

THE ECONOMIC AND SOCIAL CONSEQUENCES OF POSTAL SERVICES LIBERALIZATION

Sydney / Uni Global study



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EXECUTIVE SUMMARY

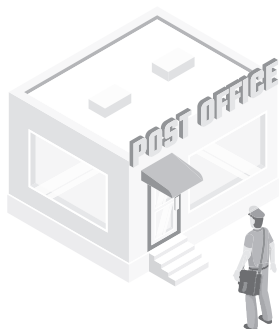
Started in the 1990s, postal service liberalization was aimed at enhancing the quality of services, bringing down prices and encouraging economic and employment growth. Thirty years on, the results of the overall process appear to be lower than expected. In all the countries included in the present study, prices of services covered by the universal service obligation (USO) have increased, with some countries experiencing rises as high as +80%. Despite some more or less stable statistics regarding on-time deliveries, the quality of services has gone down. D+1 deliveries are increasingly becoming a premium service, while the number of delivery days per week is decreasing and delivery times are growing. From a market point of view, liberalization has supported the growth of e-commerce and boosted the business model of the top CEP (Courier – Express – Parcel) market integrators¹ and other parcel operators. It has also forced former monopolists to modernize their facilities and reorient their business models towards the growing parcel market. However, at the same time, liberalization has weakened the way in which public service obligations are fulfilled and financed, in turn encouraging the development of competition based essentially on the cost of labour (which on average accounts for 60 to 70% of a USP's cost structure).

For postal sector workers, the changes have been overwhelmingly negative and labour shortages have become a global issue. Liberalization has led to a sharp drop in employment in the sector since the beginning of the century, growth in alternative modes of employment and a sharp deterioration of working conditions. It has also disrupted the social ties existing between postmen and the population, despite the fact that the “postman” remains one of the most popular figures in the collective imagination. As liberalization is

a still ongoing process and as the prevailing market developments are expected to continue (falling letter post volumes, increasing e-commerce shipments), the above-mentioned trends are expected to continue, at the expense of workers' well-being and the quality of services.

Starting in the early 1990s (Finland, Sweden, New Zealand) and experiencing a sharp boost in the early 2000s, the liberalization of postal services is an overarching global trend (for example the adoption of the 3 EU Postal Directives). Despite regional and national differences in terms of scope and regulations, liberalization has always pursued the same objectives, i.e. the introduction of competition in order to increase the quality of services, lower prices and encourage economic and employment growth. Sometimes, the process has gone hand-in-hand with the total or partial privatization of the historical operator with the aim of reducing government debt and increasing the efficiency of the former monopolist. In the meantime, in a majority of countries and especially in Europe, regulators have underlined the necessity of guaranteeing a universal postal service encompassing quality services provided at affordable prices for the benefit of all users, irrespective of their geographical location².

The present report shows the state of play in postal markets, in the context of the liberalization of postal services, based on the 11 national case studies presented in the study as well as extensive desk research. It focuses on three main aspects of liberalization: the impact of market opening on (I) competition and national postal operators; (II) on employment and working conditions, and (III) on the quality of services.



¹ “Integrator” is the term used to refer to the four main international express carriers, DHL (part of Deutsche Post DHL group), Fed EX, TNT and UPS who combined account for 87% of the international express market.

² Recital 11 of Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

1. The impact of market opening on competition and national postal operators

In a context marked by declining letter volumes, the opening up of markets has not led to any significant increase in competition in letter post markets, with the exception of the most lucrative market segments. At the same time, in the booming parcel market, national postal operators face fierce competition from global parcel delivery companies as well as from multiple private operators. These evolutions are challenging the historical business model of USPs, forcing them to adapt to new market realities.

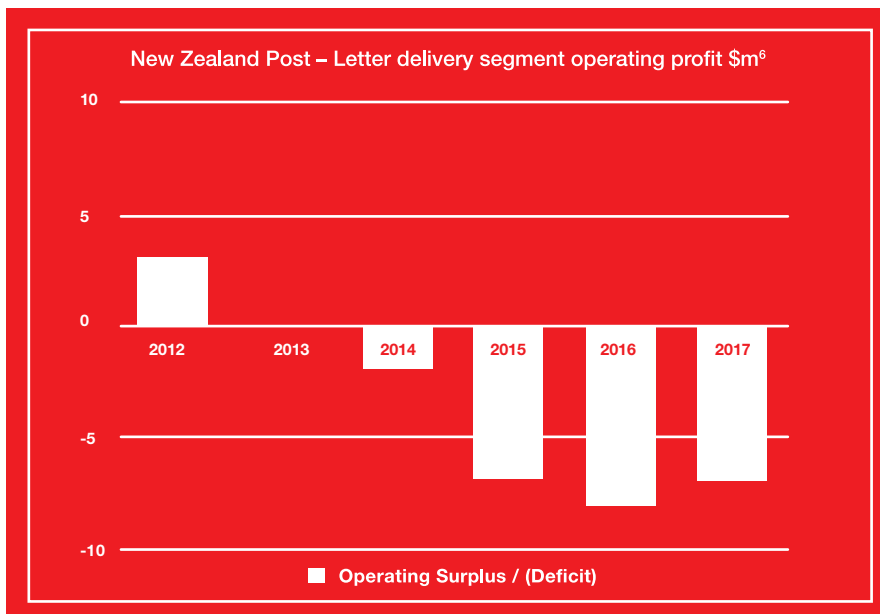
a. Competition in the letter post markets

Generally speaking, despite market opening, competition in the letter post markets has been slow to develop and the market remains highly concentrated. In almost all countries covered by the present study (Sweden and New Zealand can be seen as exceptions), universal service providers (USPs) have retained a total or quasi-monopoly in several formerly protected market segments such as single-piece letters, registered letters or newspaper delivery (France)³.

Share of USPs in the domestic letter post segment									
BE	BRA	FE	JPN	NZ	PL	PT	RSA	SE	UK
Very high	Monopoly ⁴	>99%	100%	70-75%	>90%	97%	100%	81%	99.9%

The main reason for this is the relative unprofitability of some postal services due to the high cost of entry for establishing and maintaining a network, combined with the structural decline in letter post volumes, in a context of growing digitalization and e-substitution. This latter trend affects all types of customers and all regions. According to the Universal Postal Union (UPU), domestic letter post volumes appear to have declined by around 32% globally over the last 10 years.

In the EU, the decrease is 26% (-3% per cent annually), though its pace has accelerated lately (-6% in 2016)⁵. In some cases, other factors such as the anti-competition behaviour of former monopolists and / or regulatory barriers set up by the state might have also helped limit market access. In Japan for example, Yamato, the parcel market leader and the company seen as most likely to obtain the license for “general correspondence”, refused to enter the market, considering the license conditions impossible to meet. Such regulatory barriers have also been identified in other countries such as France or Belgium.



³ In Belgium for example, TBC-Post is the only player that has managed to access the addressed mail segment. The company has however failed to gain any significant market shares. Similar situations exist in France with Adrexo which quickly exited the commercial addressed mail segment, and in Poland, where new market entrant InPost has rapidly refocused on the parcel market.

⁴ On letters, postcards, grouped mail and telegrams. All other services are open to private companies.

⁵ <http://www.upu.int/en/resources/postal-statistics/query-the-database.html>

⁶ Source: NZ annual report 2017

Despite this, competition has however developed in some of the most profitable addressed mail market ⁷ segments, such as bulk mail and direct mail, and in the unaddressed advertisement market . The reason for this is that these markets are easier to penetrate, as services are usually provided for large business or public customers such as insurance and telephone companies, banks, mail-order businesses and public authorities. These customers produce large amounts of mail that they can either deliver – sometimes even pre-sorted – to local sorting centres or have picked up by the postal service provider. New market entrants, whose business models are often based on two- or three-times-a-week delivery, in densely populated areas, and operating with a highly flexible workforce, can therefore avoid establishing a costly countrywide network of post offices and letterboxes.

This situation, often criticized as “cherry-picking” (or “cream skimming”), clearly endangers the traditional business model of national postal operators, which used to finance some of their universal service obligations through revenues from more profitable markets. In 2018, Copenhagen Economics for example estimated that businesses and government account for 79% of European USPs’ revenues in the addressed letter segment.

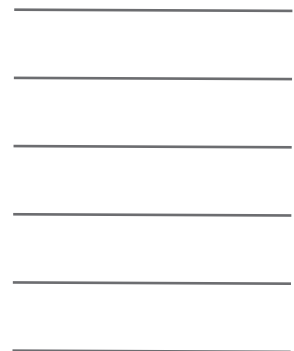
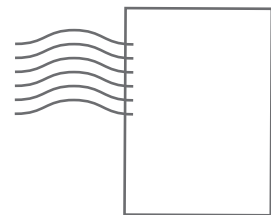
MARKET ENTRIES IN POLAND AND SWEDEN

In **Poland**, lifting the monopoly of the national operator in the under-50g letter post segment constituted a milestone and an opportunity seized by InPost.

The new market entrant managed to take around 0.5bn PLN⁸ of revenue away from Poczta Polska by for example winning the Ministry of Justice’s tender for delivering court letters. InPost was however ill-prepared to take over the market in a profitable way. Poczta Polska regained the court letter contract for the next period in 2015. The de facto monopoly in the letter segment was restored, contrary to the intentions of the market reform architects. At present, InPost is refocusing priority on the parcel segment, chalking up exceptional domestic growth (e.g. 405 per cent y/y in 2016).

In **Sweden**, Swedish Post (now PostNord) had to face competition before market liberalization, even in its protected letter market. Building on legal loopholes, CityMail entered this market in 1991, using a strategy based on bulk mail delivery every two days (initially every 3 days) and limited to areas with a dense population. By doing so, the company was eventually able to provide services at lower cost than the incumbent and quickly obtain a critical mass of recipients.

It took however more than 10 years for CityMail to obtain sufficient volumes to match the cost advantages of Sweden Post. After going bankrupt a couple of times, the company finally became profitable in 2006 after being taken over by Norwegian Post. In 2018, CityMail remains PostNord’s main competitor.



⁷ In Canada for instance, the publication mail segment is fully exposed to competitive forces, while in Belgium, 5 nation-wide operators are active in the advertisement segment. In Sweden, Citymail has also managed to enter the bulk mail market by offering lower prices than Sweden Post

⁸ 1 EUR = 4,3 PLN.

b. Parcel market

The CEP market is a complex and fragmented market characterized by intense competition. Asia Pacific is the largest regional parcels market by value, accounting for around 40% of the global market. North America and Europe together represent a little over 50%. Thanks to the development of e-commerce (online retail is the main driver of growth in parcel delivery volumes), the market is experiencing very strong growth, especially in industrialized countries and in Eastern Europe.

- According to UPU, global domestic parcel and express traffic has grown respectively by 62% and 110% over the last ten years;
- In 2017, the global parcel market value totalled US\$350bn, up from just over US\$310bn in 2016 (+13%)⁹;
- Markets are following the same trend in Europe where, according to Copenhagen Economics, parcel and express volumes have grown on average by 13% annually between 2013 and 2016.

Market growth is expected to continue (and even accelerate) in upcoming years as more people than ever shop online. Global online sales approached US\$2.3trn in 2017, having grown at a rate of 25% per year. According to the latest IPC Global Postal Report, the value of global internet retail sales is expected to almost double by 2021.

Three types of operators can be identified in the parcel and express markets: the global integrators, national postal operators and privately-owned companies.

- “Integrator” is the term used to refer to the four main international express carriers, DHL (part of the Deutsche Post DHL group), FedEx, TNT and UPS. These companies’ combined market shares account for 87% of the international express market

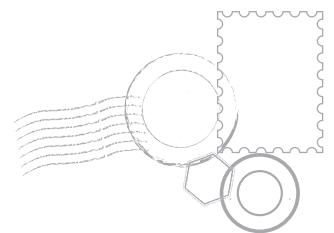
and around 40% of the global parcel market. Thanks to their global network, they focus primarily on international traffic, where revenue per parcel is much higher¹⁰.

- There are many privately-owned carriers worldwide. These companies, whose global market share is estimated at 39%, focus mainly on packets and B2B services. Their number and size may differ greatly from one country to another (as well as within one country), with a lot of new market entrants being small- and medium-sized companies. In Europe, the UK is seen as the most competitive parcel market, with 15 key competitors. More globally, the largest carriers worldwide are the Japanese Yamato and Sagawa, the Chinese SF Express, ZTO and YTO as well as Hermes, which has a strong presence in Germany and the UK.
- According to APEX Insight, USPS’ share of the global parcel delivery market amounts to 24%. In Europe, their corresponding market shares averaged around 32% in 2016. DPD (La Poste) and GLS, the international parcel subsidiary of Royal Mail, have for example gained significant market shares.

The parcel market is characterized by fierce competition, with alternative operators adopting low-cost business strategies reliant on low-tech, low fixed costs (no network but instead cooperation agreements with local providers, independent networks of contractors, etc.) and are heavily dependent on the use of cheap labour¹¹. This makes them a real challenge for former monopolists, as the latter usually have much higher labour costs (higher wages, -open-end contracts), collective agreements and trade union protection. In all countries, labour costs account for more than half of total USP operating costs.

Labour shortages in Japan

In Japan, a country where distribution costs are very low by international standards, labour shortages and cost pressures are a problem for all CEP operators. This situation is due to demographics (a plummeting working-age population) and a historically low unemployment rate. It is however also due to working conditions in the sector which are said to be very difficult. Chronically long and often irregular work hours, plus relatively low wages, turn potential workers away from the delivery business. In 2017, the ratio of job openings to job seekers in the professional driver category, including truck drivers, was 2.68 — nearly double the average across industries. It is estimated that the industry will be short of over 100,000 drivers in 2020. This situation has forced Yamato and Sagawa, the 2 CEP market leaders, to increase their prices for the first time in 25 years and to cap the number of parcels carried. They have also started turning down unprofitable shipments.



⁹ <https://www.apex-insight.com/global-parcel-delivery-market-2018/>

¹⁰ UPS is the largest carrier by parcel revenues. However, FedEx has closed the gap since its acquisition of TNT Express, with third-placed Deutsche Post DHL around half the size. Despite their global profile, their large US domestic businesses account for the majority of UPS and FedEx revenue.

¹¹ <https://www.theguardian.com/society/2016/jul/18/hermes-couriers-paying-staff-less-than-living-wage>

2. Adaptation strategies of national postal operators

Confronted with structural market changes, USPs are progressively shifting their business models towards the parcels and express business (at the expense of their universal service obligations) and restructuring and rationalizing their postal networks. In some countries, USPs are also trying to lever their networks to provide new types of services.

a. The shift towards the CEP business

The share of parcels and express mails in USPs' turnover is increasing year by year. USPs are adapting their strategies mainly by:

- **Transferring their staff from the letter post to the CEP business and investing in new technologies and facilities.**

In Belgium for example, Bpost has recently opened its new Brussels X centre, considered to be the second-largest parcel sorting centre in Europe;

- **Incremental or external growth.** USPs are setting up new subsidiaries or acquiring already existing CEP specialized businesses. These new entities generally operate according to the same low-cost business model as other market players (highly flexible workforce, independent contractors, etc.).

- **Providing innovative services similar to classic parcel delivery companies** such as track-and-trace for parcels and value-added mail services, predictable delivery and redirected delivery, same-day delivery as well as a variety of PUDO (pick-up and drop-off) solutions.

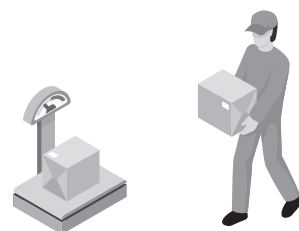
- **Internationalizing their network** (regionally or more globally). A good example is the French La Poste, whose strategy is clearly aimed at becoming a major player in the whole value chain of the parcel flow between Asia (China)

and Europe. Another example is the Swedish Posten AB which merged with Post Danmark A/S in 2009 to become PostNord and has since developed an integrated Nordic network (Finland, Norway) through which it delivers communication, distribution and logistics services.

The pace with which former monopolists have adapted to new realities differs from one country to another. While some of them, like DPD, the international parcel delivery network of the French La Poste, or GLS (Royal Mail), have managed to develop pan-European (or even global) parcel delivery networks¹², others are struggling to gain a significant foothold in their domestic market. In Poland for instance, Poczta Polska's share of the parcel market is just 10%.

b. Cost-saving strategies: restructuring and rationalizing the postal network

Since the onset of liberalization, national postal operators have been restructuring their traditional operations, downsizing their postal networks and introducing new technologies (barcoding, sensors and machine vision, label learning and fingerprinting, optical character recognition and video coding, RFID, robotics, etc.) which have allowed them to centralize and automate sorting and distribution centres as well as to reorganize delivery rounds.

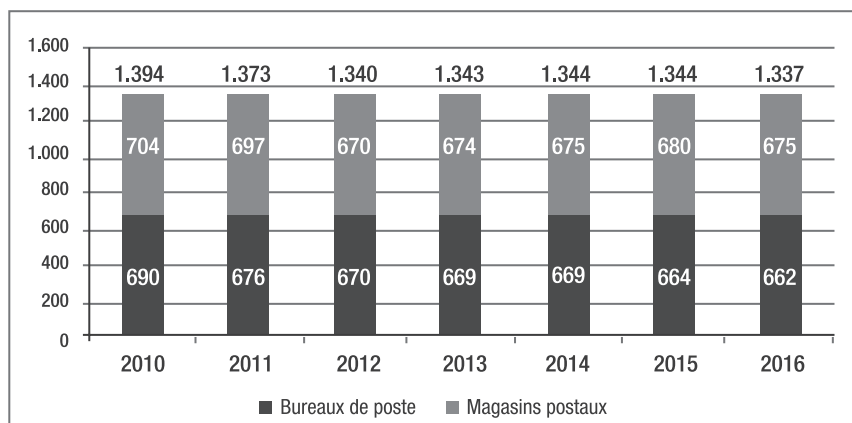


i. Postal network density

USPs facing competition and increasing cost pressure have reduced their postal networks through removing post-boxes and closing post offices. Most of them have also relocated network points and outsourced part of their own postal outlets, transforming them into franchise postal contact points located in other businesses (such as

supermarkets, filling stations or shopping malls) in more crowded places. Digitalization and automatization are also progressing, with some postal operators developing networks of un-manned contact points (as in New Zealand for example) and/or parcel lockers and offering services through their websites or mobile applications.

Number of postal service points in Belgium



Source: IBPT

¹² DPD is now the second-largest operator in Europe behind Deutsche Post DHL, with a market share estimated at 12.9% (with leading positions on several European markets such as Germany, the UK, France, Poland or Portugal).

ii. Centralization and automation of sorting and distribution centres

Numerous former state monopolists have centralized their activities and invested heavily in new fully-automated sorting centres. A number of them have also stepped up the centralization and automation of preparatory mail distribution tasks and restructured their distribution centres. Belgian Bpost has for example reduced the number of its distribution centres from 400 to 60. The same has happened in New Zealand, where the number of NZ Post mail centres has dropped from 6 to 3.

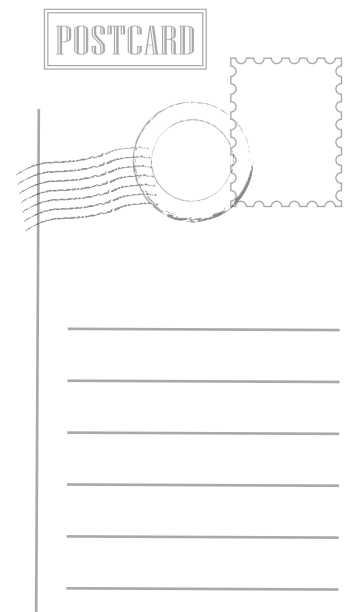
While in some countries sequencing (i.e. the sorting of mail for individual delivery rounds) is still done by postal workers in local distribution centres, in others fully-sorted mail is delivered to local depots. This, in turn, may severely impact the nature and quality of the work performed by postmen (thereby impacting their working conditions and employment status), as it leads to the creation of new low-skilled job profiles replacing the traditional postman, i.e. the sorting agent and the delivery agent.

iii. Reorganization of delivery rounds

USPs have adopted solutions aimed at optimizing deliveries, such as the outsourcing of delivery services, the prior quantification of tasks using software tools (geo-routing¹³), the introduction of alternate day delivery, the questioning of the “tenure” of delivery rounds, the non-physical delivery of registered mail, the extension of delivery rounds and, for some operators, the total or partial integration of parcels and letters into one delivery stream. Some postal and parcel operators are also starting to introduce new low-cost (“uberized”) flexible delivery models such as crowdsourcing which allows deliveries to be organized locally or even nationally (for the moment mainly in the US, the UK and Belgium).

Bpost and the “uberization” of delivery service

In 2016, Bpost launched Bringr, an innovative collaborative platform app allowing smartphone users to find a driver for delivering goods¹⁴. According to the company, Bringr aims to complement Bpost’s existing product range with a service that enables users to find a driver to pick up goods at point A and deliver them to point B. First developed in the USA and in the UK, this crowdsourced delivery model, which works on the same principle as popular driving (Uber) or grocery or food delivery services (Uber Eats, Deliveroo) is becoming increasingly popular among delivery companies as it satisfies consumers’ growing demands for faster online deliveries, while at the same time decreasing the cost of last-mile delivery by lowering labour and other fixed costs.



¹³ Optimization of postmen’s rounds by a software algorithm based on the volumes to be delivered and the geographical location of recipients

¹⁴ http://corporate.bpost.be/media/press-releases/2016/20-06-2016?sc_lang=en

c. Diversification and the provision of new services

Confronted with declining letter post volumes and struggling to generate sufficient revenue, postal operators are trying to diversify. The most popular forms of diversification include financial services, logistics & freight or information services and telecommunications (for instance e-Government services or electronic mailbox services). In some cases, postal operators are also trying to use their local postal networks to provide services to the population (like services of general interest, SGEI). In **France** for instance, the strategy of La Poste aims at leveraging the opportunities offered by the development of the silver economy by providing new services such as “Watch over my parents”, home delivery of errands, meals or medicines, technical or administrative help (help with tax return forms, installation of TV decoders). In recent years, La Poste has also opened 300 driving theory test centres, as requested by the French government.

In Japan, **Japan** Post launched “the Post Office Watch over Service” in 2017, a service assisting elderly people and creating community-based services. In addition, JP’s post offices perform office work commissioned by local municipalities in response to depopulation. Finally, some postal operators are also trying to diversify their business models by entering business segments far removed from their traditional scope, as is for example the case in **Poland**, where Poczta Polska is bidding for contracts for security services at numerous customers such as airports or state-owned corporations. The strategy for the niche is clear: PP would like to gain a 20% market share. However, the practice of hiring staff on regular employment contracts has made PP’s bids uncompetitive

Franchising and the closing of post offices by the UK Post Office

In 2012, the Post Office (the nationwide network of branches offering a range of postal, government and financial services) was demerged from the profitable Royal Mail business (the company that delivers parcels and letters), paving the way for privatization. Since then, against a backdrop of public funding cuts, the Post Office, which remains publicly owned, has been closing and/or franchising out Crown Offices or converting them into lower-cost operating models. As a consequence, employment within the company went down over the same period by 2,584 or 33%. At present, there are currently around 11,500 post office branches across the UK, of which 300 are directly managed by Post Office Ltd. The majority of other branches are either run by various franchise partners or local operators.



3. The social consequences of liberalization

Falling letter post volumes, the development of e-commerce and increased competition on both the CEP and the most lucrative non-protected markets have forced USPs to adapt their strategies. The rationalization and restructuring of their operating models have led to an overall decrease in employment as well as to the development of alternative forms of employment, worsening working conditions and lower salaries, as historical operators have progressively evolved towards a business model similar to that of their private low-cost competitors.

a. Evolution of employment

Assessing the impact of liberalization on the postal sector’s employment requires us to go back in time. Indeed, historical postal operators began to restructure their operations in the pre-liberalization period (in

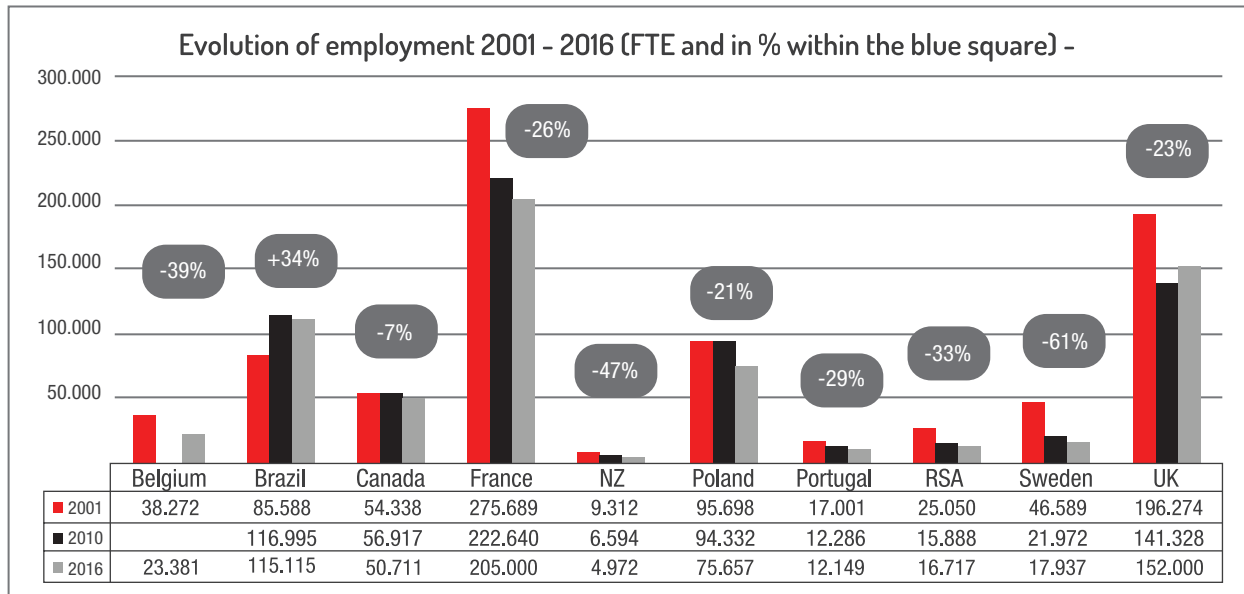
preparation of future market developments) and or at a time when the rise of e-commerce was a new phenomenon. Therefore, from a methodological point of view, analysing the employment impacts of market opening only on the basis of data relating to the recent period makes no sense.

That said, the employment data for the countries included in our sample clearly show that, since the beginning of the century, employment levels at USPs have dropped drastically. The same conclusion applies for European Union countries (EU-27), for which data is presented below. Although there is no reliable data for operators other than USPs, it is highly improbable that these job losses have been compensated by new market entrants.

Although there is no reliable data for operators other than USPs, it is highly improbable that these job losses have been compensated by new market entrants.

i. Employment data for the countries included in our sample

The analysis of employment data for the countries included in our sample reveals a reduction of employment amounting to 170,172 jobs since 2001, i.e. slightly more than 20% of the total workforce at the beginning of the period (843,811 workers in 2001).



In terms of jobs, the highest reductions have occurred in France (-70 000 FTE), in the UK (-44 000), in Sweden (-29 000) and in Poland (-20 000). In New Zealand and Belgium, the number of FTEs has decreased by respectively -47% and -39%. The only country in the sample where employment at the USP increased during the period is Brazil (+29 500 FTEs).

In some countries job cuts have been managed in a sustainable way (without collective redundancies). In France and Belgium for example, job cuts have been achieved mainly through the non-replacement of retiring workers (in turn having a detrimental effect on the workforce age structure) or early retirement schemes. In Sweden, in addition to early retirement schemes, several packages (with outplacement opportunities) and voluntary departure schemes have also been set up (for example the possibility to leave the company with 2 years of pay). By contrast, in Poland, three waves of collective redundancies have occurred in recent years, with workers leaving the company with relatively ungenerous severance packages.

ii. Employment evolution in the EU-27

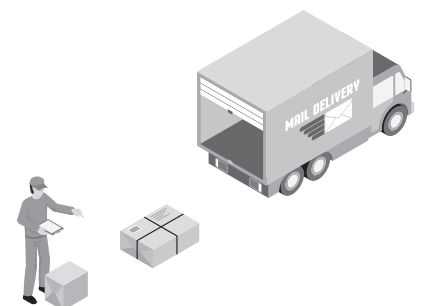
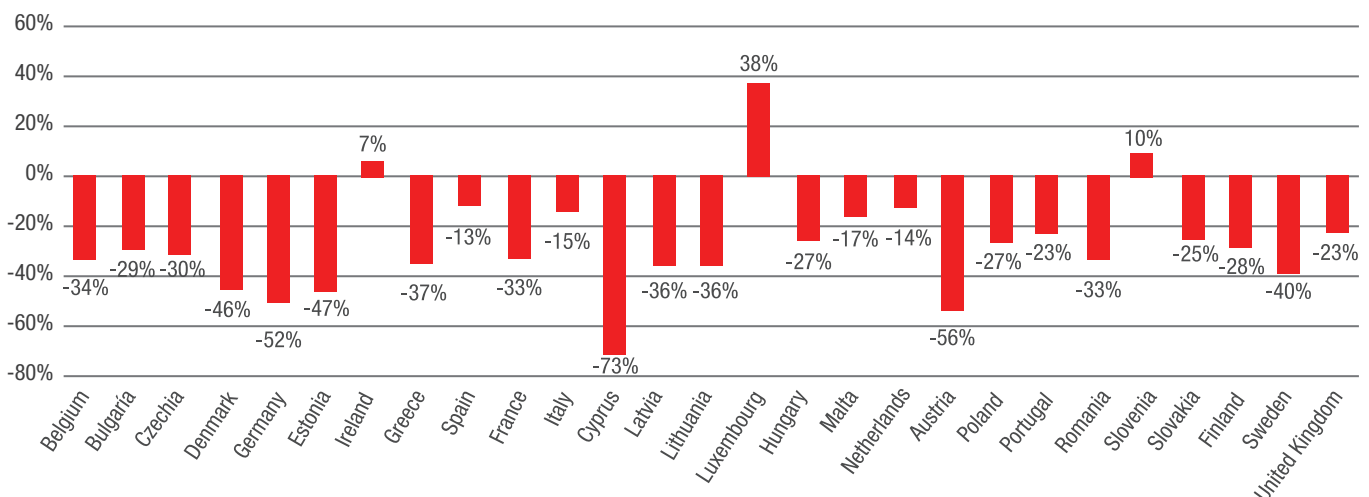
Based on data from the European institutions (Eurostat, European Commission) as well as on various reports on employment published during recent years (WIK Consulting, Copenhagen Economics, Forba research project), we estimate total job losses at USPs during the period 1998 – 2016 to be at around 500,000, representing a decrease of 32% (1,075,000 people employed by USPs in 2016, against 1,579,000 in 1998). These numbers are in line with the figures of the European Commission which estimate job losses at around 500,000 during the period 2004-2016.

Information and consultation of workers in Europe

The EU Directive establishing a general framework for informing and consulting employees (2002/ 14/EC) plays a key role in promoting social dialogue. It sets minimum principles, definitions and arrangements for information and consultation of employees at enterprise level within each country. According to the Directive, management has to inform and consult workers' representatives on the following issues (1) the recent and probable development of the undertaking's or the establishment's activities and economic situation; (2) the situation, structure and probable development of employment, in particular where there is a

threat to employment; (3) decisions likely to lead to substantial changes in work organization or in contractual relations. The Directive applies only to undertakings employing at least 50 employees, or to establishments employing at least 20 employees, according to the choice made by the Member State. Information and consultation procedures are widely used by Belgian and French trade unions (although La Poste does not have a works council as such) to anticipate the consequences for workers of decisions made by management.

Evolution of employment - EU 27 (in %)



These figures, however, may underestimate the real extent of changes in job numbers, as during the same period a number of former monopolists increased their shares of part-time workers (see below) and as this data does not take into account jobs not directly linked to the provision of postal services but which may also have been impacted (for example financial services in closed post offices).

The number of jobs created by alternative operators over the same period cannot really be quantified due to the lack of sufficient data or its inconsistency.

However, it is highly improbable that the jobs created by AOs have compensated the job losses at USPs:

- In 2011, a study made by Oxford Economics estimated that direct employment within the European express delivery industry increased from 240,000 to 272,000 FTEs between 2003 and 2010, a rise of over 12%. The study also forecast that the industry would directly employ 300,000 people in 2020¹⁵.
- In 2018, the European Regulators Group for Postal Services estimated the number of other postal providers' employees at around 550,000, against 400,000 in 2008.

Ongoing employment cuts

As the decline in letter post volumes is expected to continue and as USPs are looking for further cost reductions in order to compete with CEP operators, additional employment cuts are expected in the future. In March 2017, PostNord for example announced its plans to decrease its Danish workforce by 3500-4000 within the next 2-3 years (from a starting level of circa 9,000 in 2016), following the adoption of a new production model. In South Africa, SAPO has also announced the implementation of a cost optimization programme aimed at lowering its labour costs to 40% of its total costs¹⁶.

SAPO labour cost optimization programme for the period 2018-2021

Item	Reduction	Annual Saving	Required Investment	Implementation
Labour cost				
Overtime	80%	R22m	-	2 months
Extended hours	32,5 hrs pm	R57m	-	2 months
Other outsourcing		R8m	-	14 months
Owner Driver scheme	10%	R10m	-	14 months
Postal Assistants	10%	R11m	-	8 months
Human Resources Reorganisation	-	R757m	R 322m	3 months
Training Centre	-	-	R 5,4m	3 months
Total		R 865m	R 327,4m	

¹⁵ <http://www.euroexpress.org/facts-figures/industry-data>

¹⁶ Source SAPO Corporate plan 2018-2021

b. Alternative forms of employment

Not only the business model but also the social model of USPs is being challenged by alternative operators (and especially CEP operators), which commonly tend to rely on non-standard forms of employment such as on-call work, temporary agency work, outsourcing, subcontracted workers and self-employment. In 2012 in Poland for example, the share of employment contracts at AOs was only 37.6% (12,228 people). Another 8% of the workers worked under agency contracts. The remaining workers were self-employed. These forms of employment help to lower labour costs (or to make them more flexible) but provide less job security. In some cases (self-employment), they also deprive workers of having their social security contributions co-financed by the employer.

The information analysed for the different countries covered by the present study shows that permanent contracts remain the rule at USPs, where workers are usually protected by a collective agreement. Nevertheless, there are some exceptions. At the Portuguese CCT, the proportion of fixed-term contracts has recently risen to 8% (2017). In Poland also, only 90% of workers have an employment contract.

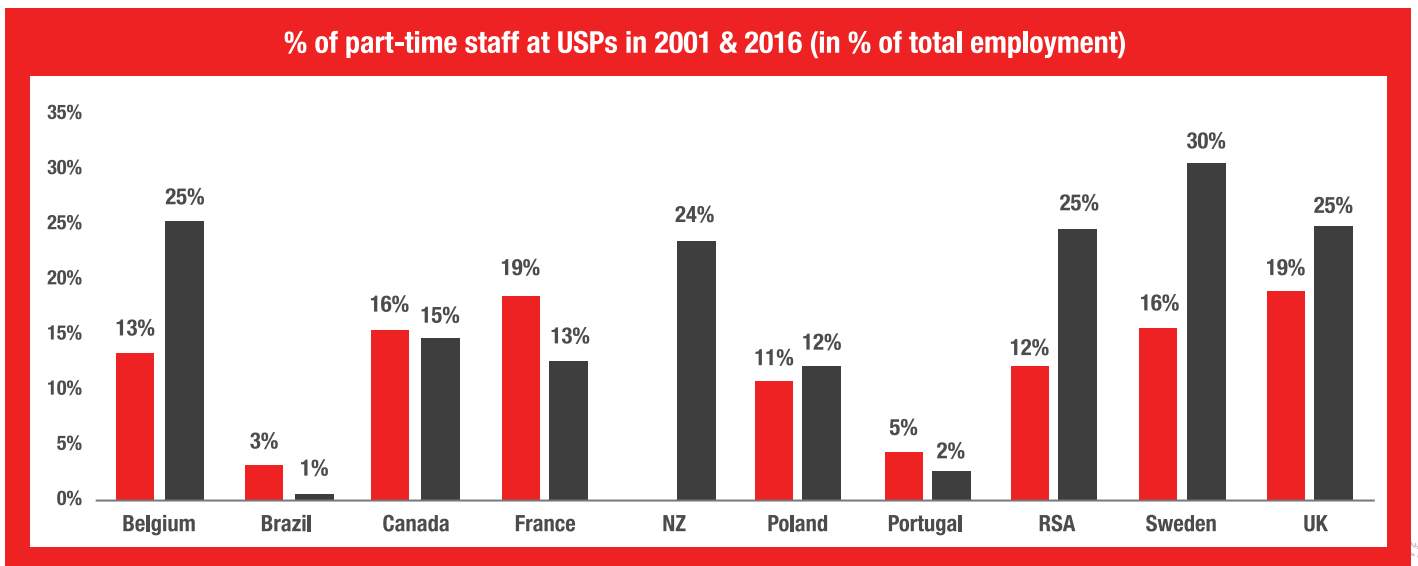
Nevertheless, the use of alternative forms of employment is also progressing at USPs:

- USPs still employing civil servants are reducing the latter's share in the total workforce. In France, La Poste froze their recruitment in 1993. In 2018, they accounted for 42% of the workforce, against 50% in 2013. Similarly, at the Belgian Bpost, the share went down from 70% to 45% between 2010 and 2018. Because civil servants cannot be laid off except under special circumstances,

former monopolists have widely used voluntary schemes, such as early retirement programmes and golden handshakes, to reduce their employment.

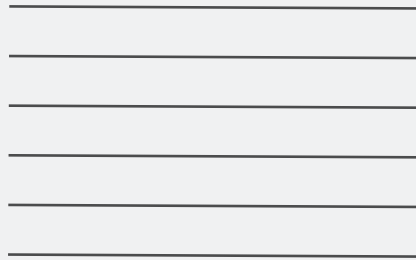
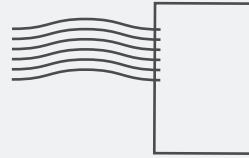
- As shown by several recently published studies, the share of part-time work is increasing at USPs. 4 out of 10 (no data for New Zealand) of the national operators covered by our sample have significantly increased their share of part-time workers over the last 15 years (Belgium, RSA, Sweden, the UK). In these countries and in New Zealand, they account for a quarter or more of the workforce. In Sweden, the proportion of full-time jobs has declined, from 79% in 1994 to 70%. According to SECO, this evolution is linked to a growing number of young people (students) working at weekends. In Belgium, trade unions also denounce the creation of so-called mini-jobs (2 to 4 hours a day, paid barely higher than the minimum hourly wage). By contrast, in Brazil, the share of full-time workers is more than 99%.

In Sweden,
the proportion of full-time
jobs has declined, from
79% in 1994 to **70%**.



The “Agenda for Growth” agreement (UK)

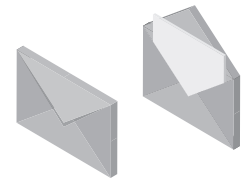
In 2013, following the privatization of Royal Mail, the company’s management and the CWU trade union signed the “Agenda for Growth” agreement, considerably restricting the possibilities for Royal Mail to hire people on alternative employment contracts. In particular, fixed-term and temporary contracts were drastically limited. In exchange, the workers accept to work a lot of overtime - up to 30 hours a week – to absorb workload fluctuations.



Casual labour at Canada Post

68% of Canada Post staff unionized within CUPW work full-time, while the remaining 32% are part-time. CUPW proposed creating more full-time jobs to deal with extra workload, while CP had been relying more and more on casual labour. Under the collective labour agreement CUPW also represents the casual (temporary) workers.

Though the agreement contains a clause stipulating that the urban mail collection and delivery group should have 78% of employment in full-time mode, the Company has violated it for 5 years in a row, keeping the level well below this threshold. The Company undertook to compensate by adding full-time jobs as people retire, but the percentage has decreased regularly. According to CUPW, that issue has created a huge problem.



- Outsourcing and self-employment are also on the rise. Increasingly, former monopolists tend to outsource certain activities or commission so-called service partners for delivery activities. These in turn may hire self-employed drivers to carry out the delivery tasks. This is particularly the case in USP parcel delivery subsidiaries. In Poland for example, the majority of drivers at La Poste’s subsidiary DPD are self-employed. In New Zealand also, NZ Post is said to be seeking cost reductions by resorting to self-employed workers for certain tasks. Outsourcing is a problem for trade unions, as in most cases they lack information on employment and social conditions within these companies.

- Last but not least, national postal operators are also increasingly resorting to interim agency workers, using the necessity of covering peak periods as their argument. In certain countries (e.g. France), trade unions have however raised concerns about their increased share in total employment. In Belgium, according to the last Bpost annual report, around 10% of its subsidiaries’ workforces are agency workers.

Outsourcing is a problem for trade unions, as in most cases they lack information on employment and social conditions within these companies.

Labour shortages and the Christmas peak in Poland

All postal operators in Poland complain about increasing labour shortages. There are thousands of vacancies advertised online by the industry. Postmen, drivers and back office staff are the functions most affected by labour shortages. PP is facing labour shortages in all its major hubs in Warsaw, Wrocław, Poznań, Bydgoszcz and Szczecin. The Company acknowledges recruitment problems in the rural and suburban postman category. Workloads in this category are substantial due to the distances covered, while low wages and long working hours under stress, difficult working conditions, but also potential candidates opting to work abroad, play a further role. Another factor is the ongoing attritionary price war. Customer demand is highly flexible. The overall unemployment rate in Poland is low. Drafting recruitment plans has become a key challenge for managers. The Christmas shopping peak has extended in recent years, with parcel business surging in mid-October only to wane in early March. Departments needing extra staff for this shopping peak include depots, sorting facilities, contact centres and courier services, yet all market players are looking for extra temporary staff for this period. The peaks require ~25% more staff, hired on temporary contracts. At Poczta Polska alone, 1,000 extra staff are needed to support these peak operations, but PP's offer is not among the most competitive.

c. Wages

With the low-labour-cost model adopted by alternative operators putting increasing pressure on USPs, the wages paid by the latter have deteriorated. USPs have tried to lower their labour costs by freezing wages, introducing more complex pay schemes or creating new job categories such as assistant or auxiliary postmen. The situation is serious, as wages in the postal sector have traditionally been low, often below the average national wage. Furthermore, postal work remains geographically fragmented. USPs offer employment opportunities in regions where jobs are scarce, but this leaves workers with limited bargaining power or alternatives.

Concerns about the evolution of wages at USPs were raised in almost all our case studies:

- In **Japan**, JP Post is facing labour shortages compounded by the low level of salaries offered in the sector and poor working conditions.
- In **New Zealand**, First Union also reports that wages are also not moving in line with the cost of living.
- In the **UK**, the most common CWU-negotiated wage grade at Royal Mail is the Royal Mail Letters Operational Grade, with a basic salary of £22,589 per year. This is significantly below the UK median full-time basic salary of £27,000 per year. The company is continuously under pressure to perform and, since wages account for almost half of its annual revenues, it is clear that these are targeted for cost-cutting.
- In **Brazil**, wages and salaries of postal workers are considered to be among the lowest in Brazilian state-owned companies. In the past, these low salaries were partially compensated by the social benefits (especially the health plan) offered by ECT. In recent years, ECT policy on the method of financing these benefits has changed, with the company charging monthly payments and taxes to workers, ultimately causing many workers to give them up.

- In **Canada**, pay gaps between rural / suburban mail carriers (paid by the number of parcels delivered) versus urban mail carriers (paid by the hour) have been a contentious issue raised by CUPW. The former (~8,000 people) earn, on average, some 30% less.
- In **France**, liberalization is also putting increased pressure on postal sector wages, a development also witnessed at La Poste. According to the CGT trade union, remuneration conditions may also vary within the group, being lower in some of La Poste's CEP subsidiaries (Chronopost, DPD).
- In **Poland**, despite recent pay rises (in a context of severe labour shortages), the current level of salaries in the industry is still regarded by the Solidarność union as "dramatic", as they remain below the average for the whole Polish economy.

Despite being low, wages at USPs nevertheless remain higher than those offered by many competitors (In **Portugal** for example, up to 10% higher than average wages for the whole postal sector). In some countries, self-employed deliverers are paid piece rates, in many cases with the resulting hourly wages below national or sectoral minimum wages. This is the case for example in the **UK**, where companies such as Amazon, Yodel and Hermes have become notorious for employing couriers on a self-employed basis and paying piece rates for successful delivery. The result is that workers struggle to earn a living wage, while customers endure poor service quality, as parcels are more likely to get lost or damaged after being left dumped on doorsteps, under cars or in bins when no-one is at home to receive them.

The sectoral collective agreement in Sweden

A positive example, all workers in the Swedish postal sector (the USP and alternative operators) are subject to the same national collective agreement, de facto preventing companies from basing their competitiveness on lower terms and conditions. The collective agreement was extended to new market entrants 5 years after the liberalization of the postal market under pressure from both the public and national political parties. Not complying with the collective agreement also represented a risk for AOs from a reputational point of view.

d. Working conditions

Intense rationalization and restructuring of sorting and delivery activities, introduction of new surveillance technology, the adoption of a business approach based on productivity and payroll have led to a far-reaching deterioration of working conditions and resulted in increased workloads and work pressure as well as a loss of positive job identification.



i. Increased workloads

In all countries covered by our sample, increased workloads were considered a major issue. They are the direct result of increased volumes (and heavier packets to carry), heightened consumer expectations and employment cuts.

In particular, staff reductions are increasing workloads for the remaining personnel. In **Sweden** for example, SECO has pointed out that employment cuts (in the traditional postal services) are taking place at a faster rate than drops in volumes. Too incisive employment cuts also pose a problem as regards compliance with official working hours, especially as mail and parcel volumes vary from one day to the next – over and above seasonal fluctuations. As available headcount is calculated on the basis of very tight plans taking no account of unplanned leave, any such unplanned situations must be overcome by increasing the working hours of the available postmen.

Workload studies in Poland

For many years unions in Poland disagreed with the outcomes of the postmen's workload study commissioned by the company and conducted semi-annually. Such studies determined the network's FTE allocation and indeed recently advocated staff downsizing.

The unions pushed to have holiday and sick leave buffers factored into simulations to more realistically assess staff availability. Several delays in disclosing the outcomes of the tests are reported by the unions.

In the majority of cases, postal operators have also levered the rationalization and automation of sorting activities to increase the lengths of postmen's rounds and daily working hours (particularly for "outdoor workers"). In **New Zealand** and in **Japan** for example, trade unions point to longer working hours, longer rounds and fewer people to perform the same tasks as the major problem. In **France**, La Poste has reorganized working hours. Postmen now start (8 a.m. instead of 6 a.m.) and finish work later, with their working day including a lunch break. Putting an end to the "job and finish" principle¹⁷, the reorganization has not gone down well with postmen.

¹⁷ "job and finish" is a translation of French "parti-fini", what means that a postmen had finished its working day after having delivered all its items.

CWU 4 pillars campaign¹⁸

In 2017, the UK Royal Mail announced its plans to replace its defined benefit pension scheme with a less generous arrangement, arguing that it currently paid some £400m a year into the pension pot, but that this amount could more than double to above £1bn in the future if no changes were made¹⁹.

Following this, CWU members voted in favour of a first national strike at the postal operator since its privatization. The union also launched the “4 Pillars of Security” campaign” aimed at securing (1) a lasting pension solution delivering a decent wage in retirement, (2) an extension to the current agreements and legal protections enshrined in the Agenda for Growth Agreement, (3) a 35-hour working week (to address growing work pressure and intensification and improve members’ health, well-being and work-life balance) and (4) a redesigned Royal Mail pipeline to secure the company’s commercial future and deliver long-term growth and a decent wage in retirement.

After several rounds of negotiations, the company and the union reached an agreement. The wide-ranging settlement includes a 5% pay rise over an 18-month period, backdated to October 2017. This will be followed by a 2% increase in April 2019; a one-hour reduction of the working week from October, subject to the completion of trials and initiatives to improve efficiency, with a further one-hour reduction planned in 2019. Royal Mail also pledged to move towards a 35-hour working week by 2022, down from 39 hours at present. On the key battleground of pensions, the two sides are working towards introducing a new kind of scheme yet to be tried out in the UK, which will require changes to legislation. In the meantime, the roughly 90,000 members of Royal Mail’s defined benefit scheme will have a separate arrangement²⁰.

ii. Increased work pressure

Increased work pressure is the result of higher volumes and staff cuts as well as the introduction of a new management culture focused on performance optimization. For delivery workers it is also linked to the rationalization of delivery through the prior quantification of operations and use of prescriptive software tools (geo-routing).

Postmen are increasingly being given time and performance targets, causing a series of problems – as underlined in the 2018 Net Post study.

“In a nutshell, a technical-scientific justification of the workload and working time calculation has replaced an empirical justification - supervision by a coach - as soon as productivity gains have become a higher priority. The deeper issues that arise here are - at least - of three different types. The first is that this mode of evaluation and prescription of labour implies the existence of an “average” - and constant over time - postman in terms of professional skills. It therefore inevitably leads to underestimating the effects of his/her uneven performance that arises specifically from ageing and professional wear and tear. The second one is that it is based on summing up “average” periods of basic operations, which is particularly unsuitable concerning delivery because of the particular nature of each round and the daily uncertainties involved. The third is that it is impossible to take into account the interactions between postman and users, but these selfless relations are highly valued by postmen, who consider them the most interesting and gratifying aspect of their trade²¹”.

Time and performance targets pose problems in particular to older workers but also to new-hires who generally have no reserved round and therefore need more time to perform their tasks. It is clear that the use of workers with a precarious employment status makes work more onerous, mainly because they are assigned to stand in for others and, as they are less familiar with the rounds, they have greater difficulty in ensuring the right level of quality of their work and completing it within



¹⁸ <http://www.cwuessex.org/four-key-pillars-of-security/>

¹⁹ <https://www.ft.com/content/e3a287c2-829b-11e7-94e2-c5b903247afd>

²⁰ <https://www.ft.com/content/d1de2f80-0754-11e8-9650-9c0ad2d7c5b5>

²¹ <http://netposte.ulb.be/?lang=fr>

the time allotted. On top of all this, they are the ones with the least forward visibility of their work schedules. Last but not least, increased work pressure is also linked to the rapid pace and number of the successive rationalization programmes (aimed at adapting to new volumes, new technologies and reduced employment levels), all of which create a feeling of insecurity. During recent years in France and Belgium, major restructuring measures were implemented every two years. In 2001, a SECO study team visited 800 Swedish Post and CityMail workplaces, confirming problems of stress and heavy workloads. According to the study, “the most distressing observation was the anxiety about the future expressed by most employees. This situation has resulted in an increase in long-term absence, the increased incidence of occupational illness and high employee turnover”. These problems were not unique to Sweden Post. Annual employee turnover at CityMail was reported to be 60% for the same period.

La Poste - the “Grand dialogue” commission report

In 2012, following a series of serious incidents (19 suicides or attempted suicides involving La Poste workers were reported, including the suicides of 2 postmen at their workplaces), La Poste announced the setting-up of a special commission (La Commission du grand dialogue) tasked with studying the evolution of working life and working conditions within the company. The commission's final report identified several problems (high number of successive restructuring measures, changes in working organization and working culture, increased work pressure, lack of dialogue at the local level, with changes being implemented without consulting the workers), corroborated by the deterioration of several indicators: growing absenteeism, a rise in the number of accidents and of employees declared unfit for work.

Following the adoption of the “Grand dialogue” commission report, several agreements aimed at improving the social climate at La Poste have been signed with trade unions. La Poste has introduced new measures aimed at, among others, slowing down restructuring measures, increasing workforce availability by hiring 5000 new employees, giving precedence to internal mobility, improving access to qualifying courses and training (80% of workers to be trained every year, 100% over 2 years, with an average 100 hours of training for each postman over 5 years), improving safety and health at work and developing new career paths within and between business units. In the meantime, the first employment and skills forecasting agreement (GPEC) has also been introduced²².

In 2017, La Poste management and trade unions CFDT, FO, CFTC, CGC signed a new agreement on working conditions for postmen and their supervisors²³. The agreement provides among others for the recruitment of 3000 postmen on permanent contracts in 2017, the reinforcement of permanent means of replacement, a limitation of the splitting of postman rounds to a maximum of 30 days per year and per agent and the monitoring of postmen's workloads and their daily schedules. It also includes several measures with regard to training, with for example the implementation of 1,000 training courses for supervisors over the next 5 years and the creation of a postmen's school to support job placement and key career stages.

Winding up, the picture remains mixed. While CFDT agrees that the new measures have helped improve working conditions, CGT and FO point to the difficulties encountered in changing mentalities and that much remains to be done to put the social climate at La Poste back on track.

²² <https://www.sudptt38-73.fr/documentation/documentation-poste/82-accord-un-avenir-pour-chaque-postier-2015>

²³ <https://legroupe.laposte.fr/espace-presse/liste-des-communiqués/validation-de-l-accord-sur-les-conditions-de-travail-et-les-métiers-des-facteurs-et-de-leurs-encadrants>

iii. The loss of positive job identification

Restructuring, deteriorating working conditions and low wages have progressively led to a loss of positive job identification. This has been compounded by a loosening of the tie between the population and the familiar figure of the postman, who no longer has any time for contacts with customers or is replaced by changing anonymous or unknown couriers. The loss of positive identification is also linked to a progressive deskilling of postman jobs. Geo-localization reduces skill needs. At the same time, the separation of preparation and delivery operations has led

to the creation of 2 new low-skilled profiles, the sorting agent and the delivery agent, replacing the traditional postman job profile. This deterioration of working conditions can for instance be seen in the NZ Post annual people commitment survey which measures the rational and emotional commitment of workers to their company. In 2018, scores were 60.4% for employees and 53.8% for contractors, much lower than in previous years and below company expectations.

TRADE UNIONS' AND WORKERS' CONSULTATION WITH REGARD TO RESTRUCTURING MEASURES AT BPOST

According to Bpost trade unions, the numerous tensions and conflicts raised by successive restructuring measures in delivery centres have at least helped shape a specific consultation procedure regarding changes in work organization.

According to this procedure, 2 months before the implementation of a new working organization, management of the mail centre concerned has to provide the trade unions with information on the proposed measure. Two weeks later, trade unions and management come together in a bipartite consultation committee, where trade unions can comment on the measures. If modifications are introduced, the new organization must be validated by senior Bpost management²⁴. The next step is another round of consultations in the presence of the workers concerned.

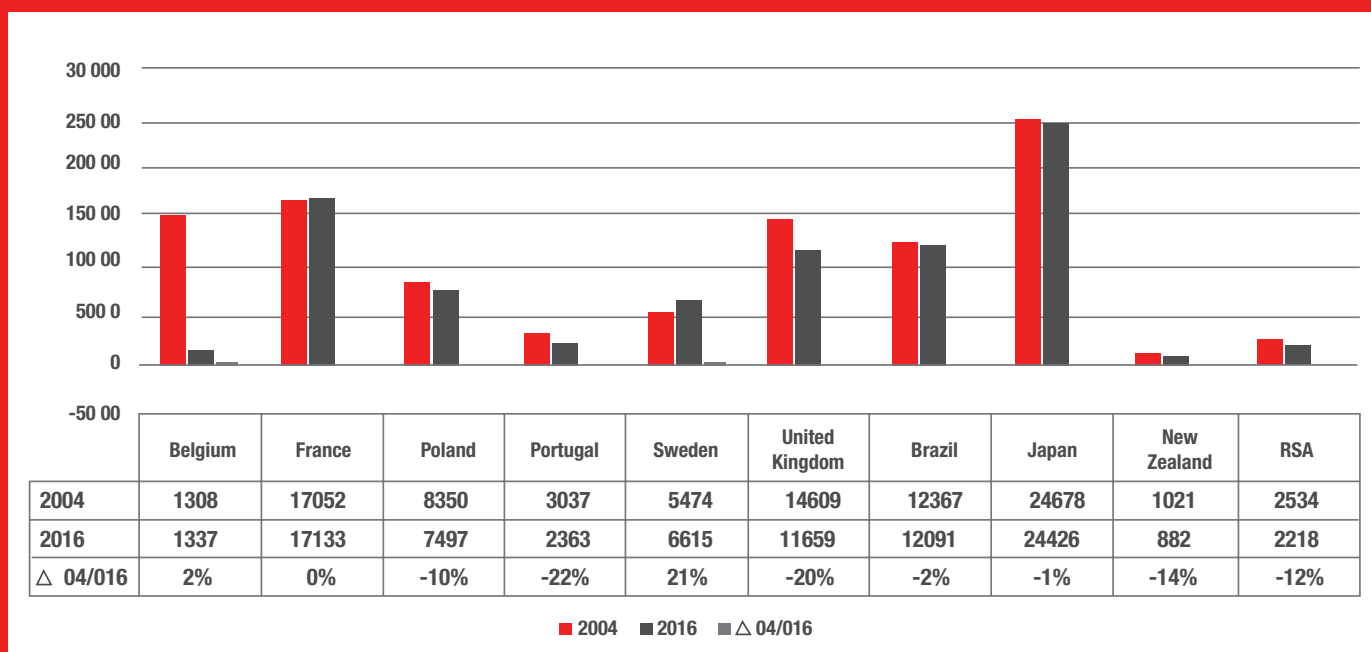
Any comments or objections are examined by a joint working group, approved by the bipartite committee and presented to senior management for validation.

4. Quality issues

Liberalization has had a detrimental effect on employment and working conditions. At the same time, it has not helped increase the quality of services (quality indicators are deteriorating), while prices have risen consistently.

a. Accessibility

Number of access points in EU countries - Number of permanent postal offices in outside EU - COUNTRIES



²⁴ As the process is a consultation and not a negotiation, management is not obliged to accept any of the proposed changes.

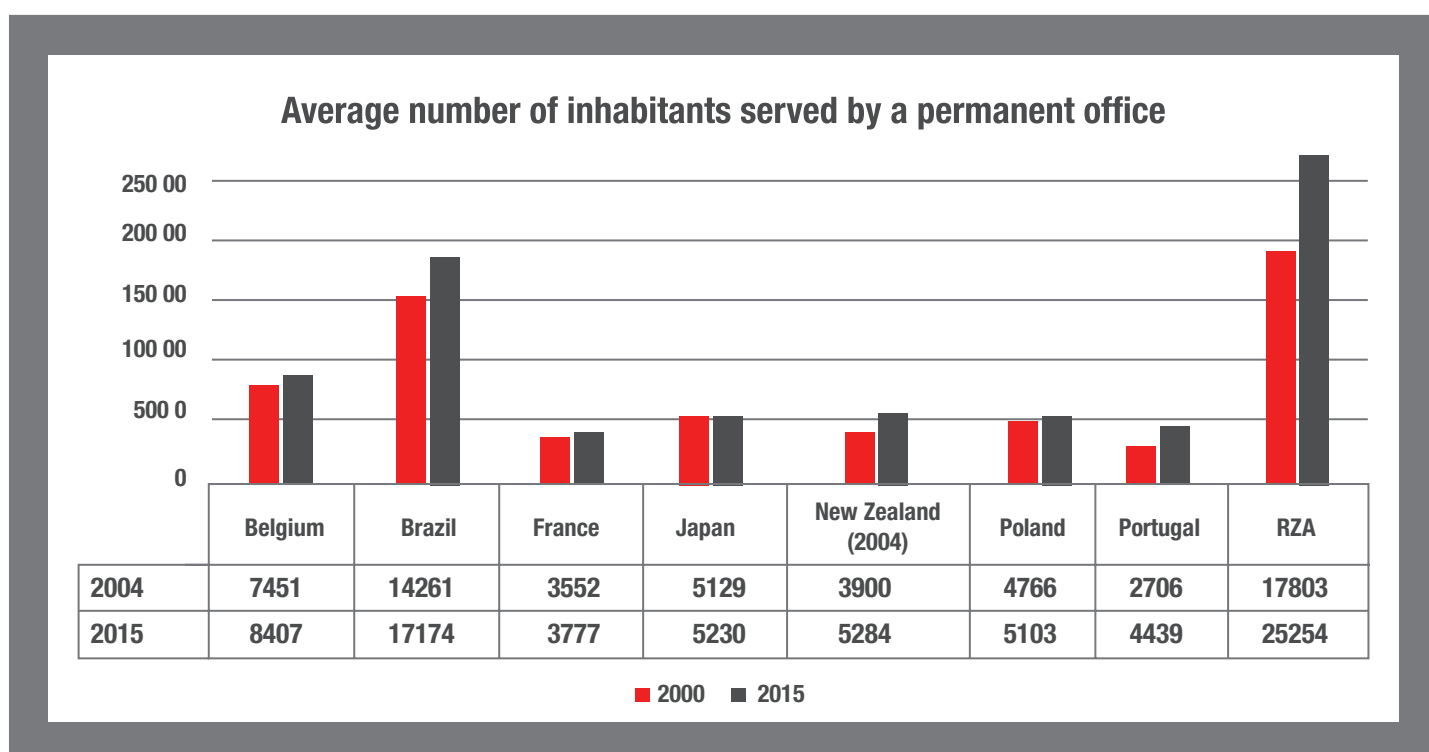
Since 2004, the number of access points has slightly decreased in the countries covered by our sample, the only exception being Belgium where the number has risen by 2%. This relative stability can be explained by national regulations obliging USPs to maintain a certain number of access points (17 000 in France for example), but also by the existence in certain countries of a de facto monopoly (Japan).

In the majority of countries however (and as already mentioned), a large number of post offices have been replaced by postal access points located in supermarkets, newspaper kiosks or filling stations, which can hardly be considered as an increase in the quality of service.

- In Belgium, the share of postal points is already 50% of total postal access points;
- In New Zealand, NZ Post's strategy has focused on reducing its ownership of outlets (with a focus instead on agency and franchise models whereby postal outlets are located in other businesses), relocating outlets away from areas that are no longer significant shopping areas to locations with more foot traffic (shopping malls, supermarkets or petrol stations) as well as on introducing a service point approach for outlets, using self-service technology to achieve unmanned kiosks located in other businesses;
- In Sweden, Posten AB closed all post offices by 2002, replacing them by business centres and postal contact points located in grocery stores, filling stations, kiosks etc. This change has been negatively perceived by part of the Swedish population. Despite the fact that the reform has led to an overall increase in service points (+39% between 2001 and 2005), numbers have decreased in rural and sparsely populated areas.

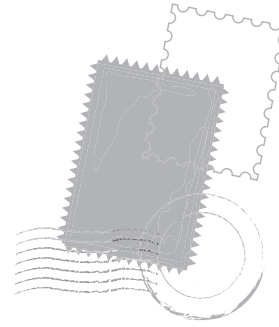
As a consequence of the overall decrease of postal points and a higher population, the average number of inhabitants served by a permanent office is of course on the decrease.

In the majority of countries a large number of post offices have been replaced by postal access points located in supermarkets, newspaper kiosks or filling stations.



Door-to-door vs community mailboxes in Canada

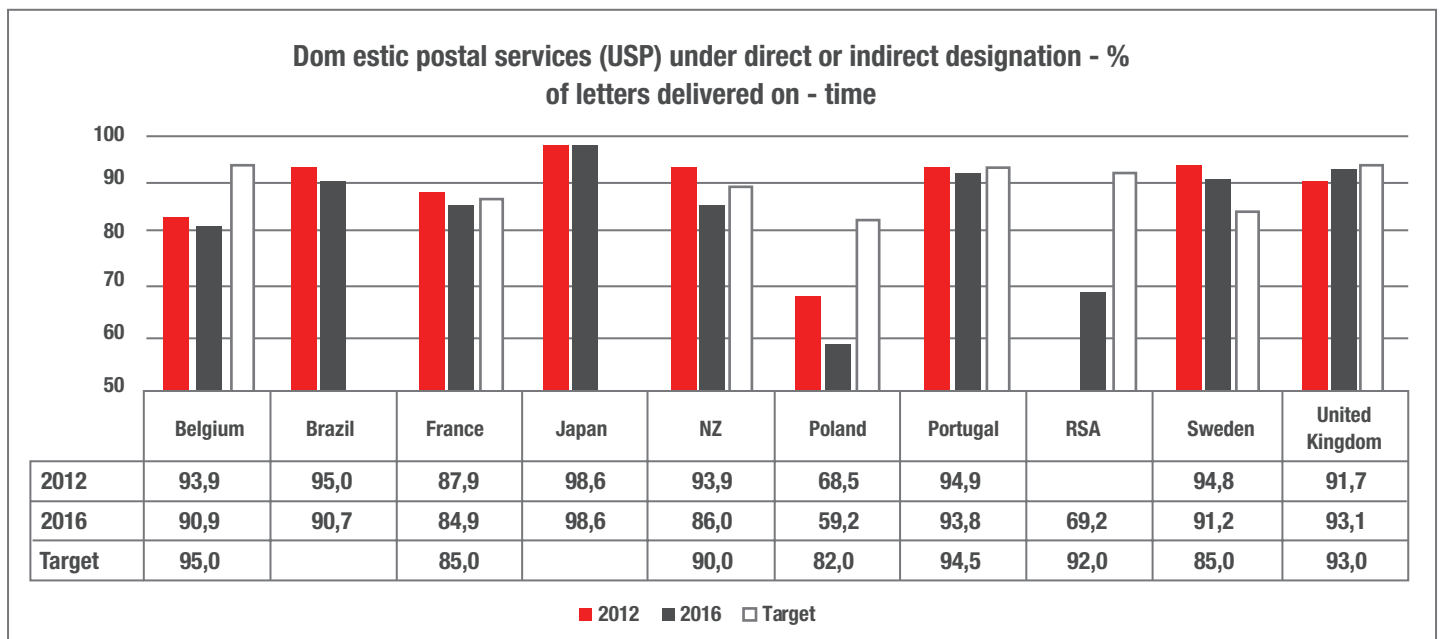
In 2013, Canada Post management implemented a Five-Year Action Plan to keep pace with the decline in transaction mail and improve the corporation's profitability. The plan included (1) conversion from door-to-door to community mailboxes; (2) price increases; (3) retail store efficiency boosts; (4) streamlining operations; and (5) labour cost reductions. Cancelling the move away from door-to-door delivery to community mailboxes was a hot topic during the 2015 electoral campaign. The Liberals won power with a programme that included a promise to review CP management's decision on pursuing the conversion. The project was suspended "half-way" in November 2015 and the Trudeau cabinet placed a moratorium on any future conversion from home delivery to community mailboxes. In 2016, about five million of 15 million Canadian homes received their mail directly to their address. However, some 840,000 families currently serviced by community mailboxes will probably not see their service restored, as such a reversal would cost CP \$1.2 billion a year. It was estimated that, in order to achieve this, CP would have to charge as much as \$124 a year per home or alternatively add a further 50 cents to stamp prices, on top of the increases it already needs to make.



b. A slight decrease in on-time delivery rates but a steady rise in customer complaints

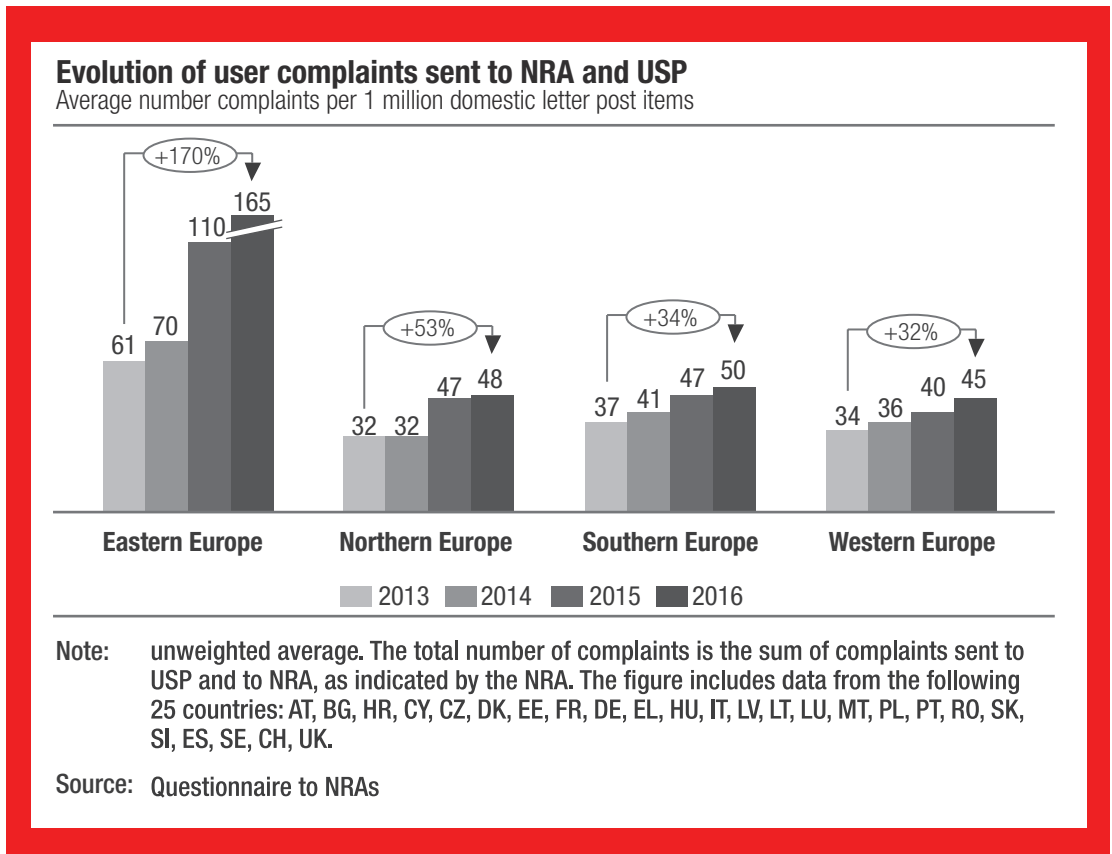
Statistics related to the on-time delivery of letters have remained more or less stable since liberalization, despite a slight decrease in almost all countries covered by our sample, with the only exceptions being Japan and the UK. In 7 out of the 11 countries²⁵, national operators achieve on-time delivery rates above 90%. The worst results are those

of Poland (59%) and South Africa (69%). The below-90% results of France and New Zealand also look disappointing compared to results achieved in the past. It has also to be noted that, except for the UK (no statistics for Japan), none of the USPs have been able to meet the objectives set by the national postal regulator.



²⁵ In 2016, the on-time delivery rate for Canada was 91%.

In the meantime, the number of complaints received by NRAs and USPs has considerably risen. In Europe for example, their number grew by 88% between 2013 and 2016²⁶. According to Copenhagen Economics, this increase however mainly relates to non-USO products and in particular to e-commerce shipments. The reasons for this are higher customer expectations regarding parcel delivery as well as more challenging logistic processes to deliver parcels.



In the interviews made in the context of this study, several trade union representatives (France, Belgium, New Zealand,) stressed that the deterioration in employment and working conditions increased the number of mistakes and the risk of accidents²⁷.

QUALITY ISSUES IN PORTUGAL

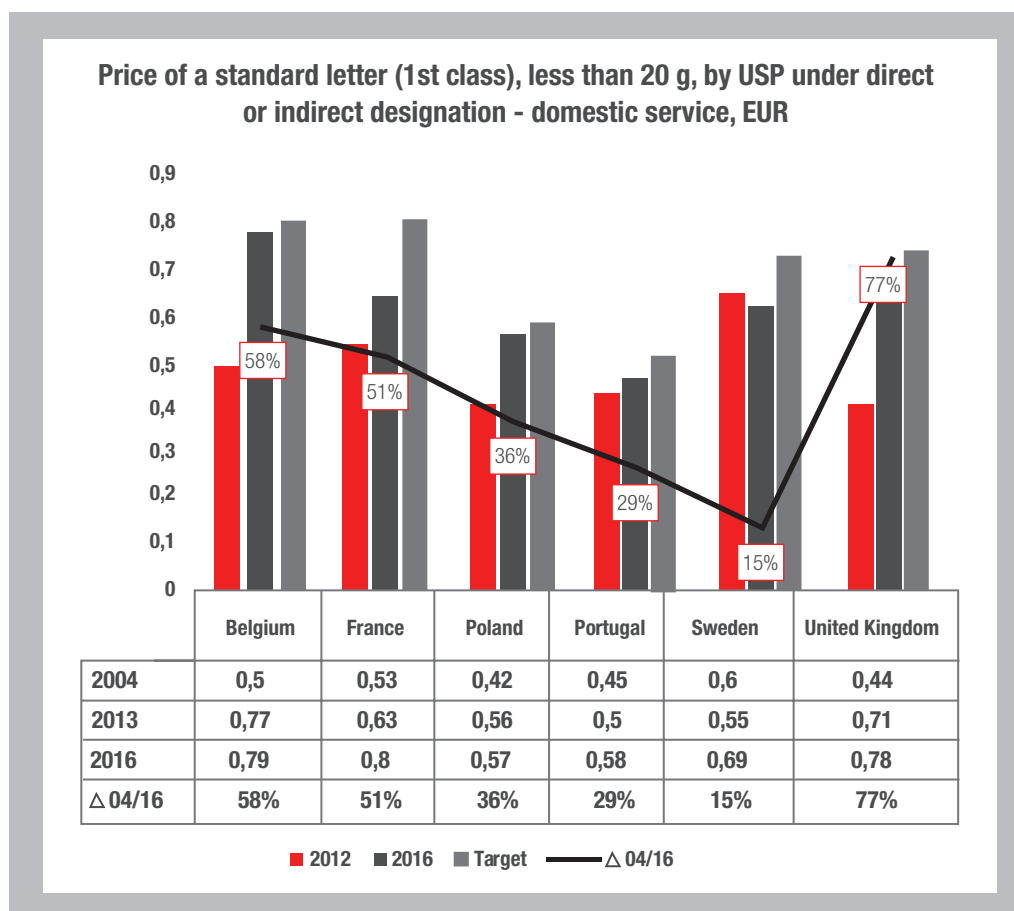
The trade unions are noticing a degradation of postal services and working conditions. The high increase in prices has been accompanied by a deterioration of services due to closures of distribution offices in the interior of the country, the replacement of post offices by “postal points” offering fewer services, the subcontracting of services to third parties (with worse working conditions) offering segment-based delivery, i.e. distributing the different shipments on a certain day of the week, leading to delays of up to 15 days. Especially serious is the delayed delivery of benefits and pensions. The unions emphasise that these delays are not reflected in the official quality figures because CTT gives priority to deliveries including an electronic control chip (implemented 6 years ago), leading to Anacom fining the CTT for this practice.

²⁶ The 170 per cent increase in user complaints observed in Eastern Europe is primarily driven by Bulgaria and Poland, where numbers have multiplied respectively by factors of 7.5 and 4 over the period (source: Copenhagen Economics).

²⁷ <http://www.cgtfapt77.fr/wp/?p=2120>

c. Prices

Major price rises have been observed in all countries covered by the present study. In our 6 European countries, the price of a standard letter (1st class, less than 20 g, by USP) rose on average by 43% between 2004 and 2016 (with the highest increases in Belgium, France and the UK).



Prices for other services covered by the USO have also increased (see table below for the period 2013-2016). In Europe, the only country where liberalization was followed by a price decrease is Sweden. The situation there however is an exception, as liberalization occurred at a time where volumes were rising. Since then, postal prices have gone up.

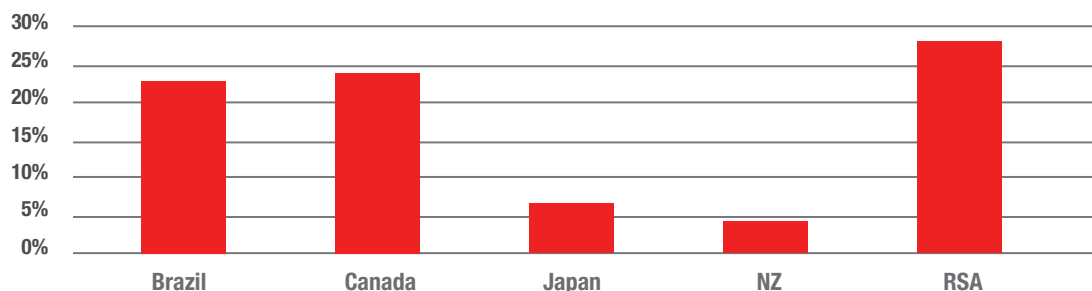


Prince variations (2013 - 2016, in %)					
Countries	20g D+X, domestic	50g D+X, domestic	20g D+1, EU	5 kg parcel, domestic	5 kg parcel, cross-border (lowest tariff)
Belgium			9%	86%	173%
France	21%	44%	25%	5%	-27%
Poland	24%	24%	32%	39%	0%
Portugal	18%	5%	7%	14%	0%
Sweden	9%	9%	8%	-10%	-7%
United Kingdom	9%	9%	19%	5%	7%

According to data provided by UPU, similar trends can be observed in Brazil, Canada, Japan, New Zealand and South Africa²⁸.

²⁸ Due to the lack of statistical data at international level, only price increases for the period 2015 – 2016 are presented.

Basic tariff for a domestic priority letter (first weight step) - % change 2015/2016



The reasons for these price rises are of course the declining volumes, the need for major investment and high restructuring costs. In some countries, they are also linked to the total or partial privatization of national postal operators. In the UK for example, since privatization, approximately £1 billion has been paid out by the Royal Mail in shareholder dividends, money which unions argue should have been reinvested in the business to secure its future. It should also be emphasized that these price increases mainly affect services provided to the public, while prices for business services are said to have generally gone down.

Trade union positions regarding these price rises vary from one organization to the next. In some cases (the Swedish SECO for example), unions are calling for price rises, as these may help improve terms and conditions and lower the risk of employment cuts. In other cases, price rises are seen as going against the principle of universal access to the public service (CGT).

d. Delivery frequency and speed

The number of delivery days per week has remained stable over the years in the countries covered by the present study, linked to the fact that regulatory obligations for services falling under the USO have remained stable over the years. In Europe for example, Article 3 of Directive 2008/6/EC²⁹ specifies that the universal service should be guaranteed not less than five working days a week save in circumstances or geographical conditions deemed exceptional³⁰. Such regulations are also in place in the non-EU countries. The only exception is New Zealand, where the most recent Deed of Understanding has reduced the number of delivery days per week from 5 to 3 (for details see the case study).

Faster letter product included in the USO, where delivery speed is lower than D+1

COUNTRY	FASTEST SERVICE CATEGORY LETTER PRODUCT REQUIRED IN THE USO	COMMENT
Denmark	D+5	S since 2016
Finland	D+4	Since 2017
Luxembourg	D+3	
Norway	D+2	Since 2018
Spain	D+3	
Sweden	D+2	Since 2018
Romania	D+2	Intention, not implemented

Note: Information as per May 2018, RO - information from the questionnaire to ANCOM. DK, FI, NO, SE - these cases are described more extensively in appendix A.

Source: Questionnaire to NRAs

²⁹ Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services

³⁰ COMMISSION STAFF WORKING DOCUMENT Accompanying the document Report from the Commission to the European Parliament and the Council on the application of the Postal Services Directive (Directive 97/67/EC as amended by Directive 2002/39/EC and Directive 2008/6/EC)

Average delivery speed has also remained stable in most of the countries. There is however a growing trend towards deterioration. Recently, the Swedish Government did away with overnight delivery and replaced the D+1 requirement with an obligation to deliver standard letters within two working days as of 1 January 2018³¹. Other European countries such as Denmark, Finland, Luxemburg, Norway and Spain have also cut delivery speed over the past few years (see table above)³².

Due to the increasing losses USPs make in the letter post market as well as to the increased competition in CEP markets, there is a risk that this situation will change in the near future. The recent study made by Copenhagen Economics for the European Commission³³ proposed reducing both delivery frequency and delivery speed in order to boost the sustainability of USP business models.

³⁰ *Regardless of the geographical origin of a letter, at least 95 per cent of letters should be with its recipient 2 days after the day of deposit.*

³² *Source: Copenhagen Economics*

³³ <https://publications.europa.eu/en/publication-detail/-/publication/d22799b5-bbb7-11e8-99ee-01aa75ed71a1/language-en>

CASE STUDY:

THE LIBERALIZATION OF POSTAL SERVICES IN BELGIUM

Despite market liberalization, the Belgian market remains highly concentrated. Bpost, the national historical operator, remains a quasi-monopolist on the letter market while new entrants have mainly entered the most lucrative market segment such as parcel and express delivery. The liberalization process has allowed to the development of a wide range of new and more convenient services but have not led to an improvement of the quality of USO services, while prices have increased. In the meantime, the evolution of postal services towards a new economic and industrial model have led to a worsening of working conditions in the sector and the development of precarious work.

1. Postal services liberalization

In Belgium, the third EU Postal Directive was transposed into national law by the Act of 13 December 2010, amending the “Postal Act” of 21 March 1913³⁴. At that time, the scope of the universal service obligation (USO) was defined as the “collection, sorting, transport and delivery at least 5 days a week of postal items up to 2 kg and of postal parcels up to 10kg, delivery of postal parcels from other member states up to 20kg, services relating to registered postal items and postal items with insured values”. Since then, the provision of postal services falling within the scope of the USO is subject to an individual licence, granted by the Belgian national regulator BIPT.

The conditions to be fulfilled to obtain a licence were considered as restrictive. According to the law, the licence holder had to cover a territory corresponding to 80% of each of the country’s three regions within 5 years of obtaining the licence, ensure deliveries at least twice a week after 2 years in operation, apply a uniform tariff in the regions covered, while ensuring a reliable service. The potential licence holder had also to demonstrate having a well-staffed infrastructure as well as adequate operational processes. The Belgian Act also specified that the collection, sorting and delivery of postal items falling under the USO scope as well as transport and routing services could not be carried out by freelance workers³⁵. The Belgian regulator has designated Bpost as the USP until December 2018. Between 2011 and 2018, only one additional operator, TBC Post, obtained a licence to provide services falling within the scope of the USO.

Following complaints made by the European Commission in relation to potential barriers to market entry, the Belgian postal legislation was amended in January 2018. The conditions to be met in order to obtain a licence for the provision of services falling under the USO have been adapted. From now on, a licence holder “only” has to (1) ensure 5-days-a-week deliveries throughout the country for all citizens; and (2) maintain a post office or a postal point in all Belgian municipalities. The new law also confirms Bpost as the USO provider for the next 5 years. Regarding the provision of other postal services, operators willing to provide these services are not subject to a licence. They have however to meet certain requirements imposed by the Belgian regulatory framework (confidentiality, reliability, etc.) as well as obligations in the field of handling appeals and complaints.

2. Market evolution and market structure

a. Market evolution

The evolution of the Belgian postal sector follows the same trends observed in other European postal markets, i.e. a decrease in the traditional letter market and extensive growth in the express / parcel markets.

- On the letter market, volumes have been decreasing on average by 4.7% a year since 2010. Over this period, the number of letters sent per inhabitant has gone down from 204 to 153 last year. All types of correspondence included in the letter mail category are concerned: addressed mails (-3.32% between 2015 and 2016), addressed advertising (-6.3%) as well as international mail (-12.4%). On the press market (5% of the overall postal market), volumes are down by 11.4% compared to 2011.

- By contrast, the parcel and express market is steadily growing: +16.4% per year for the last 3 years. Since 2010, the number of deliveries has almost doubled (+95%), reaching 172 million distributed items (88 million in 2010).

In 2016, the Belgian postal market generated a total turnover of €2.5 billion, representing a slight increase (0.9%) compared to 2015, and a 12.4% increase since 2010. Letter post accounts for 49% of this, against 46% for the parcel and express segment. The press distribution segment generates 5% of total revenues.

The overall growth of the postal market can be explained by two main factors: the development of the parcel / express market, which has helped compensate decreases in the letter market, but also price increases. Since 2010, the price of stamps has gone up by 14% (+25 for 10 stamps booklets). The price for sending parcels under the universal service obligation has gone up by 14% for domestic parcels and by 26% for international parcels.

The quality of services has slightly decreased (but remains at a high level). In 2016 for example, Bpost have not met (for the second year in a row) the legal quality standard, that have been increased from 90% to 93% in 2014. In 2016, Bpost have delivered 90.9% of its’ “priority” tariff mail D+1 on-time, against 93.3% in 2010 (lowest level since 2006). The same goes for the registered mail (93.3% in 2016 against 95.3% in 2014). Users complaints increased by 26% in 2015 (14980 complaints). 61,3% of those complaints are related

³⁴ Act of 21 March 1991 on the reform of certain economic public companies (Title IV on the reform of the Postal Authority, Articles 129 to 154ter).

³⁵ According to Art. 148decies, the collection, sorting and delivery of items of correspondence, except for postal items outside the scope of the universal service, the service limited to transport and routing activities, shall be carried out and be irrefutably presumed to be carried out by workers with an employment contract and not by freelance workers

to mail processing. The number of postal points remains stable, despite population growth. In the forthcoming years, plans to reduce its delivery frequency of letters to 1 every two days and increase its price for D+1 delivery, now considered as a premium product.

b. Market structure

According to BIPT, the Belgian postal market is highly concentrated. Four operators (Bpost, UPS, DHL express, DPD Belgium) hold 84.2% of the market. As the USP, Bpost remains the market leader, with a total market share of 60%, but faces competition mainly on the parcel / express market.

Belgian Postal market - main market players (2016)						
Company	Addressed mail	Parcel / express	Advertisement	Press	International mail	Other
Asendia						
Belgique Diffusion						
Belgium Parcels Service						
Bpost						
Bubble Post						
Ciblex						
CityDepot						
DHL Express						
DHL Parcel						
DPD						
Dynalogic						
Euro Sprinters						
FedEx						
G3						
GLS						
Kariboo						
Mikropa kket						
Mondial Relay						
Post NL						
PPP						
Sprintpack						
TBC-Post						
TNT Belgique						
UPS						
Vlaamse Post						

- Since 2011, TBC-Post is the only player that has managed to access the addressed mail segment. The company has however failed to gain any significant market shares.

- In the parcel / express market, 22 companies have a one or more percent market share. In addition to global delivery companies, Bpost also faces competition from neighbouring countries' national operator subsidiaries such as DPD (La Poste), GLS (Royal Mail) or Mikropakket and G3 (Post NL), companies specialized in cross-border express delivery (Mondial Relay, Ciblex, Belgium Parcels Service) and e-commerce logistics companies (Kariboo, Sprintpack). On the non-addressed mail market, Belgique Diffusion, TBC and Vlaamse Post are bpost's main competitors.

3. The adaptation strategy:

To face the challenges linked to the changing market environment, the Belgian national operator begun to adapt

its economic model as early as 2001, mainly through a major rationalization of its sorting and distribution activities and expansion in the parcel market. Furthermore, in 2006, after several years of organizational but also political and legal preparation, the company opened up its share capital to external financial and industrial partners. Transformed into Bpost in 2010, the company has been listed on the stock exchange since 2013. In 2015, a legislative reform allowed the state to lower its share below 50%, opening the door to further privatization.

c. The rationalization of distribution and sorting activities
The modernization of Bpost's organizational processes begun in 2001 with the introduction of Georoute, a software for optimising postmen's rounds. Modernization efforts further continued over the decade but accelerated in 2010 with the adoption by Bpost of its new "Vision 2020" strategic plan, which has led to the implementation

of several organizational changes such as the automation of mail and parcel sorting activities (regrouped in five industrial sorting centres), the centralization of parcel processing (in Brussels X) and a reduction in the number of distribution centres from over 400 to 60. In the meantime, Bpost has started to transfer workers from the letter segment to parcel distribution. In 2009, the company also introduced a new category of employees, called auxiliary distributors (contractual employees with lower terms and conditions), with the aim of reducing personnel costs. In parallel, the group has tried to diversify its activities, introducing new services (such as digital services) and rationalizing its postal network. The number of “red boxes” has been reduced by 30%. The group has closed some of its post offices (-600 between 2007 and 2011) or replaced them by postal points. Of course, all these changes have had negative consequences on workers. Between 2005 and 2015, employment has been reduced by 31%. The changes are also said to have impacted working conditions (higher work pressure) and work organization, as restructuring / reorganization processes have been implemented on average every two years.

d. Expansion on the parcel and express market In the parcel market, Bpost targeted growth of delivered volumes of 18% in 2016 and of 28% in 2017. The company is active in three market segments: B2C (the delivery of goods by companies, like e-retailers, to consumers), B2B (for shipments between companies, such as spare parts or for supplying stores) and C2C (packages that consumers send to each other, such as gifts and second-hand sales). In recent years, in order to maintain or expand its market shares, Bpost has introduced a wide range of new services such as on-demand delivery (Parcify, 100% delivery) or the geo-localisation of delivery workers (Bringr). In 2017, the group launched Cubee, a network of package bins open to all courier services, and completed the modernization of its sorting facilities at Brussels X, doubling its parcel sorting capacity.

Bpost and the “uberization” of delivery services

In 2016, Bpost has launched Bringr, an innovative collaborative platform app allowing smartphone users to find a driver for delivering goods³⁶. According to the company, Bringr, aims at complementing Bpost’s existing product range with a service that enables users to find a driver to pick up goods at point A and deliver them to point B. First developed in the USA and in the UK, this crowdsourced delivery model, which work on the same basis that popular driving (Uber) or grocery or food delivery services (Uber Eats, Deliveroo) is becoming increasingly popular among delivery companies as it allows to satisfy consumers’ growing demand for faster online deliveries and decreases the costs of the last mile delivery by lowering labor and other fixed costs.

Brussels X is the second-largest sorting centre in Europe. The company is also expanding its international network. Via its subsidiary Landmark Global, Bpost offers logistic solutions for e-commerce companies in the USA, Canada,

the UK, the Netherlands, Poland, China, Hong Kong, Singapore, Australia and New Zealand. Last year, the group acquired Radial, a US company offering intelligent solutions for the entire process initiated by a customer’s online order.

4. Social aspects

In 2017, the postal sector employed 31,124 people directly. This figure is the first increase in postal sector employment (+ 1%) to be recorded since 2010. However, between 2010 and 2017, the number of postal sector workers fell by 17.8%. This decrease in total employment is mainly due to the restructuring processes implemented at the historical Belgian operator, who accounts for 75% of employment in the sector (this number does not include Bpost subsidiaries). In 2018, Bpost itself employs 23 382 FTE (98,2 on open-end contracts), against 32 000 in 2007 and 41 000 in 2002. Around 45% of Bpost workers are still civil servants (against 70% in 2010). 25% of Bpost employees work part-time (6 447 workers). According to the trade union VSOA-SLFP, the decrease in employment at Bpost has been managed in a sustainable way, without collective redundancies and mainly through early retirement, voluntary departure plans and outplacement (in cooperation with the state and municipalities). Subsidiaries in which Bpost SA/NV has a controlling interest (>50%) employ 8506 workers (8259 FTE). Temporary staff at these subsidiaries (Radial, Dynagroup, Euro Sprinter, Bubble Post, etc.) account for around 10% of the workforce (827 people, id.e.86% of total Bpost group temporary staff)³⁷.

Bpost workforce is highly unionized (80%), contrary to the company’s competitors. The company’s trade unions have however difficulties to access Bpost’s subsidiaries. 5 trade union organisations are represented (Flemish and Walloon branches of CSC ACV & ACOD and SLFP). Workers of the sector are covered by a sectoral collective agreement (which may not apply in case of independent workers or express delivery companies which are covered by the transport sector CBA). Although trade union organizations do not generally contest the principle of modernization of the company, given the risks to employment, Bpost has experienced significant conflict over the last two decades, with peaks of strikes during the most significant restructuring: until 2006-2007, in response to successive versions of the Georoute program, in 2010 and 2011 following the introduction of the auxiliary distributor status in 2014 and 2015 in response to the Alpha and MSO plans.

In addition to decrease in employment, trade unions denounce a marked worsening of working conditions (annual employee turnover at Bpost reaches 12%). This decrease is mainly related to:

- the introduction of the Georoute system which is criticized for being prescriptive and inappropriate in regard of the practical aspects of the job on the ground;
- the rapid pace and number of the successive rationalization programs (aiming to adapt to new volumes, new technologies and reduced employment levels), which create a feeling of insecurity;

³⁶ http://corporate.bpost.be/media/press-releases/2016/20-06-2016?sc_lang=en

³⁷ Source :Bpost annual report 2017

- the rationalization of the tours and the decrease in employment which have engendered an intensification of work and a reduction of postmen autonomy, leading to an increase in stress, unpaid overtime and a feeling of dispossession of the relational dimension of the job;
- the introduction of auxiliary postmen who have worse working conditions (focused on delivery, not able to choose the location in which they perform their duties) and lower terms and conditions, especially in terms of employment security, pension scheme and wages;
- Creation of so-called mini-jobs (2 to 4 hours per day, barely higher paid than the minimum hourly wage).
- Increased recourse to temporary agency workers and self-employed people, by Bpost subsidiaries (where there are no trade unions). According to the last Bpost annual report, around 10% of its subsidiaries workforce are agency workers;

According to trade unions, the numerous tensions and conflicts raised by the numerous rationalizations of postmen tours have at least contributed to shape a specific consultation procedure set up first at the regional level and then at the mail center level. They regret however the absence of an efficient management of employment and skills program as well as of a consistent training policy, as Bpost prefers to hire new employees to perform new duties. Trade unions also insist on the role played by the company's workers council, which allow them to be informed and consulted. They deplore however that this usually occurs when the decisions are already taken.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN BRAZIL

ECT is a federal public company providing postal services of special interest with exclusivity. It is currently undergoing transformation to expand its capacities and range of services, especially financial and banking activities, to help offset the fall in traditional postal business. The absence of an independent national regulator raises doubts about the quality of services and hinders the implementation of a level playing field for private companies. Working conditions have improved over the years – thanks to constant dialogue and collective bargaining – including wage and social upgrades which employees of the postal division, in decline since 2013, are striving to maintain, as proved by the strikes in 2014.

1 – State of play of the national postal market

The evolution of postal services in Brazil is linked to the evolution of the main player, the Empresa Brasileira de Correios e Telégrafos (ECT), or “Correios de Brazil”, currently constituted as a federal public company. The law regulating postal services dates back to 1978 and, since then, several half-hearted attempts have been made to modernize postal services. During the 2000s the company was at the epicentre of the “Mensalão” scandal, displaying operational problems that were disclosed as the “postal crisis”. Despite this, the company was the stage of several innovations in its managerial and commercial processes. The Federal Constitution of Brazil currently grants ECT exclusivity in the provision of postal services of specific interest to recipients as a way of financing the provision of deficit services to citizens. Brazilian legislation provides for a monopoly only in the following services: letters, postcards, bulk mail and telegrams. ECT is undergoing a process aimed at making it more market-oriented and profit-driven. This is being done by strengthening its postal operator capacity, expanding its product offering through a wide range of joint ventures and partnership agreements with other government agencies and private companies, and introducing a range of financial services (together with Banco Postal). Various services were incorporated into ECT's portfolio through the SEDEX business, which has since become one of the company's main products

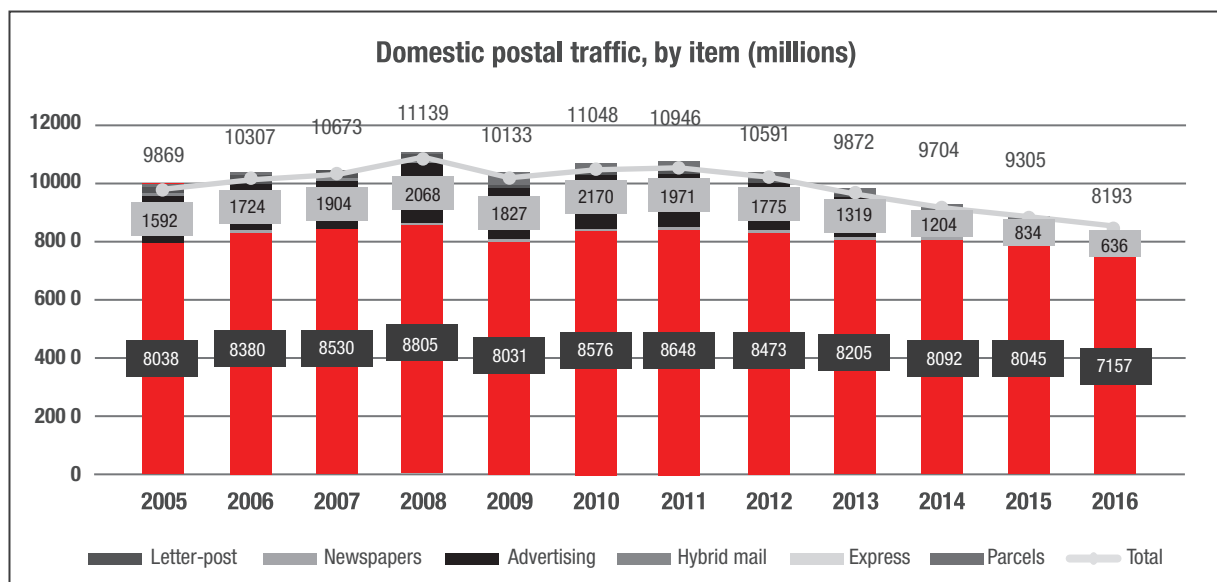
and is market leader in Brazil's express sector. Over the last years, the service has added new business lines such as e-Sedex, Sedex 10, Sedex 12, Sedex Hoje and Sedex Mundi, streamlining the delivery of orders.

The absence of a strong, independent regulator restricts transparency and undermines the social benefits for several reasons: 1) The lack of audited quality metrics for postal services cause distrust among consumers; 2) Private-sector providers competing against Correios (or its strategic partners) cannot be sure of a level playing field; 3) Assurances against cross-subsidization from government proceeds are also lacking, to the detriment of consumers, taxpayers and private-sector competitors. Current regulations require that private delivery companies allocate a share of their revenues (0.5%) to help support the USO. But this fee is applied unevenly, and it is unclear which private companies are required to pay.

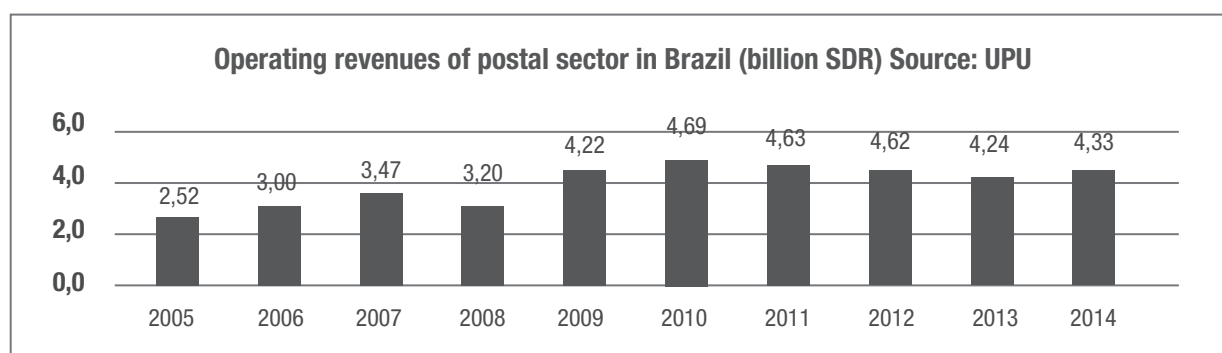
2 - Postal services market

Following the 2008 peak of 11.1 billion postal items, traffic has fallen continuously since 2010 (-26% for the period 2010-2016). The drop is due to the reduction of letter traffic (-11% between 2005 and 2016) while all other items increased their volumes except advertising which fell by 60% between 2005 and 2016.

³⁶ Gomes Teixeira, Tadeu. *Os Correios e as políticas governamentais*

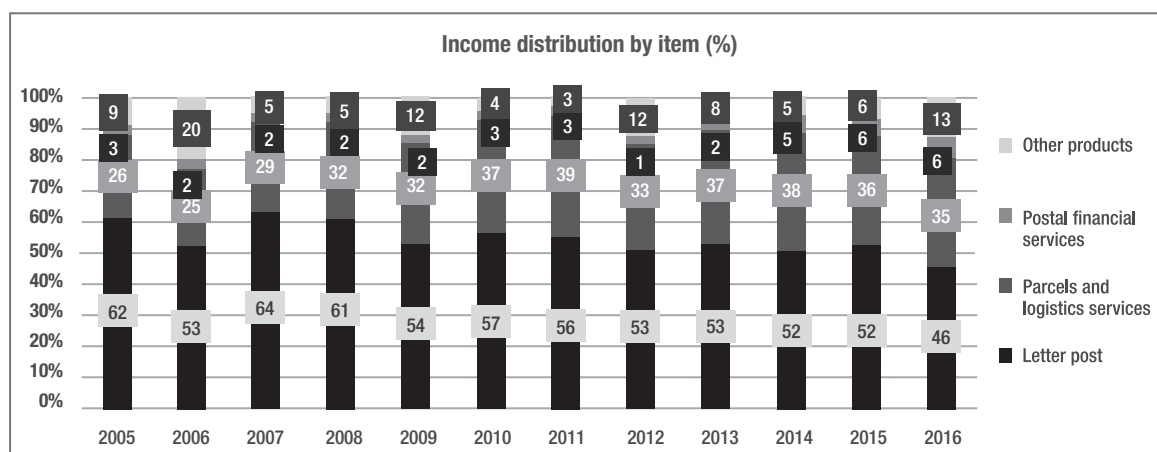


The most significant increase is in the parcel business, going from 13 miles of items in 2005 to 94 miles of items in 2016. In 2016, letter traffic accounted for 87% of the total volume, followed by advertising (8%) and express (2%).



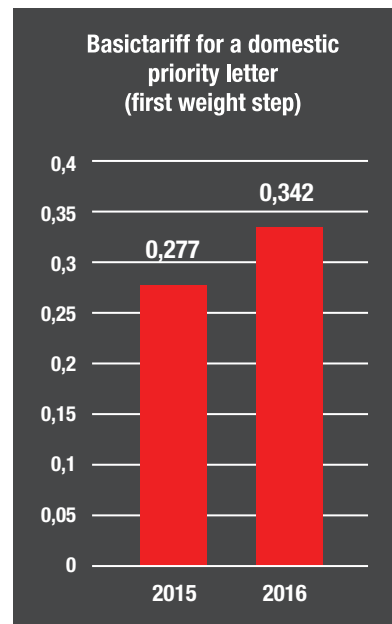
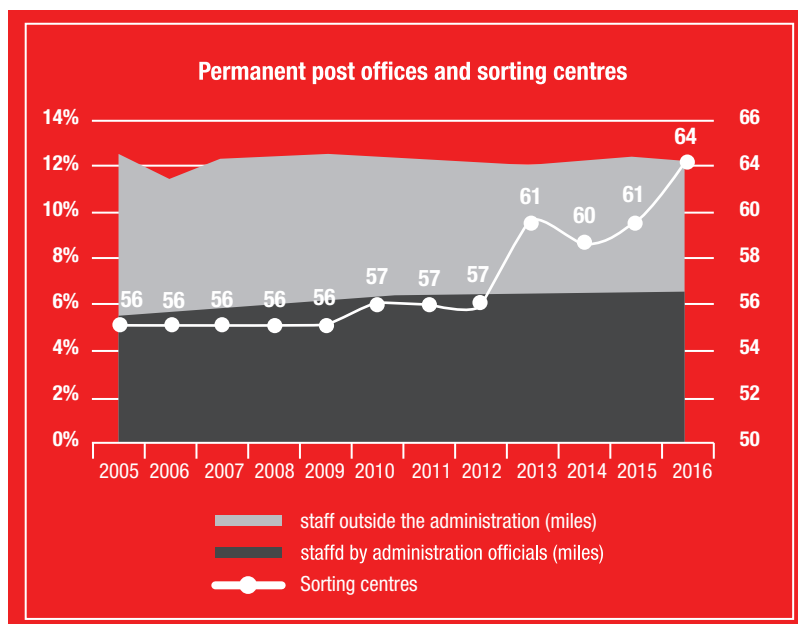
In terms of revenues, there has been a significant increase in turnover between 2005 and 2014 (+75%), though there was an 8% decrease between 2010 and 2014^{39 40}. As regards the breakdown of revenues, letter post remains the main contributor to total turnover with 46% of total income in 2016, followed by parcel and logistics services at 35%, other products at 13% and postal financial services at 6%. But in general terms, letter revenues are becoming less and less relevant in favour of the other activities.

While in most countries numbers of post offices are declining, this is not the case in Brazil. Though the number of permanent offices decreased by 4% over the period 2005 – 2016, there was a 12% increase in the number of offices staffed by administration officials (but a 17% drop in post offices staffed by people from outside the administration). Furthermore, the number of sorting centres increased by 14% in the period 2005 - 2016.



³⁹ UPU: Universal Postal Union

⁴⁰ The increase is mainly due to appreciation of the national currency against the SDR. SDR = an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Up to now, SDR 204.2 billion (equivalent to about US\$291 billion) have been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis. The value of the SDR is based on a basket of five currencies (U.S. dollar, Euro, Chinese renminbi, Japanese yen, and British pound).

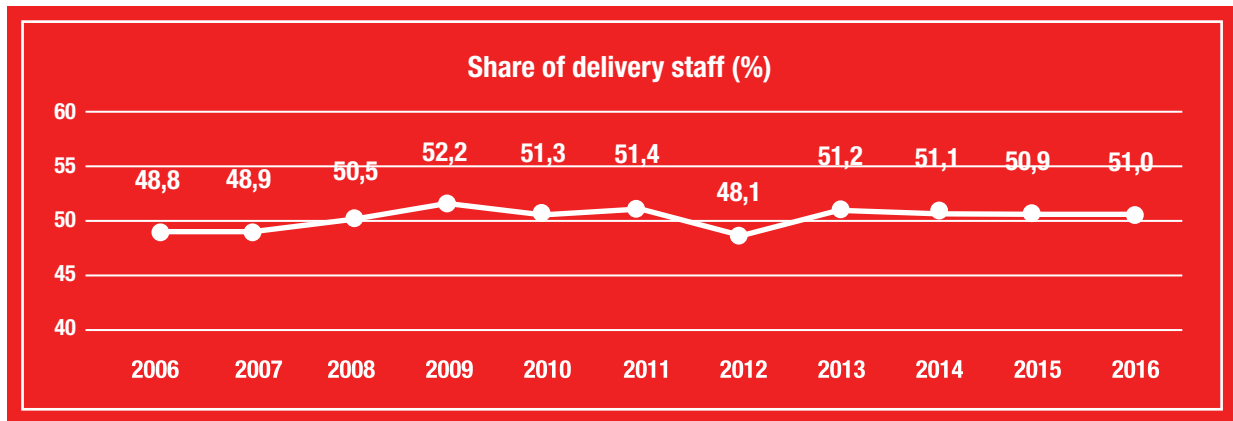
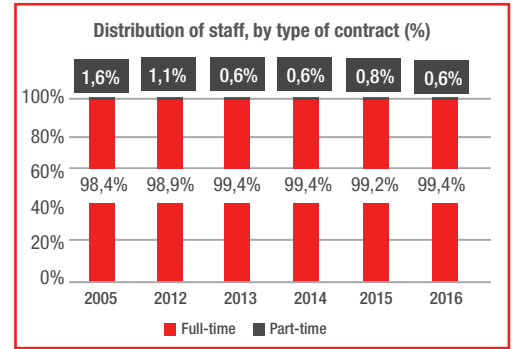
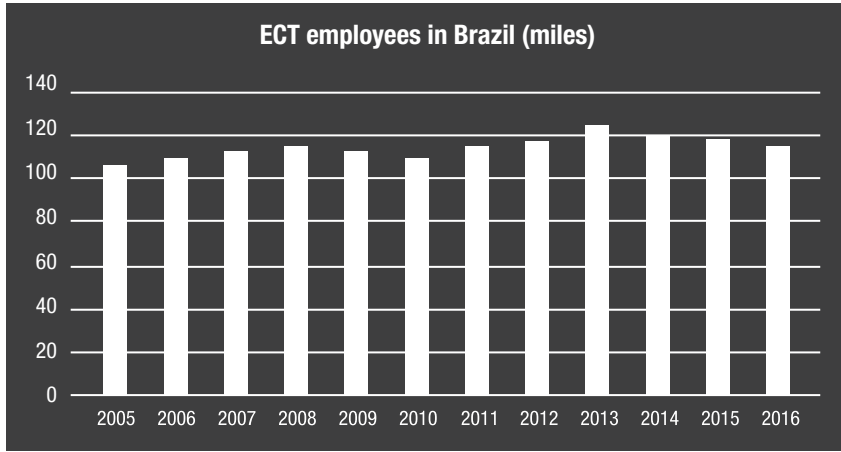


The use of the Correios network, along with the creation of Banco Postal in 2002, has helped to maintain profitability and strengthen Correios' universal service provision. Post offices in danger of being closed down due to lacking profitability continue to operate thanks to the income earned from Banco Postal services. In other outlets, Banco Postal revenues exceed postal revenues. Products and services added since the establishment of Banco Postal include election voting, medicine and schoolbook distribution, e-government, e-commerce and digital certification. Since Correios maintains a monopoly on letter mail and smaller parcels, foreign operators compete directly with Sedex, Correios' express delivery company. No public data is available on private companies' activities.

Delivery targets established by the federal government require Correios to deliver 95% of letters within 5 working days, and 90% within 2 working days. Similar service requirements apply to printed, non-urgent materials. Information on delivery frequencies in rural regions, a standard metric in most large, developing nations, is unavailable for Brazil. Although Correios has one of the highest satisfaction ratings (98%) of public services in the country and an approval rating of around 82% as one of the most reliable public institutions in Brazil, the lack of a strong independent regulator and the absence of consistent quality indicators make it difficult to objectively assess the performance of the services.

Correios is currently developing new technologies focused on mobile solutions for both employees and consumers and exploring the implementation of geocoding quality indicators to reduce incomplete and inaccurate addressing data.

Social aspects



While total staff of Correios in Brazil increased by 10% over the period 2005 - 2016, it has been in constant decline (-8%) since 2013. Contrary to the common trend in major postal service providers, the share of full-time workers, already high in 2005, has increased to reach a 99.4% of total employment. The share of delivery staff has remained constant at around 50%. In 2013, the company included workers representatives in the Administration Board. As regards collective bargaining, solid social dialogue takes place between Correios management and the trade unions, currently represented by FENTECT (Federação Nacional dos Trabalhadores em Empresas dos Correios e Similares) and FINDECT (Federação Interstadual dos Sindicatos dos Trabalhadores e das Trabalhadoras dos Correios). This has resulted in annual national-level collective agreements⁴¹ since 1988. Outside the ECT, there are no collective agreements specific to the sector.

In 2008 the company revised its career and salary plan, adopting a remuneration system based on what it termed a "total remuneration approach". This basically means that the company assumes the complementarity of the various remuneration components, whether statutory benefits, optional or resulting from collective bargaining. In turn, collective agreements have evolved to include

not only salary conditions but also a series of social and health benefits complementing workers' wages (food and purchase vouchers, medical and dental assistance, aid for minors and the disabled, nurseries and babies). Looking at the relationship between base salary and fixed benefits (the chart below) not dependent on specific criteria for their concession for medium-level positions, the high share of fixed benefits with respect to salary stands out, accounting for 23 - 82% in the case of postal agents, 12 - 44% in the case of technicians and 5 - 22% in the case of analysts. This also highlights the major salary differences, often reported by the FENTECT, between medium- and high-level positions.

Despite major advances in social conditions, progress was not devoid of conflicts. In 2014, Postal Union members came out on strike in 13 Brazilian states over the transfer of Brazil Post's healthcare funding system to a new management agency, claiming that it meant new fees for workers. The strikes caused significant delivery delays. To date, the courts have generally backed Correios. However, workers' claims are increasingly numerous and constant.

⁴¹ http://www.fentect.org.br/media/media_acordos/Acordo_Coletivo_2017-2018.pdf

Salaries by position, 2010 ⁴²			
Position (level)	Salary range (R\$)	Most representative salaries (R\$) among staff (%)	Complementary fixed benefits (food and purchase tickets, R\$)
Postal agent (medium)	807-2857	807 (12%); 1089 (11%); 1067 (10%)	659
Postal technician (medium)	1494-5491	1546 (3%), 2327 (1%)	659
Postal analyst (high)	3062-12812	3212 (1%)	659

3 - Social aspects

Trade Unions consider the quality of postal services provided by ECT has been deteriorating due to the lack of investments in the structure and the technology and also working conditions for the employees. There is a fairly large number of complaints from users regarding non-compliance with delivery deadlines.

Regarding social aspects, trade unions have detected that public employment of ECT has been decreasing a lot in recent years (last public employment announcement was held in 2011). On the contrary, what has allowed the levels of employment not to fall in excess according to the statistical data has been the gradual increase of the subcontracted and outsourced labor, especially in the operative area.

Working conditions at ECT leave much to be desired, according to trade unions, especially in the operational area where workers frequently suffer from overwork, unhealthy working environments, outdated equipment and lack of safety. Wages and salaries of postal workers in relation to national labor market are considered to be one of the lowest among the Brazilian state-owned companies. One of the most important attractions has always been the social benefits, especially the health plan but ECT policies in recent years have put these benefits at risk in relation to the method of financing these benefits, charging monthly payments and taxes at the expense of workers and finally causing many workers to resign these benefits.

As regards social dialogue, the unions consider it to be relatively good, although they continue to suffer from some unilateral attitudes on the part of the company.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN CANADA

1 - State of play of the Canadian postal market

Canada has large territory, low population density and extreme climate - these factors very much determine the country's mail and parcel market. The services provided by the state-owned operator, Canada Post [CP], are founded on the notion of Universal Service Obligation, predicated on the maxim that citizens in all regions of the country should be included in having equal access to public services.

Canadian Postal Service Charter | CP's network structure is legally determined by the Canadian Postal Service Charter - a governmental act stipulating service expectations such as percentage of the population covered within a specific distance of a post office. According to the Charter, CP must charge the same price for delivering a letter across Canada, regardless of the distance between origination and delivery points. The operator must deliver mail "five days a week to every Canadian address.", as well. The national postal operator holds a legal monopoly on the delivery of mail, and its competitors must charge at least three times Canada Post's regular rate. Parcel

delivery, on the other hand, operates in a competitive market. Prices are established by the market and they are different based on the distance and location of shipping and delivery points.

The network | The network of CP comprises ~6,200 post offices, of which ~3,700 are corporate ones run directly by the Corporation and significantly more expensive to operate. The remaining 40% are franchises which operate longer hours and generally are more conveniently located. About 880 corporate post offices operate in urban areas and 2,860 in rural areas. Across Canada, the Corporation operates 21 mail processing plants that feed a country-wide network of 485 depots. Approximately 66% of mail volume is processed by the top four mail processing plants. The bottom half handles merely 6% of the volume. Over the years, the Corporation has pursued efforts to consolidate mail volume to its largest facilities.

Rural Moratorium | Closing or conversion of post offices in rural areas, due to financial pressures has been a hot political topic. According to Rural Moratorium

⁴² Gomes Teixeira, T. (2016): Os Correios e as Políticas Governamentais. Universidade Federal da Bahia

enacted in 1994 Canada Post hasn't been allowed to close a rural post office, or convert one into a private, franchised operation. However, along with significant urbanization trend in the rural areas there have emerged recommendations to update the Rural Moratorium to better reflect today's reality of rural Canada and make the operations of CP cost-effective.

Market regulation | In Canada, there is no independent regulator of the postal market. Regulatory oversight is currently limited to government approval of regulated rate changes. No regulatory body provides verification and oversight of the market competitors to ensure that transparent competitive structures are in place. Currently there is no requirement for Canada Post to disclose its financial results (profits and costs, including overheads) split by market segments (business lines). CP's competitors cannot verify whether state-controlled player is not cross-subsidizing its competitive business lines from its exclusive privilege or mail monopoly. There is no possibility to determine whether postal rates both to consumers and businesses are reasonably set so as to cover the costs of the delivery of an efficient postal service. There is absence of regular provision of postal, parcel and courier market intelligence to the Government and other stakeholders, including CP and its competitors.

2 - Market structure

Canada Post product mix | The operations of Canada Post comprise of 4 distinctive segments: Transaction Mail (49% of revenue), Direct Marketing Mail (19%), Parcels (28%) and Other Services (4%). The segments represent varying levels of volume. In 2015 Direct Marketing Mail represented more than half (56%) of the volume but a much smaller portion of revenue, as this segment operates on thinner margins than Transaction Mail. Neighborhood Mail accounts for approximately 40% of all Canada Post volume. Both Neighbourhood Mail and Publication Mail segments are fully exposed to competitive forces. CP's Parcels segment encompasses items that exceed 500 grams and courier items such as Express Lettermail. In the business-to-consumer (B2C) segment Canada Post competes with numerous local and regional courier and delivery companies, as well as multinational players (FedEx and United Parcel Service & DHL). The carrier's parcel service has been growing steadily over the past few years, thanks to the popularity of online shopping. The competitors serve only parcels and they tend to focus on the major urban sectors. FedEx and UPS are not interested in the communities of the North. A very small but growing percentage of parcels and courier products is delivered by Canada Post on behalf of other parcel delivery companies (Purolator – CP's subsidiary, FedEx, UPS and other international carriers), particularly in rural and remote areas covering between 15 to 30% of the Canadian population. In these areas, interliner volume represents between 0.8 to 3.0% of Canada Post's parcel deliveries. Logically, the competitors use CP to deliver their products via CP mail channel, as the extra postage fee for that "last mile" is cheaper than having one's own infrastructure in place.

Market evolution | Similar to other national mail operators, the Canadian national operator's business model is being ruthlessly tested by the postal market evolution. Canada Post is facing shifting demand: mail volumes are declining while parcel volumes are increasing. CP's business has been shifting away from providing traditional "letter-centric" protected monopoly postal service in the direction of providing delivery services in competition with the private sector. The competition is growing: while Transaction Mail enjoys exclusivity and bears government-prescribed service levels, the business value of CP's exclusive privilege in Transaction Mail is shrinking, given the accelerating adoption of non-paper-based digital alternatives by CP's largest institutional customers, alongside aggressive competition in parcels segment, as prices and service levels in that category are determined solely by the market. Canadians, and businesses of all sizes still hold a positive perception of Canada Post brand and its services. The vast majority of survey respondents believe mail is highly important and that Canada will always need postal services, owned and operated as a public service. The views do vary based on the method of delivery. Canadians who receive door-to-door delivery are more satisfied than those who receive mail in community mailboxes. Canada Post has started to feel the heat of peak online shopping periods putting pressure on the parcel segment. In 2017 certain CP pickup locations in Toronto have run out of capacity to process and store incoming items. CP's far-reaching network advantage may diminish over the next few years as Canadians start to accept delivery to locations other than their home addresses in return for lower delivery costs.

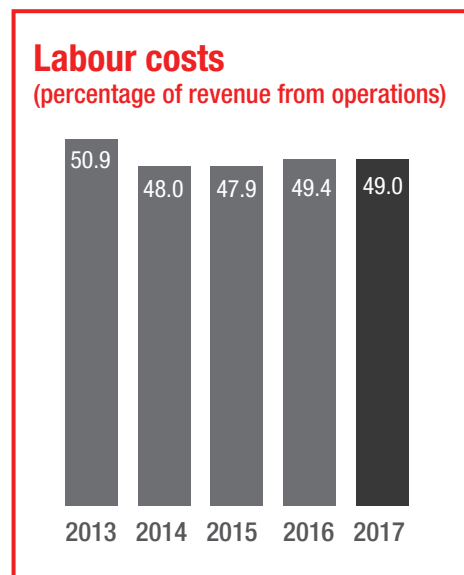
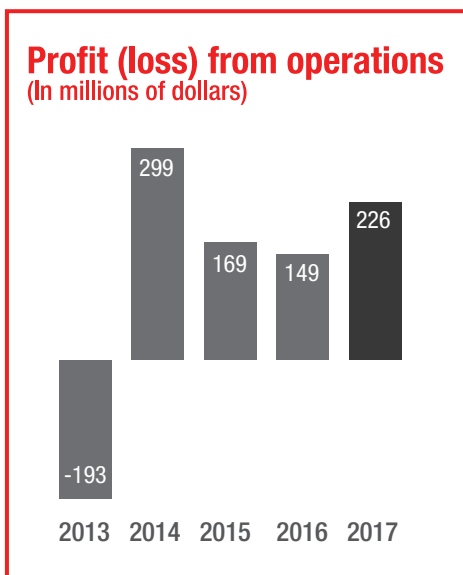
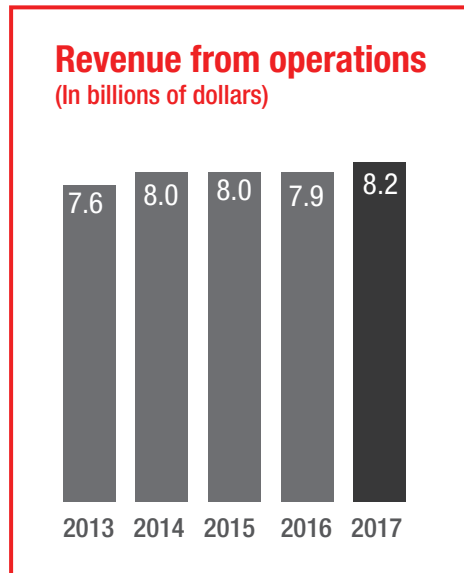
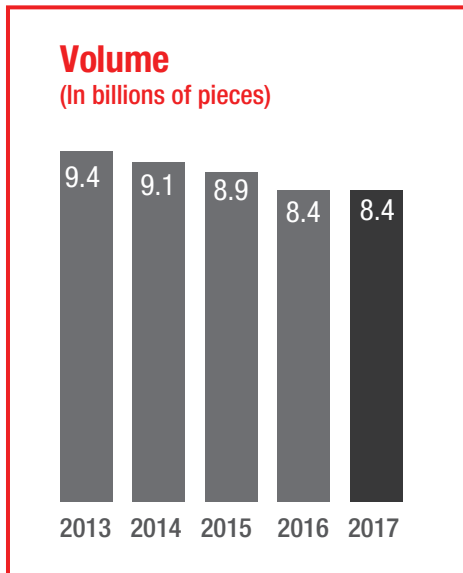
Canada Post realignment process in the period 2011-

2015 | The recent years are described in CP's annual reports as "crucial years in transforming the business from a mail-centric model to a parcel-centric business." The 2011-18 management team, appointed by the Conservative government and led by the CEO Deepak Chopra was noted by the unions for its reflexive adherence to the status quo, refusal to innovate, and pugnacious approach to labor relations. In 2013 the management implemented a Five-Year Action Plan to keep pace with the decline in Transaction Mail and improve the Corporation's profitability. The plan included (1) Door-to-door conversion to community mailboxes; (2) Price increase; (3) Retail store efficiency; (4) Operations streamlining; and (5) Labour cost reduction. The cost-cutting moves faced strong criticism from the unions. CUPW described Chopra's term as "a legacy of failed cuts". Since 70% of CP's expenses are labor costs, the management was said to be targeting opportunities to reduce labor cost as way of reducing Company's overall operating expenses. Mr. Chopra stepped down on March 31, 2018, nearly three years before legal expiry of his contract. The departure is hoped by CUPW to mark an end to cost-cutting at Canada Post and a renewed commitment by the postal agency to maintain the services.

Door-to-door vs community mailboxes | Cancelling the move to community mailboxes away from door-to-door delivery became a hot topic during the 2015 campaign. The Liberals won power with a program that included a promise to review the CP management's decision on pursuing the conversion. Universal access is Canada Post's raison d'être - and among the many possible cost-cutting measures (for instance cutting delivery frequency), ending door-to-door service was particularly detrimental to that policy. The project was suspended "half-way" in November 2015 and the Trudeau's Liberal cabinet placed a moratorium on any future conversions of home delivery to community mailboxes. In 2016 about five million of 15 million Canadian homes got mail directly to their address. However roughly 840 thousand families currently relying on community mailboxes probably will not see their service restored, as such reversal operation would cost CP \$1.2billion a year. It was estimated that in order to achieve that, CP would have to charge as much as \$124 a year per home or alternatively inflate stamp prices by another 50 cents on top of the increases it already needs to make.

CUPW holds the community mailbox delivery de-conversion back to door-to-door model at the bargaining table. As a result of conversion, ~1,200 jobs disappeared but nobody was laid off, as any reductions were absorbed into the normal workforce attrition process. Strangely, polling data suggesting a majority of Canadians (67%) support the idea of shifting everyone to community mail boxes. At the same time over 90% said service should be maintained for the elderly and those with mobility problems.

Canada Post's financial health | Canada Post is required under its charter to be financially self-sustaining, but it is facing financial pressures that threaten its long-term survival. The major shift in the need for postal services paired with competition with private package delivery businesses such as UPS and FedEx have resulted in the deterioration of CP's financial health. Over the last five years, on average, the Corporation has generated a nil income or loss.



Source: Canada Post Corporation Annual Report 2017

Over the past five years, volume reductions have resulted in significant downward pressure on revenue and cash flows. Volume declines in Direct Mail have had less of a negative impact on CP's overall profitability than have declines in Transaction Mail, which generate the highest financial contribution. In lines of business where customer demand is growing (parcels, courier services, Neighborhood Mail), Canada Post is showing net profit, despite going head-to-head with competitors. To make the system sustainable, new revenue growth or significant cost reductions, as well as operational changes are all required. Fixed costs (>80% of the cost base) are likely to continue increasing as the delivery network continues to grow to service newly created addresses. Many of CP's corporate post offices, especially the rural ones, systemically generate net operating loss. Labour costs (\$4.4 billion) account for about 70% of Canada Post overall costs and have been relatively stable due to wage increases and growing benefit costs⁴³.

3 - Social aspects

Evolution of employment | In 2017, Canada Post group of companies employed ~64 thousand people, which are largely unionized. Women comprise roughly a half of mail collection and delivery group. The average age of Canada Post employees falls between 47-49, thus the workforce is aging. Since 2011, CP has reduced its employee headcount by about 10%. The Company estimates that over 16,500 employees retire or leave the Corporation between 2016 to 2020. The structure of staff by function is as follows⁴⁴:

CP employees by type of work	Share in the workforce	Approx Headcount
Mail collection and delivery	35,0%	17 500
Mail processing	26,0%	13 000
Rural and suburban mail delivery	15,0%	7 500
Postmasters and assistants	10,0%	5 000
Supervisory and operations support	7,0%	3 500
Executive, management and non-unionized	5,0%	2 500
Clerical, technical and professional	2,0%	1 000
TOTAL	100,0%	50 000

68% of the Canada Post staff unionized at CUPW work full-time, the remaining 32% are part time. CUPW proposed to create more full-time jobs to deal with extra workload, while CP has been relying more and more on casual labor. Under the collective labor agreement CUPW also represents the casual (temporary) workers. In CUPW's collective agreement there is a clause that the urban mail collection and delivery group should have 78% of employment in full-time mode, but the Company has violated that for 5 years in a row, keeping the level well below that threshold. The Company obliged itself to compensate by adding full-time jobs as people retire, but the percentage has been decreasing on a regular basis. According to CUPW, that issue has created a huge problem.

Trade unions and social dialogue | There are four unions that have five collective agreements with Canada Post: (1) Association of Post Office Officials of Canada (APOC): Supervision of mail processing, mail transportation, mail delivery and sales; (2) Canadian Postmaster and Assistants Association (CPAA): Postal and retail services in rural areas - represents ~5,000 rural workers; (3) Canadian Union of Postal Workers (CUPW). CUPW represents 50,000 postal workers across the country; and (4) Public Service Alliance

of Canada / Union of Postal Communications Employees (PSAC/UPCE): Administrative services, program administration, financial administration, engineering, etc., and supervision of mail processing, transportation, delivery and sales. The majority of unionized workforce (CUPW members) have job security clauses that prevent layoffs after 5 years of tenure and have a job guarantee within a 40km radius. Should the Company be willing to make headcount adjustments, the main options would be attrition and the offering of buyout and severance packages. The agreement with CUPW guards some of the CP's corporate outlets located in urban areas that are not protected by the Rural Moratorium. Closure or conversion into dealerships would require that Canada Post revisits the labor agreement. Given the relative size of labor costs, it would be difficult to improve CP's self-sustainability without impacting labor. CP's ability to resize its labor force is limited by clauses in its collective agreements as negotiated between the management and the unions.

The relationship between management and the mail carriers' union has been described as acrimonious and as a long-standing obstacle to progress. In 2016 there were

⁴³ Benefits provided to its employees represent 40% of salary and in 2016 were 60% higher than competitors (25% share in cost base at the competitors). Canada Post productive labor rate was 45% more than at its market rivals in the private sector (Purolator, UPS and DHL).

⁴⁴ Source: Canada Post in the digital age – Discussion Paper 2016, Task Force for the Canada Post Corporation Review

very public and tense contract talks between Canada Post and CUPW, with the both sides remaining far apart on key issues. Pay discrepancies between rural / suburban mail carriers (paid by the number of parcels delivered) versus urban mail carriers (paid by the hour) have been a contentious issue raised by CUPW and battled for 2 years. The former group (~8,000 people) earn, on average, roughly 30% less. 68% of rural mail collection and delivery staff are women, whereas 65% of urban mail collection and delivery workers are men. The issue was settled in favor of the union side. The dispute involved a 5-month arbitration process. The arbitrator virtually agreed with all CUPW conditions. The settlement features retroactive implementation of pay equity, going back 3 years, with the estimated total cost falling within the perimeter of 250 million Canadian dollars. Other issues on the table involved forced overtime and union demands to bring social issues into the workers' contract with the company. A tentative settlement was reached end-August 2016 and lapsed in December 2017. CUPW are currently in negotiations for a new collective agreement. The Canadian government recently announced that it is going to change some of the labor and financial rules governing Canada Post to create incentives for innovation.

Working conditions | According to the CUPW union, working conditions at Canada Post have deteriorated dramatically, because the system originally entirely based on letter volumes is ill-adapted to absorb the surging flow of parcel volumes. Decline of letter volumes paired with explosion of parcels means that mailmen's rounds are not structured properly to compensate for this. CUPW coined the term "overburdening issue" to describe that change. The new type of work actually resulted in lot more stress and anxiety for the CUPW members. The work-life balance is reported to be very bad now, with the employees working longer hours to complete their rounds, thus having less time for their families. No extra compensations for the extra hours imposed on the rural employees originally led to the pay equity complaint. With the equity issue now settled, the quality of deteriorated working conditions remains on bargaining table.

Employee retention rate is described by CUPW as horrible. The urban section is hiring but it is unable to retain its recruits. The starting wage level, imposed by the previous Conservative government, is very low in some of the major communities. Starting per-hour wage rate is 19 Canadian dollars - in many communities, young people can earn that or more in other industries, hence there is no incentive to stay. The Company does hire extra casual labor to deal with the extra volumes. These were a challenge traditionally during Christmas, but the surge of online shopping has created other peak commercial periods. For example, volume-wise, August 2017 was comparable to Christmas 2015, because people started ordering supplies for the children returning to school - which means big parcel delivery challenge through September. The emergence of non-traditional peak commercial periods affects the staffing process, as now Canada Post has to hire temporary workers in different times of the year, not just Christmas.

4 - Position of national trade unions on the economic and social aspects of the postal services evolution

Operations streamlining | Upstream, any restructuring of Canada Post outlet locations in a way that would affect its coverage of the population would require a change to the Canadian Postal Service Charter. The national operator also had to accommodate parcel growth, which has been a key focus in recent years. Anticipating a higher volume of deliveries around peak online shopping time, CP hires ~3,000 additional seasonal workers and works with locations to maximize storage space. The Company is exploring options, including a drive-through postal office and the installation of parcel lockers in apartments and condos.

Pricing | A user-pay approach (e.g. distance-based, speed of service) might be a reasonable change for Canada Post to generate more revenue, however it would require an amendment to the Canadian Postal Service Charter. There is a risk, however, that if Canada Post increases the rates for its large institutional clients, who themselves facing ongoing cost optimization challenges, they will likely redirect their business to lower cost alternatives, should they experience additional cost pressure.

Alternative sources of revenue | Innovation has been historically a weak point for Canada Post. To become sustainable, CP must innovate, adjusting its model for a changing world, not only to cut costs, but also to improve service. The latest Liberal government promised to announce changes in running Canada Post by mid-2017 and commissioned a review of the operator.

Union's standpoint | CUPW is doubtful of the difficult financial situation of Canada Post; however, all unions support the concept that Canada Post should be financially sustainable unless it is required to provide services below cost. From a service delivery perspective, the majority of the CUPW union members support door-to-door delivery as opposed to the conversion to community mailboxes. They are also generally against the closure or franchising of rural post office as these rural post offices are sometimes the only presence of the federal government in their communities. All unions also support delivery five days a week, arguing that it is useful to small businesses and for distributing parcels. Unions are consistent in their support of non-core sources of revenue. There is support for postal banking as a means to promote financial inclusion and economic development. The CUPW union has been an advocate of introducing postal banking services as an alternative to payday loans. The increasing use of remittance services, which allow foreign workers to transfer money to their home country, reportedly has also created a revenue opportunity for CP. CUPW advocated instituting financial services at the postal retail counters, but the union did not reach any agreement on how that project would look like in practice, because Canada Post is said to have declined providing any details to start from.

CUPW has managed to advance grocery delivery solution into pilot project, to be launched by the end of 2018. Other ideas advertised by CUPW were:

1. regular checking on seniors and the disabled and their homes, for a small fee;

2. bringing more government services to smaller communities. Some such services were abandoned by the government over the years. This were, for instance, passport issuance and services to access government information on community projects; CUPW advocates turning the rural postal offices into community hubs, i.e. social meeting places for community events on a regular basis, for the public to have a place to provide different community services, whether they be pop-up retail services, or meeting halls to discuss community issues, or any other events that a community would like to use the postal premises for. As each given community has their own needs and requests, CUPW would like them to be able to decide how the CP facilities are used - whether for financial services or social meeting places or hold community events on a regular basis.

3. extending broadband service into rural areas of far North where the service is far limited;

4. Environment-friendly initiatives: (i) Developing a network of charging stations for electric vehicles at post offices. This would provide overnight charging conditions, especially for tourists travelling long distances. (ii) CUPW demands that Canada Post convert its fleet of vehicles to electric. (iii) CUPW also pursued the idea of retrofitting all the postal facilities to make them more energy-efficient.

All the ideas advocated by CUPW, except the grocery project, have been met with management's refusal. CUPW is convinced that the proposed options would generate revenue and protect its members' jobs. CUPW maintains that the good ideas are there, but "the old guard" has not implemented any of them, resisting any change proposed by the unions. The union hopes that it is the Canadian government that could instruct the CP management to test different ideas.

CASE STUDY: THE LIBERALIZATION OF FRENCH POSTAL SERVICES

"In 2020, you will not recognize La Poste, but you will recognize its values". Made in 2008, this statement by Philippe Wahl, chairman of La Poste, reveals the deep transformation the company has undergone in recent years. Since 2003, and the establishment of its first strategic plan ("Performance & Convergence") aimed at preparing the group for the liberalization of the French & European postal markets, La Poste has been progressively transformed from a public service institution into a diversified global market player focused on international expansion, innovative services and a high level of competitiveness. In 2017, the Group's turnover reached €24.1 billion, 11% more than in 2013, despite a continuous decline in the volume of its traditional postal activities⁴⁵. This transformation has been achieved through several means: external acquisitions, investments, modernization of La Poste facilities, changes in working methods but also through an almost non-stop series of restructuring & rationalization programmes. All this has not gone without social consequences. Restructuring has resulted in the closure of numerous post offices, deep cuts in employment as well as deteriorating working conditions. Furthermore, these changes have also affected the very nature of a postman's work, bringing with it the risk of progressively loosening the social tie between La Poste and the population – a social tie upon which the company is basing its future development ...

1. Postal services liberalization

In France, the complete liberalization of the postal market, effective as of 1 January 2011, was achieved via a series of laws, the latest of which was the Postal Law of 9 February 2010. According to these laws:

- The Universal Service Obligation is defined as the collection and delivery of postal items to all points in the country at affordable prices and with a determined quality, 6 days a week.

- The regulation applies to activities related to the clearance, sorting, transport and distribution of postal items on regular rounds. Operators wishing to provide these services must obtain an authorization from ARCEP, the French postal regulator. These authorizations are granted for ten years to

any provider offering guarantees in terms of confidentiality, quality of service and the handling of complaints.

- Since June 2006, ARCEP has issued 78 authorizations. As of 31 December 2017, apart from La Poste, 42 licensed operators were active in the postal market: 34 postal service providers for domestic mail and 8 for outgoing cross-border mail.

- Express delivery is not covered by the USO, contrary to non-addressed advertisement and press delivery (presse par portage). Operators providing express delivery (mail and parcels), the distribution of non-addressed publicity and press delivery services are not subject to any authorization.

⁴⁵ The group's accumulated net result for the last five years exceeds €3.7 billion.

The 2010 Postal Law designated La Poste as the universal service provider (USP) for a period of 15 years. In addition to handling mail and parcels, 3 additional public service missions have been entrusted to the USP:

- Regional planning and development (legal obligation to run 17,000 contact points⁴⁶ and to ensure a presence in priority areas such as rural, underprivileged and mountain areas);
- Banking accessibility (the USP is required to allow any individual to open a Livret A savings account and to handle cash withdrawals or deposits (min. €1.50) free of charge);
- Press transport and delivery (distribution of press and periodicals: 6 days a week, throughout the country, at affordable prices (regulated)).

2. Market structure and market evolution

a. Market evolution

As in other countries, traditional regulated activities have for many years been facing a continuous decline, in terms of both volumes and revenues. According to ARCEP, French postal operators distributed a total of 12.8 billion addressed postal items in 2016 (mail, parcels excluding express, press, etc.), for an income of €10.3 billion. These levels are the lowest since 2004. Compared to 2012, the overall volume decreased by 20% and income by 5%. Except traditional parcel delivery, all segments are following the same trend:

- In 2016, the direct mail segment witnessed a drop-in volume for the 10th consecutive year (-26.4% when compared to 2009). Revenues decreased 7.9% within this period.
- Addressed advertising mail also continued its decline, even if at a slower rate (-2.4% in 2016, compared to -8.0% in 2015 and -9.7% in 2014).
- Unaddressed advertising volumes have remained more or less steady for the last 8 years (21.5 billion items in 2016), while traditional press delivery volumes have dropped by 12%.
- The regulated parcel delivery market is the only segment registering growth. In 2017, volumes grew by 8.6%. Revenue from parcels distributed in France by authorized operators reached €1.7 billion (17.2% of revenue from postal items distributed in France).

In the meantime, the non-regulated express and on-time delivery markets (mail & parcels), supported by the rise of e-commerce and the importance of BtoC flows, is registering steady growth, reflecting the fact that the European e-commerce sector is growing at a rate of 15% per year. In 2016, nearly 900 million items were transported, representing a turnover of about €6.6 billion. According to La Poste, the BtoC market grew by 9.5% in 2017. This trend is expected to continue. According to a study conducted by Xerfi, more than 1 billion items are expected to be transported annually by 2020.

b. Competition

Despite liberalization, competition in the French postal sectors, except in such non-regulated markets as express and on-time delivery, remains rather weak.

- In the addressed mail segment, former monopolist La Poste still controls a lion's share of the market. Adreco is the only other operator holding an ARCEP authorization for regulated activities throughout the country. Its market share however remains low.
- Other licensed operators such as Hopps, Neopress Direct or TCS compete with La Poste in specific markets (press delivery, advertising mail, industrial mailing, parcels, etc.). SMEs operating in specific territories and offering various postal services (including the distribution of mail items) are also present on a regional scale.
- With regard to cross-border mail, the main operators are, alongside La Poste, foreign traditional operators or their subsidiaries. French private operators with outgoing cross-border mail activities are IMX-France, Op-Mail Solutions, Mail n 'Post and Postal Stock Exchange.

It comes as no surprise that the most competitive market is the parcel market (express and non-express):

- For parcels weighing less than 30 kg (both domestic and export, excluding express), La Poste (Chronopost, Colissimo) claims to hold a 60% market share, handling 318 million parcels in 2017 and achieving a turnover of €1,748 million (76% of transactions are with business). In addition to La Poste, other players such as Colis Privés, Adrexo or the distribution subsidiaries of distance selling groups (Sogep, Mondial Relay) are also present on the market. Their customers are first and foremost distance selling retailers.
- The La Poste group is also the market leader in the non-regulated French express market, via its subsidiaries Chronopost, Colissimo and DPD. In this market, however, the group faces fierce competition from different types of operators such as global integrated delivery companies (Fedex, DHL, TNT), Pan-European or regional companies (Kiala, GLS) and, last but not least, e-commerce companies (Amazon for example is La Poste's leading customer but may also soon become its main competitor).

3. The adaptation strategy of the La Poste group

In the face of the decline of its traditional activities and confronted with fierce competition on expanding markets, La Poste has had to adapt its strategy to new economic realities as well as to a changing societal and cultural environment (digitalisation, growing environmental concerns, development of the silver economy, etc.). Transformed into a public limited corporation (plc) in 2010 and financially backed by the French State, the company has since based its development on 4 strategic pillars: the diversification of its activities and the development of its parcel business; international expansion; the offering of new kind of services; and, last but not least, the rationalization and restructuring of its postal activities.

⁴⁶ In France, the number of postal points has been stable for the last 40 years (17 000).

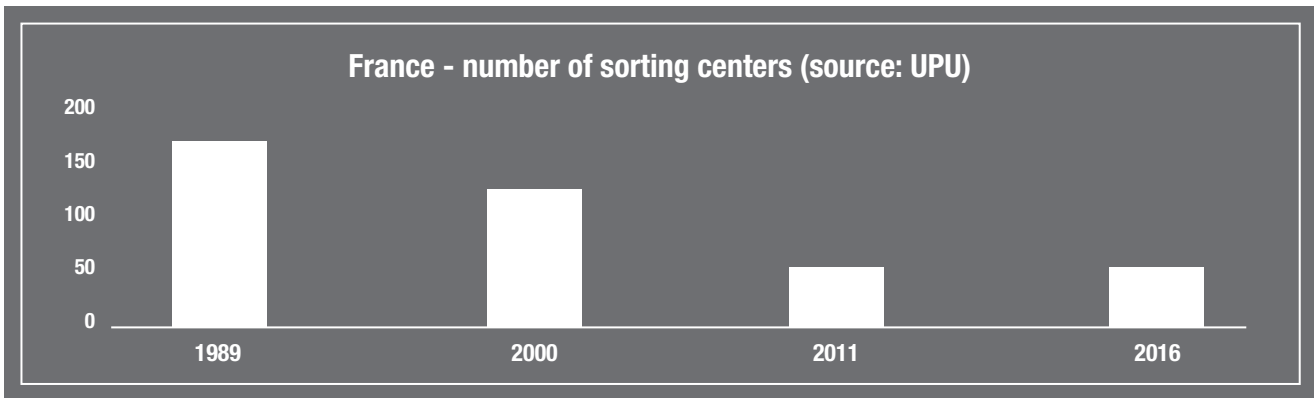
- In 2017, activities of the Services–Mail–Parcels business unit accounted for 46.1% of the group’s turnover, against more than 50% in 2012. The group is constantly developing new activities. The newly created “Digital services” business unit, which provides digital solutions for households and businesses, already accounts for 2.2% of turnover. The fastest growing segment is however the express and delivery business which accounts for 28% of the group’s turnover and constantly achieves annual growth rates exceeding 10%.

- Despite being market leader in France, Geopost activities are mainly orientated towards the European market (activities outside France account for 77% of Geopost/DPD revenues). La Poste has managed to considerably expand its European express delivery network through investments in new technologies and a series of external acquisitions (Seur, Exapaq, Pickup Services Siodemka among others). DPD is now the second-largest operator in Europe behind Deutsche Post DHL, with a market share estimated at 12.9% (with leading positions on several European markets such as Germany, UK, France, Poland and Portugal). La Poste is also investing outside Europe (Belarus, Kazakhstan, Turkey, China but also in Africa, South and North America), with the aim of becoming a major player in the global e-commerce supply chain. In total, about a quarter of La Poste turnover is already realized on foreign markets.

- The La Poste group has developed a wide range of new services. This concerns all business units but is particularly marked in traditional La Poste activities, where the group is trying to take advantage of the opportunities offered by the growing “silver economy” through its network of postal agencies and postmen (77 000 workers). These new services include for example assistance to older people

(“Look after my parents” service, 3400 signed contracts in 2016), home deliveries of errands, meals or medicines, technical or administrative help (help with tax return forms, installation of TV decoders). In recent years, La Poste has also opened 300 driving theory test centres at the request of the French government. These centres have attracted almost 180,000 candidates due to the moderate pricing. In 2017, these new services La Poste generated €155 million (€84 million for the Services-Mail-Parcels business unit and €71 million for the Silver Economy business unit).

- Finally, the La Poste group, in the face of increased cost pressure and greater competition, has rationalized and restructured its traditional postal activities in depth, restructuring and pruning its distribution and sorting network (closure of numerous sorting centres, replacement by automatized sorting facilities), closing numerous post offices or replacing them by postal points in supermarkets or retail stores (in total, 6700 post offices have replaced by postal points since 2002), and removing yellow post boxes (-10% since 2000)⁴⁷. All this has led to swingeing cuts in employment, with the total La Poste headcount dropping from 325 000 in 2002 to 253 000 in 2017, i.e. a reduction of 22%. The group has also introduced major changes in work organization: introduction of twice-a-day deliveries (in order to increase the delivery ratio), changes in working time (later deliveries, whole working day instead of workload-based working time), introduction of geo-routing and time objectives, increased flexibility, changing geographical assignments of postmen based on workload and workforce availability. Last but not least, during peak periods, the company increasingly resorts to outsourcing (+50% between 2015 and 2017) and the hiring of temporary agency workers.



4. Social aspects

As already mentioned, the transformation of La Poste has led to a major reduction in its workforce (-72 000 people within 15 years). According to the three trade union organizations interviewed in the context of this study (CFDT, CGT, FO), this reduction was however achieved without collective redundancies through natural wastage (retirement, early retirement schemes). Nevertheless, the

restructuring of La Poste is said (according to FO and CGT) to have had some negative social consequences, especially with regard to working conditions.

In 2012, after a series of serious incidents (19 suicides or attempted suicides involving La Poste workers were reported, including the suicides of 2 postmen at their workplaces), La Poste announced the setting-

⁴⁷ 136 000 letter boxes in 2016 against 149 000 in 1999 (source: UPU)

up of a special commission (La Commission du grand dialogue) tasked with studying the evolution of working life and working conditions within the company. The commission's final report identified several problems, corroborated by the deterioration of several indicators: growing absenteeism, a rise in the number of accidents and of employees declared unfit for work. An employee survey similarly revealed a clear deterioration of the social climate within the company. The reported problems were mainly due to:

- The pace and high number of successive restructuring measures conducted at La Poste in recent years (one every two years). The survey revealed that 59% of workers considered that the company was changing too rapidly. The successive restructuring and rationalization measures have heightened a feeling of stress and insecurity among the workers.
- Changes in working organization and working culture, deeply impacting the nature of the work performed by La Poste employees, in all La Poste business units. For postmen for example, the decrease in mail and increase in parcel deliveries have led to higher volumes being handled.
- Increased work pressure, due to the fast and high reduction of headcount. According to CGT and FO, increased work pressure is also linked to the introduction of a new (performance-driven) company culture, measures such as time and delivery targets, geo-routing, the automatization of sorting, the extension of delivery routes, etc.
- A lack of dialogue at the local level, with changes being implemented without consulting the workers.

According to FO and CGT, all this has led to a growing demotivation among workers as well as to a loss of identification not only with their jobs but also with their social role (no more time for customer contacts) – at a time when La Poste is trying to build on the ties between postmen and the population to develop new services. These two organisations also point out a deterioration in career paths as well as in employment terms and conditions:

- La Poste stopped assigning civil-servant status to new-hires as early as 1993. While most trade union organisations have accepted this evolution, they are fighting to maintain established employment rights and working conditions, even for new-hires.

- Liberalisation is however putting increased pressure on postal sector wages, a development also witnessed at La Poste. Wages are rising slower than before. New job categories featuring worse conditions have been introduced, such as assistant or auxiliary mail deliverers. According to CGT, remuneration conditions may also vary within the group, being lower in some of La Poste's subsidiaries (Chronopost, DPD). Last but not least, the use of alternative forms of employment has also been reported at some La Poste subcontractors (mini-jobs, self-employment, part-time). This is not surprising, as these companies often compete with alternative operators with usually lower terms and conditions. Following the adoption of the "Grand dialogue" commission report, several agreements aimed at improving the social climate at La Poste have been signed with trade unions. La Poste has introduced new measures aimed at, among others, slowing down restructuring measures, increasing workforce availability by hiring 5000 new employees, giving precedence to internal mobility, improving access to qualifying courses and training (80% of workers to be trained every year, 100% over 2 years, with an average 100 hours of training for each postman over 5 years), improving safety and health at work and developing new career paths within and between business units. In the meantime, the first employment and skills forecasting agreement (GPEC) has also been introduced. Winding up, the picture remains mixed. While CFDT agrees that the new measures have helped improve working conditions, CGT and FO point to the difficulties encountered in changing mentalities and that much remains to be done to put the social climate at La Poste back on track.

CASE STUDY:

THE LIBERALIZATION OF POSTAL SERVICES IN JAPAN

Confronted with the forthcoming divestment / privatization of its banking and insurance activities, the Japan Post group is at a cornerstone in its history. Facing a decrease in volumes in its de facto protected mail market (and less customers who come to the counters), the group is trying to further expand in the very competitive parcel market, characterized by high cost pressure, high consumer expectations but also increasing labour shortages and difficult working conditions.

Under these difficult circumstances, this report exposes the development strategy of Japan Post as well as their impact on workers of the Japan's postal sector.

1. Postal services liberalization

In contrast to privatization projects in Europe, the Japanese postal reform was not directed primarily towards introducing greater competition into the postal market but rather at diversifying the huge assets of the Postal Savings Bank and the Postal Life Insurance businesses. Indeed, by the end of the last century, the Japanese Post Office had grown to become one of the world's largest financial institutions. By 2000, the company had 260 trillion yen in deposits, accounting for close to 40% of total Japanese household savings. Postal life insurance had also expanded: peaking in 2002, its share of policies for Japanese individuals exceeded 30%. The liberalization and privatization of Japan Post was seen as a solution to reduce government debt, which at the time weighed down on the already weak economy. It was also considered as an opportunity to increase the efficiency of capital markets, and thus increase Japan's attractiveness for foreign investors, as well as to extend the service spectrum of Japan Post and its competitiveness in global markets.

Liberalization of the postal sector started at the beginning of the century and occurred in several stages:

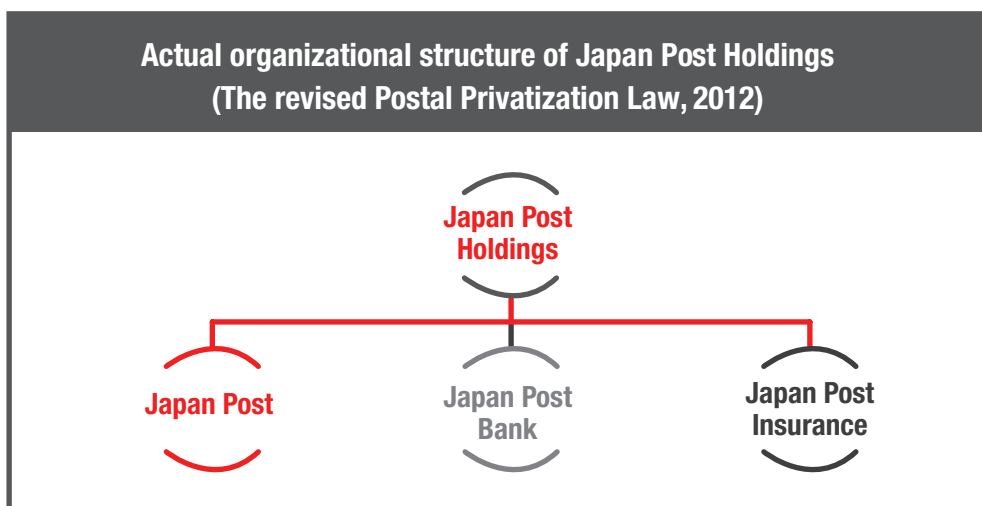
- In 2002, the new Mail Delivery Law allowed some limited competition by suppressing the reserved area and introducing two types of licences: the "general correspondence" licence and the "special correspondence" licence. The law enables private companies to enter the market. At the same time, the law provided for a universal service obligation (USO) for postal service providers, vaguely defined as an obligation "to promote public welfare by the provision of postal services at the lowest possible rates, on a nationwide scale and in a manner fair to all". In Japan, the universal service provider or USP (Japan Post), as with other potential holders of a general correspondence licence, is obliged to provide 6-days-a-week deliveries, at a uniform rate for letters and postcards, and all with a maximum routing time of 3 days.

Type of licence	Type of services allowed	Conditions for obtaining the licence
General correspondence delivery	all types of correspondence, including the service to deliver (within 3 days) correspondence items within the length, width, and thickness of 40 cm, 30 cm, and 3cm respectively and which weighs 250 g or less.	(1) 6 days a week delivery; (2) 100 000 own mailboxes; (3) applying standards and regulated tariffs set by the MIC
Special correspondence delivery	delivery of correspondence items, within 3 hours, at a rate exceeding the regulated tariffs (and not less than 800 yen), with the length, width, and thickness adding up to 73 cm or more or which weighs over 4 kg	(1) ability to protect the confidentiality of correspondence; (2) appropriate capacities and financial sustainability
Parcel and non - correspondence mail (direct mails, books, catalogues, magazines)	Already open competition before 2002	

- In the meantime, the Japanese government established Japan Post as a public corporation staffed by civil servants and supervised by the Ministry of Internal Affairs and Communication (MIC). In 2003, its activities were split into 4 new operating companies, all controlled by the state-owned holding Japan Post Holdings Company: Japan Post Network (operates the network of post offices), Japan Post Services (delivery), Japan Post Bank and Japan Post Insurance. In 2012, Japan Post Services and Japan Post

Network merged to become Japan Post Co. The objective pursued by the government was:

- o The complete divestment of its shares in Japan Post Bank and Japan Post Insurance and a reduction of its stakes to 1/3rd in Japan Post Holdings by 2017;
- o The complete privatization of the holding company (refocused on postal services and network operations) after 1 April 2017.



A hot political topic, the privatization of Japan Post was delayed several times. Finally, the Japanese government floated Japan Post on the stock market in 2015, selling 11% of its shares in Japan Post Bank, Japan Post Insurance and the parent Holdings company for a total of 1.19 trillion yen⁴⁸. In September 2017, the government launched a follow-on sale of about 1 million of its shares in Japan Post Holdings (equivalent to 22% of the outstanding stock), raising about 1.3 trillion yen (\$12.1 billion). The income was used for the financial resources for reconstruction of the Great East Japan Earthquake happened in 2011.

2. Market structure and market evolution

Even if theoretically the legislation has suppressed the reserved area of the USO, Japan Post's substantive monopole for correspondence letters under ¥800 still remains, as the conditions for obtaining the "general correspondence" license were impossible to meet. The situation was however different for the special correspondence licence: 510 companies were said to have entered this market by March 2017. "Special correspondence delivery" however accounts for only a very small share of the total letter post. According to a study made by Ecorys in 2008, Yamato, the parcel market leader and the company seen as most likely to obtain the licence for "general correspondence", refused to enter the market, considering the licence conditions impossible to meet. At the same time, "Sagawa Express" (another country-wide parcel operator) estimated that the building of a network of over 100,000 post boxes to comply with the rules (...) would cost 11.1 billion yen and require annual maintenance spending of 1.1 billion yen".

Japan Post faces a decrease of volumes on its monopoly correspondence market. The mail volume has dipped 2-3% every year after peaking in FY2001 with 26.3 billion items. There is no doubt that changes of Japan's social structure, digitalization in other words lay in the background of the decrease. On the other hand, postal services face

increased competition on non-USO markets. Alternative operators are strong competitors for Japan Post, since they can legally deliver commercial leaflets into private mail drops, and thereby deprive demand for direct mail. The cross-border express delivery is mostly dominated by global players like UPS, FedEx, DHL and TNT. Together, they hold a total of 70% of the market shares. The growth on the parcel market is expected to grow, which growth is stimulated by e-commerce, and on which Japan Post tries to extend. On the other hand, competition is fierce with other companies in the parcel market in reality.

a.USO correspondence letter market

Japan Post operates its business through about 24 000 post offices. The group owns 180 000 street post boxes. Their numbers have been stable over the last decade (numbers of post offices and post boxes have diminished respectively by 0.01% and 6% since 2006). In 2017, Japan Post handled a total of 17,2 million mail items (around 47% of them were 1st class mail⁴⁹, 38% 2nd class mail⁵⁰, the rest being third-⁵¹ and fourth-class mail⁵²). This represents a decrease of about 27% when compared to 2006 when letter post accounted for 89% of Japan Post Services turnover. In 2017, this category accounted for around 70% of Japan Post Co. Postal and Domestic Logistics Business Segment's turnover.

⁴⁸ \$11.6bn

⁴⁹ sealed letters, regular size and irregular size

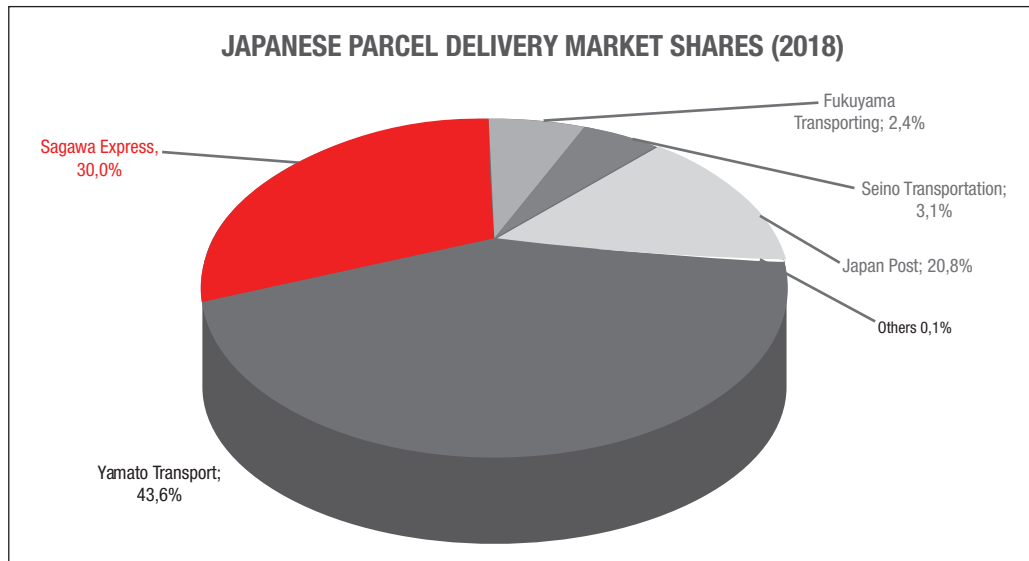
⁵⁰ standard postcards and reply-paid postcards

⁵¹ periodical publications: newspapers, publications issued by the organizations promoting the welfare of persons with disabilities

⁵² reduced-rate or free postage category for materials associated with public service or welfare

b. The parcel market

In 2017, Japan was the world's third-largest parcel shipping market behind China and the U.S.⁵³. As in other countries, the market is experiencing strong growth (+12% on average during the last 5 years), fuelled by competition among major online shopping companies to win customers by offering more convenient and rapid services, including free shipping for volume purchases and premium-service customers. In Japan, 83,5% of the population is said to use internet, while 38% of people declare that they shop online.



Yamato and Sagawa are the market leaders, with respective shares of 44% and 30%. Japan Post is the third-largest operator with almost 21% of the market. The national historical operator has recently managed to gain ground as the e-commerce explosion pushes its understaffed rivals to raise rates and limit package volumes (In 2015, Japan Post had a market share of just 13%).

- Yamato and Sagawa face major labour shortages, in a context of negative demographics, a plummeting working-age population and a historically low unemployment rate (2.8% in 2017). Aiming to ease the growing burden on their delivery and collection staff, both shippers have increased their prices for the first time in 25 years and capped the number of parcels carried. They have also started turning down shipments considered to be unprofitable.

- In the meantime, Japan Post has picked up cost-conscious clients such as small and midsize businesses leery of those hikes. In March 2018, the USP increased retail and corporate rates by an average of 12%. This is much less than the 30-40% hikes some corporate clients faced elsewhere. Japan Post expects roughly 9% volume growth in 2018, while Yamato plans on a 4% decrease and Sagawa expects volumes to remain stable⁵⁴.

Labour shortages and cost pressure are a mutual problem for all operators. In Japan, distribution costs are very low by international standards. According to figures from the Japan Institute of Logistics Systems, they amount to just 5% of total sales for the manufacturing, wholesale, and retailing industries in Japan, compared with 9% in the United States. Last year, Yamato had difficulties paying its 60,000 employees for overtime. Even Japan Post is hiving

off more and more of its business to contract couriers. Meanwhile, working conditions in the sector are said to be very difficult. Chronically long and often irregular working hours, plus relatively low wages, are turning potential workers away from the delivery business. In 2017, the ratio of job openings to job seekers in the professional driver category, including truck drivers, was 2.68 — nearly double the average across industries. It is estimated that the industry will be short of 100,000 drivers in 2020⁵⁵.

3. The adaptation strategy of Japan Post, the historical operator: Japan Post

The Japanese historical postal operator faces multiple challenges. The first is obviously the forthcoming privatization of its banking and insurance businesses. These two activities are historical pillars of Japan's postal services account together for over 75% of the Group's consolidated income and secure sound financial consistency. But it is difficult to secure the profit by decrease of long-term interest and negative interest policy by Bank of Japan. On the other hand, whether Japan Post is shifting to the booming parcel market, given the decrease of mail volume, it confronts to a difficult environment, characterized by serious labor shortages and how it shifts smoothly to secure appropriate service operations and working hours. In this context, Japan Post foresees a strengthening of its business model through a modernization of its postal network and services while trying to further develop on the parcel market and to optimize each operation at both national and international levels.

⁵³ Source Pitney Bowes

⁵⁴ Source: Japan Post

⁵⁵ Source: The Japan Times

Modernization of postal services and postal network

- The group unveiled FY2018-FY2020 mid-term business plan aims at improving sales productivity/ efficiency of counter operation. As a pillar of the basic policies of each service, it sets out “we go forward with communities to make good use of the post office network by maintaining and enforcing unique and diverse post offices to meet the communities’ needs”

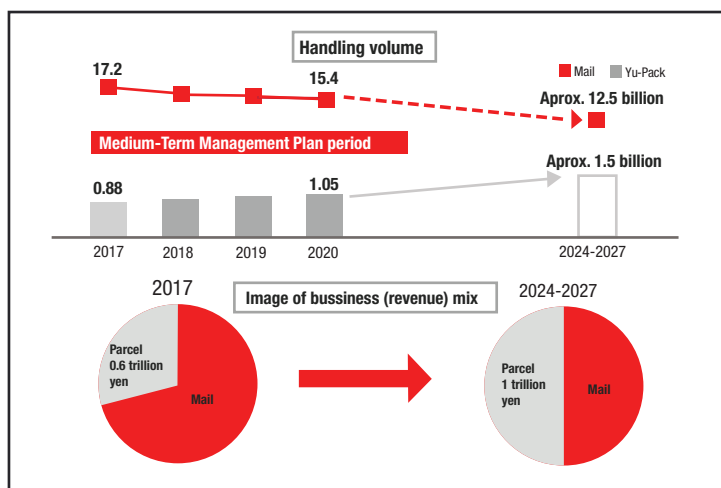
- In 2017, Japan Post launched “the Post Office Watch over Service”, which assists elderly people and create community-based services, making good use of the post office network and well-developing the products and services. In addition, post offices provide office work entrusted by local municipalities to respond depopulation.

- Automated driving test is ongoing. Japan Post conducted a trial of self-driving delivery cars on public roads in Tokyo in March 2018, with an aim of introducing a fleet of the vehicles by 2020 to cope with driver shortages. The company aims to eventually use self-driving vehicles for deliveries between post offices.

- In 2017, Japan Post launched its first open-innovation programme, through which efforts are being made to utilize drone delivery, optimize delivery routes using AI, introduce a parcel storage service, and make use of mobile infrastructure to find lost items using postal service vehicles.

•Further expansion on the parcel market:

Japan Post is conducting a comprehensive review of its services and operations, aimed at improving convenience and productivity (through for example the active use of IoT and new technologies such as AI and driverless vehicles. As Japan’s workforce is decreasing, it is shifting management resources to the growing parcel field as it faces, like other competing market players, to meet labor shortages. By 2024-2027, the group wants to increase the ratio of expenses of the revenues in parcels from 30% to 50%.



- International expansion:** In 2015, the Japan Post Group acquired Toll Holdings, headquartered in Australia. This company provides mail forwarding, express deliveries, logistics, and other services. It employs approximately 40,000 people at 1,200 locations more than 50 countries. The combined company has since grown into the 5th largest delivery services company in the world after FedEx. Prior to the takeover of Toll Holdings, Japan Post made a business tie-up with Lenton Group (Hong Kong), a subsidiary of La Poste whose revenue was ranked 6th in 2014.

4. Social aspects

Japan Post Group is the working place for 430,000 (making it the country’s largest employer), over half of the employee, more than 200,000 are part-timers. Japan Post employs about 190,000 employees, which covers most of the employees. The privatization and split off the postal services in 2007 brought overwork and unnecessary jobs and led to downgrading the services for customers and citizens. In addition, various business regulations continued even after privatization, and it unable Japan Post to strengthen the business base which should have realized after privatization and brought unfair competition with private companies.

After privatization, Japan Postal Group Union (JPGU) a unified trade union has been created to realize postal reform by representing workers in Japan Post Group and has been working hard to get the collective power. As a result, the revised postal privatization law in 2012 brought integrated three postal services, obligated financial universal service for Japan Post Bank and Japan Post Insurance, stated how to hold the share. The revised law enables to build business base for healthy growth.

The declining birth rate and the aging of society are rapidly advancing, and the shortage of workers is becoming a major problem. Also, about 40% of all workers are non-regular and temporary workers in unstable employment, and the expansion and fix of equal society is becoming a social problem. As a mission of trade unions, efforts to create quality jobs and to narrow the gap are great challenges.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN NEW ZEALAND

In the 1970s and '80s, New Zealand went through a severe and long-lasting economic recession, resulting in inflation, skyrocketing unemployment, deepening public debt and wage and price freezes. In 1984, in response to this situation, the newly elected Labour government decided to put an end to the strongly interventionist and protectionist policy of the former conservative government, initiating one of the most sweeping policy reversals in the country's history based on deregulation, market-led restructuring and the privatization of public services. The government also reformed the labour market (Employment Contracts Act 1991) and put an end to compulsory unionism, with trade unions losing their exclusive right to represent workers.

Up to 1984, New Zealand Post Office was the monopoly state provider of telecommunications and postal services, including the Post Office Savings Bank, but had suffered from under-investment. The postal side was losing \$20m a year, a sum forecast to increase. In 1986, the SOE Act led to the creation of New Zealand Post Limited (NZ Post), Telecom Corporation of New Zealand and PostBank Limited on 1 April 1987. While Telecom and PostBank were later privatized, NZ Post remains 100% state-owned.

The New Zealand postal sector was only liberalized in 1998. Since then, NZ Post has continuously sought to adapt to new market realities and transform its business model, moving from a public service company to a market leader in the competitive parcel delivery industry.

1. The liberalization of postal services

In 1998, the Postal Services Act terminated the statutory monopoly of New Zealand Post (NZ Post) to carry letters, opening the postal market to full competition. Since then, any company or individual can operate a letter delivery business as long as all legal requirements are met. Postal operators must however apply to the Ministry of Business, Innovation and Employment (MBIE), the body responsible for laws and regulations relating to postal services, for registration. In 2018, 16 companies had MBIE registration⁵⁶.

- Letters are “written communications or documents or articles addressed to a specific person or address”, which do not exceed 260 mm in height, 385 mm in length, 20 mm in thickness, or 1 kg in weight. This includes envelopes, packets, packages or wrappers for which a charge is made to carry it, take charge of it, or send it⁵⁷.

- Operators have the freedom to define their own delivery and quality standards. They can also issue stamps⁵⁸ and set their own prices. Cross-border mail deliveries are similarly not regulated, apart from the responsibilities assigned to NZ Post through its membership of the Universal Postal Union.

As the national mail carrier, NZ Post is required to meet certain minimum universal service obligations (USO) relating to the sale and delivery of postal products. These are set out in an agreement between NZ Post and the government, known as the Deed of Understanding. First established in 1989, the deed has been renewed and amended a number of times (2010, 2013) to take account of changes in objectives and market conditions. As of 2013, the Deed of Understanding requires NZ Post to provide a basic postal delivery service offering a 3-days-a-week delivery service to the majority of delivery points and a 5-days-a-week service to the majority of rural delivery points. It also includes conditions related to the size of NZ Post's network of service points.

⁵⁶ <https://www.mbie.govt.nz/info-services/sectors-industries/technology-communications/postal-services/postal-register>

⁵⁷ the term 'parcel' is generally used for items which do not fall within New Zealand Post's 'Bulk Mail' suite of services and exceed 260mm x 385 mm height and length, 20mm thickness and/or 1kg weight.

⁵⁸ The stamps produced by companies should not have the word "New Zealand" written on them.

	1998	2015
Minimum delivery frequency	-6 days a week to at least 95% of delivery points, and 5 or 6 days to at least 99.88% of delivery points	-Not less than 3 days per week to 99.88 per cent of delivery points; -1 day per week to the remainder of delivery points. -Notwithstanding the above, NZ Post shall continue to provide: (1) Five day per week delivery to all delivery points which received the rural delivery service as at 30 June 2013, except for those points which had a lower delivery frequency; (2) Two or three day per week deliveries to each delivery point that received two or three day per week deliveries as at 30 June 2013; (3) Five day per week deliveries to PO Box and Private Bags, except where they received less than five day per week deliveries as at 30 June 2013
Minimum number of delivery points in total	at least 1,463,938	At least 1,910,010
Size of retail network	-maintain a network of at least 880 postal outlets and post centres, including at least 240 post centres which provide agency and/or other services	--At least 880 points of presence, comprised of physical outlets and self-service kiosks -At least 240 manned postal outlets where customers can receive personal assistance from an NZ Post employee or agent and access a wider range of products and services

2. Market structure and competition:

NZ Post is the Universal Service Provider and the only operator with a large-scale national end-to-end network. Since the opening of the market, competition has increased, with the former monopolist progressively losing market shares. At present, its market share is estimated to be around 70-75%, even if the situation may differ dependent on the segment. In the full-rate letter market (i.e. Standard Post and Fast Post) for example, its market share fell from 85% in 2006 to 60% in 2013, suggesting that market entrants have mainly focused on the most profitable segments of the market (such as business mail services).

In the postal market, NZ Post's main competitors are New Zealand Mail Limited and DX Mail. The group also faces competition from certain e-commerce logistics companies which offer domestic or cross-border mail services, such as Quantum Solutions⁵⁹. There are also a number of smaller operators with small-scale local delivery networks, such as the Rural Courier Society Ltd, which runs a network of 500 independent contractors delivering letterbox marketing material (unaddressed mail and non-subscribed newspapers) and parcels to rural residents.

•The **New Zealand Mail Group** (NZM) is the largest specialist postal operator in the postal services market, catering specifically to business customers (around 100 million items per year). In December 2012, NZM acquired

Pete's Post, a company specialized in overprinted pre-paid envelopes. In 2013, the group further expanded by acquiring Fastway, a company specialized in postal and courier sales to the stationery reseller market. Devoid of their own processing and delivery network, NZM and its subsidiaries operate through prepaid 'access agreements' to NZ Post facilities. They do however print stamps and postage-included envelopes which are valid for NZ Post's postal network.

•**DX Mail** (New Zealand Document Exchange Limited), a subsidiary of Freightways Limited, delivers around 50 million postal items per year. Since the 1980's, it has progressively developed from a document exchange service to a full-service postal operator for business customers (offering next-day local delivery to street addresses, overnight nationwide Box-to-Box delivery five days a week, express and parcel delivery). Covering most urban and large provincial centres, DX Mail's own delivery network encompasses 230 contact points, mailboxes, 14 nationwide mail centres (with delivery targets of up to 3 working days nationwide). The company produces its own stamps and prepaid envelopes. It ensures nationwide coverage through a network of 18 subcontractors, with any residual volumes handed over to NZ Post to deliver.

⁵⁹ <https://quantiumsolutions.com/mailling>

3. Market evolution and NZ Post strategy

As in other markets, NZ Post is confronted with a steady decline in letter volumes and high growth in the parcel market. From 2013 to 2017, NZ letter volumes dropped 38%, going from 697.5 million to 514.5 million. The company has reacted by focusing on the e-commerce / parcel market and reorganizing its postal infrastructure and network. This strategy has allowed the group to remain profitable, despite continuous losses in its letter delivery business. Parcel deliveries now account for almost 50% of NZ Post's turnover.

a. Rationalization and restructuring of the postal network

The rationalization and restructuring of the NZ Post postal network have mainly involved the following:

- Reduced NZ Post ownership of outlets, with a focus instead on agency and franchise models whereby postal outlets are hosted within other businesses; relocation of outlets away from areas that are no longer significant shopping areas to locations with more foot traffic (shopping malls, supermarkets or petrol stations); introduction of a service point approach for outlets, using self-service technology to gain entirely unmanned kiosks hosted within other businesses;
- Reduced delivery frequency (alternate day delivery) and the dropping of the NZ FastPost service⁶⁰;

- Streamlining mail processing operations through a centralization of mail processing and a reduction of mail centres from six to three;

- Efficiency improvements (new postcode scheme, investment in new technological equipment, including new sorting machines and electric vehicles to deliver mail and parcels);

- Introduction of digital services including YouPost (enabling customers to sort, store and pay their bills in one place), YouShop (enabling customers to shop online from European China and US businesses) and BringIt (order from retailers and have it delivered by urgent courier), etc.

Cost-cutting has also resulted in major job cuts, with NZ Post headcount dropping from 10600 in 2013 to 5099 in 2017. Job cuts have also affected staff at the company's headquarters in central Wellington, as well as in Auckland and Christchurch⁶¹. At the end of the day, all these measures have helped increase productivity (as reported by NZ Post, 30% more mail is handled with 40% fewer staff) though have not stopped the company making losses on its letter delivery operations, as cost reductions have failed to keep pace with volume reductions (-10% per year). These "efficiency measures" have not led to any increase in the quality of services. In 2017, the overall quality performance level decreased to 89.1%, against 94.5% in 2016. According to First Union, they also have resulted in increased delays and delivery errors.

Percentage of letters delivered within NZ Post target service standards (2017)			
Courier parcels		Letters	
Domestic	International	Domestic	International
97%	83%	86%	78%

Since market liberalization, the price of standard letters has consistently increased, going up from 40 cents in 1998 to 80 cents in 2013, \$1 in 2016 and \$1.20 as of July 2018⁶².

b. Developing e-commerce parcel activities to compensate for the plunge in letter volumes.

NZ Post parcel volumes have grown by almost 75% since 2013. The company claims to hold a 51% market share in domestic e-commerce transactions in FY 2018. The company has developed the business by among others offering premium services such as after-hours deliveries, the "parcel leave service" (parcels left at the delivery point without a customer's signature), or the redirection of parcels to collection points or parcel lockers. NZ Post is also enhancing its international presence through bilateral partnerships (13 countries around the globe - specifically the Australian market by offering logistic services through a partnership with Australia Post, and Chinese markets through

partnerships with China Post and other delivery agencies including Alibaba, JD.com, Kaola, Baby Tree and Entrance)⁸. NZ Post is also developing its presence in the UK, US and Europe, while investing in the technological infrastructure to develop its internal e-commerce business. International parcel volumes grew by 18% in 2017.

4. Social aspects

The opening of the postal market occurred at a difficult moment for workers and trade unions. At that time and since 1894, the predominant wage-setting system in New Zealand was based on cross-industry compulsory conciliated bargaining for blanket-coverage awards, backed by the availability of arbitration if needed.

⁶⁰ <https://www.stuff.co.nz/business/95826589/new-zealand-post-cuts-its-fastpost-service>

⁶¹ <https://www.stuff.co.nz/business/78335239/nz-post-plans-to-cut-another-500-jobs-in-bid-to-offset-falling-mail-volumes>

⁶² <https://www.nzpost.co.nz/about-us/media-centre/media-release/nz-post-postal-rate-changes-in-response-to-increasing-letter-decline>

In 1991, the Employment Contracts Act (ECA) deregulated labour markets and turned all collective contracts into individual contracts, causing union membership and the coverage of collectively negotiated agreements to decline dramatically during the 1990s (from almost 50% to less than 10% in the private sector). The ECA abolished national awards and ended compulsory unionism, introduced in 1936, with unions losing their exclusive right to represent workers. The term 'union' did not appear anymore in the ECA, meaning that employee organisations could only gain legal recognition by becoming incorporated companies, with a minimum of 1,000 members. The situation only changed in 2000 with the adoption of the Employment Relations Act (ERA), which allowed trade unions to somehow rebuild their memberships. The new law reintroduced collective bargaining as a basis for employment relationships. It also restored the term 'union', specifying that only unions registered under the Act could represent employees in collective bargaining. Even so, the effects of the ERA had a destructive impact on worker protection, and unions now have far less legal protection than they did under the earlier industrial laws. Collective bargaining takes place at company level. Overall trade union density is now around 22-24% (12% in the private sector), against 43% in 1995, and the number of trade unions has been divided by more than 3. Unions in the public sector have been the most resilient. In the postal sector, trade union density remains high (65%), despite being lower than in the past.

This context has of course made the work of trade unions even more difficult in a period of major changes in the postal industry. Since market opening, NZ Post has adopted a typically commercial approach, cutting costs, reorganizing sorting and distribution, outsourcing a number of its services (such as transport for example) and reducing the number of post offices. Job cuts (-40% between 2012 and 2018) have mainly taken place through collective redundancies and voluntary departure schemes (with an average of 6 months' redundancy pay). According to First Union, wages are also not moving in line with the cost of living. Faced with competition from private courier and parcel delivery companies, NZ Post is seeking further cost cuts, for instance resorting to self-employed workers for certain tasks. Finally, working conditions are also said to have deteriorated, with longer working hours, longer rounds and fewer people to perform the same tasks. This deterioration is reflected in the NZ Post annual Employment Engagement Survey, which measures the rational and emotional commitment of workers to their company. In 2018, engagement

scores were 60.4% for employees and 53.8% for contractors, figures much lower than in previous years and lower than the company's expectations.

Recently, First Union has launched the "Real Work – Real Job" campaign, which objective is to defend the rights of labour-hire workers that are being exploited through triangular employment arrangements. The Union, which represents over 2,500 of those workers, is calling for labour-hire companies to improve business practice, and for the Government to take action to address the exploitation of labour-hire workers.

In the framework of this campaign, the Union has submitted 4 amendments to the Employment Relations (Triangular Employment) Amendment Bill, that could increase job security. These amendments aim at allowing labour-hire workers (1) to elect the host company as their employer if their employment is for an unlimited duration; (2) to be automatically covered by the terms and conditions of the most advantageous collective agreement, which covers the work they are performing; (3) to automatically join the host employer as a party to the personal grievance, rather than having to apply to the Employment Relations Authority.

Recently, the Union has also announced the signature of an agreement with labour-hire company Enterprise Recruitment, through which the company commits to adopt ethical labour-hire standards. The union and the labour-hire firm have together developed a set of five core principles to ensure that labour-hire workers' ability to enforce their rights is not compromised. **The basis of the five core principles are:**

- (1) Workers should be treated appropriately and not as day-by-day workers
- (2) Labour-hire workers should not be contracted out in a way which undermines their rights under the Employment Relations Act
- (3) Workers should be entitled to a relevant and fair rate of pay pertaining to the work they are performing.
- (4) Labour-hire workers must have the opportunity to contribute to a collective voice
- (5) Appropriate resources should be allocated to ensure worker and industry standards are maintained; training, education, auditing and enforcement, health initiatives, skills development and recognition, and appropriate company standards ranking systems must all be adequately resourced to give labour-hire workers access to a safe, fair and engaging work environment⁶³.

⁶³ <https://workersfirst.nz/2018/07/26/workers-picket-labour-hire-company-as-union-calls-for-law-change/>

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN POLAND

1 - State of play of the national postal market in Poland

The postal services liberalization process | The 2008/6/WE Directive was introduced into Polish law by the Postal Law act of parliament in 2013. Since then the postal services market is classified into four broad segments: (a) public services, (b) other services within the scope of public services, (c) courier services, (d) other postal services (parcels, remittances, ad mail, unaddressed mail). The entities serving the market have the obligation to be registered by Urząd Komunikacji Elektronicznej (UKE), the Polish regulator. Postal agents and subcontractors of the postal operators are excluded from that obligation. Poczta Polska (PP), the member of the Universal Postal Union, is the national operator of choice, running its activities according to the public service obligation. PP remains virtually⁶⁴ uncontested in the Mail segment, but the international competitors are still eager to challenge this market⁶⁵. According to the law, PP has to keep open the access to its residential letterbox network for its competitors.

Market evolutions since the opening of the market

The Polish market has undergone evolution driven by the gradual liberalization as well as the surging demand (business and consumer) for postal services. E-commerce-driven market growth, together with Poland's overall economy growth and international trade growth have all forced the operators to make changes to their operations. The competition is getting fierce. The intensified battle for market share has helped create brand new services as well as augment existing solutions. The network of dealerships (postal agencies) cooperating with alternative operators has developed along the network of outlets and externally run private agencies used by the national operator. The postal outlets network has been enhanced with the increased use of self-service parcel lockers, although the popularity of this channel is still relatively low in Poland. But popularity of click & collect network is increasing. In May 2018, the Danish OEM SwipBox has signed an agreement with Poland's biggest staples discount retail chain Biedronka to install 300 parcel pickup stations at its stores, creating a completely new customer experience. Previously, the parcel pickup infrastructure has already tapped into other networks, like petrol stations, press boutiques. Almost 80% of companies plan to introduce same-day delivery within 5 years, leveraging state-of-art technologies and solutions (drones, autonomous vehicles, crowdsourcing, 3D-printing). Same-day delivery is expected to become common practice by 2023 at 3 out of 4 operators. Late-evening deliveries are already a standard for e-commerce, similar to parcel tracking and portable terminals for card payments. The growth of parcel / courier segment in 2018 is to maintain strong momentum (12-13 per cent), as estimated by PriceWaterhouseCoopers. The B2C segment is growing the fastest. Pricing is going to stay under pressure in the coming years. The quality and availability

of services have both improved. Overnight delivery times for priority mail however do not meet the legal standards. According to the last UKE audit only 59 per cent was delivered on-time, versus 82 per cent being the legal standard minimum.

Market structure and main competitors | The total market has grown, but revenue structure has evolved, with letter post segment losing share in favor of other services with more value added (featuring convenient shipment and delivery, tracking, shorter timing). In 2017 the letter post segment continued to shrink volume-wise, but after years of decline it posted a rebound revenue-wise, due to rate hikes. The courier segment has been recording strong growth, causing continued migration of customers. Parcel segment's tidal wave is driven by sophistication of e-commerce services. The unaddressed mail segment is very competitive, and it cannot be tracked in its entirety by UKE. Distribution of unaddressed mail also does not require any registration and many unregistered entities do compete in that segment. Since the market opened up, the number of registered alternative operators was rising until 2016. In 2017 there were 280 registered entities, but only 142 that were reported to actually be active. Market liberalization helped the bigger players (domestic and international) to strengthen their position. At present there are 9 big players active on the Polish market: (1) Poczta Polska; (2) DPD (subsidiary of French La Poste); (3) InPost; (4) GLS; (5) UPS; (6) FedEx; (7) Geis; (8) TNT; (9) DHL. Only two of the them are pure-Polish entities, the others are subsidiaries of the international companies. Poczta Polska faces fierce competition, on almost all of its markets. Lifting the monopoly of the national operator in the under-50g letter post segment was for example a true milestone and an opportunity seized by InPost. Inpost's liberalization facilitated entry onto letter market took away 0.5bn of revenue from Poczta Polska. However, InPost was ill-prepared to take over the market in a profitable way. Poczta regained the Polish courts letter contract in the next term in 2015. The factual monopoly in the letter segment was restored, contrary to the wishes of the market reform architects. At present InPost refocuses priority on the parcel segment, noting very dynamic domestic growth (e.g. 405 per cent y/y un 2016). After failed entries onto international markets, the Company is winding down its overseas lockers network and bringing the infrastructure back to Poland.

Poczta Polska | PP has mixed model as regards the postal outlets. The company runs state-wide network of 7,500 postal outlets, of which 4,500 are corporate. The rest are private postal agencies. There is no trend to migrate further towards agencies. The management team on duty from 2008 had focused primarily on cost-cutting and placed a bet on serving the e-commerce segment. Directors decided to secure PP's profitability by downsizing network and employment and disposing of some real estate

⁶⁴ Any market player can bid for the big contracts, but after InPost's decision to exit, no one attempts that.

⁶⁵ Eager means that the rivals recognize it as an opportunity, but so far no entity proved that in practice. A good example from 2 days ago: <https://businessinsider.com.pl/finanse/przetarg-na-sadowe-przesylki-oferta-poczty-polskiej/sfy2gy1>

assets. 25 thousand jobs disappeared during that term (from 100,994 in 2008 to 76,318 in 2017). Rough labor productivity ratio (as measured by revenue per employee) has been increasing ever since. Inevitably, collective redundancies led to problems with timeliness and quality of service. The pre-2008 management team had banking background hence they were pursuing the development of postal banking services. This strategy helped evade the closures of outlets. In mid-2016, after the Law and Justice party had taken over the power in Poland, there was an overhaul of the top management at PP. The new team led by Mr. Przemysław Sypniewski has been emphasizing the need to find new revenue sources, defend the existing infrastructure size and bolden the social role of the national operator. The current management focuses on developing the concept of digital administration (e-Administracja), as PP aspires to become the National Digital Operator. The negotiations with the government are pending but are immature.

In 2017 total revenues increased for the first time since 2012. However, the revenues from the core business of PP have been shrinking along with volume until 2017. The letter segment is over 80% of PP's volume. Letter volumes are shrinking, but the revenue of this segment noted 10% growth last year, after many years of decline. This was possible due to rate hikes and higher parcel volumes. The management ruminated further rate increases in 2018. The parcel market is viewed as an opportunity but within realistic expectations attached. In 2013 PP signed a contract with the state-controlled petrol corporation PKN Orlen to use the network of petrol stations of the latter as parcel pick-up facility (cash on delivery, pick-up against a PIN). The contract states that soon the sending of parcels will be possible at Orlen's stations as well. In 2017 alone, the revenue from this service increased by 150% y/y. Simultaneously, Poczta Polska develops its proprietary network of parcel lockers. The company has mentioned creation of a new hub to handle the Asiatic parcel flows. Poczta has been developing alternative revenue sources. Around 5 thousand employees work in the security / cash conveying business, mostly for the private sector. It is still marginal but has been growing fast. Branching out into security involves recruitment of new staff rather than retraining of the existing workforce. The Solidarność union did not contest that diversification decision. There were only minor remarks as to the organizational model of that new division. In March 2017 PP won a tender for security service at the Silesian airport Pyrzowice (3 mln. passengers annually), deploying 100 employees. Between 2012-15 PP run a similar security service at the Warsaw Modlin airport in cooperation with an outside company - the first instance in Poland of engaging some third-party contractors to this function. The company bids for contracts for security services at numerous customers, including state-owned corporations (PKP, the Polish railway company), airports, public institutions, banks. The strategy for the niche is clear: PP would like to control 20% market share. The practice of hiring the workforce on regular employment contracts, had made PP's offer uncompetitive when compared to pure-play security companies. Regulated inflation of hourly

rate and minimum salary, however, as well as emphasizing other non-financial factors such as experience and know-how improved PP's competitive position. The security staff works under the same CLA as the employees in core activities.

There are risks to achieving profitability though, due to litigation. There were a few cases brought to UOKiK and UKE. The competitors complain that PP is being indirectly subsidized by the state and that it exploits its privileged position as regards the access to some services and advantageous tax treatment. At present, there is an anti-trust case pending against Poczta Polska, resting on a conviction that PP is illegally exploiting its monopolist position in Poland in the non-common postal services segment, by obliging AOs to report data on their customers.

2 - Social aspects

Evolution of employment | The 2006-2009 years marked a period of steady employment growth market-wise. The trend was then stalled in 2010-2013. Since 2012 the total reported employment in the industry fell by 32.6 thousand full-time equivalents - a drop of 26%. In 2012 the share of employment contracts at alternative operators (AO) stood at 37.6% (12,228 people). Another 8 p.p. of the employed worked under agency contracts. The remaining majority were self-employed. However, the sharp drop of reported employment at the AOs in 2013 is a reporting issue. From 2013 onwards, the statistical data on average FTE employment ceased to include the workforce hired on civil contracts (including self-employed). 2017 saw net improvement of employment figure at both Poczta Polska and the alternative operators. In 2017 13 AOs disclosed employment size of at least 50 people, of which eight companies declared employing more than 500 of staff. The headcount at Poczta Polska fell by 25% during 2010-2016 by means of collective voluntary leaves and natural attrition. At present is 73-75 k FTE. Over 90 per cent of PP employees have employment contracts. After the Civic-Platform-appointed management team assumed powers, there were three waves of collective layoffs. Severance packages were relatively ungenerous, as compared to those offered at the Polish telecoms. PP employees were offered a 3M extra salary on leave (versus 6M-9M at the telecoms). The average employee age and term of service is high. Downsizing the employment was justified by low labor productivity, and too much staff.

Unionization | There are 74 registered trade union organizations at Poczta Polska SA. The smaller ones are practically inactive. They have been established over many years along the successive waves of restructuring. The unions were usually established by distinctive labor groups (urban mailmen, rural mailmen, couriers, drivers, back office staff working in the outlets and depots, administration personnel / support functions). Solidarność and OPZZ together comprise 40% of employment at PP. The share of unionized workforce is ~50%. This population is shrinking. Trade unions lose popularity among younger

employees. It is hard to find convincing arguments for them. The natural attrition erodes this group. Two union representatives sit at the 7-member Supervisory Board and are appointed through an election. There is one vacancy for the unions in the Board as well.

Salaries | The present level of salaries in the industry is still regarded by the Solidarność union as “dramatic”, as they remain below the average level for the whole Polish economy. The average salary at PP in 2004 was 2504 PLN (105.2% of the whole economy’s average) versus 3779 PLN in 2017 (88,1%). The average monthly gross salary of a courier in Poland is 2,700 PLN. At some operators the couriers additionally receive incremental bonuses per each delivered parcel. Ignoring inflation indexing, there were no salary hikes at Poczta Polska since 2008. The recovery of pay levels is considered key. According to the union, the employees with long term of service are eager to leave the national operator. Both problems (salaries and turnover) translate into poorer quality of service. The previous CLA contained bonus arrangements directly tied to Company’s results. In order to trigger rewards, the Company had to generate at least 90% of budgeted revenue. Exceeding individual targets did not grant any bonuses if the whole Company posted a poor result. The present Board of PP claims to have entered a path of steady growth of salaries. The remuneration rules are to be clear, the employment contracts are to be the only legal form of employment in use. The first long awaited salary increases were introduced in 2016, after the change of the management team. Since then PP has been gradually increasing salaries in small steps, on the back of better market performance. In the period 2016-18 there were as much as six instances of salary increases at PP, delivering an average incremental basic salary of 700 PLN and 1,200 PLN if benefits are included. According to the last increase, the basic pay was increased by 172 PLN gross and 226 PLN per FTE including bonuses, effective from June and payable from September 2018. The group eligible are the employees who signed the CLA, and whose gross basic salary was lower than 5,000 PLN (i.e. 88% of staff). In 2018 the drivers of lorries with weight of over 3.5 tons are getting a salary hike up to 3200 PLN gross. The drivers’ remuneration levels had long remained below the market average, and there is fierce competition for drivers on the Polish market. In 2016 a Christmas bonus was reintroduced on the back of good sales results. It must be mentioned, that the management placed a bet on the assumption that the surplus cost could be transferred onto the price of the upcoming contract renewal to be signed with the Ministry of Justice. Labour costs at PP take up 69-70% of Company revenues, a weight that has been almost level in recent years, regardless of the company’s results.

The current labor agreement expires in 2020. It covers almost all of the workforce. The former management excluded however the management layer from that agreement. A few thousand managers were employed on managerial contracts. The Solidarność union has already began preparations for the negotiations of the next CLA. The unions anticipate pressures on the side of the management on those remuneration elements.

Labour deficits | All the postal operators in Poland complain about deepening labor deficits. There are thousands of vacancies advertised online by the industry. Mailmen, drivers and back office staff are functions most affected by labor shortages. PP is facing labor deficits in all of its major hubs in Warsaw, Wroclaw, Poznan, Bydgoszcz and Szczecin. The Company acknowledges recruitment problems in the rural and suburban mailmen category. Workload in this category is substantial due to distances covered. Low salaries, stretched working time under stress and difficult working conditions, but also choosing to work abroad, all play a role in this. Another factor is the ongoing attritious price war. Customer demand is highly flexible. The overall unemployment level of the Polish economy is low. Drafting of recruitment plans has become one of the major challenges for the managers. The Christmas shopping peak has been stretching in the recent years, the parcel activity surges in mid-October only to wane in early March. The departments where the employment is increased in particular around the shopping peak are depots, sorting facilities, contact centers and courier services. All the market players search for extra temporary workforce at that time. The peaks engage ~25% incremental staff, hired on temporary contracts. At Poczta Polska alone, there is a requirement of over 1,000 incremental jobs in support of the peak operations, but PP’s offer is not among the most competitive. But the competition for workforce does not end within the courier industry. Other business, such as retail staple store chains, do compete for the same people (e.g. drivers). There are regions of Poland, where it is extremely difficult to offer competitive salary terms for drivers. Poor salaries against heightened workload inevitably lead to staff unrest, only to mention the very latest evidence. On 6 December 2017 the Poczta Polska mailmen organized industrial action, voicing demands for higher pay. Earlier, such an action took place in January and March, country-wide. There were demands to double the gross salary. The mailmen complain about working conditions and the internal penalty system for not meeting operational targets. The latest wave of staff unrest however was not supported by Solidarność union. DHL Polska couriers called on strike during the 2017 Christmas shopping period, but the action was quickly called off. The tension was well aligned with the high operating season for e-commerce.

3 - Position of national trade unions on the economic and social aspects of the postal services liberalization process

On investments | According to the Solidarność union, in order to establish PP well on the courier market, the sorting facilities need more automation, good transport and reliable information system. The deteriorating quality of service is acknowledged, and the above factors are blamed for this. In the union's view, PP is not ready to operationally handle potential extra volume stream from China with the status-quo infrastructure. The tender procedure is considered an inevitable bottleneck for streamlining such capital expenditures (it takes at least 9 months to complete a tender, 1.5 year from a contract's signing to launching a machine on site). While maintenance CAPEX is secure the unions are concerned about the timeliness of CAPEX budget execution.

On salaries | Salary brackets at PP constrain quick recruitment for the parcel peak. The union believes that labor turnover leads to lower quality of service, as the employees do not feel the identity with the company, hence demonstrate weak sense of responsibility. It is the PP brand that gets hurt as a result of this, but the Company is also losing contractual money (especially in the international commercial market) for not meeting delivery deadlines. The flee of potential significant customers is another effect of compromised quality. The union points to mounting employee frustration fed by the sum of factors such as prolonged absence

of salary inflation, the sense of employee neglect and low acknowledgement on the side of the government and management. The long-ignored remuneration gap cannot be, in the view of the union, erased with a single salary increase, as it would be unaffordable. The union acknowledges that it is a process.

On workload study | For many years the unions have not agreed with the outcomes of mailmen workload study commissioned by the Company and conducted semi-annually. Such studies then determined network's FTE allocation and recently advocated employment downsizing. The unions pushed for factoring in holiday and sick leave buffers into those simulations to more realistically assess the availability of staff. Delays in disclosing the outcomes of the tests are reported by the unions.

Other issues | The sales staff of PP responsible for capturing new contracts with business clients is embraced by an incentive scheme, which in the past led to signing contracts on unfavorable terms. Lack of unified universal notification documents forces the postmen to carry more load of paper. One of the union complains about discrimination of existing and former workers of Poczta by re-applying for positions. Rules on regenerative meals for the staff conducting energy-intensive tasks (stipulated in internal statutes) are considered vague. Different solutions in different regions are in place. Some categories like drivers, parcel carriers, and workers of expedition and sorting facilities are excluded from obtaining those meals.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN PORTUGAL

Despite the entry of new competitors, CTT remains the main postal services provider in Portugal, accounting for more than 90% of total postal traffic. The contraction of traditional postal revenues (-16% for the 2008-2016 period) has been offset by a major price increase and has led to a restructuring of CTT activities: the development of new express services and financial activities, as well as reductions in employment (-15% for the 2006-2017 period) and the structural costs of the services. The social consequences include a reduction / stagnation of wages in recent years, a worrying increase in workloads, both in post offices and distribution, and – with regard to postal services – a deterioration in quality. The latter is difficult to assess due to the often-denounced lack of independence of the national regulatory body, Anacom.

1 – State of play of the national postal market

Legal framework

Law 17/2012 sets the legal regime for the full liberalization of the postal market, abolishing certain areas under the universal service obligation (USO) that used to be reserved for the CTT (Correios de Portugal). However, for reasons of public order and security or of public interest, certain activities and services are to remain reserved for the CTT until 2020, such as the siting of letter boxes for posting letters on public highways, the issue and sale of postage stamps with the name of Portugal and the registered mail service as used in judicial or administrative proceedings.

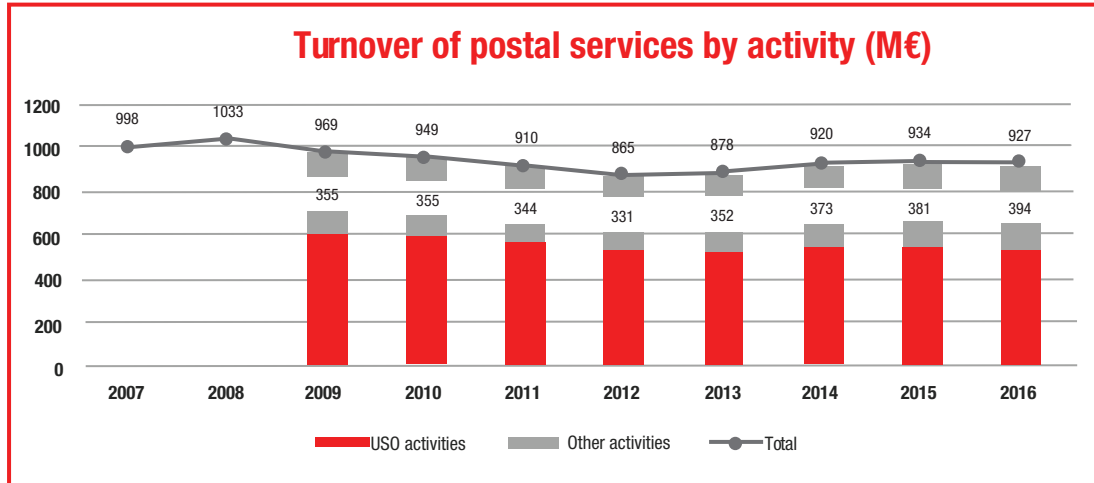
The USO comprises the following national and international services: the collection and delivery of postal items, excluding direct mail, and catalogues, books, newspapers and other periodicals up to 2kg and parcels up to 10kg. The USO also includes services for registered and insured items, and the delivery within Portugal of parcels up to 20kg from other EU Member States. As regards the provision of USO services, the law establishes a system of individual licensing, while the provision of the remaining postal services is subject to the general authorization scheme, less demanding in terms of both access requisites to the activity and the accompanying obligations.

Regarding access to postal networks, the USP⁶⁶ is obliged, from the outset, to ensure access to its networks to other providers requesting such. In the case of the parties failing to reach agreement, ANACOM⁶⁷ may intervene to find a solution on access to elements of the postal infrastructure such as the postcode system, address database, PO boxes, change-of-address information, the re-direction service and return-

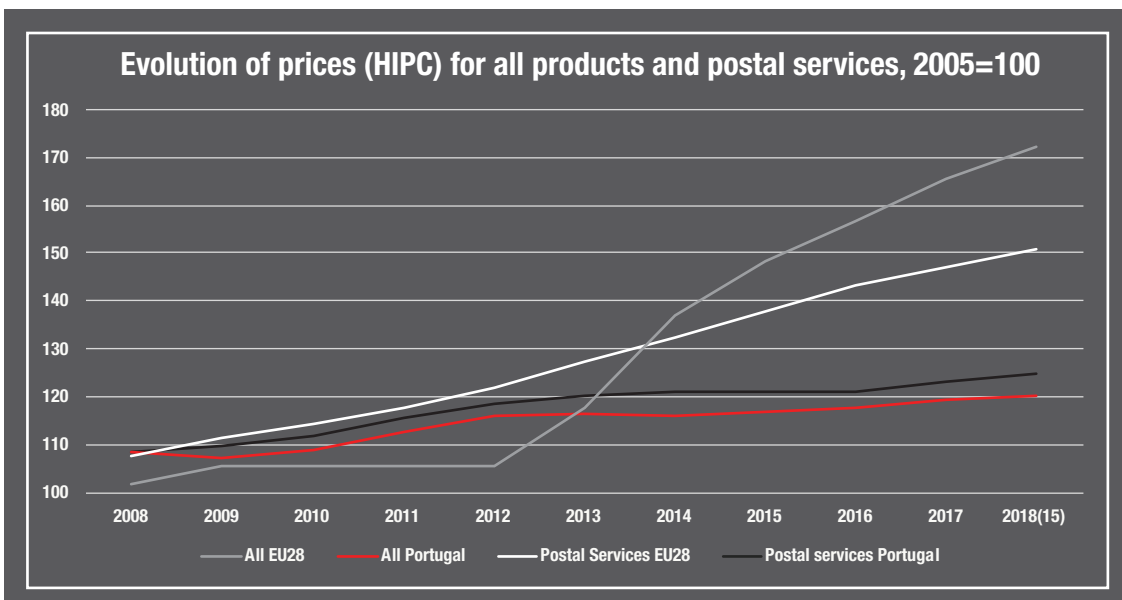
to-sender service. ANACOM and CTT concluded a USO Price Convention establishing the maximum variation of prices (CPI+CPIAF -0,3% for 2008, and CPI+CPIAF -0.4% for 2009 and 2010). Likewise, the Quality Convention sets out the parameters and the minimum quality levels of the service. As of 2012, both conventions are renewed annually.

2 - Postal services market

CTT remains by far the largest player in postal services, accounting for more than 90% of total postal traffic, 92% of access points and 62% of distribution centres.



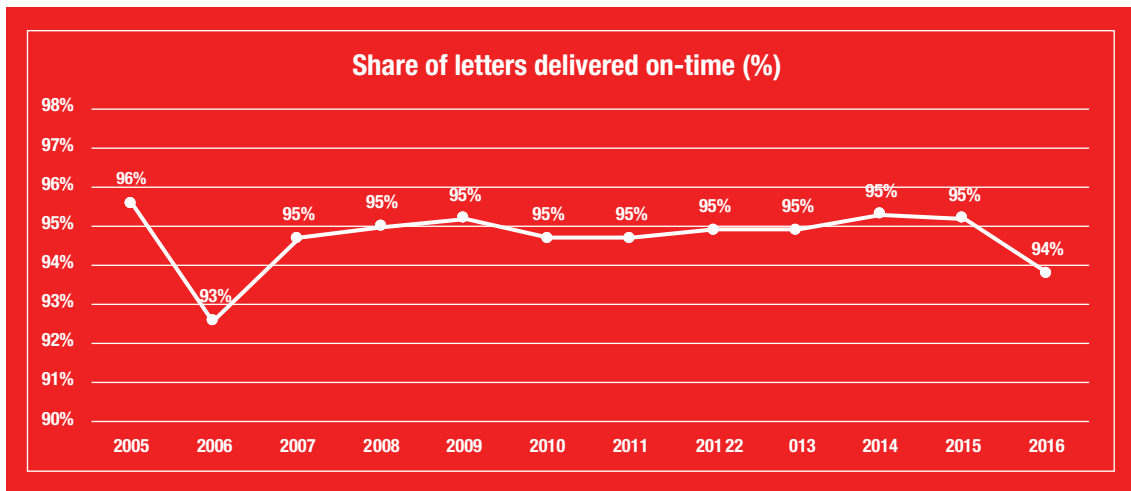
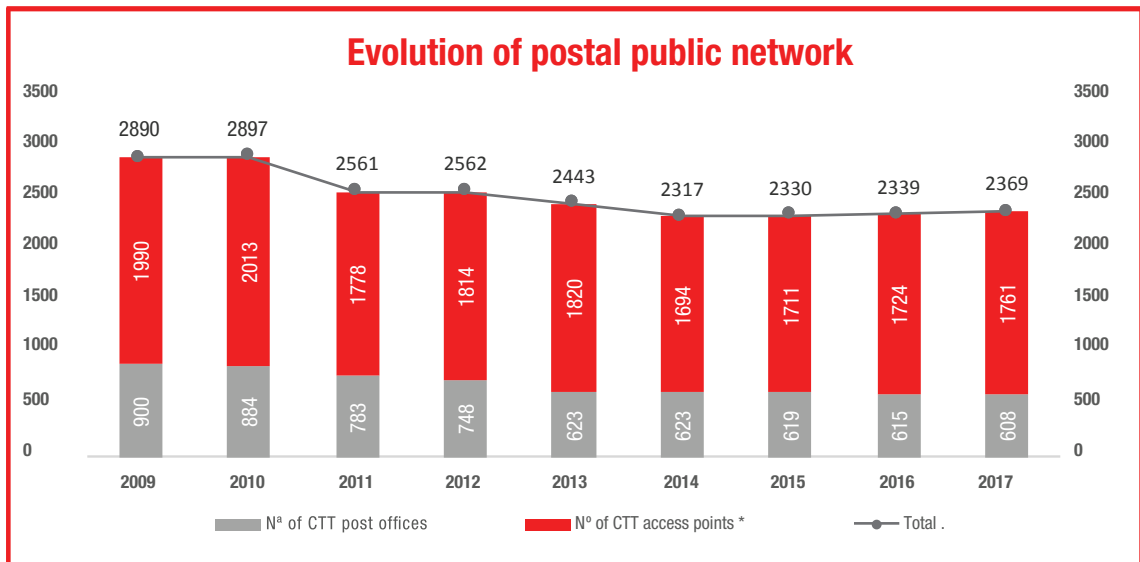
The drop in sales (-16% between 2008 and 2012) has been offset by a significant increase in prices (+63% between 2012 and 2018), and by the creation, in the case of CTT, of subsidiaries such as CTT expresso (express mail services) and CTT contact (communication and advertising services) and the introduction of new activities such as credit cards, new means of payment, savings solutions and insurance for all users, services adapted to different sectors, marketing, finance and billing services for companies.



There was a significant reduction in the postal public network, with a decrease in the number of post offices (-32% between 2009 and 2017) with a decrease in the number of post offices that has not been offset, despite the fact that Correios de Portugal had guaranteed it, with the opening of access points (-12% between 2009 and 2017).

⁶⁶ Universal Service Provider: CTT

⁶⁷ Autoridade Nacional de Comunicações, the postal services regulator



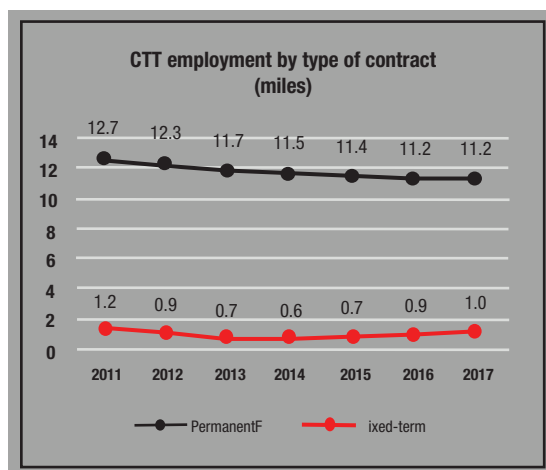
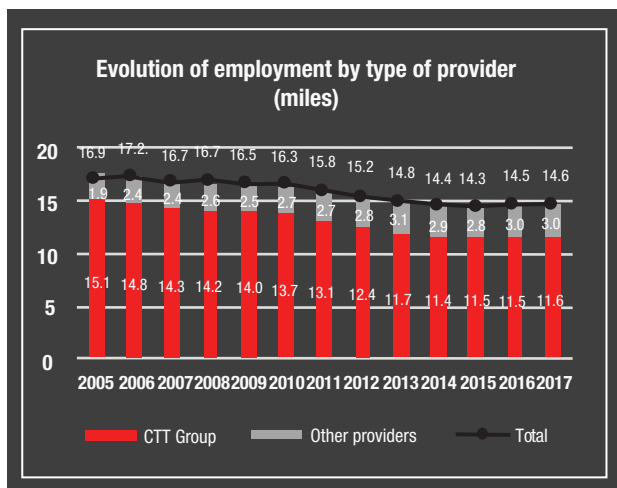
Companies authorized to provide postal services in Portugal (2017)

USO (11 companies)	Outside USO (61 companies)
CTT, SDIM, Notícias Direct, Urbanos, Iberomail, LordTrans, VASP Premium, CTT Contacto, City Post, Best Direct, Greapost	CTTexpresso, DHL, Chronopost Portugal, TNT, UPS, Rangel Expresso, Federal Express Corporation, Logista, Lisespo Transportes, Fozpost, Ranexpress...

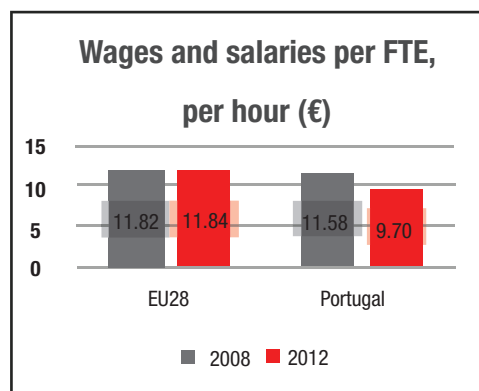
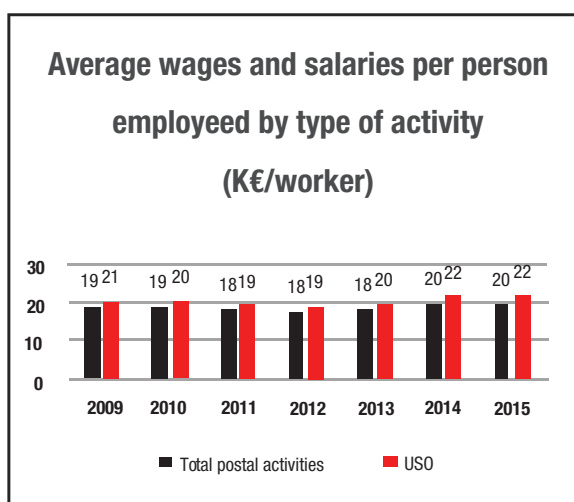
Share of total postal traffic, 3Q 2017

Company	%	Company	%
Grupo CTT	91,7%	Grupo Nacex	0,3%
CTT	89,1%	Iberomail0	,3%
CTTexpresso	2,2%	TNT express	0,2%
CTT Contacto	0,4%	SDIMO	,2%
Grupo Adicional	2,2%	Best Direct	0,2%
Grupo GEOPOST	1,9%	City Post0	,2%
VASP Premium	1,0%	DHL	0,0%
Notícias Direct	0,7%	General Logistics Systems	0,0%
Urbanos	0,4%	Other	0,6%

3 - Social aspects



Employment in the postal sector dropped by 15% between 2006 and 2017 as a result of the CTT job cuts (-22%) which were partially offset by headcount increases at other providers (29%). The cuts in staff dedicated to USO activities were more accentuated (-19% between 2009 and 2016) than in the rest of activities. In general terms, liberalization has resulted in a 9% increase in temporary employment according to some studies⁶⁸. Looking specifically at the CTT, in 2017 only 8% of its staff were on fixed-term contracts. Although there was a decrease in fixed-term contracts between 2011 and 2014 (5% in 2014), the share has since increased again. Labour productivity increased by 16% between 2009 and 2015 (+22% in the case of USO activities).



Regarding wages and personnel costs, we found almost steady average annual wages and personnel costs per employee, which are always higher for USO employees (up to 10% higher than average wages and personnel costs for total postal activities). However, comparing the results of the labour cost survey carried out by Eurostat every four years, we note a drop in wages and salaries per FTE between 2008 and 2012 (-13% per month and -16% per hour), while average European wages grew (+2% per month and +0.2% per hour). As regards traffic per employee, the share of the main USP, Grupo CTT, decreased by 16% between 2013 and 2017, while the share of the other providers increased by 22% in the same period.

4 - Position of national trade unions on the liberalization process

The trade unions are noticing a degradation of postal services and working conditions. The high increase in prices has been accompanied by a deterioration of services due to closures of distribution offices in the interior of the country, the replacement of post

offices by “postal points” offering fewer services, the subcontracting of services to third parties (with worse working conditions) offering segment-based delivery, i.e. distributing the different shipments on a certain day of the week, leading to delays of up to 15 days. Especially serious is the delayed delivery of benefits and pensions. The unions emphasise that these delays are

⁶⁸ Dieke et al. 2013: 267

not reflected in the official quality figures because CTT gives priority to deliveries including an electronic control chip (implemented 6 years ago), leading to Anacom fining the CTT for this practice.

The implantation of the postal bank, in principle positive, has caused an increase in the workload of office staff, with the same numbers of staff now performing both postal and banking tasks, leading to long waits for customers. Banking solutions for paying insurance premiums, taxes, electricity and water bills have swelled the volume of financial activities, while postal activity has decreased more due to the lack of human resources than to the decline in traffic itself. The unions consider that the expiry of the exclusive USO in 2020 (currently held by the CTT) could endanger the continuity of up to 5,000 CTT jobs (3,500 postmen + 1,000 office staff + 500 employees from other structures).

In terms of working conditions, unions are seeing workload problems among both office staff and delivery services (contrary to the official statistics, which – according to the unions – are questionable due to ANACOM's lack of independence). Bad practices detected by the unions include non-compliance with rest periods, increased overtime, poor health and hygiene conditions, abusive productivity ratios, subcontracting and a proliferation of bogus self-employed workers. This has resulted in high staff turnover and an increase in fixed-term contracts. Salaries were frozen for 3 years during the crisis, though a 1.1% wage increase was signed in the latest collective agreement. But even so, many salaries barely exceed the minimum interprofessional salary, discouraging workforce renewal. Trade unions are seeing a progressive and not always well-managed substitution of the workforce by automated processes.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN SOUTH AFRICA

The South African Postal Service (SAPO) remains in a difficult place with strikes, internal criminality and questionable service delivery. Restructuring remains difficult with limited government investment after a bailout of R6 billion (€0.36bn) which was initially requested during 2016. Revenues have declined, and losses remain high at R807 million (€48m¹) in 2017. Both government and unions strongly oppose privatisation whilst new market entrants in the postal service have taken a profitable market share where no regulations have been defined.

1 - State of play of the national postal market

SAPO is government owned but operates independently and is expected to be profitable. It however faces several challenges, foremost of which is the vast service area, much of it remote and sparsely populated, it must comply with the substantial universal service obligations (USO) mandate. SAPO, as it is currently structured, managed and funded, is not financially sustainable. It operates in an unprotected competitive environment, despite having to pay for and operate under license.

From its corporatisation in 1991 SAPO received a subsidy for the fulfilment of the Public Service Mandate imposed on it by the Postal Services Act, which was suspended from 1999 to 2001. This has been reduced over time, from R306 million (€18.4m) in 2010/11, to R180 million (€10.8m) in 2011/12. SAPO received the last subsidy from government, estimated at R52 million (€3.1m), during the financial year that ended on 31 March 2013. The subsidy was used to expand branches into areas where commercial postal operations were not viable. SAPO now incurs an annual cost of around R700m (€41.7m) in fulfilment of the Public Service Mandate and does not receive a subsidy for incurring these costs which is purely a public service and is not a commercially sustainable undertaking. The lack of subsidy is contributing to the ongoing financial challenges facing SAPO.

In 1994 South Africa was readmitted to the Universal Postal Union following the end of apartheid. SAPO currently operates under a 25-year license granted by the Independent Communication Authority of South Africa (ICASA) and in terms of this must provide a universal service to all the citizens of the country. The Postal Services Act No. 124 of 1998 (the Postal Services Act) forms the basis of the regulatory framework for operators in the postal sector. The Act provides for the regulation and control of postal services in the public interest. According to the Act, an operator needs to be invited by the Minister to provide services within the reserved area. Currently SAPO is the only operator licensed to provide services within the reserved area. Operators wanting to operate within the unreserved area must apply for a registration certificate with the regulator.

SAPO is also required to register in order to provide unreserved postal services. When issuing a licence or registration certificate ICASA may impose certain terms and conditions. ICASA issued SAPO an amended Reserved Postal Services Licence (Notice 149 of 2012) and retrospectively effective from 20 October 2008. The licence was issued on a national basis and requires the payment of 0,55% of the licensee's audited regulated annual turnover in terms of licence fees within 90 days of the end of each financial year. The licence provides for the exclusive provision of reserved postal services by SAPO,

subject to the review of such exclusivity by the Minister of Communications every five years or such shorter period as the Minister may determine. So far, no review has been undertaken since the licence was issued. ICASA is expected to monitor not only SAPO's compliance with licence terms and conditions as well as the law but that of all postal operators, serving the unreserved market. However, due to capacity constraints, over the years ICASA has relied on compliance reports submitted by SAPO and has performed limited inspections.

SAPO reported in their 2015/2016 Corporate Plan that the loss of customers and market share to competitors remain inherently and residually very high. The South African courier and express parcel (CEP) service industry which employs an estimated 20,000 people is worth an estimated R20bn per annum. Industry players range from multinational companies offering global services to single individuals with a bakkie (pick-up vehicle) or scooter. In this sector 74 companies are registered as unreserved postal services (UPS) operators. Most of the major courier companies in South Africa are subsidiaries of international companies and include Aramex (Aramex South Africa, PostNet), DHL (DHL Express), FedEx (FedEx Express South Africa), DSV Group (DSV South Africa) and UPS (UPS South Africa).

2 - Overview of postal services and products

Letter-post remains the largest revenue source for postal services globally, although this trend is in decline South Africa is no different from the rest of the world regarding electronic substitution. By contrast parcel volumes have been increasing steadily in the past decade, both locally and globally. Despite the decline in mail volumes over the past decade, mail revenue is by far the largest portion of income for SAPO, accounting for 73% of the Group's income. SAPO has over the past 12 years, not been profitable (if the subsidy is excluded from income), except for 2006. Expenses outstripped revenues by on average R230m (€13.7m). From 2001 till 2012 this gap was funded by the subsidy of around R300m (€17.9m) per annum from the Government. After the end of the subsidy for the year ending March 2013, losses increased over R300m (€17.9m) and worsened to over R800m (€47.7m) after the 2014 strike which resulted in a total loss of R1bn (€60m).

Before the fall in revenue and the loss of the subsidy, SAPO had been able to cover the costs of the Public Service mandate. However, the loss of revenue after the strike and the loss of the subsidy, has exposed this large unfunded amount in SAPO's cost base. After the end of the subsidy SAPO began a process of austerity, which resulted in little to no investment in SAPO's infrastructure, in particular the IT infrastructure, less than R10m (€0.6m) has been spent on the network since FY2012/13. Thus, the network became highly unstable. SAPO also battled to pay service providers, which reduced its service reliability. All these factors placed it in a weakened position from recovering from the strike.

Investment will be required to make the SAPO core business offerings relevant and competitive and they will have to find partners (capital, knowledge and expertise) in areas beyond their core expertise.

Performance over the past 3 years

After the 2014 strike SAPO customers switched to other service providers. It has since proven very difficult to recover the lost customers. From FY2016/17 SAPO's operations have begun to stabilise and improvements in the Delivery Standard for letters increased from 69.22% to 77.69% in FY2017/18. The labour environment has also stabilised with the re-establishment of the bargaining structures and the signature of new recognition agreements with labour.

Despite the improvements in operations and cost management, SAPO is still faced with revenue and cost structure challenges, amongst others, which leave the company with a monthly liquidity problem. The company is going into the next three years facing 6 key challenges: (1) Lack of revenue growth and revenue retention; (2) A high cost base; (3) Lack of investment in infrastructure over the past 10 years; (4) Short term liquidity and long-term financial sustainability; (5) Driving Performance Management and more effective implementation of consequence management; (6) An inappropriate group structure hampering SAPO from raising funding from alternative sources.

In the commercial operations of SAPO (including all mail, parcels, e-commerce and courier businesses) SAPO has regressed so far technologically, that it simply cannot offer a competitive service. Interesting to note is that revenue from existing services fell 4% per annum whilst volume decreased over 10% per annum. SAPO will need to invest, not only in technology, but in basic customer interfaces, to compete with competitors on the frontline. The Corporate Plan suggests the possibility of partnerships or joint ventures with established players as an alternative to organic growth. This may prove to be the most capital efficient path to follow.

SAPO face the following challenges:

- Ineffective operations not been meeting customer's requirements
- Performance Management (Organisational Discipline) - low culture of discipline
- Global courier competition is still an ongoing threat
- The current operating model is outdated and imposes avoidable costs on the business
- Financial sustainability and an appropriate funding model must be agreed

3 - Social aspects

SAPO historically made use of labour brokers which eventually introduced thousands of excess employees onto the permanent cost base. However, given South Africa's highly unionised work force and high rate of unemployment, any reform that results in job losses will be resisted.

The outcomes anticipated in the Corporate Plan depend on the organisation achieving an optimal staffing cost structure. The implementation of any major restructuring of SAPO's employee cost base will need to be properly managed. This will be done within the constructs of a State-Owned Enterprise and with political support. The SA Post Office's staff compliment was 18 729 as at 31 March 2017, compared to 20 781 at 31 March 2016. The 10% reduction during the year under review was as a result of natural attrition (1,200) and the implementation of a voluntary severance packages (768). A number of employees who took voluntary severance packages went on early retirement. SAPO has three recognised trade unions and 80% of its bargaining unit employees belong to trade unions.

Position of national trade unions on the economic and social aspects of the postal services liberalization process

Aubrey Tshabalala the General Secretary of the Communication Workers Union (CWU) shared their view of the postal services liberalisation process.

The following points were raised:

- 1) The unions' view is that government should continue providing affordable basic postal services to all citizens.
- 2) Privatisation should be resisted at all costs since it would reduce employment.
- 3) The playing field for competitors should be regulated since they are at liberty to making their own rules which in turn impacts service levels.
- 4) New technology should be embraced, and substantial capital expenditure should be invested to build the future sustainability of SAPO.
- 5) Focus on services such as the facilitation of state grants payments, providing value-added banking services, supporting the rollout of Wi-Fi services, e-commerce facilitation and other electronic services should be prioritised.
- 6) The postal regulator should also stipulate market prices in instances where it supports fair competition whilst providing the best service at the best price for customers.

CASE STUDY: THE LIBERALIZATION OF POSTAL SERVICES IN SWEDEN

Sweden was one of the first countries in the world to fully open its postal market to competition, with market liberalization taking place as early as 1993. This liberalization had a mixed effect on competition as well as on the quality of services (slight decrease of on-time delivery rates, prices decreased for business but increased for USO services). One of the reasons for this is that, at that time, only the mail market was subject to a state monopoly, while competition already existed in all other markets. In 2018, 25 years after liberalization, PostNord⁶⁹ (the former Sweden Post / Posten AB) remains the largest player on the market, with a market share of 79%. With its monopoly position threatened by courier firms, foreign logistics companies and low-cost publicity delivery operators, the company has engaged in a modernization effort, developing a strategy based on aggressive competition in the mail business, a reform of its network of post offices as well as international expansion in the logistics sector. Of course, all this has not been achieved without social cost. All Swedish post offices have been replaced by postal points. In total, employment at Posten AB has been slashed from 49 000 in 1990 to around 20 000 in 2018. According to Swedish trade unions, the transition has however been managed in a sustainable way.

1 - Postal service liberalization

The liberalisation of postal services was launched by the centre-right government in office in 1991-94. At that time, and as already mentioned, the state monopoly concerned only the mail segment, with Swedish Post already facing competition in other markets. This situation is attributable to the vaguely-defined construction of the monopoly, dating back to 1888. In Sweden, the monopoly related solely to sealed hand-written letters, de facto opening up the market to other players for all other postal items not considered as letters.

The liberalization law entered into force on 1 March 1994. It was mainly aimed at guaranteeing quality and maintaining the universal service obligation (USO) instead of creating competition. In the early 1990s, the primary concern was not to respond to changing conditions in the postal market

but rather to counteract neo-liberal concerns over the low efficiency of public administration as well as over the government deficit. Its implementation was also based on positive experiences from other liberalised sectors that spilled over to the postal sector. Surprisingly, Sweden Post, which had just been transformed into an independent but still state-owned company (Posten AB), was in favour of deregulation. Swedish Post's business-oriented management held the opinion that if the company was given the freedom to meet competition in the mail business, its economies of scale would be sufficient to defend its market share. The mail monopoly was not considered to give much protection and Swedish Post management preferred to trade this protection for freedom to expand internationally and into the financial and IT sectors.

⁶⁹ PostNord is the holding company of the two merged postal companies Posten AB and Post Danmark that were officially merged on 24 June 2009. Posten AB now operates as PostNord Sverige.

Designated as the Universal Services Provider (USP), Swedish Post transformed into a public company (Posten AB). The USO encompasses the provision of postal services to the whole population five days a week. Specific targets are set to control quality, to ensure that prices remain reasonable and that a rich variety of services is retained.

- A number of households in remote and sparsely populated areas are exempt from the USO of a daily postal service, receiving their mail between two and four days a week (around 1300 households in 2018).
- The USP has an obligation to provide services catering for the postal needs of the disabled (dispatching postal items for the visually handicapped, an extended rural postal service for the elderly and the disabled).
- The Swedish legislator did not deem it necessary to provide Posten AB with a general compensation mechanism for the universal service. However, Posten AB receives financial compensation from the government through social services procured by the postal regulator PTS.

The initial Postal Act has been revised several times since 1994. In 1997, the scope of the USO was extended and postal operators were required to obtain a licence instead of just notifying the regulator. A licence is now needed for the regular delivery of letters (a term which relates to addressed mail but also to other items such as catalogues or newspapers)⁷⁰ but not for parcels. In 1998, price regulation was reformed, and legislation adjusted to the new EU Directive. In 2018, the Swedish government decided that the USP's delivery obligation for letters sent with standard postage will change from overnight delivery to two-day delivery with a quality requirement of 95%.

2 - Market structure and market evolution

Swedish Post had to face competition before market liberalization, even in its protected letter market. Building on the aforementioned legal loopholes, CityMail entered this market in 1991, using a strategy based on bulk mail delivery every two days (initially every 3 days) and limited

to areas with a dense population. By doing so, the company was eventually able to provide services at lower cost than the incumbent (automated bulk mail delivery helps avoid collection and sorting costs) and quickly obtain a critical mass of recipients. It took however more than 10 years for CityMail to obtain sufficient volumes to match the cost advantages of Sweden Post. After going bankrupt a couple of times, the company finally became profitable in 2006 after being taken over by Norwegian Post. In 2018, CityMail remains PostNord's main competitor (see below). Following the 1994 Postal act, Posten AB had also to face up to competition from small local firms that entered the market in the late 1990's. These companies were focused on delivering intra-city mail, usually in small- and medium-sized cities, from local businesses and public authorities. While the majority of them were unable to compete with Posten AB and exited the market, some have managed to become profitable and remain in business. They are usually self-owned, operate without advanced technology and compete on the basis of low costs and faster distribution.

a. The Swedish mail market⁷¹

In 2017, volumes in the Swedish mail market declined 3.1% to 2.20 billion deliveries. Since 2000, the total letter volume has decreased by 36%. This decline has mainly affected PostNord, which lost 47% of its mail volumes over that period.

- PostNord still has a dominant position in the mail market. Nevertheless, its market share continues to decline, now accounting for 87% in value and 79% in distributed mail items.
- Bring CityMail has a market share, in volume, of 18%. The company however collaborates with morning newspaper distributors and some local operators. Together, they now deliver more than 20% of the country's mail.

The Swedish postal market in 2017 - market shares			
	Letters (mln, 2017)	Market share (volume)	Market share (turnover)
Postnord	1741,2	79,1%	87,3%
Bring Citymail	394,6	17,9%	10,3
Morning newspaper Distributors	61,9	2,8%	1,3%
Other operators	4,1	0,2%	1,1%
Total	2201,8		

Approximately 48% of mail is distributed in Sweden's three metropolitan regions while the remaining 52% are distributed in the rest of the country. On the whole, however, competition is highly limited and mainly concentrated on the major cities. In most parts of Sweden, PostNord has an average mail market share of about 90%, dropping to 65-69% in the metropolitan areas.

⁷⁰ Letters are defined as addressed mail that is enclosed in an envelope or other wrapping and weighing at most 2 kg.

⁷¹ The mail market comprises the distribution of addressed mail weighing no more than 2 kg.

Market shares (volumes)			
Region/Company	PostnordB	ring Citymail	Other operators
Stockholm	65,3%	34,6%	0,10.
Göteborg	69%	27%	4%
Malmö	67%	26%	6%

b. The Swedish parcel market

In Sweden, five main players offer parcel deliveries to private individuals via their own distribution networks: Bussgods, DB Schenker, DHL, PostNord and UPS. Citymail also offers parcel deliveries via its network of agents and through collaborating with other players. The recent expansion of e-commerce has greatly affected the parcel market, with high growth in both volumes and sales. PostNord reports, for example, that the Group's parcel volume in the Nordic countries increased by 9.2% in 2017. In Sweden, PostNord increased its turnover in the eCommerce & Logistics business area by 5%. Parcels and other logistics services now generate almost half of PostNord's sales in Sweden. According to PTS, the Swedish postal regulator, there are currently no reliable statistics available on the total volume of parcel deliveries in Sweden. Though the Traffic Analysis Authority performs an annual survey on parcel shipments, not all relevant operators are required to provide data. The survey might therefore underestimate the size of the market.

c. Impact of competition on prices and quality of service

i. Pricing

The price for sending a letter in Sweden varies greatly according to such factors as who sends the letter (individual consumer or large customer at negotiated prices), which postal operator you hire, the design of the letter, whether the letter is to be distributed locally, regionally or across the nation, and how fast the letter should arrive. Overall, competition is considered to have exerted downward pressure on prices, especially for bulk / commercial mailing. On entering the market, CityMail offered lower prices for bulk mail than Sweden Post, with the possibility of negotiating them for larger volumes. This, in turn, forced the national operator to react by lowering its prices for bulk mail and 2nd class mail. At the same time, the price for individual letters was increased. This increase, even if exceeding the country's inflation rate, was however not able to compensate for the growth in postal costs.

ii. Quality issues

Turning to quality, the level has historically been high in Sweden. Over the period 2000 - 2006, the share of overnight delivery remained stable at 95-96 %, a level comparable to that prior to liberalization. This level has however since decreased. In its latest annual report, PTS underlined that operators were having problems

maintaining a constant level of quality and that it was tightening its reliability requirement for PostNord and CityMail. At the same time, accessibility to the Universal Postal Service appears to have decreased. By 2002, Posten AB had closed all its post offices, replacing them with business centres and postal contact points located in grocery stores, filling stations, kiosks etc. This change has been negatively perceived by part of the Swedish population. Despite the fact that the reform has led to an overall increase in service points (+39% between 2001 and 2005), their number has decreased in rural and sparsely populated areas.

On the commercial / industrial side, PTS quality studies have shown that the quality of services for large business consumers largely improved following liberalization. According to these studies, increased competition has led to a change in attitude at PostNord, which has become more customer-oriented and more willing to adjust to consumer demands than before liberalisation.

3 - PostNord's adaptation strategy

In a context marked by growing digitalization, a decline in mail volumes and the expansion of e-commerce, Sweden's historical operator has adapted to the new sectoral realities by restructuring its traditional postal activities and developing a strategy based on logistics, parcel / express delivery and international expansion.

- In 2009, Posten AB merged with Post Danmark A/S to form PostNord, owned 40% by the Danish State and 60% by the Swedish State and providing the universal postal service in Denmark and Sweden (certain mail services are also offered in Norway and Finland). The company has a strategy based on e-commerce. Since 2009, it has developed an integrated Nordic network (Finland, Norway) through which it delivers communication, distribution and logistics services. PostNord also has subsidiaries outside Scandinavia and has developed international partnerships (DPD).
- In addition to transforming its post offices into postal points, PostNord has greatly modernized its infrastructure and facilities (development of more fine-tuned pre-sorting methods, automatic sorting machines, introduction of software for the delivery sequence) and outsourced part of its activities. The company has also developed a new commercial approach and, more recently, engaged in the provision of new services (such as home deliveries of assistive devices to the elderly or food deliveries to consumers).

In 2017, the Group had around 31,000 employees and sales of just over SEK 37 billion. PostNord faces difficulties outside Sweden, especially in Denmark where the fall in volumes has been much larger than in other countries. According to trade unions, this situation is also putting Swedish workers under pressure. The group recently announced a major restructuring programme in Denmark, with 3,500 – 4,000 full-time employees to be shed.

3 - Social aspects

It is clear that postal sector employment has reduced since the onset of liberalisation. The total number of Sweden Post employees dropped from around 49 000 in 1990 to 33 000 in 2004. The letter division of Sweden Post had 35 000 employees in 1990 and 24 500 in 1999 (when the letter division was scrapped). Employment cuts have continued in recent years, with PostNord now employing 20 592⁷² workers in Sweden (full-time + part-time), 5% less than in 2013 (-58% since 1990). The decrease in employment at PostNord has not been compensated by new jobs created by new market entrants. Alternative operators employ around 13 000 people across the country (4% less than in 2013). One positive element is that all postal sector workers are subject to the same national collective agreement, de facto preventing companies from basing their competitiveness on lower terms and conditions.

The employment cuts are linked not just to the closing of post offices but also to increased automatization and digitalisation. According to the trade union SECO, the cuts have been managed in a sustainable way, for example through the introduction of retirement or pre-retirement schemes with good conditions. Several packages (with outplacement opportunities) and voluntary redundancy schemes have also been set up (with for example the

possibility to leave the company with 2 years of pay). It should be noted that the greatest impact of job losses has been on women.

Prior to deregulation, the majority of employees at Sweden Post were women, while they now account for just 40% of the workforce. This may be explained by the fact that post office workers were mainly women. The proportion of full-time jobs at PostNord has also declined, from 79% in 1994 to 72%. According to SECO, this evolution is linked to a growing number of young people (students) working for the company at weekends.

Working conditions have also suffered. In 2001, a SECO study team visited 800 Swedish Post and CityMail workplaces. These visits confirmed problems of stress and heavy workloads. According to the study, “the most distressing observation was the anxiety about the future expressed by most employees. This situation has resulted in an increase in long-term absence, the increased incidence of occupational illness and high employee turnover”. These problems were not unique to Sweden Post. Annual employee turnover at CityMail was reported to be very high for the same period. SECO confirms that deteriorating working conditions remain a problem. These are linked to price pressure due to competition (trade unions have been calling for higher price increases to solve this issue) but also to employment cuts (in the traditional postal services) that occur at a higher pace than the reduction of volumes. SECO also points out a growing destructuring of working time and a higher share of external work. SECO is calling for an improvement in working conditions. Among others, the trade union also argues that letter boxes should be installed as postmen still deliver letters from door to door. The latter should also be authorized to deliver parcels.

CASE STUDY:

THE LIBERALIZATION OF POSTAL SERVICES IN THE UK

Since the privatisation of Royal Mail five years ago there have been approximately 9,000 job losses in the company's UK operations, representing around 6% of the workforce. This is the result of a long term strategic focus on efficiency and cost avoidance. Although headcount reductions have come through voluntary schemes and natural attrition rather than compulsory redundancy, trade unions report that the effect has been to place increasing pressure on staff. The Post Office, which remains publicly owned, has substantially reduced its headcount over the same period, with employee numbers down by 2,584 or 33% since 2013. Against a backdrop of public funding cuts, the Post Office has been closing and franchising out Crown Offices or converting them into lower cost operating models. The Post Office announced a profit of £13m for the first time in 16 years for the financial year 2016/17, but this has been delivered largely through cost cutting, with operating costs down by £38m over the year. Meanwhile, revenues continue to decline, falling from £1,024m in 2013 to £957m in 2017.

1 - State of play of the national postal market

The UK imposed full liberalisation of postal services in 2006, three years ahead of the European schedule⁷³ and ahead of most other EU Member States. Consequently, it has one of the most competitive postal markets in Europe and it is also one of only a handful of European nations to have fully

privatised its incumbent postal operator⁷⁴. As part of the Postal Services Act 2011, Post Office Ltd became independent of Royal Mail Group on 1 April 2012. The Royal Mail and the Post Office are separate companies with independent Boards. The Post Office was split from the profitable Royal Mail business to pave the way for privatisation. Royal

⁷² In total PostNord employs around 31 350 workers in Sweden, Denmark, Norway, Finland and other countries.

⁷³ The 2002 Postal Services Directive aimed at fully opening postal services to competition by 2009

⁷⁴ Netherlands, Portugal and Malta have fully privatised their former state owned postal operator. Other countries, including Austria, Belgium, Denmark, Germany and Italy have part privatised their postal incumbent. Several countries still have a fully state owned postal incumbent, including France, Norway, Spain, Sweden and Switzerland.

Mail and Post Office Limited signed a major commercial agreement, which provides continuity and a close working relationship over the long term. Royal Mail is the company that delivers parcels and letters.

The Post Office is the nationwide network of branches offering a range of postal, government and financial services⁷⁵. There are currently around 11,500 post office branches across the UK, of which 300 are directly managed by Post Office Ltd (known as Crown offices). The majority of other branches are either run by various franchise partners or local subpostmaster or operators (who may be members of the National Federation of SubPostmasters or the Communication Workers Union (CWU) Postmasters Branch), as “sub-postoffices”. Royal Mail is the designated provider of the Universal Postal Service – the six days a week, one price goes anywhere postal service that Royal Mail delivers to 30 million UK addresses. This is often referred to as the Universal Service Obligation. Ofcom is the postal services regulator under the Postal Services Act 2011. Royal Mail was privatised in 2013 in the face of strong union and public opposition. The first share issue took place in October 2013 with 70% of Royal Mail transferred into private hands: individuals 17%; financial institutions 43%; and Royal Mail employees 10%. The government maintained 30% of shares, assets that were sold off in two equal tranches in June and October 2015. The share price was set at £3.30 and rose to £4.55 on the first day of trading, prompting widespread anger from the public and condemnation of the government who are accused of selling a 500-year-old treasured public institution off far too cheaply at the expense of taxpayers and for the benefit of corporate investors. Since privatisation, approximately £1 billion has been paid out in shareholder dividends, money which unions argue should have been reinvested into the business to secure its future.

The government invested more than £2 billion in the Post Office between 2010 and 2018. On 20 December 2017 government announced a further £370 million of funding to secure the future of the UK’s Post Office network. Of that funding, £210 million will be invested in continuing to modernise the network so it can continue to provide essential services and bring additional benefits to its 17 million customers across the UK, including extending opening hours and cutting queue times. A further £160 million will help to protect ‘last shop in the village’ community branches and ensure everyone continues to have access to their local branch. Figures published reveal the network provides services to 99.7% of people living within 3 miles of their local post office and number of rural branches rising to 6,185. The funding agreement, which will run from April 2018 to March 2021, comes as the Post Office moved into profit in 2017 for the first time in 16 years, making the business less reliant on government subsidies.

However, the government has introduced substantial cuts in public funding for the Post Office over the last five years, falling from £410m (Network Subsidy: £210m, Grant: £200m) in 2012/13 to £220m (Network Subsidy £80m, Grant: £140m) in 2016/17, and is due to reach as little as £120m (Network Subsidy £50m, Grant: £70m) by 2020/21. The Post Office has responded by introducing a network transformation programme which involves closing and franchising out Crown Offices or converting them into lower cost operating models. The Post Office claims this has benefited customers through better retail environments and longer opening hours, but unions argue that customer service has suffered with less choice of services, fewer trained staff and longer queue times. They want to see greater levels of investment in post office services, and the CWU has long advocated that a publicly owned ‘Post Bank’ be established to boost revenues and secure the future of the network.

Post Office revenues from continuing operations are declining year on year, falling from £1,024m in 2013 to £957m in 2017. Set against a substantial cut in operating costs of £38m for 2017, the evidence suggests that last year’s return to profit has been delivered largely through cost efficiencies rather than a sustainable growth agenda. Royal Mail delivers more parcels in the UK each year than all their competitors combined and managed to offset the inevitable decline in letter revenues with an increase from parcels and international logistics. International parcel growth was driven by acquisitions and net cash investment circa £450m for the full last financial year.

The UK has Europe’s most competitive parcels market, with 15 key competitors. Royal Mail states they are the most trusted and the most recommended parcel delivery company in the UK. Royal Mail provides the delivery backbone for e-commerce in the UK. The good news for the delivery market is that last year the UK saw an increase in parcel deliveries by 12% to 2.5 billion and spending increased by 8% to £10 billion. Following the 48% increase in global parcel over the past two years, the Parcel Shipping Index forecasts a 20% increase in parcel volume every year from 2017-2021. The parcel market volume share in 2016 is as follows: Royal Mail/Parcel Force (53%47%), Hermes (13%11%), DPD (7%), Yodel (6%8%), TNT Express (4%) and other 17%. Information based on the Royal Mail FY2018 Full Year Analyst Report. The parcel market revenue by company in 2016 is as follows: Royal Mail/Parcel Force (41%35%), DPD (10%12%), Hermes (8%), UPS (6%8%), and Yodel (6%) are the top 5 players contributing to approximately 68% of the parcel market in UK in revenue terms.

⁷⁵ Post offices offer mail-related services such as acceptance of letters and parcels; provision of post office boxes; and sale of postage stamps, packaging, and stationery. Identity and licence services with insurance products are offered. Further services include savings accounts, Mortgages, Credit Cards, Travel Money and loans.

Royal Mail claims to be more efficient through its strategic cost-saving initiatives which covered its core network (Collections, Processing, Logistics and Delivery) and other areas (Commercial, Property, IT and Central Functions) and therefore be more competitive, which helps them win and retain business, whilst continuing to provide the best employment terms and conditions. They continue to have more access points for customers compared with competitors. Amazon's activities have impacted the UK parcels market. Amazon is both a customer of and a competitor to the Group. Capacity expansion in the sector continues to exert downward pressure on prices.

Ofcom has fined Royal Mail a record £50m for breaching competition law. The fine is for its actions in 2014 when Whistl, which was then known as TNT, was trying to become its first competitor in wholesale mail delivery. Ofcom's investigation found that Royal Mail price rises in 2014 meant any of its wholesale customers such as Whistl that wanted to compete with it would have to pay higher prices in the remaining areas where it used Royal Mail for delivery. Ofcom's investigation found that Royal Mail's actions amounted to "anti-competitive discrimination against customers, such as Whistl, who sought to deliver bulk mail". "Royal Mail broke the law by abusing its dominant position in bulk mail delivery. "All companies must play by the rules. Royal Mail's behaviour was unacceptable, and it denied postal users the potential benefits that come from effective competition." It said the price changes were designed to protect the Universal Service, which, unlike its competitors, it was required to continue providing. The Universal Service means post is charged at the same rate, regardless of where it is sent to across the UK. However, Royal Mail has responded by saying it strongly refutes any suggestion that it has acted in breach of the competition act and will appeal Ofcom's decision. The CWU also published a hard-hitting response to Ofcom's decision reminding the regulator that its primary statutory duty is to protect the UK's universal postal service, not to damage Royal Mail⁷⁶.

E-commerce is driving Royal Mail deliveries to the US by more business parcels being sent to the US from the UK than any other country in the past year, new figures show. According to the Royal Mail, France and Germany were second and third while most business letters were sent to Germany, Ireland and France. Meanwhile, the highest number of business parcels imported into the UK came from China⁷⁷.

Royal Mail continues to invest in international opportunities and relationships (e.g. Asia, Spain & Germany) to build on their current international successes. Royal Mail acquired regional next-day

GLS (2016) and Postal Express (April 2017) operating principally on the US west coast. General Logistics Systems B.V., often shortened to GLS, is a Dutch, logistics company based in Amsterdam. GLS operates within 41 European countries and seven U.S. states,^[1] and also has a partnership network.

Royal Mail is often rated as the number one delivery provider compared with their competitors. Quality of service improved, and clients have shown an approval with 88% satisfaction in a survey undertaken by Ipsos MORI Corporate (Image Survey Winter 2017).

On March 1, 2013 Ofcom commented: "In particular, satisfaction with postal services among both residential consumers and SME businesses remains high. In addition, while Royal Mail has not met all its quality of service targets in all years since the introduction of the regulatory framework in 2012, its performance against its First and Second-Class delivery targets has generally improved over this time. Its overall performance in the five years since the introduction of the regulatory framework in 2012 is better than its performance in the previous five years⁷⁸."

2 - Social aspects

Market liberalisation and competitive pressures have brought lower prices for large bulk mailers and parcel delivery, but ordinary postal users have faced higher stamp prices and poorer service quality from unregulated parcel operators. Postal workers have been faced with job losses, the growth of insecure forms of employment, piece-rate pay, increased workloads and long working hours. Post Office Limited employee numbers dropped c.32.7% from 7,886 (FY2013) to 5,302 (FY2017), and the Royal Mail Group shed c.5.4% jobs from 167,616 (FY2013) to 159,000 (FY2018).

The Royal Mail Group announced in its 2017-2018 financial results that employee turnover remained low at 7.2%. This compares well with the average UK turnover rate of 23%⁷⁹. The most common CWU represented grade in Royal Mail is the Royal Mail Letters Operational Grade, earning a basic salary of £22,589 per year. This is significantly below the UK median full time basic salary of £27,000 per year. However, it is also significantly above the Real Living Wage as recorded by the Living Wage Foundation, and the CWU has succeeded in maintaining the real terms value of pay for its members in Royal Mail since the 2008 financial crisis.

The CWU is seeking to defend the interests of its members in Royal Mail through their 'Four Pillars of Security' campaign, which aims to secure a pension solution for all, a shorter working week, extension of their legally binding agreements on job security and pensions and a re-designed pipeline. Royal Mail continually works with unions of which the biggest is the CWU, which represents 120,000 employees (non-managerial) or

⁷⁶ Your Job is to Protect the USO, CWU reminds Ofcom, 17th August 2018, accessed at: <https://www.cwu.org/news/your-job-is-to-protect-the-uso-cwu-reminds-ofcom/>

⁷⁷ <https://www.retailgazette.co.uk/blog/2018/08/ecommerce-drives-uk-deliveries-us/>

⁷⁸ Source: https://www.ofcom.org.uk/data/assets/pdf_file/0033/97863/Review-of-the-Regulation-of-Royal-Mail.pdf

⁷⁹ Source: Total UK turnover rate taken from www.xperthr.co.uk/survey-analysis/labour-turnover-rates-2017/162496/

circa 85% of the total workforce (141,000 as per the Royal Mail Annual Report 2017-2018) at the company. A proposed labour agreement was overwhelmingly supported by the CWU in March 2018 to reduce future working week hours with an increased pay rise. Changes were agreed to the labour model and working practices at Royal Mail to enable the business to remain competitive. The Royal Mail also reached an agreement with CWU in a long battle over pensions.

For the postal service clients, the price of a first-class stamp increased from 41p in 2010 to 67p today reflecting a 63% price increase over an 8-year period which is more than the inflation rate (RPI increased by 23%) over the same period. However, prices of 1st Class stamps increased by 1.56% and 2nd Class by 1.82% for 2016 vs 2015 which was below the inflation rate which suggests that the stability of the pricing has been achieved.

The Royal Mail faces fierce competition where competitors offer workers poor terms and conditions giving them an unfair cost advantage. Whilst Royal Mail must comply with strict regulatory standards of universal service and quality of service, its parcel competitors are currently unregulated. Companies including Amazon, Yodel and Hermes, have become notorious for employing couriers on a self-employed basis and paying piece-rates for successful delivery. The result is that workers struggle to earn a living wage and customers face poor service quality as parcels are more susceptible to loss or damage after being left dumped on doorsteps, under cars or in bins when no one is home to receive them. The company continuously has pressure to perform, and since wages are almost half of its annual revenue, it almost becomes clear this would again be the target for cost-cutting. The CWU is campaigning for a new deal for workers across the UK to tackle low pay and job insecurity and bring new laws so that all workers have access to basic rights from day one, including a real living wage, holiday pay and sick pay.

3 - The position of national trade unions on the economic and social aspects of the postal services liberalisation process

Public anger remains since the government privatised Royal Mail. The Labour party and two-thirds of YouGov poll respondents believe the Royal Mail was sold too cheaply and are now campaigning to take back control and to reverse the decision. Competitors do not comply with the USO rules thus giving them an unfair advantage, but perhaps a blessing in disguise from Royal Mail's point of view is they have a full geographical footprint which fits well with e-commerce players such as Amazon.

The CWU shared their view of the postal services liberalisation process. In the face of pressures on jobs, terms and conditions, the union is striving to:

1. Defend jobs, pay, pensions and conditions of employment in Royal Mail and the Post Office. There were significant job losses in Royal Mail in the years preceding privatisation due to automation and competition and a number of delivery office and mail centre closures since 2013.

2. New and stronger legislation to safeguard the nation's six-day delivery service. Royal Mail failed to meet its First-Class target in 2017/18 and before that in 2015/16. At the time, the company said, "If we drive change too hard through major operational or pay related initiatives, this could trigger declines in quality of service below the regulatory minimum."

3. An overhaul of regulation to end Ofcom's push for a race to the bottom on pay and employment standards. The CWU argues that excessive cost cutting by Royal Mail in the pursuit of efficiency will be damaging for jobs, pay, conditions and therefore quality of service.

4. The renationalisation of Royal Mail and a public voice in the company. Since privatisation Royal Mail has paid out dividends totalling around £1 billion to investors (CWU report: September 2018) and this could have instead been reinvested back into the company to help secure the future of the universal postal service.

5. Fair employment standards across the postal sector with the living wage as a legal minimum. Ofcom's efficiency expectations for Royal Mail and its refusal to introduce minimum standards in the growing parcels sector puts the company at a cost disadvantage to unscrupulous competitors.

6. Protection for consumers that guarantees affordability and quality of service, including in the parcel delivery sector. Royal Mail has itself expressed concerns to Ofcom about the impact of efficiency on quality of service. With the pressures of mail volume decline and shareholder expectations, are putting serious pressure on the company to cut costs.

7. Investment in Royal Mail and the Post Office to secure jobs, bring new products and services and safeguard access to services. Royal Mail must continuously attract investment for technology CAPEX since they need to stay ahead of the competition. Failing this would weaken its market position.

8. The introduction of a state-owned Post Bank to secure the future of the Post Office by diversifying its activities and increasing its revenues. It would also improve access to finance for Small and Medium Enterprises and improve financial inclusion at a time when 1.5 million people in the UK are without a bank account.

POSTCARD

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