of work sharing).



Notes: USPS data based on best assumptions of comparable metric, except for % of First Class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan, 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/piece have declined 1% in real terms from 1996 to 2006, Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report G; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA

## International comparison – USP relative exposure

The study structures the evaluation of the USP's relative exposure to liberalization based on two categories:

- 1) Macro-economic criteria – exogenous and mostly out of the USP's control
  - Postal density – Relative geographic characteristics influencing postal scale/scope
  - Market momentum – Relative growth and upside of mail market
  - Competitive exposure – Relative attractiveness of the market to potential new entrants
  
- 2) Micro-economic criteria – opportunities and challenges specific to the USP
  - Relative costs – Evaluate proxies to gauge the USP's relative cost structure
  - Dependency on mail revenue – Examine reliance on mail as source of revenue
  - Core value proposition strength – Estimate value proposition of USP using previously identified potential upside criteria of quality of service and price competitiveness

### Macro criteria overview

#### Postal density

To evaluate postal density, the study considers three geographically-related variables:

- 1) Number of postal items per inhabitant (postal scale): The lower the postal scale, the more relatively exposed the USP is, as lower scale implies less of a relative scale advantage compared with potential new entrants. This metric excludes unaddressed mail items, which represent significant volumes in other countries, since unaddressed volumes are unavailable to compare in the US. One always should evaluate this metric within the context of market growth (see next criteria)
- 2) Percentage of population living in urban areas: The lower the percentage of people living in urban areas as classified by the United Nations, the higher the exposure, since the relative cost of serving rural

areas will be higher. Assuming pricing uniformity, the difference between uniform price and the cost of delivering mail in urban area would be higher, supporting the entrants' ability to cream skim

- 3) Population density: The lower the population density (population per square km), the higher the exposure due to the same logic as low urbanization rates. Conversely, high population density and urbanization rates reduce the level of exposure of the USP, since it is likely to operate at maximum efficiency across the territory, leaving little room for cream-skimming. The urbanization rate and the population density metrics should therefore be considered together when looking at comparisons.

### **Market momentum**

The study evaluates market momentum using three key variables.

- 1) Mail volume growth rate (2000-2005): The lower the compound annual mail growth rate, the higher the potential exposure. Volume includes unaddressed items the Posts deliver.
- 2) Number of postal items per inhabitant: While low postal scale implies higher exposure in the context of postal density, high postal scale can have a negative effect as well. High postal scale can imply that the market has less room to grow and therefore is a measure of higher exposure.
- 3) Percentage of advertising mail (AdMail) out of total market volumes: A higher percentage of AdMail indicates less room for market growth and thus represents higher exposure. This metric includes unaddressed mail volumes. Excluding them would give most European countries values ranging from 8 percent to 20 percent.

### **Competitive exposure**

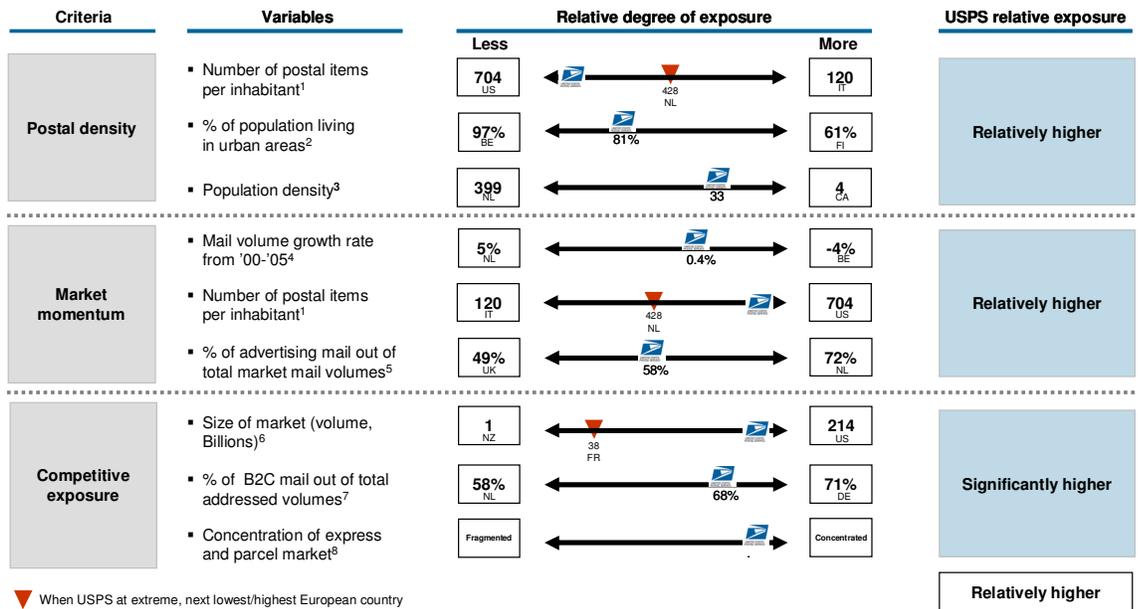
Finally, the study evaluates relative competitive exposure of the USP using three market-driven variables:

- 1) Size of market (volume, billions): The larger the market size, the more compelling the opportunity for competitors to enter the market (especially large-scale international competitors). This metric includes unaddressed mail volumes where available, since new entrants target these volumes in many liberalizing countries
- 2) Percentage of business-to-consumer (B2C) mail out of total mail. B2C represents attractive and lucrative large-scale volumes. The higher the ratio, the more exposed a USP is to new entrants, which will most likely focus on B2C volumes

3) Concentration of express/parcel market: Highly concentrated express/parcel markets suggest higher potential for well-positioned new entrants

### US comparison – macro criteria

The relative exposure of the US on macro-economic criteria, shown in the table below, appears to be relatively higher. The primary reason is market density, which exposes the U.S. to potential cream-skimming. Additionally, the combination of the market size, which is attractive to new entrants, and flat market growth could indicate a highly competitive environment where the USP and new entrants would compete head-to-head to gain market share.



Notes: USPS data based on best assumptions of comparable metric

Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB; 7) p. 32, Report AB; 8) Accenture industry expertise

## Micro criteria overview

### Relative costs

Relative costs are difficult to gauge due to the lack of available data regarding internal cost structures of USPs. Therefore, the study uses the following proxies;

- 1) Percentage of public servant employees in USP total full-time equivalent (FTE) headcount: Higher degrees of public servant staffing imply higher cost structure compared with new entrants, thus higher relative exposure
- 2) Relative labor market cost compared with fully loaded public servant cost: This represents the ratio between cost of contract workers, representing the cost of workers who might be hired by entrants, and postal workers, representing the cost of workers who might work for the USP. Lower labor cost ratio implies higher exposure to new entrants' ability to secure competitive advantage with self-employed labor
- 3) Percentage of outsourced counters: The lower the outsourced counter ratio, the higher the fixed costs a USP assumes, thus increasing exposure

### Dependency on mail revenue

With respect to dependency on mail revenue, two variables help assess the reliance of the USP on mail to support its sustainability.

- 1) Percentage of revenue outside of mail: Higher percentage of revenue outside of mail represents more diversification for the USP, thus lowering exposure. The report focuses later on this technique and illustrates how USPs use it to reduce exposure
- 2) Relative competitive position on adjacencies: A strong position in non-mail business indicates less need for dependency on mail, thus lowering exposure

### Core value proposition strength

Finally, the study evaluates the core value proposition strength of the USP using two previously identified potential upside criteria:

- 1) Actual and perceived quality of service: This metric combines the three quality of service metrics (D+1 service performance, number of post offices, and quality of service survey) for potential upside discussed earlier. The lower the actual and/or perceived quality of service, the

more exposed the USP is to new entrants offering a better value proposition

- 2) Price competitiveness: This assessment combines the two price competitiveness metrics (stamp price and average annual price change) for the potential upside discussed earlier. The lower the overall price competitiveness of the USP, the more exposed it is to new entrants with a better value proposition

### US comparison – micro criteria

Based on these micro criteria, as the table below shows, the US has a significantly higher exposure, driven primarily by its dependency on mail revenue and relative cost disadvantages.

Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	57% FR	87% US
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	83%	72% IT
	Percentage of outsourced counters <sup>3</sup>	97% UK	27% FR	11% US
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	17%	11% SE
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong		Weak
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	N/A	Low
	Price competitiveness <sup>7</sup>	High		Low
				Significantly higher

▼ When USPS at extreme, next lowest/highest European country

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Based on quality of service metrics from potential upside, no comparable information available for average US performance for % of mail delivered D+1; 7) Accenture analysis, based on price competitiveness metrics from potential upside

## International comparison – balance of flanking measures

### Flanking measures - overview

The risks of liberalization other industries (e.g., airline, utilities) have experienced are also present in the postal market. Four key challenges or risks can arise: (1) unfair competition, (2) deterioration of service quality, (3) price escalation, and (4) additional challenges associated with provider multiplication.

#### Unfair competition

Faced with new competitors, USPs could abuse their dominant market position and engage in anti-competitive behaviors. New entrants, on the other hand, may use greater commercial freedom to create a relative competitive advantage over the USP, with its public status, service obligations, and relatively higher labor costs.

#### Deterioration of service quality

In the context of significant competition and volume reductions, USPs may reduce overall service levels or select services for higher cost-to-serve segments.

#### Price escalation

Price escalation could occur as USPs face a reduced ability to cross-subsidize private mail with commercial mail or high cost-to-serve areas with high-density delivery areas. This can lead to price increases targeted at the least attractive and most captive customer segments, such as individual users, small businesses, or users from remote areas.

#### Drawbacks to provider multiplication

Multiplication of providers can lead to:

- Confusion, as end users face more numerous but less comparable options
- An overall elevation of risk from enforcement challenges associated with multiplication of providers

- Increased traffic and congestion in city centers and increased overall carbon emissions due to multiplication of delivery vehicles from competing providers

To mitigate some of these challenges and risks, liberalized or liberalizing countries can employ one or more “flanking measures.” These measures, shown in the table below, can target the USP or new entrants and take the form of supporting or constraining factors.

	Targeting Universal Service Provider	Targeting new entrants	
Supporting measures	1. Relax USO scope and requirements	▲ ●	
	2. Increase commercial freedom	▲ ◇	
	3. Allow restructuring	▲ ◇	
	4. Compensate for universal and public services rendered	▲ ◇ ●	
Constraining measures	5. Organize accounting transparency	▲ ◇ ●	
	6. Control price setting <ul style="list-style-type: none"> <li>• Within USO</li> <li>• Outside of USO</li> </ul>	▲ ●	
	7. Monitor service quality	● ◇	
	8. Eliminate special rights	▲	
		9. Enable/regulate network access	▲
		<ul style="list-style-type: none"> <li>• Address database</li> <li>• Collection boxes</li> <li>• Retail network</li> <li>• Upstream work sharing</li> <li>• Downstream access / delivery</li> <li>• PO boxes</li> <li>• Customer mailboxes</li> <li>• Return mail</li> </ul>	
		10. Restrict commercial freedom	◇ □

**Targeted risks**

▲ Unfair competition    ◇ Deterioration in service quality  
 ● Price escalation    □ Downside from providers' multiplication

As the table below shows, countries in the scope of the study have implemented a combination of flanking measures, irrespective of their specific degrees of liberalization.

Flanking measures		Degree of postal liberalization							
		Historically liberalized		Recently liberalized		Partially liberalized or liberalizing			Not liberalizing
		SE	NZ	DE	UK	IT	NL	FR	CA
Supporting USP	1. Relax USO scope and requirements								
	2. Increase commercial freedom								
	3. Allow restructuring								
	4. Compensate for universal and public services rendered								
Constraining USP	5. Organize accounting transparency								
	6. Regulate price setting								
	▪ USO products								
	▪ Non USO products								
Supporting new entrant	7. Monitor service quality								
	8. Eliminate special rights								
	9. Enable and regulate network access								
	▪ Address database		N/A						
	▪ Collection boxes		N/A						
	▪ Retail network		N/A						
	▪ Upstream work sharing								
	▪ Downstream access / delivery		N/A						
Constraining new entrant	▪ PO Boxes								
	▪ Mailboxes								
	▪ Return mail		N/A						
Constraining new entrant	10. Restrict commercial freedom								

Flanking measure applied

Yes  No

Note: N/A – Not Available; see country deep dives for country details.

## Flanking measures – detailed description

### 1- Relax USO scope and requirements

Despite the elimination or reduction of the reserved areas, the scope of the USO remains largely unchanged across investigated countries, with the notable exception of bulk items (e.g., the Netherlands, UK for large mailers). The rationale behind their exclusion is that the competitive market now adequately serves bulk mailers without the need for governmental intervention. This situation enables service providers to operate outside of the universal service requirements, such as uniform tariff and daily, nationwide collection. The German NRA is considering restricting the scope of the USO to services that consumers and small businesses demand as senders, but the USO still would require delivery to all addressees.

Some countries have reduced the statutory quality requirements of their USOs. These include France, Canada (discontinuation of multiple daily deliveries in urban areas), and UK (discontinuation of twice-a-day collection and Sunday collection service). In addition, as all countries have established

clearer quality standards, USPs are able to adjust their operations and services to meet those standards instead of self-imposed requirements.

While uniform pricing for single-piece items remains at least practiced, if not legally required in most countries, there is a general increase in flexibility for bulk mail. This includes: (1) preparation/cost avoidance discounts (all countries); (2) zone pricing (DE, NL, NZ, SE, US); (3) volume incentives (FR, NZ); (4) size considerations (NL); (5) weight considerations (UK); and (6) delivery times (NL).<sup>16</sup>

## 2 - Increase commercial freedom<sup>17</sup>

Status changes have given all USPs greater autonomy as the following table describes.

Legal status of USPs

Country	Financial Mandate	Legal Status				Right to borrow capital without government approval
		- ← Level of autonomy → +				
		Government department	State enterprise	Government controlled corporation	Privatized corporation	
		<i>Administered by a political appointee, part of a minister</i>	<i>Commercial flexibility, independent from direct administrative authority</i>	<i>Organized under private corporation laws, but government as sole or majority shareholder</i>	<i>Private corporation with minority government shareholders</i>	
JP	Break-even					No
US	Profit					No
CA	Profit					No
FR	Profit					No
NZ	Profit					Yes
IT	Profit					NA
SE	Profit					Yes
UK	Profit					Yes
DE	Profit				(a)	Yes
NL	Profit				(b)	Yes

Status of USP

Notes: (a) 31% owned by KfW Bank (public bank); (b) 50% owned by Foundation Protection TNT

<sup>16</sup> P. 45, Report L; p. 7-11, Report AA; Accenture analysis.

<sup>17</sup> P. 42, Report L; p. 3 Report Z (Appendix H).

Most countries also give their USP additional rights such as: (1) more flexible labor laws (e.g., all public contracts turned into private-sector contracts in Italy); (2) increased investment freedom (e.g., yearly budget for external acquisitions given to La Poste in France); (3) increased autonomy in profit allocation (e.g., board defines level of dividends vs. investment reserves for DPWN in Germany)

Accompanying this change of status, USPs gain access to new external growth mechanisms as the following table illustrates.<sup>18</sup>

USP	Conduct Mergers & Acquisitions	Create joint ventures	Create subsidiaries (benefiting from alternate statutes and regulations)
Canada Post	Yes	Yes	Yes
Royal Mail (UK)	Yes	Yes	Yes
DPWN (Germany)	Yes	Yes	Yes
Poste Italiane (Italy)	Yes	Yes	Yes
La Poste (France)	Yes	Yes	Yes
New Zealand Post	Yes	Yes	Yes
Sweden Post	N/A	Yes	Yes
Japan Post	No	No	No
TNT Group (Netherlands)	Yes	Yes	Yes
USPS (US)	Restricted <sup>(a)</sup>	Restricted <sup>(b)</sup>	No

Note: N/A – not available

(a) under certain conditions: only in the postal sector, 100% acquisition of assets, company becomes part of USPS and abandons brand name

(b) under certain conditions: only if it facilitates ability to provide postal service and would not expand USPS' line of business

### External growth mechanisms – country notes <sup>19</sup>

USP	Illustration
DPWN (Germany)	Over \$14B in acquisitions and joint ventures between 1999 and 2007, including: Williams Lea Group: professional services, Polar: JV for air capacity, Lufthansa: JV for air capacity, Excel: global freight forwarder and 3PL, Blue Dart: India domestic express, Loomis: Canada domestic parcel, Sinotran: Chinese parcel, Airborne: US express, DHL: international express, AEI: global freight forwarder and logistics, Danzas
TNT (Netherlands)	Over \$5B in acquisitions and joint ventures between 1999 and 2007, including: Speedage: India domestic express, Wilson Logistics: Global freight forwarder, CTI logistics: North America logistics
La Poste (France)	Yearly budget allocated by Government investor to acquire companies in the Postal / Express / Logistics sector La Poste has set up 96 subsidiaries around the world to support its in key business units (express and parcel) La Poste is required to review its investment plans with the government (APE – Agence de Participation de l'Etat)

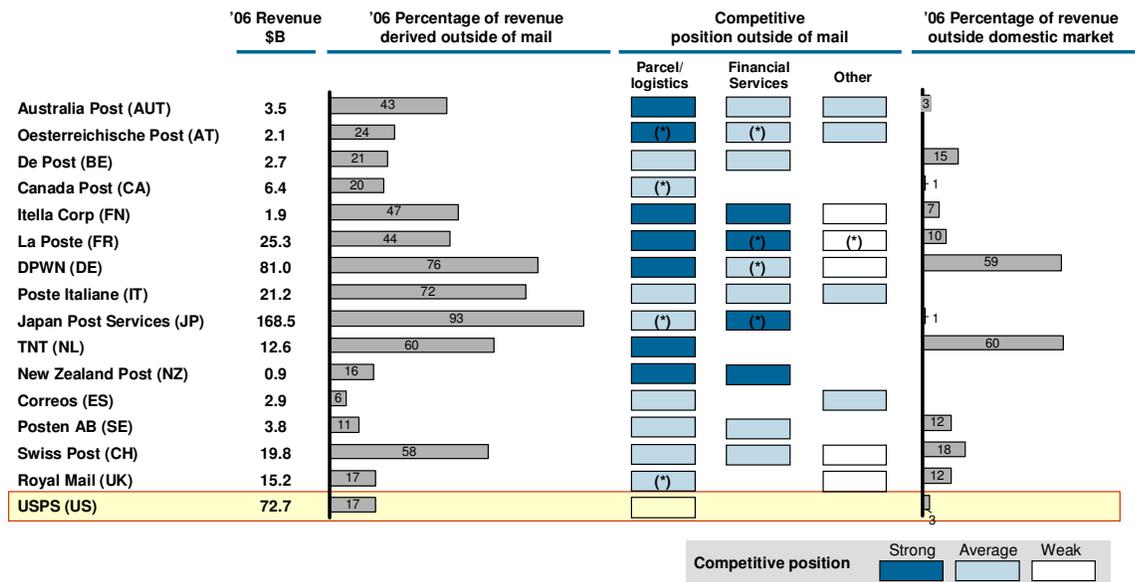
<sup>18</sup> P. 3, Report Z (Appendix H); Accenture analysis.

<sup>19</sup> p. 10, Report Z (Appendix H); Accenture industry experience; Accenture analysis.

New Zealand Post (New Zealand)	Acquired companies in mail, express delivery, bulk mail, logistics, banking Acquired 51% of New Zealand Home Loans Set up a joint venture in 2005 with DHL for express products Created a partnership with Bank of New Zealand to form Kiwibank Can issue bonds to acquire companies
Royal Mail (UK)	Royal Mail has been organized around a holding company with 4 main business units: Royal Mail: processes and delivers mail, General Logistics: provides parcel and express services, as well as Value added logistics solutions, Parcelforce Worldwide: provides services of collection and delivery for urgent packages and parcels (in the UK and the rest of the world) to consumers and businesses, Post Office Limited: manages network of post office branches Royal Mail can borrow up to \$108 M without NRA approval Royal Mail cannot make acquisitions without government consent
Posten AB (Sweden)	Sale of Posten AB's bank division (Postgirot Bank AB) to Nordbanken AB in 2001 Sale of Insurance business unit Announced merger with Danish Post
Canada Post (Canada)	Outsourced IT into a JV, with the objective of acquiring additional clients Acquired Progistics (logistics) and e Post (bill presentment company) Acquired 75% of Purolator in 1993

With few exceptions, most USPs use this increased commercial freedom to diversify aggressively. A large number of them occupy leadership positions in these new businesses. USPs generally pursue growth in four primary areas: transport services, logistics, retail banking, and other retail services. As the table below shows, as of 2006, the major posts (excluding the US) derived an average of 40 percent of their revenue from outside the mail business.

### Revenue diversification<sup>20</sup>



Note: (\*) line of business pre-existing liberalization, 2006 Euro/USD exchange rate 1.24

<sup>20</sup> 2006 annual reports – Belgium, Canada, Finland, France, Italy, Japan, Spain; 2007 annual reports – US, UK, Switzerland, Sweden, New Zealand, Holland, Germany, Austria, Australia; Accenture industry expertise and analysis.

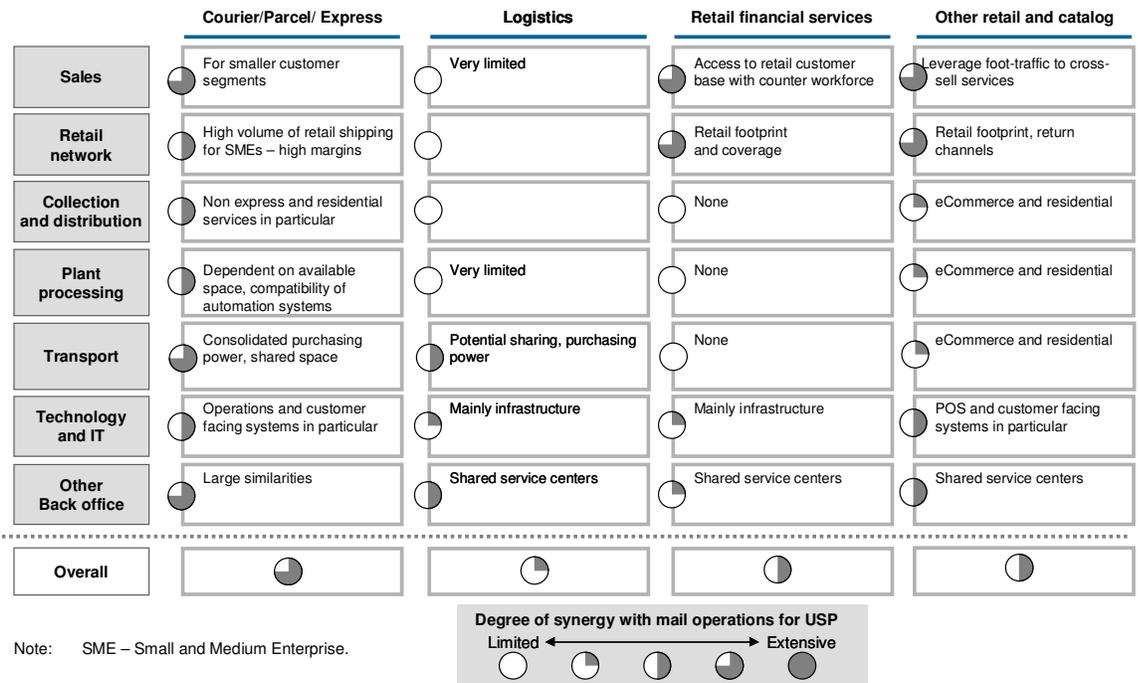
### Revenue diversification – country notes <sup>21</sup>

Country	Example of targeted adjacencies
France	<ul style="list-style-type: none"> <li>▪ Internet consumer internet services (portal, email)</li> <li>▪ Telecommunication services (phone cards)</li> <li>▪ Retail financial products:               <ul style="list-style-type: none"> <li>- Insurance (CNP)</li> <li>- Mortgages</li> <li>- Money transfers (Western Union)</li> </ul> </li> </ul>
UK	<ul style="list-style-type: none"> <li>▪ Telecommunication product sales (Royal Mail-branded product from British Telecom) via Post Office Limited. Acquired 150,000 costumers in 6 months of service; target is 500,000 customers. Services include landline services and broadband Internet</li> <li>▪ Development of retail financial products in partnership with Bank of Ireland. Royal Mail is the 4<sup>th</sup> largest provider of car insurance</li> </ul>
Sweden	<ul style="list-style-type: none"> <li>▪ Internet Service Provider business unit</li> <li>▪ Distributed printing solutions</li> </ul>
Canada	<ul style="list-style-type: none"> <li>▪ E-billing/e-payment solutions for businesses</li> </ul>
Italy	<ul style="list-style-type: none"> <li>▪ Document / transaction management solutions (e.g., government notices, proof of delivery, proof of payment)</li> <li>▪ Catalog sale and telecommunication products via retail network</li> </ul>

Beyond revenue diversification, those new businesses often provide the USPs with additional economies of scale and scope. The USPs: (1) increase the size of the product portfolio sold in post offices, (2) share capacity and know-how in their operations, and (3) create shared services for their back-office functions. The table below shows the potential synergies.

<sup>21</sup> Accenture industry experience.

## Synergies with targeted adjacencies<sup>22</sup>



### 3 – Allow restructuring

Many USPs are also being given increased freedom to optimize their assets and reduce labor costs. There are numerous examples such as those in the table below, of sizable restructuring over the past few decades.

#### Frequency of use in analyzed countries<sup>23</sup>

Typical levers	International application	Examples
Post office closures	Systematic	<ul style="list-style-type: none"> <li>▪30% of French post offices were closed by La Poste between 2004-2007; replaced by outlets in grocery stores or in city halls</li> <li>▪40% of German post offices were closed by DPWN between 1992-2005</li> <li>▪432 post offices were closed in New Zealand in 1987 and replaced by postal outlets</li> <li>▪Heavy rationalization of post offices in rural areas in Canada</li> <li>▪Plan to close 2,500 post offices in the UK in 2008</li> </ul>

<sup>22</sup> Accenture industry and project experience.

<sup>23</sup> p. 49, 183 Report A; Report H; p. 20, Report I; p. 76, Report K; p. H23-29, Report Z; Accenture industry experience  
 Note: 2006 GBP/USD exchange rate 1.9.

Network optimization	Systematic	<ul style="list-style-type: none"> <li>▪ 1,000 postal depots closed by DPWN and replaced by 83 high-tech sorting centers</li> <li>▪ 25% cost reduction via network optimization by Swedish Post</li> </ul>
Workforce reduction	Systematic	<ul style="list-style-type: none"> <li>▪ 138k or 38% workforce reduction by DPWN (1990-1996)</li> <li>▪ 10% workforce reduction by La Poste (2004-2008)</li> <li>▪ 40k people reduction at Royal Mail (2003-2007). Plan to reduce workforce by 40k (2008-2012)</li> <li>▪ 35% workforce reduction in Sweden (1993-2006)</li> </ul>
Outsourcing	Systematic	<ul style="list-style-type: none"> <li>▪ Royal Mail Holding, via Post Office Limited owns 600 post offices; 16,900 are franchised (e.g., Shell, Tesco)</li> <li>▪ 600 rural routes subcontracted and open to public tender in New Zealand</li> <li>▪ Outsourcing of IT service in Canada</li> <li>▪ Swedish post franchised 85% of its retail network</li> </ul>
Transfer of pension obligations	Common	<ul style="list-style-type: none"> <li>▪ La Poste's pension obligation has been taken over by the State. La Poste has negotiated a progressive reimbursement with the State</li> <li>▪ Royal Mail has negotiated an agreement to repay its pension deficit (\$6.5 B in 2006) over 17 years at a rate of \$494M, following the government's decision to put \$1.6B in escrow, in case of payment failure</li> </ul>

#### 4 - Compensate for universal and public services rendered

EU regulations have authorized Member States to establish a compensation fund, administered by an independent party, when the provision of the universal service leads to an unfair financial burden on the USP. As the table below shows, most USPs have already implemented or are considering implementing such a fund.

International comparison – compensation for public services<sup>24</sup>

Country	Funding mechanism in place	Method used	
		Compensation fund (revenue taxes, profit taxes, lump-sum taxes, unit taxes)	State funding (direct or indirect transfer)
CA	No (reserved area)	n.a.	n.a.
IT	Yes	licensed operators for USO must pay 3% of USO revenue to a fund	State funding for USO (7-8% of mail revenue)
FR	Yes	Pay for play mechanism	Regional funding for post office network
DE	Legally possible, not used	n.a.	n.a.
NL	No	n.a.	n.a.
SE	Yes	Private providers make payments to the state that are used for the co-financing of the universal service	
UK	Yes	Following Royal Mail financial crisis government considering levy on competitors to fund USO	Payment of operating loss of running post office network (~ \$12M / year)
US	No (reserved area)	n.a.	n.a.

Note: n.a. = not applicable, 2008  
GBP/USD exchange rate 2

In place  Being considered  Not in place

Additional funding mechanisms have been implemented to finance other services of general interest provided by the USP such as:

- Maintaining a presence in remote areas (e.g., Canada, France)
- Handling of specific mail at preferential tariffs (e.g., newspaper delivery in France, delivery of periodicals in Canada and Sweden)
- Distribution of unemployment subsidies (e.g., France, UK)
- Support and development of internet usage in rural areas (e.g., Mexico),
- Passport application handling (e.g., UK)
- Voter registration (e.g., New Zealand)
- Counter services not commercially justified (e.g., Sweden)

EU Directives require accounting for the public services and specific compensation to be separate from the USO.

<sup>24</sup> Report H; p. 6, Report W; p. 61, Report K; Accenture industry experience

## 5 – Organize accounting transparency

Following the EU Directive requirements, all EU countries have implemented strict accounting rules and enforce accounting transparency from their USP. The main difference across countries is the level of granularity requested in the separation of accounts.

However, the general trend is toward increasing the amount and quality of information to enable faster transition towards ex-post versus ex-ante price controls. Key considerations are: (1) the documentation of costing principles and assumptions; (2) breakdown of operational costs to evaluate costs avoided under work-sharing agreements; (3) cost breakdown at subcategory level (e.g., weight, format, and zone); and (4) the separation of upstream, delivery, and retail activities as distinct units/profit centers. The table below shows the differences in accounting requirements.

International comparison – accounting oversight<sup>25</sup>

	Separation of accounts			Oversight		
	Degree of control →			Degree of control →		
	Between reserved area, USO, and non-USO service categories	Class of service level within the Reserved Area	Class of service level for all products within USO	NRA approval of cost allocation methods	Independent review by auditor	NRA review of data quality
CA						
IT						
FR						
DE						
NL						
NZ						
SE		N/A				
UK						
US						

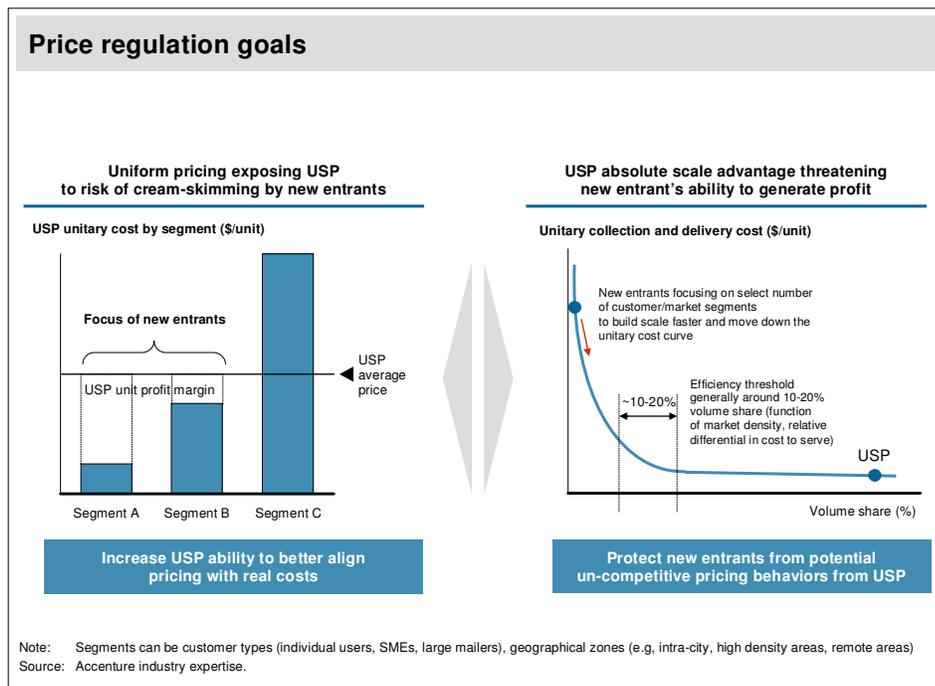
Required  Not required

Note: N/A – not available

<sup>25</sup> p. 91, Report L; p. 78-79-90, Report K

## 6 - Control price setting

Price regulation addresses two primary challenges shown in the table below. The first is the exposure of the USP to the risk of cream-skimming by new entrants. The second is the ability of the USP to use its absolute scale advantage to prevent new entrants from entering the market (e.g., anticompetitive pricing behaviors).



The level of oversight that countries apply to various USPs varies significantly, as the table below shows.

### International comparison – price controls<sup>26</sup>

Country	Price cap on USO services	Price controls			Network access pricing control (service agreements)			
		Scope of control			Level of control			
		Services within Reserved Area	Service under USO	All services (USO and non-USO)	No NRA involvement	NRA or other regulatory agency involved when complaints are raised	NRA defining rules and guidelines	NRA reviewing each special service agreement
CA								
IT								
FR								
DE	(a)	n.a.						
NL								
NZ		n.a.	(b)	(b)	(c)			
SE	(d)	n.a.			N/A	N/A	N/A	N/A
UK	(e)	n.a.						
US								

Applies     Does not apply

Note: N/A not available; n.a. not applicable  
 (a) NRA may use either of 2 methods: price cap applied to basket of products (CPI – productivity factor of 1.8%) or application of a standard of efficient cost  
 (b) New Zealand Post must report to the Ministry and publish its terms & conditions and prices for standard postal services. There is no other regulation of postage rates  
 (c) New Zealand Post required to disclose information on contract over 20% discount or incorporating non standard terms  
 (d) Price cap based on Consumer Price Index  
 (e) Price cap based on Retail Price Index and adjustment factors, for individual products may raise prices 3% more per year than price cap without Postcomm authorization

## 7 – Monitor service quality

The EU Directive requires all EU countries to set and publicize postal quality of service standards and the independent monitoring of those standards at least once a year (those conditions apply equally to USPs and new entrants).

While most countries now report nationwide service performance for at least First Class mail, some go further and have begun incorporating additional customer-centric measurements, as the table below shows. Examples include:

- Cut-off times and time of mail collection (France)
- Accessibility of post offices (e.g., France - number of post offices available with accessibility for handicapped persons; Germany - opening hours)
- Quality of retail services (e.g., Belgium - average wait times)

<sup>26</sup> p. 84, Report L; p.129 Report A; page 110 Report M; p. 78-79, Report K

International comparison – service quality monitoring<sup>27</sup>

	Set and publicized targets			Performance reporting
	Fastest mail category	Second fastest mail category	Parcel	
CA				
IT				
FR	N/A	N/A		
DE				
NL	<50g	<50g		
NZ				
SE				
UK			Single piece	
US	(a)	(a)	(a)	

Required     Not required

Note: N/A = not available, (a) qualitative targets to be implemented in Fiscal Year '09

## 8 - Eliminate special rights

Most remaining special rights are mainly a legacy of the USPs' previous public status. As the table below shows, countries are reassessing whether they contribute to an unfair advantage for a USP over the new entrants and whether countries should eliminate them (e.g., VAT exemption).

<sup>27</sup> p. 101, Report L; Accenture industry experience

### International comparison – special rights overview<sup>28</sup>

		CA	IT	FR	DE	NL	NZ	SE	UK	US
Tax exemptions	Income tax exemptions									(a)
	VAT exemptions (b)		All	USO	USO	USO			USO	State and local sales tax
Right of eminent domain							N/A	N/A		
Ban on labor strike							N/A	N/A		(c)

In place     Not in place

Note: (a) Under PAEA, USPS will compute an income tax for competitive products and must use that "tax" to fund the USO.  
 (b) EU Commission has proposed updating the VAT exemption rules for postal service, however the European Council has blocked it  
 (c) Arbitration however mandated  
 N/A = not available; n.a. = not applicable

## 9 – Enable/regulate network access

Providing new entrants with the ability to access the infrastructure and network of the USP is critical to liberalize the postal market effectively. Accordingly, the regulation of the new entrants' access to various points within the USP's network is an important flanking measure to level the playing field. As the table below shows, most countries have organized the access of new entrants to the postal network, with the notable exceptions of collection boxes and retail stores.

<sup>28</sup> p. 59, Report L; p.16, report K; Accenture industry experience.

## Authorized competitor access overview<sup>29</sup>

	Int'l situation	Comments/examples	US situation
<b>Address database</b>	●	Joint venture set up by Sweden Post and CityMail to maintain national address database Royal Mail and La Poste required to give all providers access to address database DPWN must provide address data base for reasonable fee	●
<b>Collection mailboxes</b>	○	No access offered in any country	○
<b>Retail network</b>	◐	Italy considering giving access to its retail network to other providers Canada Post sells FedEx products in its retail network	◐
<b>Work sharing</b>	●	Most European USPs offering work-sharing arrangements	●
<b>Downstream access / delivery</b>	◐	Most European USPs offering downstream access arrangements La Poste required to provide new entrants with option to use its delivery network for remote areas for ad mail, since La Poste offers that option to its ad mail subsidiary (MediaPost)	(a)
<b>PO box</b>	◐	PO Box access to competitors required in Germany, Sweden, UK, Italy, France	○
<b>Customer mailboxes</b>	◐	Mailbox access mostly un-restricted with some exceptions and notable contextual differences with the US	○
<b>Return mail</b>	◐	In Netherlands and Sweden, USPs and private operators voluntarily developed contractual arrangements to ensure return of private operators misaddressed mail La Poste required to ensure management of returned mail for all other licensed operators	(n.a.)

Note: (a) downstream access offered for FC mail but does not always lead to discount

Frequency of use in analyzed countries: Rare ○ ◐ ◑ ◒ ◓ Systematic

Access to customer mailboxes<sup>30</sup> is generally unregulated. However, there are significant historical and situational differences between other countries and the US, as the table below shows. The differences include:

- Mail receptacle. Unlike in the US, where most mailboxes are unlocked containers, the vast majority of mail receptacles in the developed countries is composed of slots (door, walls, or clusters) or locked mailboxes
- Mailbox reach. Mailbox reach, or the ability for a service provider to access the customer's mail receptacle, is usually equal for all providers. Some notable exceptions include France, the UK, and Canada, where the USP has privileged access to buildings, while other carriers need to negotiate access with building owners individually
- Deposit. All providers generally are authorized to deposit mail material (both addressed and unaddressed) in customer mail receptacles, providing they have the ability to reach it (e.g., building access). Some exceptions are when the USP actually owns the receptacle or has exclusive access to it (e.g., locked mailboxes in Austria – 60 percent of mailboxes, cluster boxes in rural areas)

<sup>29</sup> Accenture industry experience.

<sup>30</sup> Report U; Report A-annex; Report AP; Accenture industry experience.

- Content access. Content is generally exclusively accessible to the owner of the mail receptacle, not the USP (mail slots, locked mailboxes that are the property of the owner). There are a few exceptions, such as the locked mailboxes in Austria or cluster boxes in Canada, where the USP has access to the content, because it owns the mailboxes
- Content collection. Unlike in the US, USPs in other countries are not authorized to collect content from the customer mailbox; if they do so, it is in very limited cases
- Delivery restriction. Some countries are beginning to provide customers with the ability to opt out of mail delivery by non-USP providers (e.g., France, Germany, and Netherlands)

### Customer mailbox accessibility – country details <sup>31</sup>

Country	Mix of residential mail receptacle	Mailbox accessibility				Delivery restriction (customer choice)
		Mailbox reach	Deposit	Content access	Content collection	
US	~35% curbside, ~28% other residential (slots, wall mailbox) Only ~21% of residential mailboxes estimated locked	Buildings owner ensures mailbox access to USPS	Every letterbox or other receptacle intended or used for receipt or delivery of mail may be used only for matter bearing postage	Owner and USPS	Estimated ~27% of mailbox users leaving outgoing mail for Postman to collect	n.a.
AT	N/A	N/A	60% of mailbox locked and exclusively accessible by AT Post	Owner and AT Post for locked mailboxes	Generally not offered except in remote areas and by USP (e.g., 6% of mail boxes in Canada, 0.1% of mail volumes in Germany, 9% of residential delivery points in New Zealand)	N/A
CA		Canada Post has privilege access (historically) to buildings	Canada Post has exclusive access to cluster boxes (owned)			
IT	Vast majority of slots (door or wall)	All carriers obliged to ring to access buildings	All carrier have equal access to mail slots and are provided mailbox reach	Access by owner only with exception of cluster boxes (limited portion of installed customer mailboxes)		Can refuse delivery of AdMail carriers by adding stickers
FR		Privileged access to all buildings granted to La Poste Other carriers need to be granted access by building management				
DE		55% of residential customers using locked mailboxes				
NL	Majority of slots, only 12% of all households using mailbox, generally locked	All carriers have right to access				
SE	Vast majority of slots (door or wall)	All carriers have access directly or via building code				N/A
UK		Privileged access to all buildings granted to Royal Mail				

Some access limitations for new entrants
  No access limitations for new entrants

<sup>31</sup> Report U; Report A-annex; Report AP; Accenture industry experience

## 10 – Restrict new entrants’ commercial freedom

Licensing requirements are often understood as the sole mechanisms by which to restrict new entrants, but the range of available measures is actually much broader. This review found three additional constraining measures in effect. Each has a significant impact on restricting the commercial freedom of new entrants. They are:

1. Pay or play mechanism -- new entrants have the option to abide by the USO requirements or to focus on certain geographies but pay a tax to support the USO
2. Business requirements -- new entrants must respect minimum wage laws
3. USO obligation -- new entrants must abide by the same USO requirements as the USP.

With the exception of New Zealand and Canada, all countries employ at least one of these constraining measures, as the table below shows. Indeed, these measures have had an important impact in restricting competition. In Japan, the granting of only a single license to the incumbent Japan Post illustrates that though the law appears liberal, the country still behaves in many ways like a postal monopoly. More recently, Postcomm (UK’s NRA) declared that Finland effectively limited competition through the use of its pay or play mechanism.

## International comparison – commercial restriction mechanisms<sup>32</sup>

- ← Degree of constraint on new entrants → +

Country	Basic requirements		Pay or play	Business requirements	USO obligation	Exclusivity
	General authorization	New entrants authorized not to comply with universal service obligation in exchange for a fee	All new entrants obliged to meet additional operational or business requirements	All new entrants obliged to comply with universal service obligation for services in scope	Single authorized licensee	
NZ						
NL			Looking into measures to protect delivery personnel			
CA						
FI		3 to 25% of revenue to support universal service				
FR		Being considered to support removal of La Poste's reserved areas			6-day delivery	
UK		Being considered to address Royal Mail's financial difficulties				
IT						
SE			Collective agreements for all workers in the sector			
DE			Postal sector minimum wage requirements for delivery of letters			
JP						

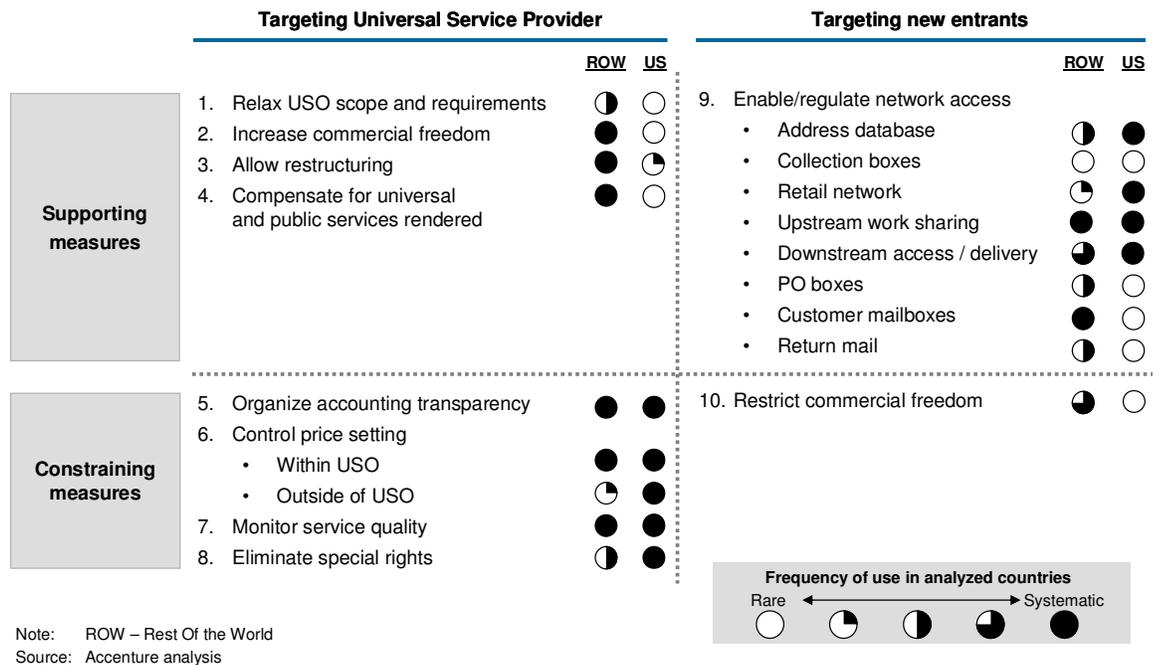
In place   
  Considered   
  Not in place

Note: In addition, most countries requiring from new entrants additional guarantees such as: ensuring confidentiality of correspondence, restrictions on dangerous goods, data protection requirements, environmental protection requirements, quality / availability / performance / price standards, proper response to complaints, minimal capital or financial guarantees, proof of technical or operational competence, transparency on quality

<sup>32</sup> p. 69-72, Report L; p. 52, Report K; Report AQ; p. 54, Report H; p. 94, Report K; Accenture industry experience.

## Flanking measures – US comparison

As the table below shows, the overall balance of flanking measures highlights the relatively lower level of support provided to the USPS compared with other posts. In the US, this is due to the limited implementation of measures supporting the USP and the relative absence of restrictions applicable to potential new entrants.



## Comparative study summary

### US mail market

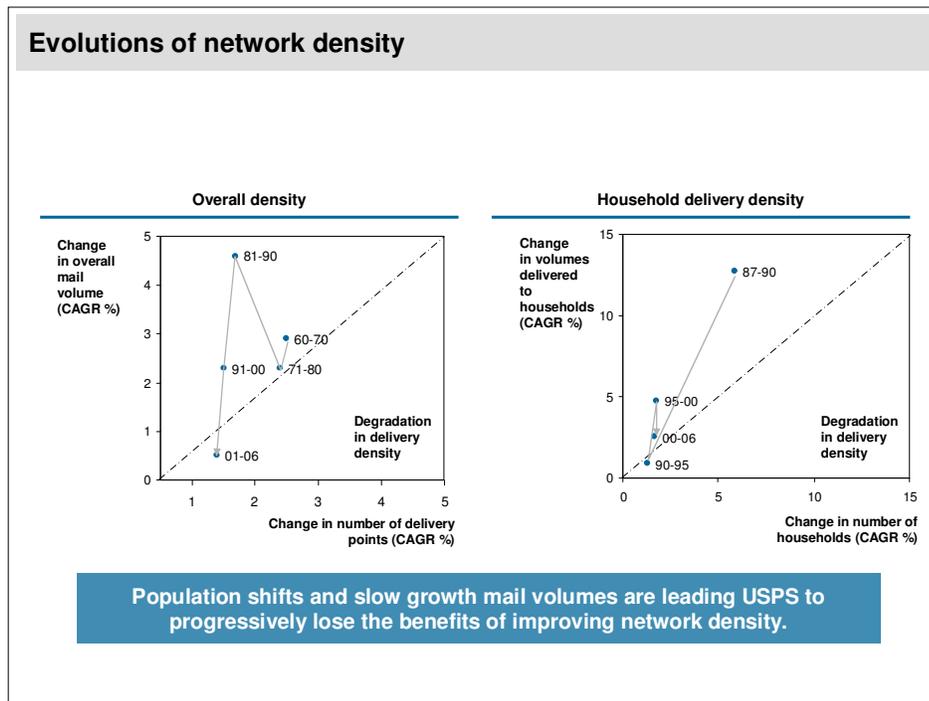
The US is a mature, slow-growth mail market. The growth of mail volumes over the past decade has been slower than the overall growth of the economy. Looking forward, it is reasonable to anticipate a decline across most mail categories as people and businesses continue to use other communication modes and change the ways they use mail. The table below shows the outlook for mail growth.

### US mail growth outlook

	Positive drivers	Negative impact	Likely scenario
<b>Social mail</b>	<ul style="list-style-type: none"> <li>Population and average income growth</li> <li>Aging population</li> <li>Increased population mobility</li> </ul>	<ul style="list-style-type: none"> <li>Generational differences in mail usage</li> <li>Growth/adoption of alternative media of communication (cell phone, internet, text messaging, instant messenger)</li> </ul>	<b>Slow to rapid decline</b>
<b>AdMail</b>	<ul style="list-style-type: none"> <li>Population and business growth</li> <li>Average income growth</li> <li>AdMail synergies with eCommerce sales (e.g., catalog)</li> <li>E-mail filtering</li> </ul>	<ul style="list-style-type: none"> <li>Growth in alternative advertising media</li> <li>Mailers increasingly proceeding to mail consolidation and seeking cost reduction opportunities</li> <li>Improvements in direct mail effectiveness</li> <li>Environmental concerns driving restrictions on direct mail/emissions</li> <li>Growing consumerism and concerns (e.g., do not mail list)</li> </ul>	<b>Slowing growth</b>
<b>Transactional mail</b>	<ul style="list-style-type: none"> <li>Population growth</li> <li>Growth in service industry</li> <li>Security and identity thief concerns</li> </ul>	<ul style="list-style-type: none"> <li>Growth in electronic payment</li> <li>Environmental concerns encouraging bulk transactional mailers to charge for statement</li> </ul>	<b>Slow to rapid decline</b>
<b>Fulfillment mail</b>	<ul style="list-style-type: none"> <li>eCommerce and internet sales growth</li> </ul>	<ul style="list-style-type: none"> <li>Information dematerialization and substitution (e.g., newspaper, CD, DVD)</li> <li>Growing value of shipped goods (making alternate express and parcel service options relatively more attractive)</li> </ul>	<b>Rapid but highly competitive growth</b>

Beyond the flattening or declining growth in volumes, a structural shift in volume mix has significantly affected USPS margins. That's especially true where the relative share of lower margin products (Standard Mail) is rapidly growing. Since 1987, Standard Mail volumes have grown at an average annual rate of 4% compared with 1% for first-class products.

To make matters worse, as the table below shows, recent demographic trends increased pressure on delivery density, which is a key driver of operation costs. The compound average growth rate (CAGR) of mail volumes is less than the growth of delivery points<sup>33</sup>.



### Comparing the US with other international situations

One important and overarching conclusion from the comparison of various liberalized or liberalizing developed countries in this study is that it is difficult to make one-to-one comparisons. When looking at various dimensions required to characterize the context of postal liberalization (in parallel, not in isolation, as is often done), it becomes clearer that each country is unique and faces its own set of challenges and opportunities.

The US is no exception. The following table summarizes key similarities and differences between the US and each of the reviewed countries. While the degree of differences or similarities between countries and situations is relevant and important, the study highlights that one should resist the

<sup>33</sup>The future of mail, Fouad H. Nader and Michael Lintell, February 2008 sourcing USPS Strategic Transformation Plan and Revenue, Pieces, and Weights reports; Accenture analysis.

temptation to apply the lessons learned in one country to another. One must consider nuances and contextual differences.

Country	Similarities with US context	Differences with US context
<b>SE</b>	Not densely populated country Declining, mature mail market High dependency of USP on mail revenue	Very small market Very highly priced, high quality mail service Relatively protected USP provided with significant freedom
<b>NZ</b>	Not densely populated country High dependency of USP on mail revenue	Extremely small market Sizeable market upside growth potential Highly priced mail service
<b>UK</b>	High dependency of USP on mail revenue Degree of scrutiny of NRA on USP operations	Relatively sustained market growth Relatively ineffective operations
<b>DE</b>	Declining mail market	Reasonable market upside growth potential Highly priced, high quality service Highly diversified and relatively protected USP
<b>NL</b>		Extremely densely populated territory Growing mail market Highly diversified USP
<b>IT</b>	Flat growth of mail market	Sizeable market upside growth potential Highly priced, low quality mail service Highly diversified USP
<b>FR</b>	Flat and mature mail market	Very low productivity of operations Diversified USP provided with high degree of freedom
<b>CA</b>	Not densely populated country High dependency of USP on mail revenue	Very small market, growing, with sizeable upside potential

### Characteristics of the US context

As explained earlier, to understand the specific context and conditions that underpin the liberalization of a given postal market, one needs to look at four dimensions in parallel: (1) USO specifications, (2) potential upside benefits from liberalization, (3) USP relative exposure, (4) balance of flanking measures.

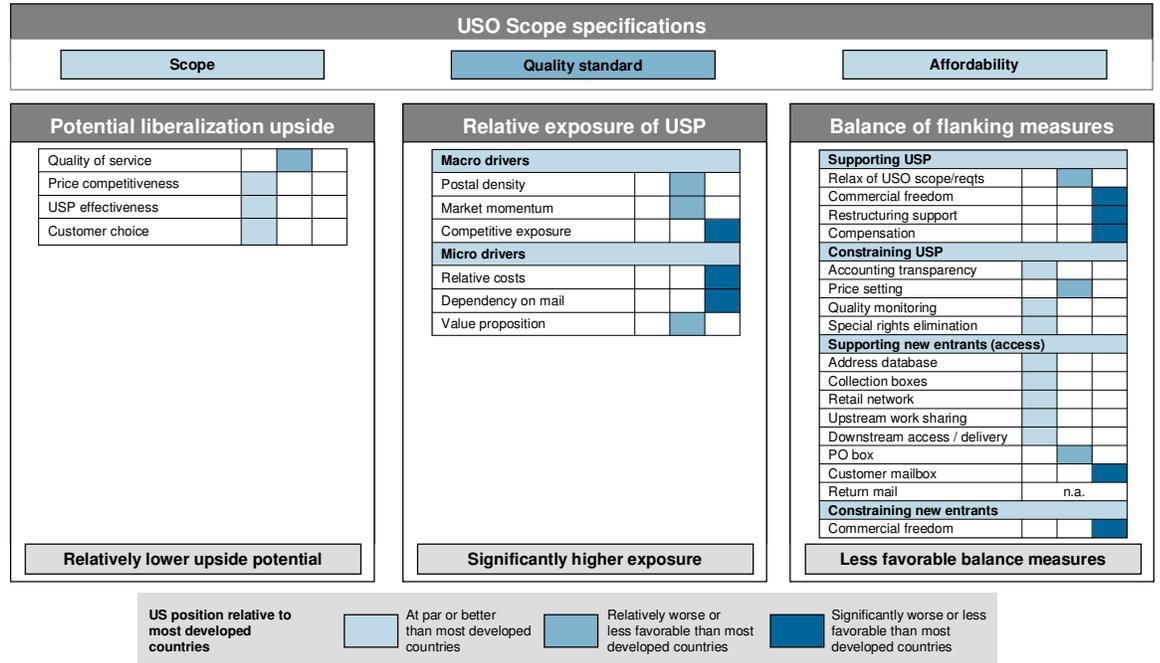
The following summarizes the US and USPS relative positioned within those four dimensions compared with other countries in this study:

- Potential upside benefits -- Relatively lower upside benefits, especially with respect to price competitiveness (lowest retail price at purchasing power parity), efficiency (highest percentage of mail handled by machinery and number of items processed by FTE), and customer choice (long history of work-sharing)
- Macro-economic and micro-economic exposure -- Relatively higher exposure both on macro-economic criteria (market density, size and maturity) and micro-economic criteria (dependency on mail revenue)

- Support provided to USP -- Lower relative level of support provided to the USPS based on existing flanking measures.

The table below shows the characteristics of the US market.

### Characteristics of the US context



### Summary of US relative position

The study highlights the relative position of the studied countries facing postal liberalization (actual or hypothetical) by looking at three dimensions: (1) the relative benefits anticipated from liberalizing the postal market, (2) the relative exposure of the USP (considering both macro and micro-economic factors), and (3) the relative balance of flanking measures in place that support transition.

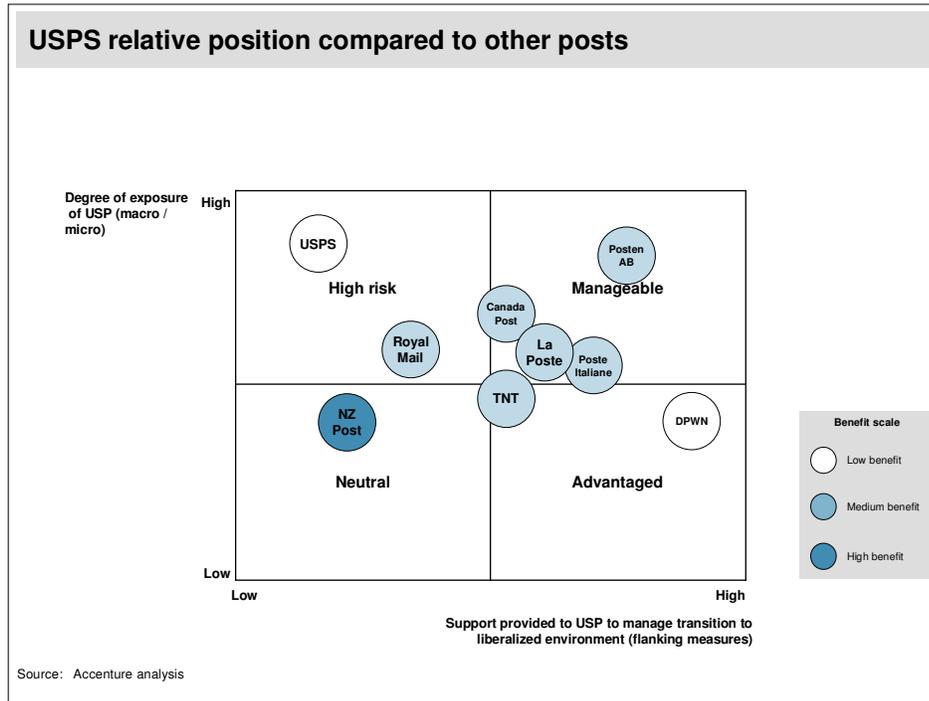
The last two dimensions help clarify the relative degree of risk and effort required for a country to liberalize its postal market if it chose to do so. With respect to those two dimensions, the reviewed countries fall into one of four categories:

- Neutral -- the degree of exposure of the USP is relatively low. So is the relative level of support provided by the regulator through the flanking measures

- Manageable -- a high degree of exposure for the USP accompanies a relative degree of support from the flanking measures
- Advantaged -- although the relative degree of exposure of the USP is low, the relative level of support provided with the flanking measures is relatively high
- High risk -- the relative degree of exposure of the USP is high but the level of support the regulator provides through the flanking measures is relatively low

This framework is far from a perfect or absolute predictor of success or failure of postal market liberalization. However, the framework does help characterize the relative position of each country included in the study. The table below shows the relative positions of the countries in the study.

Using this framework, the relative positions of the US and to a lesser extent the UK would be in the 'high risk' quadrant. By contrast, New Zealand is in a neutral position (relatively limited exposure and support). Sweden falls into a manageable position (considering the relative degree of support provided to Posten AB through the various flanking measures). Germany finds itself in an advantaged position (considering the relative degree of support provided to Deutsche Post relative to its already strong - and diversified - competitive position).



USPs that fall into the high risk quadrant should consider a variety of options and measures involving the USPs and other key stakeholders that would help the industry migrate toward a more manageable position.

## Appendix A – referenced reports

- A** The impact on Universal Service of the Full Market Accomplishment of the Postal Internal Market in 2009, PwC, May 2006
- B** Roundtable on non-commercial service obligations and liberalizations, OECD, October 2003
- C** Comments of Parcel Shippers Association, Direct Marketing Association, and Mail Order Association of America concerning the different application of laws to the United States Postal Service and private competitors, FTC, May 2007
- D** Accounting for laws that apply differently to the United States Postal Service and its private competitors, FTC, December 2007
- E** Comments of the American Postal Workers Union, AFL-CIO on the United States Postal Service study, FTC, August 2007
- F** Brief information on universal postal service definition of UPU member administrations, UPU, 2006
- G** Economics of Postal Services - final report, Nera, July 2004
- H** Funding universal service obligations in the postal sector, Oxera, January 2007
- I** Liberalization, privatization and regulation of postal services in Europe – First international experiences in the run-up to new European regulations, Pique, March 2007
- J** Postcomm Forward Work Plan 2008-11, Postcomm, January 2008
- K** Leading postal reform laws – an analytical survey, Brown Rudnick (J. I Campbell Jr., Joy M Leong), February 2008
- L** Main development in the Postal Sector (2004 – 2006), WIK Consult, May 2006
- M** Development of competition in the European postal sector, ECORYS, July 2005
- N** Postal Regulatory Database, IPC, 2007
- O** Eurobarometer 219, Eurobarometer, 2005
- P** 2007 USPS Annual Report, USPS, 2007
- Q** Economic activities as drivers of mail, Pitney Bowes, 2005
- R** Good time to take post office private, Lexington Institute, February 2007
- S** Canada Library of Parliament, November 2007
- T** Status and structures of postal administrations, UPU, (2008 or latest update available)
- U** Information about restrictions on mailbox access, GAO, 1997
- V** Pushing the envelope, MRI Research / Accenture, May 2004
- W** The liberalized Swedish postal market, PTS, March 2007
- X** Impact of competitive entry into the Swedish postal market, Robert Cohen, et.al, February 2007
- Y** Presentation of Posten AB's new service network, PTS, 2006
- Z** USPS transformation plan, USPS, April 2002
- AA** First submission by Postcomm, the industry regulator, Postcomm, March 2008
- AB** The future of mail, Pitney Bowes, February 2008
- AC** Resolution of Council of European Union on development of community postal services, Council of European Union, February 2004
- AD** Directive 97/67/EC of the European Parliament and Council of December 15, 1997, EC, December 1997
- AE** Directive 2008/6/EC of the European Parliament and Council of February 20, 2008, EC, February 2008
- AF** Implications for USPS Universal Service Obligation & Monopolies
- AG** Anticompetitive behavior in postal services, R. Richard Geddes, February 2004
- AH** "Notitie Post", Dutch Ministry of Economical Affairs, July 2004

- AI** Household Diary Study, mail use and attitudes in FY2006, USPS, March 2007
- AJ** Key facts and figures about Europe and the Europeans, EU Commission, May 2007
- AK** Promoting competition in postal services, OECD, February 1999
- AL** Competitive market review – UK postal market, Postcomm, 2007
- AM** Independent review of the postal services sector, first submission by Postcomm, the industry regulator, 2008
- AN** The challenges and opportunities facing UK postal services, an initial response to evidence, Richard Hooper CBE, Dame Deirdre Hutton, Ian R. Smith, May 2008
- AO** Universal service quality results, annual survey, Groupe La Poste, 2008
- AP** ARCEP (France) public consultation – mailbox access, 2008
- AQ** Call to Save Royal Mail by Levy on Rivals, [www.pressandjournal.co.uk](http://www.pressandjournal.co.uk), 05/23/08

## Appendix B – notes on US position

### Scope of universal service – US position notes

Reference	Explanation
A, B	<ul style="list-style-type: none"> <li>Title 39 USC, Sec. 101 (a) describes the provision of postal services to “bind the nation through the personal, educational, literary, and business correspondence of the people.”</li> <li>Sec. 403 (a) further states that Postal Service “shall service nearly as practicable the entire population of the United States.”</li> </ul>
C	<ul style="list-style-type: none"> <li>DMM 602.3.2 describes “simplified addresses” which can be considered as unaddressed</li> </ul>
D	<ul style="list-style-type: none"> <li>For purposes of the reserved area only, Title 29 CFR, sec. 310 defines a letter as “a message directed to a specific person or address and recorded in or on a tangible object....” subject to various provisions and exceptions</li> <li>Generally for USO, Title 39 USC, Section 403 (a) describes “written and printed matter, parcels, and like materials” as in scope</li> </ul>
E	<ul style="list-style-type: none"> <li>Title 39 USC, Section 403 (a) describes “written and printed matter, parcels, and like materials” as in scope</li> </ul>
F	<ul style="list-style-type: none"> <li>DMM 123.1.3 and IMM Rates/Eligibility sets weight restrictions of 13 oz for domestic, up to 4 lb for international</li> </ul>
G	<ul style="list-style-type: none"> <li>Title 39 USC, sec. 403 (a) describes postal services “...throughout the United States..., throughout the world...”</li> </ul>
H	<ul style="list-style-type: none"> <li>Title 39 USC 403 (a) describes postal services that “...shall receive, transmit, and deliver throughout the United States...”</li> </ul>
I	<ul style="list-style-type: none"> <li>DMM 601.1.3 state weight restrictions of up to 4 lbs (international), 70 lb (domestic)</li> </ul>
J	<ul style="list-style-type: none"> <li>Title 39 USC, sec. 403 (a) describes postal services “...throughout the United States..., throughout the world...”</li> </ul>
K	<ul style="list-style-type: none"> <li>Title 39 USC 403 (a) describes postal services that “...shall receive, transmit, and deliver throughout the United States...”</li> </ul>
L	<ul style="list-style-type: none"> <li>Generally for USO, Title 39 USC, Section 403 (a) describes “written and printed matter, parcels, and like materials” as in scope</li> <li>Bulk services do not include products such as express, priority (i.e. US equivalent of competitive products)</li> </ul>
M	<ul style="list-style-type: none"> <li>Sec. 403 (a) further states that Postal Service “shall service nearly as practicable the entire population of the United States.”</li> </ul>
N	<ul style="list-style-type: none"> <li>Title 39 USC, sec. 403 (a) describes postal services “...throughout the United States..., throughout the world...”</li> </ul>
O	<ul style="list-style-type: none"> <li>Title 39 USC 403 (a) describes postal services that “...shall receive, transmit, and deliver throughout the United States...”</li> </ul>

### Quality standards – US position notes

Reference	Explanation
A	<ul style="list-style-type: none"> <li>Title 39 USC, sec. 403 (a) states that Postal Service "...shall serve as nearly as practicable the entire population of the United States"</li> </ul>
B	<ul style="list-style-type: none"> <li>Annual appropriations rider states that services should be kept to same level set in 1983</li> </ul>
C	<ul style="list-style-type: none"> <li>Annual appropriations rider states that services should be kept to same level set in 1983</li> </ul>
D	<ul style="list-style-type: none"> <li>Title 39 USC, sec 3691 requires modern service standards</li> </ul>
E	<ul style="list-style-type: none"> <li>Title 39 USC, sec 403 (b) states that Postal Service is to "...maintain an efficient system of collection, sorting, and delivery of the mail nationwide"</li> <li>Annual appropriations rider states that services should be kept to same level set in 1983</li> </ul>
F	<ul style="list-style-type: none"> <li>No legal requirements regarding retail service quality, only internally set standards</li> </ul>
G	<ul style="list-style-type: none"> <li>Title 39 USC, sec 403 (b) states that Postal Service is to "...maintain an efficient system of collection, sorting, and delivery of the mail nationwide"</li> <li>Annual appropriations rider states that services should be kept to same level set in 1983</li> </ul>
H	<ul style="list-style-type: none"> <li>Title 39 USC, sec. 3662 refers to a PRC complaint process</li> <li>Required by PAEA, implementation in progress</li> </ul>

## Liberalization upside potential –notes on US position

Criteria	Variables	USPS position/ proxy for criteria	Source
Quality of service	Percentage of First Class (FC) or equivalent mail delivered D+1	The USPS monitors service performance using a system called EXFC. It is an independently administered measurement system that provides a measurement of delivery performance from collection box to mailbox. Although not nation-wide (expected to be in FY09), EXFC provides a measure of service performance from the customer's point of view. Based on the EXFC results, USPS performance on FC mail shows 96% for overnight delivery. However this measurement cannot be compared to those published by European countries: EXFC measures performance against 3 levels of service (D+1, D+2, D+3), which are based on operational standards factoring in elements other than distance (e.g., processing capacity, topography, availability of transportation, mail volumes). More specifically, when the Netherlands indicate 97% D+1 delivery, it means that 97% of mail volume from any origin to any destination in the Netherlands is delivered D+1. When the USPS indicates a performance of 96% for D+1 delivery, it means that of the mail classified as D+1 by the USPS, 96% is delivered D+1 (This classification is not exclusively based on distance. For example, for 07932 in NJ to 10105 NY - which is 31 miles, the USPS indicates a D+2 standard). The current performance management system does not enable the USPS to reliably provide service measurement, independent from designated service standards, for smaller geographies such as Manhattan-NJ, Texas or California, which would have enabled a comparison with similar size European countries (the Netherlands, France and Italy).	EXFC YTD 2007, USPS
	Collection/distribution frequency	Annual appropriations rider states that services should be kept to same level set in 1983  6 days/week delivery	USPS
	Number of staffed retail postal offices per 10K inhabitants	Assumes US population of 304M and 36,721 postal outlets (includes CPUs)  Most European countries operate other businesses (beyond mail) from their post offices, giving them the ability to share the costs of a larger installed base	2007 USPS Annual Report; CIA Factbook
	Percentage of surveyed users rating service "good" or better	CSM Overall satisfaction YTD 2007 % E/VG/G for Residential: 92% CSM overall satisfaction YTD 2007 % E/VG/G for Business (Premier Accounts): 91%	CSM YTD 2007, USPS

Price competitiveness	FC stamp price for a 20 g (0.70 oz) letter at purchasing power parity	Current stamp price of \$0.42; PPP assumed to be US benchmark (assumed from implied PPP rate of 1 from OECD database)	USPS, OECD
	Average annual stamp price increase ('00-'05)	<p>The price of the benchmark First-Class Stamp has stayed roughly constant in real terms for over 35 years. The trend in pricing will continue to fall in line with the CPI as determined by the PAEA</p> <p>Standard Mail revenue/lb. has decreased 1% year by year adjusted for inflation from 1996 to 2006 – data from other countries not available</p>	USPS analysis, Accenture analysis
USP effectiveness	Percentage of mail handled by machinery	Includes percentages for letters, flats, and parcels processed on machines; 5.6B pieces non-automated out of 209B	FY 2007 Expanded RPW Report, USPS
	Operating profit of USP in percentage of revenue	2007 Income from operations of \$1.6B when excluding \$6.8B financial impact of new legislation P.L. 109-435, and revenues of \$74.9B yields profit margin of 2.2%; if financial impact included, profit margin is -6.9%	2007 USPS Annual Report
	Average number of mail items processed by Full Time Equivalent (FTE)	Assumes USPS total work years of 801K and total mail volume of 209B	USPS
Customer choice	Number of consolidators and E2E operators (including USP)	Number of work-sharing partners assumed to be above 1,000	USPS
	Percentage of work-sharing volume of total volume	80% of USPS volumes handled upstream by third parties	Report AA

### Relative exposure to liberalization (macro) - notes on US position

Criteria	Variables	USPS position/ proxy for criteria	Source
Postal density	Number of postal items per inhabitant	Assumes 214B pieces (2006 volume) delivered and US population of 304M (2006); must be evaluated in context of profitability, which can vary by product and be attractive to entrants (e.g., low cost saturation mail)	Future of Mail, Pitney Bowes; UPU database, 2006
	Percentage of population living in urban areas	UN definitions for percentage of population in urban areas	2005 UN Population Division estimates and projections
	Population density	US population (304M) divided by 9.1 M sq km	IPC country profile, 2006
Market momentum	Mail volume growth rate from '00-'05	CAGR of mail volume growth from 2000 to 2005, as estimated by Pitney Bowes study; includes un-addressed items delivered by posts	Future of Mail, Pitney Bowes, 2006
	Number of postal items per inhabitant	See above	See above
	Percentage of advertising mail out of total market mail volumes	Includes estimates for Direct Mail and unaddressed items (assumed to include 50 B pieces estimate for free standing inserts) out of total volume; without items US value drops to 48%	Future of Mail, Pitney Bowes, 2006
Competitive exposure	Size of market (volume, B)	US estimates for all mail volumes, including Correspondence and Transaction Mail, Direct Mail, and Parcels/Periodicals/Other	Future of Mail, Pitney Bowes, 2006
	Percentage of B2C mail out of total addressed volumes	USPS B2C volume estimated at 68% by study; B2C volumes driven by transaction mail such as bills/statements and advertising mail	Future of Mail, Pitney Bowes, 2006
	Concentration of express/parcel market	Highly concentrated with top 3 players owning > 90% of express market	Accenture industry experience

### Relative exposure to liberalization (micro) – notes on US position

Criteria	Variables	USPS position/ proxy for criteria	Source
Relative costs	Percentage of public servant employees in USP total FTE headcount	Assumes "non-career" employees (101K) as proxy for lower-cost, "non-government" employees and 785K total employees in 2007	Operating Statistics, USPS Finance
	Percentage of outsourced counters	4,026 contract postal units where facility is owned and maintained by contractor; total of 36,721 retail and delivery facilities	2007 USPS Annual Report
	Relative labor market cost compared to public servant cost (fully loaded)	President's Commission on USPS reports that "in most localities....must pay its employees 21.2% more than private sector employees; 1 / 1.21	p. 39, FTC Report,
Dependency on mail revenue	Percentage of revenue outside of mail	2007 revenues for letter mail assumed to include First Class, Standard Mail, Periodicals, and International; total revenue assumed to include letter mail and Priority Mail, Express Mail, Packaged Services, and Other	2007 USPS Annual Report
	Relative competitive position on adjacencies	Accenture analysis and industry expertise	Accenture analysis
Core value proposition strength	Quality of service	Assessment of three quality of service metrics from potential upside section	Accenture analysis
	Price competitiveness	Assessment of two price competitiveness metrics from potential upside section	Accenture analysis

## Flanking measures – notes on US position

Flanking Measure	Source	Explanation
1. Relax USO scope and requirements	Title 39 § 3682	USPS able to submit a request to the PRC to change 'self imposed obligations' associated with the USO (70lbs limit for single piece parcel)
2. Increase commercial freedom	Title 39 § 201	Independent establishment of the Executive branch of the government of the US Requires Congress to be modified
	Title 39 § 404(e)	Law limits USPS activity to postal (mail / parcel) business only. Any non postal activity prior to 2006 can remain only if allowed by the commission
3. Allow and support restructuring	Appropriations rider PAEA § 302 (not codified)	Same service level as 1983 USPS is supposed to develop plan to streamline network by June 2008
	Title 39 § 404(e)	USPS can acquire assets that support the postal service USPS cannot acquire non postal businesses
4. Compensate for universal service and other public services rendered	Title 39 § 3404 Appropriations rider	Mail for the blind / handicapped and international voting mail is free and compensated for by federal government (\$89M for 2009)
5. Organize accounting transparency	Title 39 § 3652, 3654	USPS must produce an annual report to the PRC, including costs, revenues, rates for all products, Information related to work share discounts. PRC can request data as needed Additional financial reporting includes SOX reports: 10Q/10K/8K
6. Control price setting - Within USO - Outside USO	Title 39 § 3622, 3626, 3633	For market dominant: <ul style="list-style-type: none"> <li>- Price cap set to CPI-urban for each of the 5 classes of mail (within each of the 5 classes, average price increase has to be below CPI-U).</li> <li>- USPS is able to bank any amount below the CPI increase.</li> <li>- Work share discount has no more than cost avoided with exceptions.</li> <li>- Non profit rate</li> </ul> For competitive products: a cost floor must be met to make sure no subsidization, cover attributable costs and cover 5.5% contribution to institutional cost. PRC has authority to review product list
7. Monitor service quality	Title 39 § 3691, 3652, 3661	For each market dominant product : measures of quality of service, level of service, degree of customer satisfaction
8. Eliminate special rights	Supremacy clause Title 39 § 409(f) Title 39 § 2005, 2011 Title 39 § 407(b) Title 28 § 1346(b) Title 39 § 401	Tax exemption Zoning and building code exemption, but must consult with local authorities Access to Federal fund Customs parity for competitive products, special rights for other mail Legal protection Right of eminent domain

<p>9. Enable and regulate network access</p> <ul style="list-style-type: none"> <li>- Address database</li> <li>- Collection box</li> <li>- Retail network</li> <li>- Upstream work-sharing</li> <li>- Downstream access / delivery</li> <li>- PO box</li> <li>- Customer Mailboxes</li> <li>- Return mail</li> </ul>	<p>Title 39 § 412</p> <p>Title 39 § 401</p> <p>Title 39 chp 36</p> <p>Title 39 chp 36</p> <p>Title 18 § 1725</p> <p>Title 39 chp 36</p>	<p>Competitors can verify their database against the USPS and get updates</p> <p>USPS does not share collection boxes</p> <p>USPS allows drop boxes in the USPS stores</p> <p>Upstream access open since 1976</p> <p>Open</p> <p>No access allowed</p> <p>Mailbox monopoly: only stamped items</p> <p>Only USPS</p>
<p>10. Restrict commercial freedom</p>		<p>No licensing requirements</p> <p>No restriction on new entrants other than USPS monopolies</p>

# Appendix C – country deep dives

# Sweden (SE)



	SE	US
Size (sq km)	410,934	9,161,923
Population (M)	9	304
GDP (€ B)	296	11,088
GDP/ capita (€ )	32,837	36,498
Population growth:		
1990 – 2005	0.3%	1.1%
2005 – 2015	0.2%	0.9%
GDP growth:		
1990 – 2005	4.5%	5.2%
2005 – 2015	5.2%	4.7%
Urbanization rate:	83%	81%

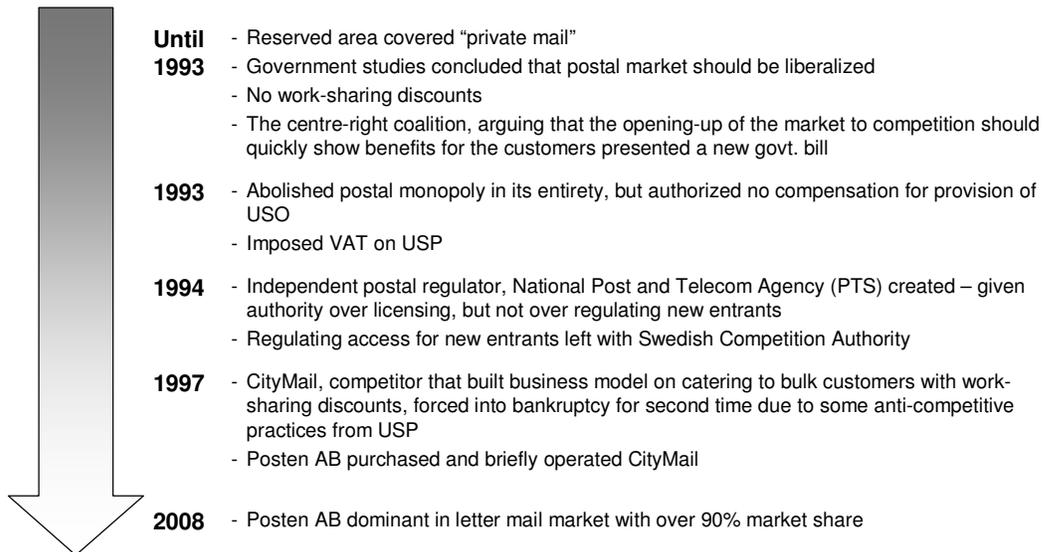
	SE	US
Total volume of mail (B):	7	214
Correspondence and transaction mail (B)	2	98
Direct mail (B)	1	103
Parcels, periodicals, other (B)	1	13
Unaddressed items (B)	3	N/A
Number of addresses (M):	7	148
Postal scale (# mail items/person/year) <sup>1</sup> :	422	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$1.20	\$0.42

## Status of mail monopoly

Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
Dominant						
						
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	Courier Express Parcel

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
 Source: IPC country profiles; UPU database; Posten AB Annual Report 2006; Report AB © 2008 Accenture. All rights reserved. Strictly confidential.

# Postal reform and liberalization timeline



# Postal universal service definition



Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Correspondence and printed material in scope, up to 2 kg Addressed parcels up to 20 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b> Included in scope of USO</p>	<p><b>Geographical coverage</b> Services must be accessible to everyone Households in remote areas (archipelagos and mountain districts) exempt from USO of daily service</p> <p><b>Collection frequency</b> Once per day not less than 5 times per week (one clearance on non-holiday business days)</p> <p><b>Distribution frequency</b> Same as collection frequency</p> <p><b>Transit time</b> Priority: D+1: 85%, Priority: D+3: 97%</p> <p><b># of post offices</b> Services must be accessible to everyone and be provided at a reasonable distance from ones' home/workplace; density of access points must take into account needs of users</p> <p><b># of letter boxes</b> No requirement, but service must be guaranteed and distance to letterbox deemed reasonable</p> <p><b>Complaint mechanism:</b> N/A</p>	<p><b>Single piece</b> Uniform pricing</p> <p><b>Bulk services</b> No uniform pricing</p>

Source: Report N

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# USP overview



- **Name:** Posten AB
- **Capital structure:** Corporation, 100% owned by Swedish government
- **Lines of business:** Messaging and Logistics (mail), Posten Logistics (parcels, express, freight), Stralfors (information logistics), Cashier Services (financial services)

	Messaging and Logistics	Stralfors (information logistics)	Cashier Services
<b>Financial Indicators<sup>1</sup></b>			
▪ Total revenue (€ B)	2.7	0.2	0.1
▪ Revenue trend	3% (1 yr)	N/A	(13%) (1 yr)
▪ Operating earnings (€ B)	0.1	(0.0)	0.0
▪ Profit trend	18% (1 yr)	N/A	0% (1 yr)
▪ # of employees	32,442 (all divisions)		
<b>Market Position</b>			
▪ Market share (%)	91%		
▪ Main competitors	City Mail (Norway Post)	DHL TNT Privpak	Nordea Group Skandinaviska Enskilda Banken Swedbank Svenska Handelsbanken

Notes: 1) Financials reported in SEK; converted using 1 SEK = .108 EUR

Source: Posten AB Annual Report 2006; Report AA

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# Potential upside – US relative position



Criteria	Variables	Relative upside potential left to capture	US relative upside	
Quality of service	% of First Class mail or equivalent delivered D+1 <sup>1</sup>	97% NL	79% FR	Comparable to relatively lower
	Collection/distribution frequency	6/week US	5/week NZ	
	# of staffed retail postal offices per 10K inhabitants <sup>2</sup>	4.5 SE	1.2 US	
	% of surveyed users rating service "good" or better <sup>3</sup>	95% NL	73% IT	
Price competitiveness	First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity <sup>4</sup>	\$0.42 US	\$1.20 SE	Significantly lower
	Average annual increase in stamp price ('00-'05) <sup>5</sup>	-4% IT	17% PL	
USP efficiency	% of mail handled by machinery <sup>6</sup>	97% US	40% NZ	Relatively to significantly lower
	Operating profit of USP in % of revenue <sup>7</sup>	10% ES	1% UK	
	Average # of mail items processed by Full Time Equivalent (FTE) <sup>8</sup>	261K US	92K IT	
Customer choice	# consolidators and E2E operators (including USP) <sup>9</sup>	>1,000 US	USP only PL	Significantly lower
	% of work-sharing volume of total volume <sup>10</sup>	80% US	20% UK	

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report S; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA  
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# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	USPS relative exposure	
Postal density	Number of postal items per inhabitant <sup>1</sup>	704 US	120 IT	Comparable
	Percentage of population living in urban areas <sup>2</sup>	97% BE	61% FI	
	Population density <sup>3</sup>	399 NL	4 CA	
Market momentum	Mail volume growth rate from '00-'05 <sup>4</sup>	5% NL	-4% BE	Comparable
	Number of postal items per inhabitant <sup>1</sup>	120 IT	704 US	
	Percentage of advertising mail out of total market mail volumes <sup>5</sup>	49% UK	72% NL	
Competitive exposure	Size of market (volume, B) <sup>6</sup>	1 NZ	214 US	Significantly higher
	Percentage of B2C mail out of total addressed volumes <sup>7</sup>	58% NL	71% DE	
	Concentration of express and parcel market <sup>8</sup>	Fragmented	Concentrated	

Notes: USPS data based on best assumptions of comparable metric  
Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise  
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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure	
		Less		More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	← →	87% US	Comparable to relatively higher
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	← → 83% 74%	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	← →	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	← → 17%	11% SE	Comparable
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	← →	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	← →	Low	Relatively lower
	Price competitiveness <sup>7</sup>	High	← →	Low	

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in Sweden



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements	▲ ●
	2. Increase commercial freedom	▲ ◇
	3. Allow and support restructuring	▲ ◇
	4. Compensate for universal and public services rendered	▲ ● ◇
Constraining measures	5. Organize accounting transparency	▲ ◇ ●
	6. Control price setting	▲ ●
	• Within USO	
	• Outside of USO	
7. Monitor service quality	● ◇	
8. Eliminate special rights	▲	
		9. Enable/regulate network access ▲
		• Address database
		• Collection boxes
		• Retail network
		• Upstream work sharing
		• Downstream access / delivery
		• PO boxes
		• Customer mailboxes
		• Return mail
		10. Restrict commercial freedom ◇ □

**Targeted risks**

▲ Unfair competition    ◇ Deterioration in service quality

● Price escalation    □ Downside from providers' multiplication

**Application of flanking measures in country**

**Flanking measures in place**

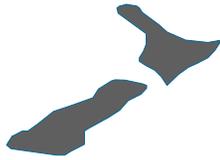
Flanking measures not in place

No information available

Source: Accenture analysis

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# New Zealand (NZ)



Country overview	NZ	US
Size (sq km)	268,021	9,161,923
Population (M)	4	304
GDP (€ B)	79	11,088
GDP/ capita (€ )	19,327	36,498
Population growth:		
1990 – 2005	1.1%	1.1%
2005 – 2015	0.9%	0.9%
GDP growth:		
1990 – 2005	5.2%	5.2%
2005 – 2015	5.8%	4.7%
Urbanization rate:	86%	81%

Mail market overview	NZ	US
Total volume of mail (B):	~1	214
Correspondence and transaction mail (B)		98
Direct mail (B)		103
Parcels, periodicals, other (B)		13
Unaddressed items (B)		N/A
	NZ	US
Number of addresses (M):	2	148
Postal scale (# mail items/person/year) <sup>1</sup> :	246	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$0.98	\$0.42

## Status of mail monopoly

Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
Dominant	Dominant	Dominant	Dominant			
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	

BT = Basic tariff  
PRI = Priority tariff  
50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
Source: IPC country profiles; UPU database, NZ Post Annual Report 2007, Report AB

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# Postal reform and liberalization timeline



- 
- 1986** - Post office split into separate organizations for telecom, banking, and postal services  
- Adopted new legislative model for corporations organized under normal company law but owned by government
  - 1987** - Postal Service Act of 1987 transforms Post Office into New Zealand Post (NZ Post), a state owned enterprise  
- Regulatory functions transferred to Ministry of Economic Development  
- Postal monopoly for letters < 500 g, < \$NZ 1.75
  - 1988 - 1989** - Senior government officials recommend repeal of postal monopoly despite opposition from New Zealand Post  
- NZ Post enters into "Deed of Understanding" with government to ensure continuation of public services
  - 1990** - Recommendation to repeal postal monopoly postponed, instead monopoly reduced to < 200 g, < \$NZ 1.00; by end of 1991, < 2 x stamp price of \$NZ .45
  - 1995** - NZ Post abolishes rural delivery fee and lowered FC stamp price from \$NZ .45 to \$NZ .40
  - 1998** - Postal Act of 1998 abolishes postal monopoly and imposes certain obligations on private operators  
- New "Deed of Understanding" entered into with government

Source: Report Z, Appendix H; Report K; NZ Post Annual Report 2007

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## Postal universal service definition

Scope	Quality standards	Affordability
<p><b>Users</b> N/A</p> <p><b>Single Piece</b> Postal Act of 1998 does not require NZ Post or any other postal operator to provide universal service Voluntary contract between gov't and NZ Post (Deed of Understanding) to provide a minimum service level covering a "letter" defined as "any form of written communication, or any other document or article conveyed for not more than NZ \$.80" Domestic and international End to end delivery</p> <p><b>Bulk services</b> N/A</p>	<p><b>Geographical coverage</b> Everywhere with some exceptions (rural areas)</p> <p><b>Collection frequency</b> No requirements</p> <p><b>Distribution frequency</b> No requirement for more than one delivery per day Deed of Understanding with government states 6 day per week delivery to &gt; 95% of delivery points, 5-6 days per week to &gt; 99.88% of delivery points, 1-4 days per week delivery for remainder</p> <p><b>Transit time</b> No specific requirements</p> <p><b># of post offices</b> Minimum of 880 postal shops (at least 240 to be full service outlets)</p> <p><b># of letter boxes</b> No specific requirements</p> <p><b>Complaint mechanism:</b> Minister refers complaints to NZ Post, which must then consult with Minister about accuracy of complaint and the corrective action to be taken</p>	<p><b>Single piece</b> No uniform pricing requirement (although letter rates are uniform in practice) NZ Post agreed not to reintroduce annual fee levied on rural households to compensate for high cost of delivery</p> <p><b>Bulk services</b> VolumePost service provides tiered pricing based on volume; must conform to size/weight restrictions</p>

Source: Report N

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## USP overview



- **Name:** New Zealand Post
- **Capital structure:** State enterprise
- **Lines of business:** Postal Services (mail, physical goods distribution and logistics, document and information management), Financial Services (Kiwibank and agency services)

	Postal Services	Financial Services
<b>Financial Indicators</b>		
▪ Total revenue (€ B)	0.5	0.1
▪ Revenue trend	7%	30%
▪ Net surplus (€ B)	0.02	0.01
▪ Profit trend	(15%)	61%
▪ # of employees	17,000 (all divisions)	
<b>Market Position</b>		
▪ Market share (%)	95%	
▪ Main competitors	Pete's Post Fastway Post NZ Document Exchange Limited (DX Mail)	ASB Bank ANZ National Bank Bank of New Zealand

Source: NZ Post Annual Report 2007; Report AA

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# Potential upside – US relative position

Criteria	Variables	Relative upside potential left to capture	US relative upside			
Quality of service	<ul style="list-style-type: none"> <li>% of First Class mail or equivalent delivered D+1<sup>1</sup></li> <li>Collection/distribution frequency</li> <li># of staffed retail postal offices per 10K inhabitants<sup>2</sup></li> <li>% of surveyed users rating service "good" or better<sup>3</sup></li> </ul>	<p>Less</p> <p>97%<sub>NL</sub> ← N/A → 79%<sub>FR</sub></p> <p>6/week<sub>US</sub> ← → 5/week<sub>NZ</sub></p> <p>4.5<sub>SE</sub> ← → 1.2<sub>US</sub></p> <p>95%<sub>NL</sub> ← 92% → 73%<sub>IT</sub></p>	N/A			
		Price competitiveness		<ul style="list-style-type: none"> <li>First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity<sup>4</sup></li> <li>Average annual increase in stamp price ('00-'05)<sup>5</sup></li> </ul>	<p>\$0.42<sub>US</sub> ← \$0.98 → \$1.20<sub>SE</sub></p> <p>-4%<sub>IT</sub> ← 0% → 17%<sub>PL</sub></p>	Significantly lower
					USP efficiency	
		Customer choice		<ul style="list-style-type: none"> <li># consolidators and E2E operators (including USP)<sup>9</sup></li> <li>% of work-sharing volume of total volume<sup>10</sup></li> </ul>		<p>&gt;1,000<sub>US</sub> ← 26 → USP only<sub>PL</sub></p> <p>80%<sub>US</sub> ← → 20%<sub>UK</sub></p>
Significantly lower						

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report S; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA

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# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	USPS relative exposure			
Postal density	<ul style="list-style-type: none"> <li>Number of postal items per inhabitant<sup>1</sup></li> <li>Percentage of population living in urban areas<sup>2</sup></li> <li>Population density<sup>3</sup></li> </ul>	<p>Less</p> <p>704<sub>US</sub> ← 246 → 120<sub>IT</sub></p> <p>97%<sub>BE</sub> ← 86% → 81% → 61%<sub>FI</sub></p> <p>399<sub>NL</sub> ← 33 → 15 → 4<sub>CA</sub></p>	Comparable to lower			
		Market momentum		<ul style="list-style-type: none"> <li>Mail volume growth rate from '00-'05<sup>4</sup></li> <li>Number of postal items per inhabitant<sup>1</sup></li> <li>Percentage of advertising mail out of total market mail volumes<sup>5</sup></li> </ul>	<p>5%<sub>NL</sub> ← 0.4% → -4%<sub>BE</sub></p> <p>120<sub>IT</sub> ← 246 → 704<sub>US</sub></p> <p>49%<sub>UK</sub> ← 58% → 72%<sub>NL</sub></p>	Significantly higher
					Competitive exposure	
Relatively higher						

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise

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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	87% US	N/A
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% SE	11% SE	Relatively higher
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	Low	Relatively lower
	Price competitiveness <sup>7</sup>	High	Low	
				Relatively higher

Notes: USPS data based on best assumptions of comparable metric  
 Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in New Zealand



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲ • Address database • Collection boxes • Retail network • Upstream work sharing • PO boxes • Local delivery • Customer mailboxes • Return mail
	2. Increase commercial freedom ▲ ◇	
	3. Allow and support restructuring ▲ ◇	
	4. Compensate for universal and public services rendered ▲ ● ◇	
Constraining measures	5. Organize accounting transparency ▲ ◇ ●	10. Restrict commercial freedom ◇ □
	6. Control price setting ▲ ● • Within USO • Outside of USO	
	7. Monitor service quality ● ◇	
	8. Eliminate special rights ▲	

▲ Unfair competition    ◇ Deterioration in service quality  
 ● Price escalation    □ Downside from providers' multiplication

Source: Accenture analysis  
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# United Kingdom (UK)



Country overview	UK	US
Size (sq km)	243,600	9,161,923
Population (M)	61	304
GDP (€ B)	1,864	11,088
GDP/ capita (€ )	30,765	36,498
Population growth:		
1990 – 2005	0.3%	1.1%
2005 – 2015	0.3%	0.9%
GDP growth:		
1990 – 2005	5.4%	5.2%
2005 – 2015	4.7%	4.7%
Urbanization rate:	89%	81%

Mail market overview	UK	US
Total volume of mail (B):	32	214
Correspondence and transaction mail (B)	14	98
Direct mail (B)	5	103
Parcels, periodicals, other (B)	3	13
Unaddressed items (B)	11	N/A
	<b>UK</b>	<b>US</b>
Number of addresses (M):	27	148
Postal scale (# mail items/person/year) <sup>1</sup> :	348	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$0.88	\$0.42

Status of mail monopoly						
Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
Dominant	Dominant	Dominant	Dominant			
						
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	BT = Basic tariff PRI = Priority tariff 50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
 Source: IPC country profiles; UPU database; Royal Mail Annual Report 2007; Report AB © 2008 Accenture. All rights reserved. Strictly confidential.

# Postal reform and liberalization timeline



Source: Report Z, Appendix H; IPC country profiles  
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## Postal universal service definition

Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Correspondence and printed material in scope, up to 2 kg Addressed parcels up to 20 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b> Bulk mail services are in scope of USO Includes Cleanmail - does not require users to have sorting machines, and is an "entry level" bulk mail product that targets small businesses</p>	<p><b>Geographical coverage</b> Everywhere without restrictions</p> <p><b>Collection frequency</b> 6 times per week, once every working day, including Saturday for letters</p> <p><b>Distribution frequency</b> Same as collection frequency</p> <p><b>Transit time</b> Priority mail: D+1: 93.0% Non-priority: D+3: 98.5%</p> <p><b># of post offices</b> Premises of not less than 95% of users are within 5 km of access point Premises of not less than 95% of users in each postcode area are within 10 km of such access points</p> <p><b># of letter boxes</b> In each postcode area where delivery point density is not less than 200 delivery points per sq km, not less than 99% of users are within 500 meters of letterbox For areas with lower density, no specific requirement</p> <p><b>Complaint mechanism:</b> Consumers can complain to Royal Mail or any other licensed operator, or seek assistance from Postwatch</p>	<p><b>Single piece</b> Uniform pricing</p> <p><b>Bulk services</b> Uniform pricing only applies to non-bulk UK's pricing for Cleanmail, an "entry level" bulk mail product targeting small businesses must be uniform</p>

Source: Report N  
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## USP overview



- **Name:** Royal Mail
- **Capital structure:** Corporation, government owned public limited company
- **Lines of business:** Mail, Parcel/Logistics, Financial services, Other

	Mail	Parcel/Logistics	Financial services	Other <sup>1</sup>
<b>Financial Indicators</b>				
▪ Total revenue (€ B)	9.9	2.1	1.3	0.05
▪ Revenue trend	(0%) (1 yr)	5% (1 yr)	4% (1 yr)	337% (1 yr)
▪ EBIT (€ B)	0.3	0.2	0.1	0.0
▪ Profit trend	(44%) (1 yr)	19% (1 yr)	12% (1 yr)	(24%) (1 yr)
▪ # of employees	167,640	16,313	9,990	2,961 (wholly owned subsidiaries only)
<b>Market Position</b>				
▪ Market share (%)	99% (delivery of last mile)			
▪ Main competitors	UK Mail TNT Post UK DX Group DHL Global Mail UK	TPG DPWN La Poste Group	HSBC Holding Royal Bank of Scotland Barclays Bank HBOS	

Notes: 1) includes wholly and partly owned subsidiaries – facilities management, catering services, central shared services, lottery operator, among others

Source: Royal Mail Annual Report 2007; Report I  
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# Potential upside – US relative position

Criteria	Variables	Relative upside potential left to capture	US relative upside		
Quality of service	<ul style="list-style-type: none"> <li>% of First Class mail or equivalent delivered D+1<sup>1</sup></li> <li>Collection/distribution frequency</li> <li># of staffed retail postal offices per 10K inhabitants<sup>2</sup></li> <li>% of surveyed users rating service "good" or better<sup>3</sup></li> </ul>	<p>Less</p> <p>97%<sub>NL</sub> ← 92%<sub>US</sub> → 79%<sub>FR</sub> (N/A)</p> <p>6/week<sub>US</sub> ← 5/week<sub>NZ</sub> →</p> <p>4.5<sub>SE</sub> ← 2.3<sub>US</sub> → 1.2<sub>US</sub></p> <p>95%<sub>NL</sub> ← 81%<sub>US</sub> → 73%<sub>IT</sub></p>	Relatively lower		
		<ul style="list-style-type: none"> <li>First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity<sup>4</sup></li> <li>Average annual increase in stamp price ('00-'05)<sup>5</sup></li> </ul>		<p>\$0.42<sub>US</sub> ← \$0.88<sub>US</sub> → \$1.20<sub>SE</sub></p> <p>-4%<sub>IT</sub> ← 0%<sub>US</sub> → 17%<sub>PL</sub></p>	Relatively lower
		<ul style="list-style-type: none"> <li>% of mail handled by machinery<sup>6</sup></li> <li>Operating profit of USP in % of revenue<sup>7</sup></li> <li>Average # of mail items processed by Full Time Equivalent (FTE)<sup>8</sup></li> </ul>		<p>97%<sub>US</sub> ← 30%<sub>US</sub> → 40%<sub>NZ</sub></p> <p>10%<sub>ES</sub> ← 2.2%<sub>US</sub> → 1%<sub>UK</sub></p> <p>261K<sub>US</sub> ← 141K<sub>US</sub> → 92K<sub>IT</sub></p>	Significantly lower
		<ul style="list-style-type: none"> <li># consolidators and E2E operators (including USP)<sup>9</sup></li> <li>% of work-sharing volume of total volume<sup>10</sup></li> </ul>		<p>&gt;1,000<sub>US</sub> ← 21<sub>US</sub> → USP only<sub>PL</sub></p> <p>80%<sub>US</sub> ← 20%<sub>UK</sub> →</p>	Significantly lower
			Rel. to sig. lower		

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception: p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report G; 7) Profit margin of USP, 2004 for foreign USPs: p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA

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# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	USPS relative exposure		
Postal density	<ul style="list-style-type: none"> <li>Number of postal items per inhabitant<sup>1</sup></li> <li>Percentage of population living in urban areas<sup>2</sup></li> <li>Population density<sup>3</sup></li> </ul>	<p>Less</p> <p>704<sub>US</sub> ← 309<sub>US</sub> → 120<sub>IT</sub></p> <p>97%<sub>BE</sub> ← 89%<sub>US</sub> → 81%<sub>US</sub> → 61%<sub>FI</sub></p> <p>399<sub>NL</sub> ← 249<sub>US</sub> → 33<sub>US</sub> → 4<sub>CA</sub></p>	Comparable to relatively higher		
		<ul style="list-style-type: none"> <li>Mail volume growth rate from '00-'05<sup>4</sup></li> <li>Number of postal items per inhabitant<sup>1</sup></li> <li>Percentage of advertising mail out of total market mail volumes<sup>5</sup></li> </ul>		<p>5%<sub>NL</sub> ← 1.7%<sub>US</sub> → 0.4%<sub>US</sub> → -4%<sub>BE</sub></p> <p>120<sub>IT</sub> ← 309<sub>US</sub> → 704<sub>US</sub></p> <p>49%<sub>UK</sub> ← 72%<sub>NL</sub> →</p>	Relatively to significantly higher
		<ul style="list-style-type: none"> <li>Size of market (volume, B)<sup>6</sup></li> <li>Percentage of B2C mail out of total addressed volumes<sup>7</sup></li> <li>Concentration of express and parcel market<sup>8</sup></li> </ul>		<p>1<sub>NZ</sub> ← 32<sub>US</sub> → 214<sub>US</sub></p> <p>58%<sub>NL</sub> ← 60%<sub>US</sub> → 68%<sub>US</sub> → 71%<sub>DE</sub></p> <p>Fragmented ← Concentrated</p>	Significantly higher
			Relatively to significantly higher		

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise

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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	87% US	Relatively higher
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% SE	11% SE	Comparable
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	Low	Relatively lower
	Price competitiveness <sup>7</sup>	High	Low	
				Comparable to relatively higher

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in the UK



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲
	2. Increase commercial freedom ▲ ◇	• Address database
	3. Allow and support restructuring ▲ ◇	• Collection boxes
	4. Compensate for universal and public services rendered ▲ ● ◇	• Retail network
Constraining measures	5. Organize accounting transparency ▲ ◇ ●	• Upstream work sharing
	6. Control price setting ▲ ●	• Downstream access / delivery
	• Within USO	• PO boxes
	• Outside of USO	• Customer mailboxes
	7. Monitor service quality ● ◇	• Return mail
	8. Eliminate special rights ▲	10. Restrict commercial freedom ◇ □

**Targeted risks**  
 ▲ Unfair competition    ◇ Deterioration in service quality  
 ● Price escalation       □ Downside from providers' multiplication

**Application of flanking measures in country**  
**Flanking measures in place**  
 Flanking measures not in place  
 No information available

Source: Accenture analysis

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# Germany (DE)



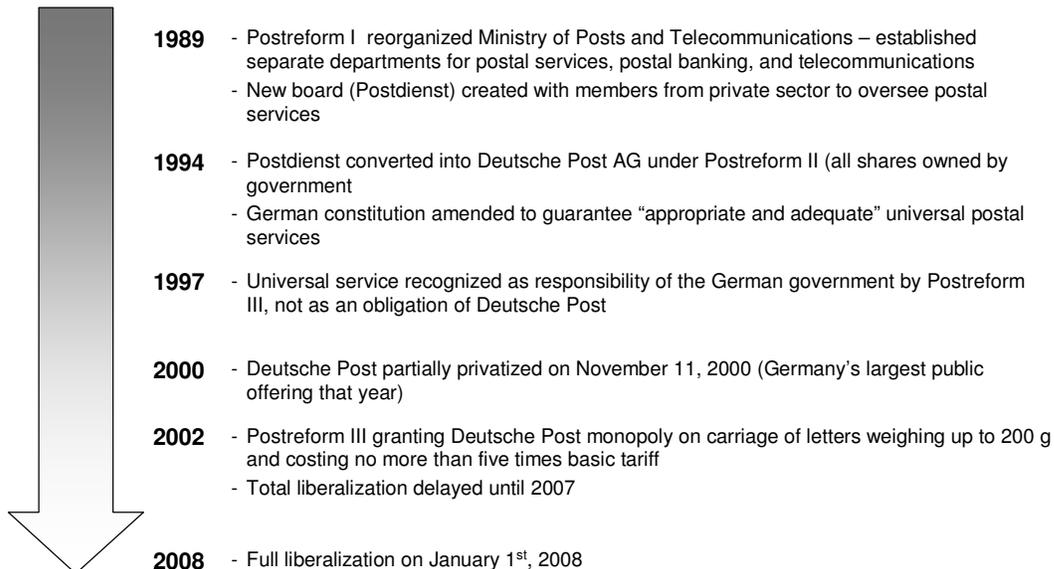
Country overview	DE	US
Size (sq km)	349,223	9,161,923
Population (M)	82	304
GDP (€ B)	1,975	11,088
GDP/ capita (€ )	23,969	36,498
Population growth:		
1990 – 2005	0.3%	1.1%
2005 – 2015	-0.1%	0.9%
GDP growth:		
1990 – 2005	3.8%	5.2%
2005 – 2015	3.6%	4.7%
Urbanization rate:	89%	81%

Mail market overview	DE	US
Total volume of mail (B):	37	214
Correspondence and transaction mail (B)	9	98
Direct mail (B)	7	103
Parcels, periodicals, other (B)	3	13
Unaddressed items (B)	17	N/A
	<b>DE</b>	<b>US</b>
Number of addresses (M):	42	148
Postal scale (# mail items/person/year) <sup>1</sup> :	242	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$0.99	\$0.42

Status of mail monopoly						
Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
Dominant	Dominant	Dominant	Dominant			
						
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	Courier Express Parcel

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
 Source: IPC country profiles; UPU database; DPWN Annual Report 2007; Report AB  
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# Postal reform and liberalization timeline



Source: Report Z, Appendix H; IPC country profiles; DPWN Annual Report 2007  
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# Postal universal service definition



Scope	Quality standards	Affordability
<p><b>Users</b> While all users are in scope today, Germany's NRA (BNetzA) recommended that universal services should be restricted to those services demanded by consumers and small business customers as senders, and to all postal users as addressees</p> <p><b>Single Piece</b> Correspondence and printed material in scope, up to 2 kg Addressed parcels up to 20 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b> Exclusion from USO scope considered for 2007</p>	<p><b>Geographical coverage</b> Everywhere without restrictions</p> <p><b>Collection frequency</b> 6 times a week</p> <p><b>Distribution frequency</b> 6 times a week</p> <p><b>Transit time</b> Letter post items: D+1: 80%; J+2: 95% (not required for bulk items (50 pieces or more) Parcels: D+2: 80%</p> <p><b># of post offices</b> 12,000 fixed locations (until end of 2007) of which 5,000 must be operated by DPWN staff At least one permanent facility in any municipality with &gt; 2,000 residents Distance to facility less than 2 km for &gt; 4,000 residents One permanent facility per area of 80 km<sup>2</sup></p> <p><b># of letter boxes</b> Urban area customers should not be more than 1,000 m from letterbox</p> <p><b>Complaint mechanism:</b> BNetzA ensures complaint procedures and providing redress through customer advice service</p>	<p><b>Single piece</b> Uniform pricing</p> <p><b>Bulk services</b> Compliant with EU regulation</p>

Source: Report N

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# USP overview



- **Name:** Deutsche Post World Net (DPWN)
- **Capital structure:** Privatized corporation, 69.5% free float, 30.5% - KfWBankengruppe
- **Lines of business:** Mail, Express/logistics, Financial services and Services<sup>1</sup>

	Mail	Express/Logistics	Financial services	Services <sup>1</sup>
<b>Financial Indicators</b>				
▪ Total revenue (€ B)	15.5	39.6	10.4	2.4
▪ Revenue trend	6% (5 yr)	17% (5 yr)	8% (5 yr)	(22%) (5 yr)
▪ EBIT (€ B)	2.0	0.8	1.1	(0.7)
▪ Profit trend	(0.8%) (5 yr)	30% (5 yr)	17% (5 yr)	N/A
▪ # of employees	146,208	282,857	22,436	23,689
<b>Market Position</b>				
▪ Market share (%)	87%			
▪ Main competitors	PIN Group Europost (TNT) DBS	FedEx UPS TNT	Deutsche Bank Commerzbank HypoVereinsbank	

Note: 1) Shared services center – costs allocated to business divisions

Source: DWPW Annual Report 2004,2007

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# Potential upside – US relative position



Criteria	Variables	Relative upside potential left to capture	US relative upside
Quality of service	% of First Class mail or equivalent delivered D+1 <sup>1</sup>	Less: 97% NL vs 95% vs N/A vs 79% FR (More)	Comparable to relatively higher
	Collection/distribution frequency	6/week US vs 5/week NZ	
	# of staffed retail postal offices per 10K inhabitants <sup>2</sup>	4.5 SE vs 1.5 US vs 1.2 US	
	% of surveyed users rating service "good" or better <sup>3</sup>	95% NL vs 92% vs 84% vs 73% IT	
Price competitiveness	First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity <sup>4</sup>	\$0.42 US vs \$0.99 SE vs \$1.20 SE	Relatively to significantly lower
	Average annual increase in stamp price ('00-'05) <sup>5</sup>	-4% IT vs -2% vs 0% vs 17% PL	
USP efficiency	% of mail handled by machinery <sup>6</sup>	97% US vs 89% vs 40% NZ	Relatively to significantly lower
	Operating profit of USP in % of revenue <sup>7</sup>	10% ES vs 7% vs 2.2% vs 1% UK	
	Average # of mail items processed by Full Time Equivalent (FTE) <sup>8</sup>	261K US vs 150K vs 92K IT	
Customer choice	# consolidators and E2E operators (including USP) <sup>9</sup>	>1,000 US vs 750 vs USP only PL	Relatively lower
	% of work-sharing volume of total volume <sup>10</sup>	80% US vs 20% UK	

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report G; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA  
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# Degree of exposure of USP – US relative position

## Macroeconomic context

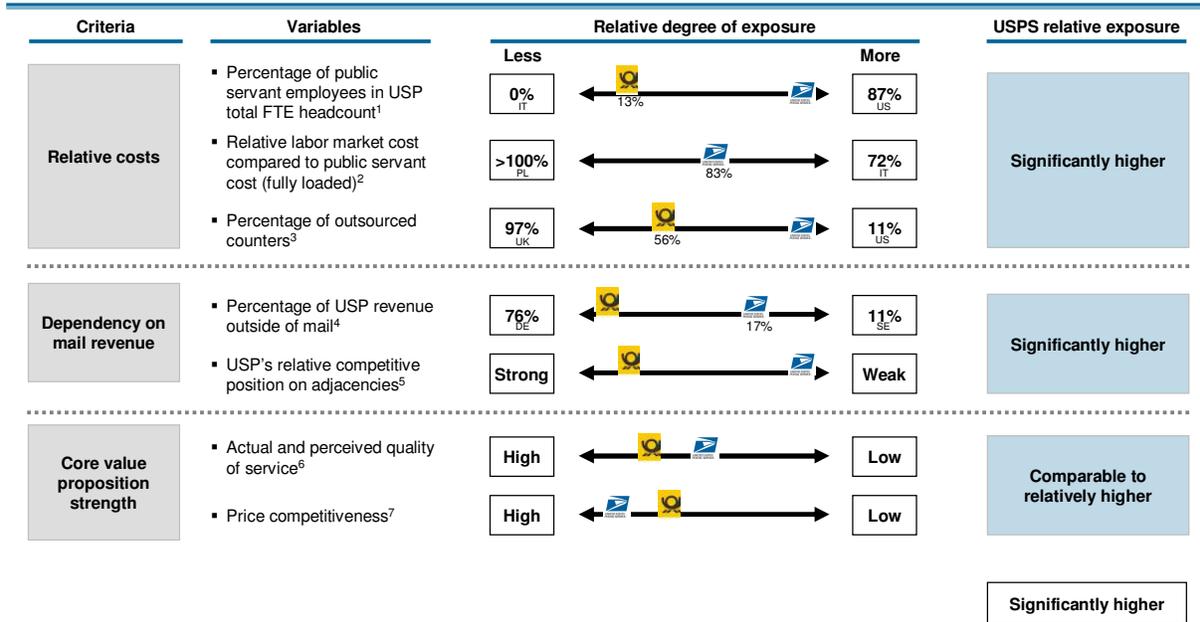


Criteria	Variables	Relative degree of exposure	USPS relative exposure
Postal density	Number of postal items per inhabitant <sup>1</sup>	Less: 704 US vs 242 vs 120 IT (More)	Comparable to relatively higher
	Percentage of population living in urban areas <sup>2</sup>	97% BE vs 89% vs 81% vs 61% FI	
	Population density <sup>3</sup>	399 NL vs 231 vs 33 vs 4 CA	
Market momentum	Mail volume growth rate from '00-'05 <sup>4</sup>	5% NL vs 0.4% vs -0.1% vs -4% BE	Relatively higher
	Number of postal items per inhabitant <sup>1</sup>	120 IT vs 241 vs 704 US	
	Percentage of advertising mail out of total market mail volumes <sup>5</sup>	49% UK vs 58% vs 65% vs 72% NL	
Competitive exposure	Size of market (volume, B) <sup>6</sup>	1 NZ vs 37 vs 214 US	Comparable to relatively higher
	Percentage of B2C mail out of total addressed volumes <sup>7</sup>	58% NL vs 68% vs 71% DE	
	Concentration of express and parcel market <sup>8</sup>	Fragmented vs Concentrated	

Notes: USPS data based on best assumptions of comparable metric  
 Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise  
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# Degree of exposure of USP – US relative position

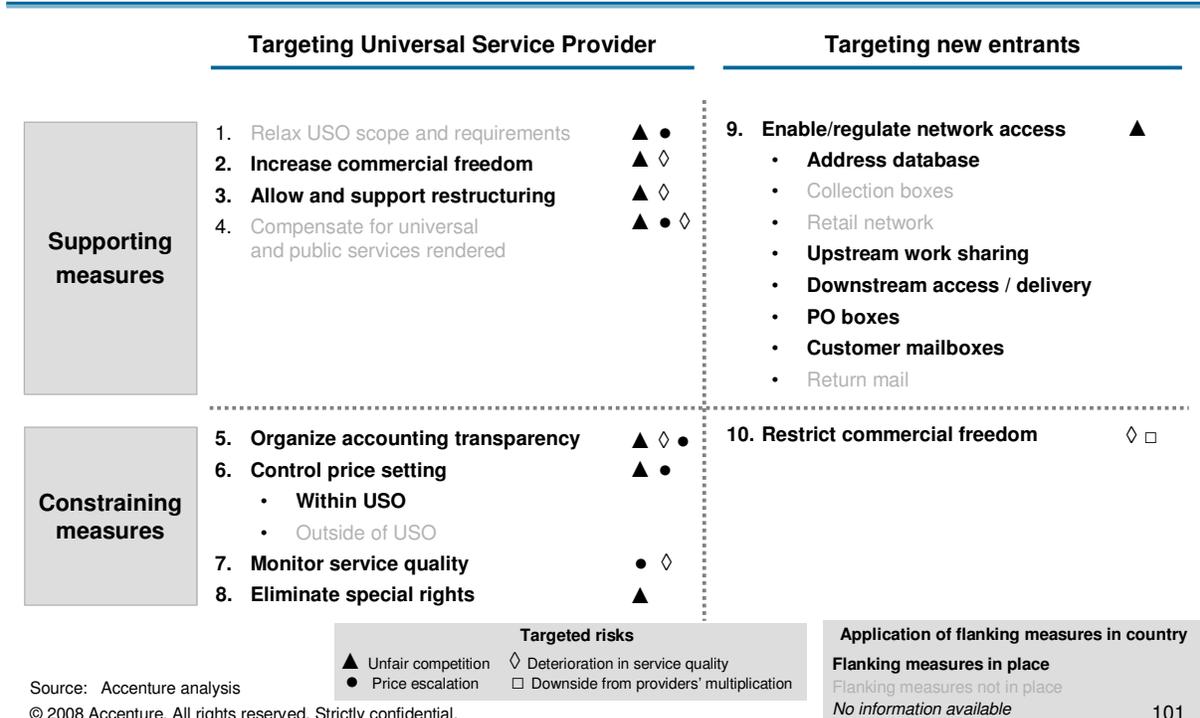
## Microeconomic context



Notes: USPS data based on best assumptions of comparable metric  
 Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in Germany



# Netherlands (NL)



Country overview	NL	US
Size (sq km)	41,528	9,161,923
Population (M)	17	304
GDP (€ B)	561	11,088
GDP/ capita (€ )	33,847	36,498
Population growth:		
1990 – 2005	0.6%	1.1%
2005 – 2015	0.4%	0.9%
GDP growth:		
1990 – 2005	5.0%	5.2%
2005 – 2015	4.5%	4.7%
Urbanization rate:	67%	81%

Mail market overview	NL	US
Total volume of mail (B):	20	214
Correspondence and transaction mail (B)	3	98
Direct mail (B)	2	103
Parcels, periodicals, other (B)	2	13
Unaddressed items (B)	13	N/A
	NL	US
Number of addresses (M):	8	148
Postal scale (# mail items/person/year) <sup>1</sup> :	428	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$0.78	\$0.42

### Status of mail monopoly

Single Piece and inbound cross border <sup>1</sup>	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/ Magazines	Un-addressed AdMail	Courier Express Parcel
< 50 g, 2.5 x BT		< 50 g, 2.5 x BT				
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	

BT = Basic tariff  
PRI = Priority tariff  
50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
Source: IPC country profiles; UPU database; TNT Post Annual Report 2007; Report AB © 2008 Accenture. All rights reserved. Strictly confidential.

# Postal reform and liberalization timeline



# Postal universal service definition



Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Scope limited to reserved area Correspondence and printed material in scope, up to 2 kg Addressed parcels up to 20 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b> Bulk mail items of correspondence at separately agreed rates up to 50 g considered in scope of USO; all other bulk excluded from USO Cross border bulk mail at separately agreed rates of items of correspondence and printed matter up to 2 kg</p>	<p><b>Geographical coverage</b> N/A</p> <p><b>Collection frequency</b> 6 times per week, except public holidays</p> <p><b>Distribution frequency</b> 6 times per week, except public holidays</p> <p><b>Transit time</b> D +1; 95% (items of correspondence, under USO)</p> <p><b># of post offices</b> 1 postal outlet within 5km radius if residential center has &gt; 5,000 inhabitants; if &gt; 50,000, additional service location for every 50,000 residents</p> <p><b># of letter boxes</b> 1 letter box within 500 m radius if residential center has &gt; 5,000 inhabitants; outside residential centers with &gt; 5,000 inhabitants requires 1 letter box within 2.5 km</p> <p><b>Complaint mechanism:</b> Independent disputes committee for consumer under Dutch Consumer Association</p>	<p><b>Single piece</b> Uniform pricing for non-bulk under scope of USO</p> <p><b>Bulk services</b> Bulk items (&gt; 50 g) not in scope of USO and therefore not subject to uniform pricing Allowed to provide volume discounts and negotiated pricing and conditions for high volume users Lower service levels for direct mail customers with lower prices (once a week delivery)</p>

Source: Report N

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# USP overview



- **Name:** TNT Post
- **Capital structure:** Privatized corporation
- **Lines of business:** Mail, Express, Other Networks

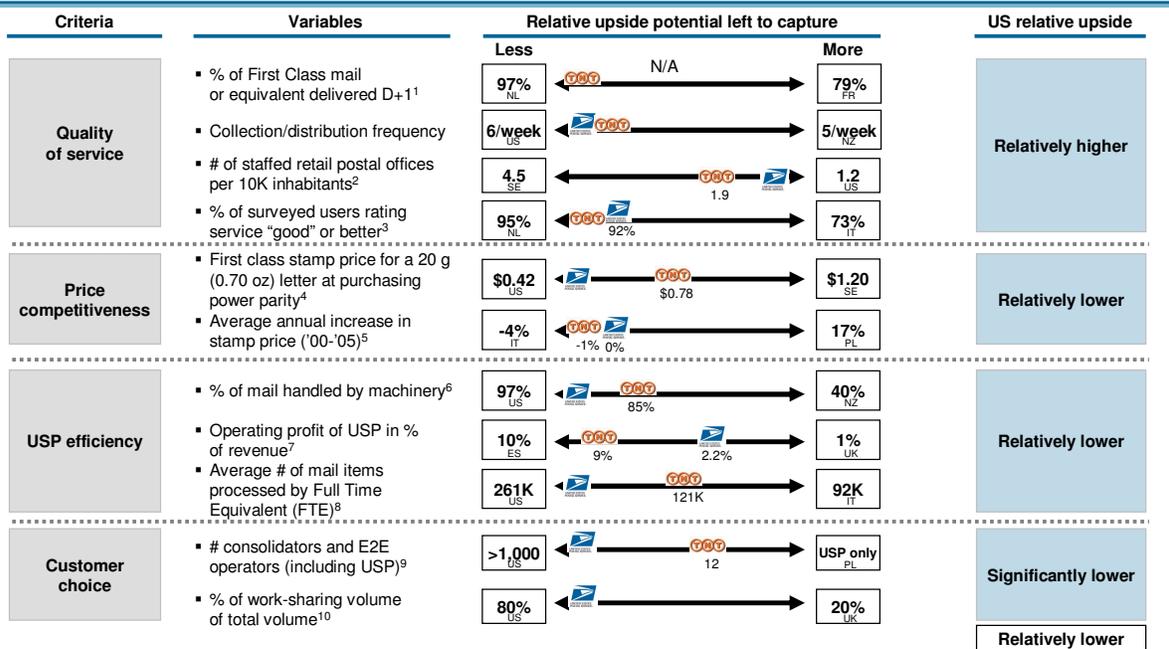
	Mail	Express	Other Networks <sup>1</sup>
<b>Financial Indicators</b>			
▪ Total revenue (€ B)	4.2	6.6	0.3
▪ Revenue trend	4% (1 yr)	14% (1 yr)	0% (1 yr)
▪ EBIT (€ B)	0.6	0.6	0.0
▪ Profit trend	(18%) (1 yr)	7% (1 yr)	57% (1 yr)
▪ # of employees	84,929	75,032	1,385
<b>Market Position</b>			
▪ Market share (%)	88%	17% (in Europe)	
▪ Main competitors	Sannd BV Selekt Mail (DPWN) Mailmerge Euromail	UPS FedEx DHL La Poste	

Notes: 1) Includes time-critical delivery points for business customers during the night

Source: TNT Annual Report 2007

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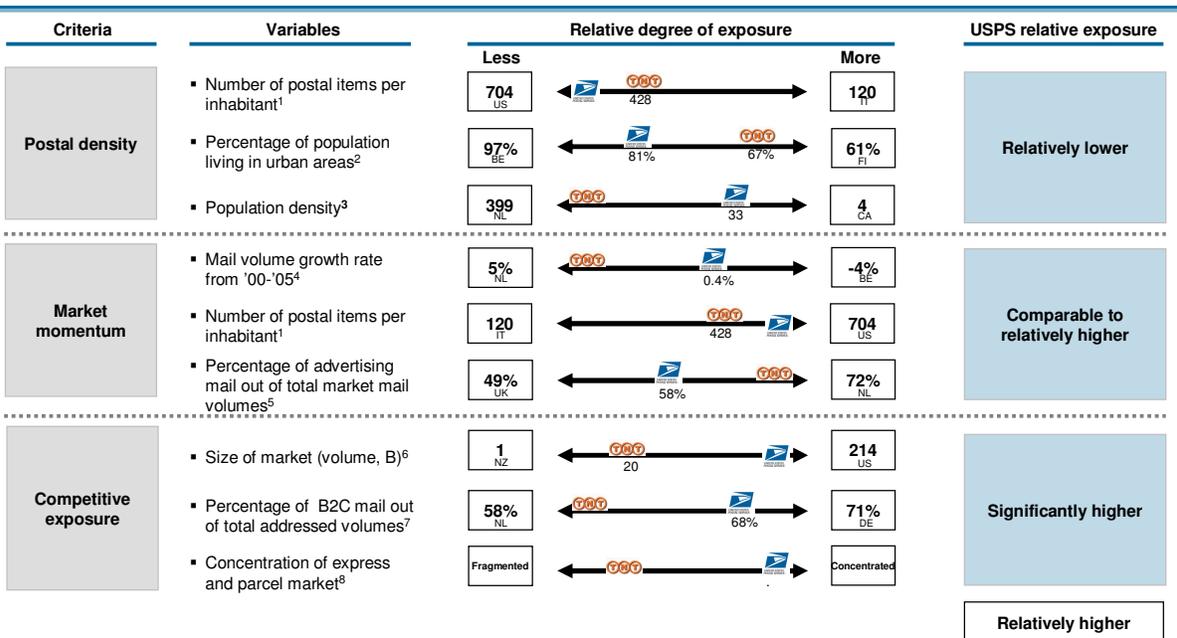
# Potential upside – US relative position



Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report G; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA  
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# Degree of exposure of USP – US relative position

## Macroeconomic context



Notes: USPS data based on best assumptions of comparable metric  
Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise  
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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	87% US	N/A
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	17% SE	Significantly higher
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	Low	Comparable to relatively higher
	Price competitiveness <sup>7</sup>	High	Low	
				Relatively to significantly higher

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in the Netherlands



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲
	2. Increase commercial freedom ▲ ◇	
	3. Allow and support restructuring ▲ ◇	
	4. Compensate for universal and public services rendered ▲ ● ◇	
Constraining measures	5. Organize accounting transparency ▲ ● ◇	10. Restrict commercial freedom ◇ □
	6. Control price setting ▲ ●	
	7. Monitor service quality ● ◇	
	8. Eliminate special rights ▲	

**Targeted risks**

▲ Unfair competition    ◇ Deterioration in service quality

● Price escalation    □ Downside from providers' multiplication

**Application of flanking measures in country**

Flanking measures in place

Flanking measures not in place

No information available

Source: Accenture analysis

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# Italy (IT)



Country overview	IT	US
Size (sq km)	294,020	9,161,923
Population (M)	58	304
GDP (€ B)	1,418	11,088
GDP/ capita (€ )	24,387	36,498
Population growth:		
1990 – 2005	0.2%	1.1%
2005 – 2015	-0.1%	0.9%
GDP growth:		
1990 – 2005	4.8%	5.2%
2005 – 2015	3.7%	4.7%
Urbanization rate:	68%	81%

Mail market overview	IT	US
Total volume of mail (B):	11	214
Correspondence and transaction mail (B)	4	98
Direct mail (B)	2	103
Parcels, periodicals, other (B)	1	13
Unaddressed items (B)	4	N/A
	<b>IT</b>	<b>US</b>
Number of addresses (M):	23	148
Postal scale (# mail items/person/year) <sup>1</sup> :	120	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$1.09	\$0.42

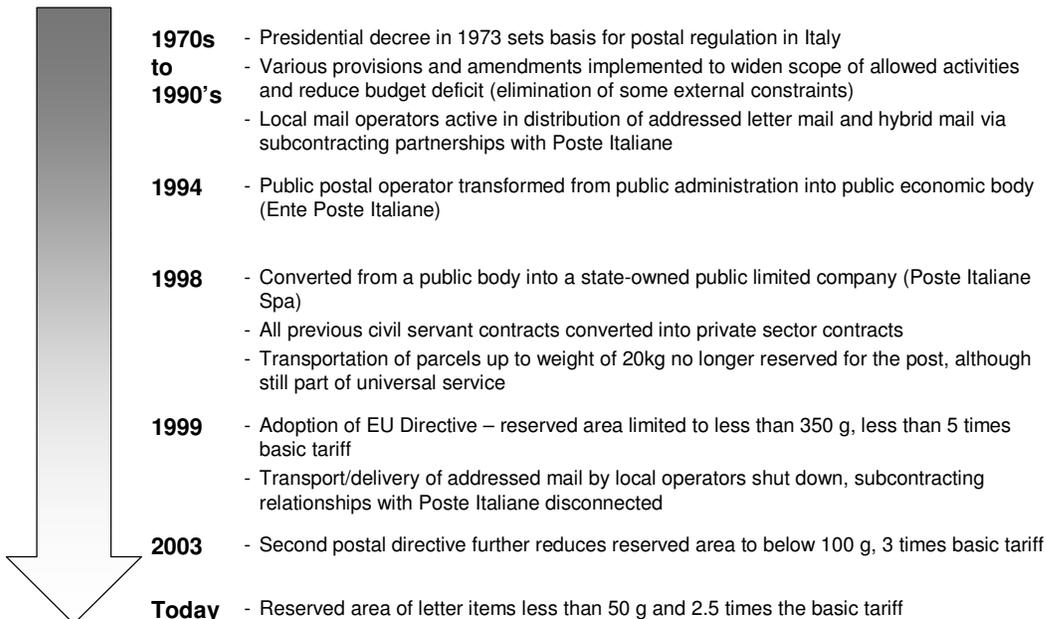
## Status of mail monopoly

Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/ Magazines	Un-addressed AdMail	Courier Express Parcel
< 50 g, 2.5 x BT	< 50 g, 2.5 x BT	< 50 g, 2.5 x BT				
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	

BT = Basic tariff  
PRI = Priority tariff  
50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
Source: IPC country profiles; UPU database; Poste Italiane Annual Report 2006; Report AB © 2008 Accenture. All rights reserved. Strictly confidential.

# Postal reform and liberalization timeline



Source: Report A (annexes), Report M (Annexes), Report AK  
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# Postal universal service definition



Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Correspondence, direct mail, and printed material in scope, up to 2 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b> N/A</p>	<p><b>Geographical coverage</b> Everywhere without restrictions</p> <p><b>Collection frequency</b> Every working day and not less than 5 times per week</p> <p><b>Distribution frequency</b> Every working day and not less than 5 times per week</p> <p><b>Transit time</b> Priority: D+1 – 88% Non-Priority: D+3 – 94% Parcels: D+5 – 93%</p> <p><b># of post offices</b> No requirements</p> <p><b># of letter boxes</b> No requirements</p> <p><b>Complaint mechanism:</b> Ministry of Communications responsible for ensuring complaint procedures in place USP obliged to ensure transparent, simple, and inexpensive procedures to deal with users' complaints Obligation extended to all licensed operators of universal services</p>	<p><b>Single piece</b> Uniform pricing</p> <p><b>Bulk services</b> N/A</p>

Source: Report N

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# USP overview



- **Name:** Poste Italiane
- **Capital structure:** Corporation; 65% owned by the Ministry of the Economy and Finance and % owned by Casa Depositi e Prestiti SpA.
- **Lines of business:** Mail, Parcels/logistics, Financial services, and Other

	<u>Postal services (mail, express, and parcel)</u>	<u>Financial services</u>	<u>Insurance services</u>	<u>Other<sup>1</sup></u>
<b>Financial Indicators</b>				
▪ Total revenue (€ B)	5.3	4.4	7.0	0.3
▪ Revenue trend	3% (1 yr)	9% (1 yr)	0% (1 yr)	11% (1 yr)
▪ EBIT (€ B)	(0.0)	1.2	0.3	(0.0)
▪ Profit trend	98% (1 yr)	24% (1 yr)	18% (1 yr)	(127%) (1 yr)
▪ # of employees	153,732 (all divisions)			
<b>Market Position</b>				
▪ Market share (%)				
▪ Main competitors	Rinaldi Espresso (TNT) Romana Recapiti CityMail Uniposta	Banca Intesa Sanpaolo IMI UniCredit		

Note: 1) Other includes the remaining services carried out by Poste Italiane and those conducted by certain Group companies (BancoPosta Fondi SpA SGR, EGI SpA, Postecom SpA, PosteShop SpA and Consorzio Poste Link)

Source: Poste Italiane Annual Report 2006; IPC country profiles  
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# Potential upside – US relative position



Criteria	Variables	Relative upside potential left to capture	US relative upside
Quality of service	% of First Class mail or equivalent delivered D+1 <sup>1</sup>	97% NL vs 86% FR	Comparable to relatively lower
	Collection/distribution frequency	6/week US vs 5/week NZ	
	# of staffed retail postal offices per 10K inhabitants <sup>2</sup>	4.5 SE vs 2.4 US	
	% of surveyed users rating service "good" or better <sup>3</sup>	95% NL vs 73% IT	
Price competitiveness	First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity <sup>4</sup>	\$0.42 US vs \$1.20 SE	Relatively lower
	Average annual increase in stamp price ('00-'05) <sup>5</sup>	-4% IT vs 17% PL	
USP efficiency	% of mail handled by machinery <sup>6</sup>	97% US vs 40% NZ	Relatively to significantly lower
	Operating profit of USP in % of revenue <sup>7</sup>	10% ES vs 1% UK	
	Average # of mail items processed by Full Time Equivalent (FTE) <sup>8</sup>	261K US vs 92K IT	
Customer choice	# consolidators and E2E operators (including USP) <sup>9</sup>	>1,000 US vs USP only PL	Significantly lower
	% of work-sharing volume of total volume <sup>10</sup>	80% US vs 20% UK	
			Rel. to sig. lower

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report S; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considered addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA  
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# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	USPS relative exposure
Postal density	Number of postal items per inhabitant <sup>1</sup>	704 US vs 120 IT	Relatively to significantly lower
	Percentage of population living in urban areas <sup>2</sup>	97% BE vs 81% vs 68%	
	Population density <sup>3</sup>	399 NL vs 198 vs 33 vs 4 CA	
Market momentum	Mail volume growth rate from '00-'05 <sup>4</sup>	5% NL vs 0.4% vs 0.3% vs -4% BE	Relatively to significantly higher
	Number of postal items per inhabitant <sup>1</sup>	120 IT vs 704 US	
	Percentage of advertising mail out of total market mail volumes <sup>5</sup>	49% UK vs 49% vs 58% vs 72% NL	
Competitive exposure	Size of market (volume, B) <sup>6</sup>	1 NZ vs 11 vs 214 US	Relatively to significantly higher
	Percentage of B2C mail out of total addressed volumes <sup>7</sup>	58% NL vs 65% vs 68% vs 71% DE	
	Concentration of express and parcel market <sup>8</sup>	Fragmented vs Concentrated	
			Relatively to significantly higher

Notes: USPS data based on best assumptions of comparable metric  
 Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise  
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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	87% US	Relatively to significantly higher
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	11% SE	Significantly higher
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	Low	Relatively lower
	Price competitiveness <sup>7</sup>	High	Low	
				Relatively to significantly higher

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in Italy



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲ • Address database • Collection boxes • Retail network • Upstream work sharing • Downstream access / delivery • PO boxes • Customer mailboxes • Return mail
	2. Increase commercial freedom ▲ ◇	
	3. Allow and support restructuring ▲ ◇	
	4. Compensate for universal and public services rendered ▲ ● ◇	
Constraining measures	5. Organize accounting transparency ▲ ● ◇	10. Restrict commercial freedom ◇ □
	6. Control price setting ▲ ● • Within USO • Outside of USO	
	7. Monitor service quality ● ◇	
	8. Eliminate special rights ▲	

### Targeted risks

- ▲ Unfair competition
- Price escalation
- ◇ Deterioration in service quality
- Downside from providers' multiplication

### Application of flanking measures in country

- Flanking measures in place
- Flanking measures not in place
- No information available

Source: Accenture analysis

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# France (FR)



Country overview	FR	US
Size (sq km)	545,630	9,161,923
Population (M)	61	304
GDP (€ B)	1,429	11,088
GDP/ capita (€ )	23,467	36,498
Population growth:		
1990 – 2005	0.5%	1.1%
2005 – 2015	0.5%	0.9%
GDP growth:		
1990 – 2005	3.4%	5.2%
2005 – 2015	3.9%	4.7%
Urbanization rate:	77%	81%

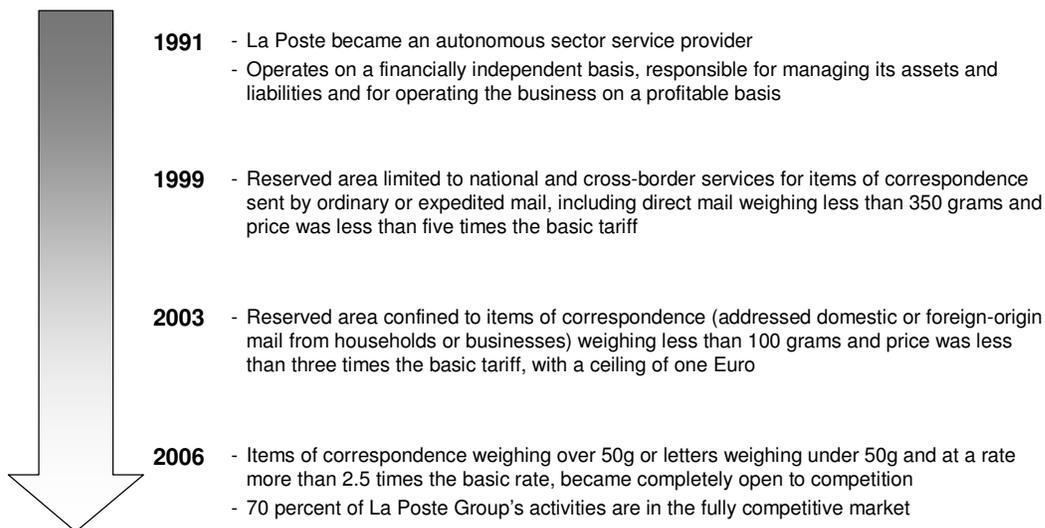
Mail market overview	FR	US
Total volume of mail (B):	38	214
Correspondence and transaction mail (B)	10	98
Direct mail (B)	5	103
Parcels, periodicals, other (B)	4	13
Unaddressed items (B)	19	N/A
	<b>FR</b>	<b>US</b>
Number of addresses (M):	55	148
Postal scale (# mail items/person/year) <sup>1</sup> :	309	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$1.00	\$0.42

## Status of mail monopoly

Single Piece and inbound cross border <sup>1</sup>	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
< 50 g, 2.5 x BT		< 50 g, 2.5 x BT	< 50 g, 2.5 x BT			
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	BT = Basic tariff PRI = Priority tariff 50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
 Source: IPC country profiles; UPU database, La Poste 2006 Annual Report, Report AB  
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# Postal reform and liberalization timeline



# Postal universal service definition



Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Correspondence and printed material in scope, up to 2 kg Addressed parcels up to 20 kg Domestic and international End to end delivery</p> <p><b>Bulk services</b></p>	<p><b>Geographical coverage</b> Everywhere without restrictions</p> <p><b>Collection frequency</b> 6 times a week</p> <p><b>Distribution frequency</b> 6 times a week</p> <p><b>Transit time</b> Priority domestic mail: D+1- 85%, &lt; 5% over D+2 Domestic parcels: D+2- &gt; 90%, D+3 &gt; 95% Guaranteed deliveries with penalties for late deliveries<sup>1</sup></p> <p><b># of post offices</b> No formal requirements; accessibility should be in line with local needs 17,000 outlets, including 4,523 in partnerships</p> <p><b># of letter boxes</b> No formal requirements; accessibility should be in line with local needs</p> <p><b>Complaint mechanism:</b> Required to address complaints within less than 2 months</p>	<p><b>Single piece</b> Uniform pricing for reserved areas only</p> <p><b>Bulk services</b> Price uniformity is not imposed on the USP for bulk mail, but is still applied</p>

Source: Report N

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# USP overview



- **Name:** La Poste
- **Capital structure:** State enterprise, 100% owned by French government
- **Lines of business:** Mail, Parcel/Logistics, and Financial services

	Mail	Parcel/Logistics	Financial services
<b>Financial Indicators</b>			
▪ Total revenue (€ B)	11.3	4.2	4.6
▪ Revenue trend	2.5% (5 yr)	31.9% (5 yr) <sup>1</sup>	3.8% (5 yr)
▪ EBIT (€ B)	0.8	0.3	0.4
▪ Profit trend	6% (3 yr)	33% (3 yr)	25% (3 yr)
▪ # of employees	271,000	26,900	1,100
<b>Market Position</b>			
▪ Market share (%)			
▪ Main competitors	Adrexo Kicible DHL Global Mail (DPWN) Foreign posts (SwissPost, La Poste/De Post)	DHL FedEx UPS	Banque Postale BNP Paribas Credit Agricole Group Societe Generale Groupe Caisse d'Epargne

Note: 1) For 2001, only parcel business data available

Source: La Poste annual reports

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# Potential upside – US relative position

Criteria	Variables	Relative upside potential left to capture	US relative upside
Quality of service	% of First Class mail or equivalent delivered D+1 <sup>1</sup>	97% NL ← N/A → 79% FR	Relatively lower
	Collection/distribution frequency	6/week US ← → 5/week NZ	
	# of staffed retail postal offices per 10K inhabitants <sup>2</sup>	4.5 SE ← 2.8 → 1.2 US	
	% of surveyed users rating service "good" or better <sup>3</sup>	95% NL ← 92% 91% → 73% IT	
Price competitiveness	First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity <sup>4</sup>	\$0.42 US ← \$1.00 → \$1.20 SE	Significantly lower
	Average annual increase in stamp price ('00-'05) <sup>5</sup>	-4% IT ← 0% 1% → 17% PL	
USP efficiency	% of mail handled by machinery <sup>6</sup>	97% US ← 63% → 40% NZ	Relatively to significantly lower
	Operating profit of USP in % of revenue <sup>7</sup>	10% ES ← 2.2% 2% → 1% UK	
	Average # of mail items processed by Full Time Equivalent (FTE) <sup>8</sup>	261K US ← → 92K IT	
Customer choice	# consolidators and E2E operators (including USP) <sup>9</sup>	>1,000 US ← → USP only PL	Significantly lower
	% of work-sharing volume of total volume <sup>10</sup>	80% US ← 34% → 20% UK	
			Rel. to sig. lower

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception; p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report S; 7) Profit margin of USP, 2004 for foreign USPs; p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA © 2008 Accenture. All rights reserved. Strictly confidential.

# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	USPS relative exposure
Postal density	Number of postal items per inhabitant <sup>1</sup>	704 US ← 309 → 120 IT	Relatively lower
	Percentage of population living in urban areas <sup>2</sup>	97% BE ← 81% 77% → 61% FI	
	Population density <sup>3</sup>	399 NL ← 112 33 → 4 CA	
Market momentum	Mail volume growth rate from '00-'05 <sup>4</sup>	5% NL ← 0.4% 0.4% → -4% BE	Relatively higher
	Number of postal items per inhabitant <sup>1</sup>	120 IT ← 309 → 704 US	
	Percentage of advertising mail out of total market mail volumes <sup>5</sup>	49% UK ← 58% 65% → 72% NL	
Competitive exposure	Size of market (volume, B) <sup>6</sup>	1 NZ ← 38 → 214 US	Significantly higher
	Percentage of B2C mail out of total addressed volumes <sup>7</sup>	58% NL ← 63% 68% → 71% DE	
	Concentration of express and parcel market <sup>8</sup>	Fragmented ← → Concentrated	
			Relatively higher

Notes: USPS data based on best assumptions of comparable metric Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise © 2008 Accenture. All rights reserved. Strictly confidential.

# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less		More
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	← 57% →	87% US
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	← 83% → 73%	72% IT
	Percentage of outsourced counters <sup>3</sup>	97% UK	← 27% →	11% US
-----				
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	← 44% → 17%	11% SE
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	← →	Weak
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	← →	Low
	Price competitiveness <sup>7</sup>	High	← →	Low

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in France



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲
	2. Increase commercial freedom ▲ ◇	
	3. Allow and support restructuring ▲ ◇	
	4. Compensate for universal and public services rendered ▲ ● ◇	
Constraining measures	5. Organize accounting transparency ▲ ● ◇	10. Restrict commercial freedom ◇ □
	6. Control price setting ▲ ●	
	7. Monitor service quality ● ◇	
	8. Eliminate special rights ▲	

**Targeted risks**

▲ Unfair competition    ◇ Deterioration in service quality

● Price escalation    □ Downside from providers' multiplication

**Application of flanking measures in country**

Flanking measures in place

Flanking measures not in place

No information available

Source: Accenture analysis

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# Canada (CA)



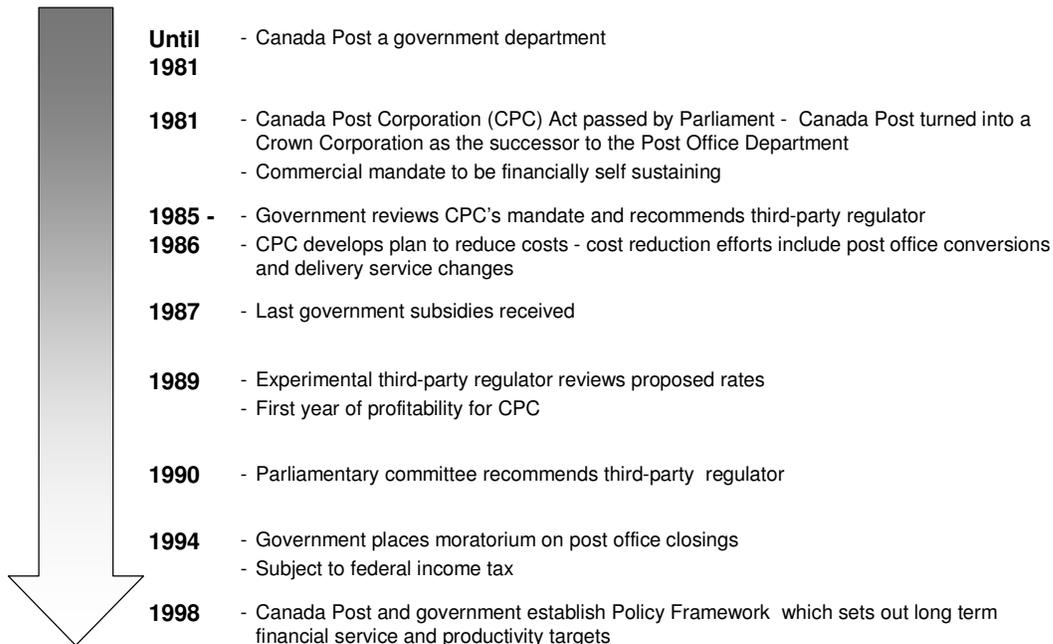
Country overview	CA	US
Size (sq km)	9,093,507	9,161,923
Population (M)	33	304
GDP (€ B)	867	11,088
GDP/ capita (€ )	26,202	36,498
Population growth:		
1990 – 2005	1.0%	1.1%
2005 – 2015	0.8%	0.9%
GDP growth:		
1990 – 2005	4.8%	5.2%
2005 – 2015	4.9%	4.7%
Urbanization rate:	81%	81%

Mail market overview	CA	US
Total volume of mail (B):	11	214
Correspondence and transaction mail (B)	5	98
Direct mail (B)	2	103
Mail parcels, periodicals, other (B)	0	13
Unaddressed items (B)	4	N/A
	CA	US
Number of addresses (M):	14	148
Postal scale (# mail items/person/year) <sup>1</sup> :	233	704
Price of 1st class stamp 20 g (2007 ppp, USD):	\$0.63	\$0.42

Status of mail monopoly						
Single Piece and inbound cross border	Out-bound cross border	Bulk transaction mail	Bulk addressed AdMail	Periodicals/Magazines	Un-addressed AdMail	Courier Express Parcel
< 500 g	< 500 g	< 500 g	< 500 g			
Reserved Area, no plans to liberalize	Reserved Area, liberalizing soon	Competitive	Competitive	Dominant	Competitive but USP still dominant	BT = Basic tariff PRI = Priority tariff 50 g = 1.76 oz

Notes: 1) Postal scale calculations exclude unaddressed mail items to compare to US context  
 Source: IPC country profiles; UPU database, Canada Post 2006 Annual Report , Report AB  
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# Postal reform and liberalization timeline



Source: Report Z, Appendix H; IPC country profiles  
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## Postal universal service definition

Scope	Quality standards	Affordability
<p><b>Users</b> All senders All receivers</p> <p><b>Single Piece</b> Provision of letter mail service at affordable rates and the provision of basic customary service Domestic and international End to end delivery Parcels - competitive market where most integrators, including Purolator, focus on high density locations; CPC provides de facto universal service for small parcels Some exceptions exist in remote locations where only some types of goods (food, medication) are delivered by CPC to reduce costs</p> <p><b>Bulk services</b> N/A</p>	<p><b>Geographical coverage</b> All addresses across Canada</p> <p><b>Collection frequency</b> Street letter boxes to be cleared several times per day in high volume areas and a minimum of once per business day elsewhere</p> <p><b>Distribution frequency</b> 5 times per week once a day, except for remote areas - frequency varies for some 200 remote communities in Northern Canada</p> <p><b>Transit time</b> D+2 bus. days (within same metro area/community); 96% target D+3 (within same province); 96% target D+4 (between provinces); 96% target</p> <p><b># of post offices</b> Provision of standard of service that is similar with respect to communities of same size</p> <p><b># of letter boxes</b> No specified requirements</p> <p><b>Complaint mechanism:</b> Office of Ombudsman serves as mechanism for customer complaints</p>	<p><b>Single piece</b> CPC Act does not impose uniform rates, but CPC has maintained this by choice; for remote locations, receives a cost subsidy from the Government of Canada</p> <p><b>Bulk services</b> Offer volume discounts independent of work-sharing</p>

Source: Report N

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## USP overview



- **Name:** Canada Post
- **Capital structure:** State enterprise
- **Lines of business:** Canada Post (transaction mail, parcels, direct marketing services, other mail products/services), Purolator (express/courier), Logistics, All other (IT services, sale of postal technology, international consulting)

	<u>Canada Post (mail)</u>	<u>Purolator (express)</u>	<u>Logistics</u>	<u>All other</u>
<b>Financial Indicators</b>				
▪ Total revenue (€ B)	4.1	0.9	0.0	0.1
▪ Revenue trend	4% (1 yr)	7% (1 yr)	(6%) (1 yr)	(2%) (1 yr)
▪ EBIT (€ B)	0.1	0.1	(0.0)	0.0
▪ Profit trend	(59%) (1 yr)	22% (1 yr)	N/A	N/A
▪ # of employees	~60,500	10,500		
<b>Market Position</b>				
▪ Market share (%)				
▪ Main competitors	Dycom Direct Mail	UPS FedEx DHL TNT		

Source: Canada Post Annual Report, 2006

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# Potential upside – US relative position

Criteria	Variables	Relative upside potential left to capture	US relative upside
Quality of service	% of First Class mail or equivalent delivered D+1 <sup>1</sup>	97% <sub>NL</sub> ← N/A → 79% <sub>FR</sub>	Comparable
	Collection/distribution frequency	6/week <sub>US</sub> ← → 5/week <sub>NZ</sub>	
	# of staffed retail postal offices per 10K inhabitants <sup>2</sup>	4.5 <sub>SE</sub> ← → 1.2 <sub>US</sub>	
	% of surveyed users rating service "good" or better <sup>3</sup>	95% <sub>NL</sub> ← 92% → 73% <sub>IT</sub>	
Price competitiveness	First class stamp price for a 20 g (0.70 oz) letter at purchasing power parity <sup>4</sup>	\$0.42 <sub>US</sub> ← \$0.63 → \$1.20 <sub>SE</sub>	Relatively lower
	Average annual increase in stamp price ('00-'05) <sup>5</sup>	-4% <sub>IT</sub> ← 0% → 17% <sub>PL</sub>	
USP efficiency	% of mail handled by machinery <sup>6</sup>	97% <sub>US</sub> ← → 40% <sub>NZ</sub>	Relatively to significantly lower
	Operating profit of USP in % of revenue <sup>7</sup>	10% <sub>ES</sub> ← 3.6% → 1% <sub>UK</sub>	
	Average # of mail items processed by Full Time Equivalent (FTE) <sup>8</sup>	261K <sub>US</sub> ← 189K → 92K <sub>IT</sub>	
Customer choice	# consolidators and E2E operators (including USP) <sup>9</sup>	>1,000 <sub>US</sub> ← → USP only <sub>PL</sub>	N/A
	% of work-sharing volume of total volume <sup>10</sup>	80% <sub>US</sub> ← → 20% <sub>UK</sub>	

Notes: USPS data based on best assumptions of comparable metric, except for % of First class mail or equivalent delivered where no comparable data was available; 1) p.237, Report L; 2) UPU Database; 3) Survey of quality perception: p. 59, Report O; 4) 2007 letter price adjusted for PPP using OECD estimates and converted to USD (Jan. 2007); 5) Avg. annual increase of USP tariffs for a 20g letter of fastest standard category 2000-2005 in real prices; p. 214, Report L; USPS Standard Mail revenues/price have declined 1% in real terms from 1996 to 2006. Accenture analysis; see notes on USPS position regarding "rate freeze" due to excess payments into Civil Service Retirement Fund; 6) p. 17, Report S; 7) Profit margin of USP, 2004 for foreign USPs: p. 174, Report L; 8) Considers addressed and unaddressed mail delivered to mailbox; 2006 country annual reports when mail employees available; 9) p. 128, Report L; Report AA, AL; Accenture analysis; 10) Report AA  
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# Degree of exposure of USP – US relative position

## Macroeconomic context



Criteria	Variables	Relative degree of exposure	US relative upside
Postal density	Number of postal items per inhabitant <sup>1</sup>	704 <sub>US</sub> ← 233 → 120 <sub>IT</sub>	Relatively higher
	Percentage of population living in urban areas <sup>2</sup>	97% <sub>BE</sub> ← 81% 81% → 61% <sub>FI</sub>	
	Population density <sup>3</sup>	399 <sub>NL</sub> ← 33 → 4 <sub>CA</sub>	
Market momentum	Mail volume growth rate from '00-'05 <sup>4</sup>	5% <sub>NL</sub> ← 1.9% 0.4% → -4% <sub>BE</sub>	Relatively higher
	Number of postal items per inhabitant <sup>1</sup>	120 <sub>IT</sub> ← 233 → 704 <sub>US</sub>	
	Percentage of advertising mail out of total market mail volumes <sup>5</sup>	49% <sub>UK</sub> ← 51% 58% → 72% <sub>NL</sub>	
Competitive exposure	Size of market (volume, Billions) <sup>6</sup>	1 <sub>NZ</sub> ← 11 → 214 <sub>US</sub>	Significantly higher
	Percentage of B2C mail out of total addressed volumes <sup>7</sup>	58% <sub>NL</sub> ← 68% → 71% <sub>DE</sub>	
	Concentration of express and parcel market <sup>8</sup>	Fragmented ← → Concentrated	

Notes: USPS data based on best assumptions of comparable metric  
 Sources: 1) p. 25, Report AB; IPC country profiles, 2006 2) UN estimates of % population in urban areas 3) IPC country profiles, UPU database, 2006; 4) growth rate represents compound annual growth rate, p. 9, Report AB; 5) Includes addressed and unaddressed volumes; p. 25, Report AB; 6) p. 25, Report AB ; 7) p. 32, Report AB; 8) Accenture industry expertise  
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# Degree of exposure of USP – US relative position

## Microeconomic context



Criteria	Variables	Relative degree of exposure		USPS relative exposure
		Less	More	
Relative costs	Percentage of public servant employees in USP total FTE headcount <sup>1</sup>	0% IT	87% US	Significantly higher
	Relative labor market cost compared to public servant cost (fully loaded) <sup>2</sup>	>100% PL	72% IT	
	Percentage of outsourced counters <sup>3</sup>	97% UK	11% US	
Dependency on mail revenue	Percentage of USP revenue outside of mail <sup>4</sup>	76% DE	11% SE	Comparable
	USP's relative competitive position on adjacencies <sup>5</sup>	Strong	Weak	
Core value proposition strength	Actual and perceived quality of service <sup>6</sup>	High	Low	Relatively lower
	Price competitiveness <sup>7</sup>	High	Low	
				Relatively higher

Notes: USPS data based on best assumptions of comparable metric

Sources: 1) Accenture analysis; 2) p. 57,58, Report A; 3) Report I, La Poste Annual Report 2006; 4) Accenture analysis; 5) Accenture analysis; 6) Accenture analysis, based on quality of service metrics from potential upside, assumes an average US performance for % of mail delivered D+1 as no comparable information available; 7) Accenture analysis, based on price competitiveness metrics from potential upside

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# Flanking measures applied in Canada



	Targeting Universal Service Provider	Targeting new entrants
Supporting measures	1. Relax USO scope and requirements ▲ ●	9. Enable/regulate network access ▲ • Address database • Collection boxes • Retail network • Upstream work sharing • Downstream access / delivery • PO boxes • Customer mailboxes • Return mail
	2. Increase commercial freedom ▲ ◇	
	3. Allow and support restructuring ▲ ◇	
	4. Compensate for universal and public services rendered ▲ ● ◇	
Constraining measures	5. Organize accounting transparency ▲ ● ◇	10. Restrict commercial freedom ◇ □
	6. Control price setting ▲ ● • Within USO • Outside of USO	
	7. Monitor service quality ● ◇	
	8. Eliminate special rights ▲	
	<p><b>Targeted risks</b></p> <p>▲ Unfair competition    ◇ Deterioration in service quality ● Price escalation    □ Downside from providers' multiplication</p>	<p><b>Application of flanking measures in country</b></p> <p>Flanking measures in place Flanking measures not in place No information available</p>

Source: Accenture analysis

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