

WORLD TRADE ORGANIZATION

RESTRICTED

S/C/W/319

* August 2010

(02-0000)

Council for Trade in Services

POSTAL AND COURIER SERVICES

Background Note by the Secretariat¹

1. This Note has been prepared at the request of the Council for Trade in Services, with a view to encouraging discussions in the Council on the sector of postal and courier services. It provides background information and updates the previous Background Note on trade in these services (S/C/W/39). This Note focuses on issues and developments considered to be most relevant to the GATS. It is not intended to provide a comprehensive account of the sector; many of the observations contained in the previous Note remain pertinent today.

¹ This document has been prepared under the Secretariat's own responsibility and without prejudice to the positions of Members and to their rights and obligations under the WTO.

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I. INTRODUCTION

2. Postal and courier services form a key part of the global communications infrastructure, with high economic and social importance.² In recent decades, postal services have undergone radical changes — from a regulatory, operational and technological perspective — throughout the world. Traditionally, the postal sector has been characterized by state-owned monopolies providing basic mail services and privately-owned courier companies supplying expedited delivery services. The depiction of the sector in the Services Sectoral Classification List and in various schedules of commitments also reflects this more traditional picture. Today, such a distinction is put into question by the radical changes that the sector has undergone and is still experiencing. Traditional postal operators and private delivery companies, including global express delivery firms, are competing in a new business environment, using new technologies and expanding into new business segments.

3. Market-oriented reforms have been undertaken by most WTO Members, although to different degrees. Many public postal operators have been corporatized and/or privatized, and the scope of postal monopolies reduced and in some cases abolished. Further, a number of Members have taken measures to enhance the performance of the traditional mail operator and enhance the delivery of basic mail, alongside a competitive private delivery market. While many liberalization initiatives have succeeded, experience also highlights the importance of properly addressing certain basic regulatory issues.

4. In addition, technological changes have led operators to face new forms of competition from other communication services (e.g. e-mails), but also presented new opportunities, for example the greater reliance on just-in-time shipment of goods by express delivery companies. This is a rapidly growing area that is playing a key role in supply chain management and logistics, as well as in international trade.

5. This Note is structured as follows. The following section discusses the definition of the sector in a GATS context. Section III provides an overview of GATS commitments and MFN exemptions in the sector. Section IV then reviews recent trade and economic developments, and section V highlights trends in governments' approach to the sector, in particular as regards liberalization and regulatory frameworks. Section VI concludes by discussing some key barriers to trade in the sector.³

II. DEFINITION OF THE SECTOR

6. Generally speaking, postal and courier services comprise the basic and express delivery of such items as parcels, packages, documents, letters, and printed material. In the Services Sectoral Classification List (MTN.GNS/W/120), postal services are listed under 2.A and courier services under 2.B, within Communication Services (Sector 2). The scope of both postal and courier services is further defined through references to the CPC Prov. These CPC categories are reproduced in Table 1.

² For the purpose of this Note, postal and courier services include express delivery services.

³ This Note does not address Members' offers in the ongoing negotiations nor commitments undertaken in preferential trade agreements. Neither does it discuss in any detail classification issues. These topics have been addressed elsewhere, including in JOB(06)/10; S/C/W/39; and Zhang (2008). The Note focuses on the sector as a whole even if the emphasis of the negotiations, according to the negotiating proposals and the plurilateral request, is on services provided under competition, rather than on those reserved to exclusive suppliers, usually certain basic delivery services.

Table 1 : Definitions for Postal and Courier Services under the CPC Provisional

CPC Prov. code	Explanatory note
7511 - Postal Services	
75111 - Postal services related to letters	Services consisting of pick-up, transport and delivery services of letters, newspapers, journals, periodicals, brochures, leaflets and similar printed matters, whether for domestic or foreign destinations, as rendered by the national postal administration.
75112 - Postal services related to parcels	Services consisting of pick-up, transport and delivery services of parcels and packages, whether for domestic or foreign destinations, as rendered by the national postal administration.
75113 - Post office counter services	Services rendered at post office counters, e.g. sales of postage stamps, handling of certified or registered letters and packets, and other post office counter services.
75119 - Other postal services	Mailbox rental services, "poste restante" services, and public postal services not elsewhere classified. Exclusion: Services related to postal giro and postal savings accounts are classified in class 8111 (Services of monetary intermediaries).
7512 - Courier Services	
Subclass: 75121 - Multi-modal courier services	Services consisting of pick-up, transport and delivery services, whether for domestic or foreign destinations of letters, parcels and packages, rendered by courier and using one or more modes of transport, other than by the national postal administration. These services can be provided by using either self-owned or public transport media. Exclusions: Courier services for mail by air are classified in subclass 73210 (Mail transportation by air).
Subclass: 75129 - Other courier services	Other courier services for goods, not elsewhere classified, e.g./trucking or transfer services without storage, for freight.

7. As often noted, the particularity of this sectoral classification is that it distinguishes between postal and courier services on the basis of the nature of the service providers rather than that of the services provided. Indeed, the key characteristic of postal services when compared to courier services in this classification is that they are rendered by national postal administrations. As noted in JOB(06)/10, Members' negotiating proposals in the sector highlight the inadequacy of such classification, often underscoring the resulting uncertainty concerning commitments' coverage of identical services that are supplied on a competitive basis by both public and private companies. Indeed, the distinction in the classification based on the status of the designated postal operator appears increasingly out of step with commercial and regulatory realities (see next section): both private companies and traditional postal operators now tend to offer a wide array of services, and the vast majority of public postal operators compete with private companies in most services.⁴

8. Accordingly, some proposals have been made for improved classifications, including in the plurilateral request in this sector. These proposals, despite differences, generally advocate covering all relevant competitive delivery services, notwithstanding the nature of the supplier. They thus seek to ensure that activities of the designated postal operators (DPOs) outside their reserved areas can be subjected to commitments. The proposals also tend to focus on the nature of the services provided, cover explicitly express delivery or high-value services – which are sometimes defined for precision –, and suggest that schedules should specify with clarity any reserved areas.

⁴ CPC ver. 1 and CPC ver. 1.1 also distinguish between postal and courier services on the basis of whether the services are provided by the national postal administration or not. The CPC ver. 2 distinguishes between postal and courier on the basis of whether the services are rendered under a universal service obligation.

9. The CPC and the W/120 do not expressly spell out the dividing line between postal-courier services on the one hand and transport services on the other hand. Definitions of postal and courier services in CPC 7511 and 7512 refer to the transport of such items as letters and mail. CPC 7512 explicitly excludes mail transportation by air (CPC 73210)⁵, but does not provide such exclusions for other specific transport services categories. Further, CPC 75121 specifies that courier services "can be provided by using either self-owned or public transport media".

10. While it is understood that in principle there is no duplication among CPC categories, a number of CPC transport categories refer to the transport of mail. In the transport services categories of the CPC prov., CPC 71129 (falling under 11.E.b - freight transportation by rail (CPC 712) in the W/120) includes mail transportation by railway. CPC 71235 (under 11.F.b - freight transportation by road) covers mail transportation by any other land mode of transport other than railway.⁶

11. While CPC 7511 and 7512 include such "auxiliary services" as mailbox rental services or post office counter services, financial or telecommunication services rendered by postal operators would be governed by relevant commitments in these areas, namely sectors 2.C and 7 of the W/120, and not postal-courier services. Accordingly, these other services provided by postal operators are not discussed in this Note, even if these often form an important part of the operators' overall activities.

12. Finally, as indicated in the previous Secretariat Background Note, basic delivery services supplied under monopoly by a designated postal operator would be covered by the GATS as long as they are supplied on a commercial basis, which is usually the case.

III. GATS COMMITMENTS

13. A total of 54 WTO Members have commitments on courier services and/or postal services.⁷ As shown in Table 2, most of these Members have commitments solely in courier services; only 12 Members have commitments on postal services.

14. The number of Members that had undertaken commitments in these sectors at the end of the Uruguay Round was limited – 32 in postal and/or courier services. The accession process has contributed in great part to the tally of commitments in the sector. Twenty-two out of the 25 Members that have gone through accession undertook commitments in the sector.

Table 2: Summary of Specific Commitments

Countries	02.A.: Postal Services	02.B.: Courier Services
Albania	X	X
Argentina		X
Armenia		X
Austria		X
Barbados		X
Botswana		X
Brazil		X
Cambodia		X

⁵ Naturally, even if the CPC Prov. mentions air transport services, air transport of freight does not fall within the scope of the GATS, as per the Annex on Air Transport Services.

⁶ No mention is made of mail transportation in CPC categories pertaining to water transport, but these CPC categories do not feature exclusions relating to such items as mail or letter deliveries.

⁷ As of 1 July 2010.

Countries	02.A.: Postal Services	02.B.: Courier Services
Canada		X
Cape Verde		X
China		X
Croatia		X
Cuba		X
Czech Republic		X
Djibouti	X	X
Dominica		X
Estonia		X
FYR Macedonia	X	X
Gambia	X	X
Georgia		X
Grenada		X
Hong Kong, China		X
Israel	X	X
Jordan		X
Kyrgyz Republic	X	X
Latvia		X
Lesotho		X
Lithuania		X
Mexico		X
Moldova	X	X
Mongolia	X	X
Nepal		X
Norway		X
Oman		X
Papua New Guinea		X
Philippines		X
Poland		X
Qatar		X
Saudi Arabia		X
Senegal	X	X
Sierra Leone		X
Singapore		X
Slovak Republic		X
Slovenia		X
South Africa		X
Chinese Taipei		X
Tonga	X	X
Turkey	X	X
Ukraine	X	X
United Arab Emirates		X
Uruguay		X
United States		X
Venezuela		X
Viet Nam		X
Total	12	54

Note: This updates the corresponding Table in S/C/W/39 by adding acceded Members

15. Members that have undertaken GATS commitments in postal and courier services have scheduled relatively few sector-specific market access or national treatment limitations (e.g., limitations on foreign capital participation). While Members have tended to rely, in general terms, on the W/120 classification, namely the distinction between postal and courier services, they also limited commitments through annotations in the sectoral column, for example by excluding the delivery of certain items (e.g., letters or items above a certain weight) or more generally excluding monopoly areas. This is particularly true for the few Members with commitments on postal services (CPC 7511).

16. Further, some schedules include additional annotations in the sectoral column with respect to modes of transport, for example limiting a commitment to land-based services or specifying "except as specified for transportation services".⁸

17. Only the commitments of Ukraine, a recently acceded Member, use a classification that does not draw a distinction between services provided by DPOs and those provided by others, in line with most recent classification proposals made in the ongoing negotiations. Further, only the schedules of Ukraine and Viet Nam include a definition of express delivery services.

18. Postal and courier services have attracted only one MFN exemption, from Turkey with respect to reciprocity for pricing of letter mail.

19. No WTO Member has any MFN exemption as regards terminal dues, an issue highlighted in a submission by the UPU to the Special Session of the Council for Trade in Services in 2002.⁹ Since 2001, a transitional system for terminal dues was introduced, which includes different rates for developing and industrialized economies.¹⁰ The long-term goal, as per the Universal Postal Convention, is to move towards a system where terminal dues are aligned with country-specific costs of delivery.

IV. ECONOMIC AND TRADE PROFILE

A. TRADE STATISTICS

20. Balance-of-payments (BOP) statistics only capture a fraction of the industry's general involvement in trade. Almost 100 economies (counting each EU Member State) report BOP data on postal and courier services, but such data exclude mail transport by air transport enterprises, storage of goods, and mail preparation services.¹¹ Table 3 shows, on the basis of available BOP data, top exporters and importers of postal and courier services.

⁸ GATS/SC/26 and GATS/SC/120.

⁹ WTO (2002). Terminal dues relate to the remuneration system used by postal operators for the exchange of cross-border letter post mail. Traditionally, the national postal operator receiving mail from abroad would deliver it within its territory, free of charge. The assumption was that the costs of delivering such inbound international mail would be balanced. However, that is not always the case. The terminal dues, which were introduced in 1969, represent the amount charged to foreign national operators for access to one's own delivery network. See also Campbell (2002) and Adrenale (2010), pp. 31-36.

¹⁰ Some commentators have questioned the MFN consistency of this scheme: WTO (2002); Perrazzelli and Vergano (2000); TMC Asser Instituut (2004); and Luff (2002).

¹¹ See UN et al. (2002), p. 40. While the IMF, through the BOP Manual (now 6th revision), provides guidelines on classification for statistical purposes, individual countries may use their own.

Table 3: Major exporters and importers of postal and courier services (balance-of-payments basis 2007)
(Million US dollars and percentage)

Ra nk	Exporters	Value	Share in 15 econo- mies	Annual % change	Ra nk	Importers	Value	Share in 15 econo- mies	Annual % change
1	European Union (27)	7,887	69.6	11	1	European Union (27)	7,745	69.7	12
	Extra-EU(27)	3,163	27.9	14		Extra-EU(27)	3,191	28.7	19
2	India ^a	1,144	10.1	...	2	Canada	864	7.8	25
3	Canada	874	7.7	-3	3	Hong Kong, China	739	6.7	2
4	United States ^b	323	2.8	1	4	United States ^b	563	5.1	-7
5	Hong Kong, China	310	2.7	16	5	India	357	3.2	...
6	Australia	307	2.7	-11	6	Australia	350	3.1	46
7	Norway	130	1.1	60	7	Korea, Rep. of	232	2.1	-42
8	Russian Fed.	87	0.8	36	8	Norway	93	0.8	13
9	Argentina	76	0.7	10	9	Argentina	51	0.5	13
10	Korea, Rep. of	65	0.6	-70	10	Costa Rica	38	0.3	27
11	Venezuela	43	0.4	30	11	Russian Fed.	27	0.2	59
12	Azerbaijan	33	0.3	10	12	Honduras	16	0.1	14
13	South Africa	26	0.2	8	13	South Africa	16	0.1	7
14	Brazil	17	0.1	6	14	Turkey	11	0.1	-79
15	Honduras	15	0.1	7	15	Pakistan	10	0.1	-23
	Above 15	11,337	100.0	-		Above 15	11,112	100.0	-

^a India apparently reports flows for postal-courier by estimating that these account for half of the "communication services" BOP category, which also includes telecommunications.

^b Only covers postal services. For the United States, data on courier services are included under air transport freight, which in 2007 was estimated at US\$11,077 million for exports and US\$6,376 million for imports in 2007.

Note: Based on data available to the Secretariat. As some major traders in communication services do not report postal and courier services separately, they may not appear in the list.

21. The Table highlights that the European Union is both the top exporter and importer, whether intra-EU trade is accounted for or not. Among EU Member States, the largest exporters are the Netherlands, Germany, and the United Kingdom. The United States accounted for 52 per cent of the EU's extra-EU-27 exports of postal and courier services in 2008, followed by Switzerland (9 per cent), China (7 per cent) and Norway (5 per cent). The United States also accounted for a preponderant share (67 per cent) of the EU's imports (extra-EU-27) in 2008. Developing countries' share of extra-EU-27 exports increased from 16.8 per cent to 19.2 per cent between 2004 and 2008.¹²

22. Available data (for around 50 economies) suggest that trade in postal and courier services increased by 12.5 per cent per year between 2000 and 2007, reaching approximately US\$15 billion in 2007.

23. As is well known, BOP data cannot fully capture trade in services as defined in the GATS, due mostly to the non-inclusion of supply through commercial presence. Only a handful of Members report foreign affiliates statistics (FATS) – the best proxy for mode 3 trade – on postal and courier services. In the case of Germany, for example, the turnover of foreign affiliates of German companies stood at US\$23.4 billion for postal and courier activities in 2006 – in comparison with US\$37.6 billion for telecommunications. In comparison, Germany's cross-border exports in postal-courier services reached US\$1.4 billion in 2007. In the case of the United States, sales of affiliates abroad in

¹² Data by trade partner from Eurostat.

the courier and messengers sector amounted to US\$16.4 billion in 2007, more than twice the value five years before.¹³

24. Although foreign direct investment (FDI) statistics do not reflect the operations of foreign affiliates, they should be considered an important complement to FATS, as a rough indicator of services trade under mode 3. Like for FATS, only a handful of Members report data at this level of disaggregation. That said, the data highlight the internationalization of the sector. For example, the Netherlands' outward FDI stock in postal and courier activities was valued at US\$8.8 billion in 2008, while that of the United States stood at US\$3.8 billion, Germany's at US\$1.6 billion, and France's at US\$548 million.¹⁴

B. MARKET TRENDS AND ECONOMIC IMPORTANCE

25. Internationally comparable data on the whole sector are scarce. As noted before, distinctions are often drawn between designated postal operators and other suppliers, even if these often provide similar services.¹⁵ However, a recent study prepared for the Universal Postal Union (UPU) traces key market trends across different types of operators. This is further discussed below, before focusing to a greater extent on trends affecting, in particular, designated operators (section IV.B.2) and express delivery services (section IV.B.3).

1. An overview of the postal and courier markets

26. The study prepared for the UPU focuses on companies participating in the delivery of mail and light-weight parcels and express service items.¹⁶ This market is estimated at US\$500 billion worldwide, of which US\$300 billion for the letter mail market and the remainder for the expedited and package market (see Figure 1). Such data include services provided by designated postal operators as well as others. The top four participants are estimated to account for almost 60 per cent of each of these two market segments. In terms of volume, 430 billion mail items were delivered, while the expedited and package services market handled 25 billion shipments.

27. As illustrated in Figure 2, cross-border delivery represents a relatively small part of the total US\$500 billion market, particularly in letter mail (4 per cent) rather than in the expedited and parcel market (23 per cent). As indicated in Table 4, DPOs' share of cross-border shipments have decreased over the years, irrespective of the market segment. In letter post, their share of the market decreased from 93 to 85 per cent in terms of revenue between 1998 and 2008, while in expedited and parcel services, it went down from 19 to 16 percent.¹⁷ DPO's share of the whole light-weight international market dropped from 48 to 37 per cent between 1998 and 2008.¹⁸ The decline in volumes handled by DPOs holds true for all regions.¹⁹

28. DPO's market shares have been taken up by various private competitors, including the global express delivery companies – UPS, FedEx, TNT, DHL. Table 5 shows the share of the international

¹³ See www.bea.gov

¹⁴ For Germany and France, the figure is for 2007. Includes FDI in other EU Member States. Source: OECD Foreign Direct Investment statistics, OECD.Stat (2010).

¹⁵ Indeed, the UPU's postal statistics (e.g., on employment, operating revenue, number of posted items) cover only activities of designated postal operators, both those that are subject to exclusive rights as well as those under competition, whether in relation to postal services or not (e.g., financial services).

¹⁶ Adrenale (2010). The study is limited to express items, letters, and to parcels of less than 5 kg. Data from this study represent the aggregated data for 40 selected countries, which are representative of 85-90 per cent of the market.

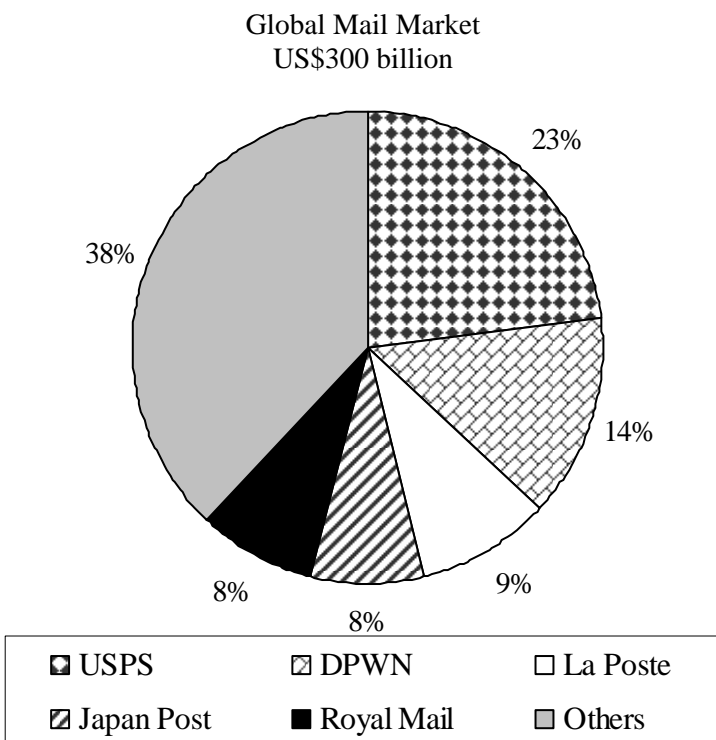
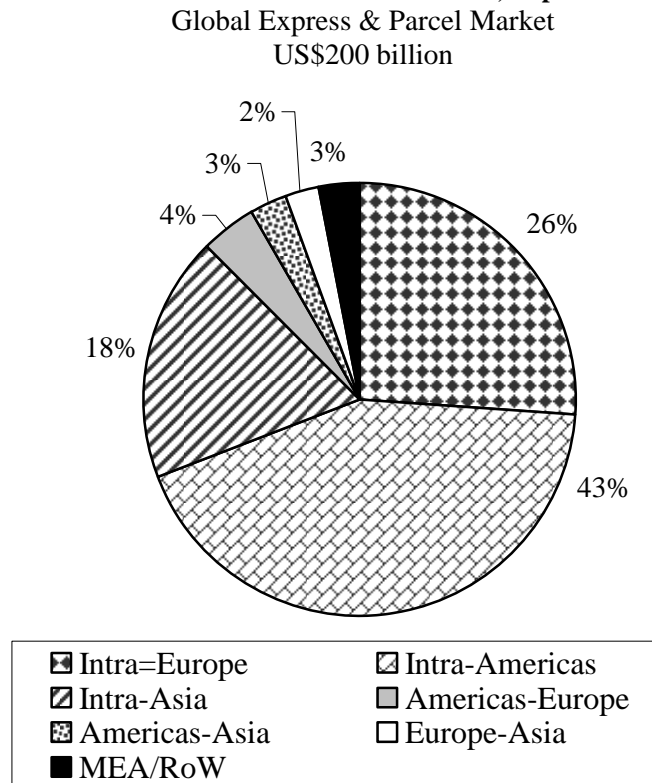
¹⁷ Letter mail or letter post refer to basic delivery of items weighting less than 2 kg.

¹⁸ Across all speed and service levels.

¹⁹ Adrenale (2010), p. 21-22

outbound market for lightweight items held by DPOs for different regions, as well as those of other competitors, such as the four largest express companies, which are present in all regions.

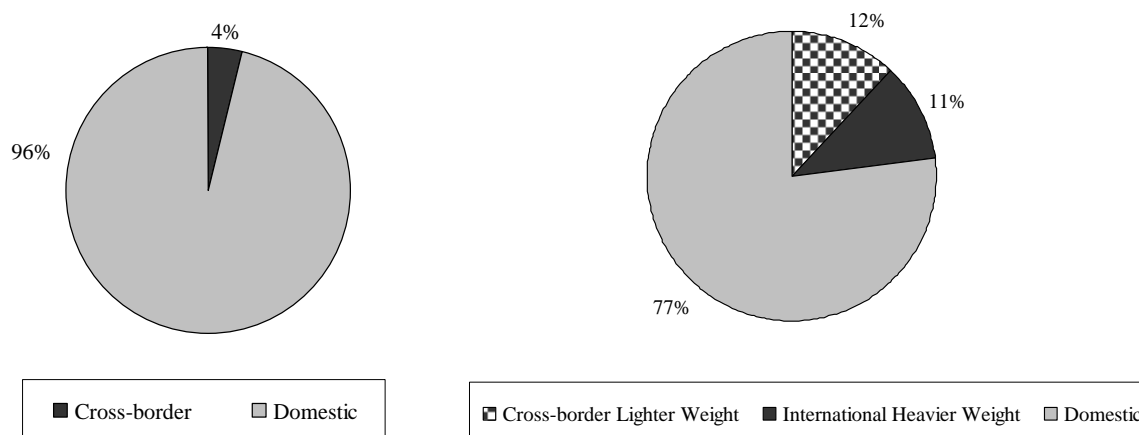
Figure 1: The Worldwide Market for Letters and Documents, Express and Package Services (2008)



Note: USPS stands for United States Postal Services, DPWN for Deutsche Post World Net, and MEA/RoW for Middle East and Africa/Rest of the World.

Source: Adrenale (2010).

Figure 2: The Cross-Border Market as a Share of the Total Global Postal and Package Market, 2008
Global Letter Mail Market (US\$300 billion) Gopal Expedited & Package Market (US\$200 billion)



Source: Adrenale (2010), p. 4.

Table 4 Evolution of the Global Lighter-Weight International Market (US\$ million)

Cross-Border Demand Data	1998	2003	2008
Designated Operators Revenues	9,172	10,587	11,482
Letters, Documents, Periodicals	6,976	7,986	7,899
Express and Parcels	2,196	2,601	3,583
DOs' Volumes	5,396	5,385	4,845
Letters, Documents, Periodicals	5,301	5,284	4,721
Express and Parcels	95	101	124
Other Postal & Competing Operators	1998	2003	2008
Others Operators Revenues	9,771	13,800	19,541
Letters, Documents, Periodicals	533	929	1,399
Express and Parcels	9,237	12,871	18,142
Others' Volumes	619	859	1,193
Letters, Documents, Periodicals	399	580	839
Express and Parcels	220	279	354
DOs' Shares of Light-Weight	1998	2003	2008
Revenue, per cent	48%	43%	37%
Volume, per cent	90%	86%	80%

Source: Adrenale (2010), p. 15

Table 5: Competitors' Share of the International Outbound Market (in Terms of Revenue) for Light-Weight Items, per Region, 2008 (per cent)

	North America	Western Europe	Asia Pacific	Latin America	Africa, Arabic Countries and Eastern Europe
DPO	24%	24%	45%	25%	44%
FedEx	32%	8%	16%	22%	8%
UPS	18%	17%	8%	14%	8%
TNT	5%	14%	6%	13%	11%
DHL ^a	14%	27%	24%	18%	24%
La Poste, GeoPost		6%			
Royal Mail		4%			
Others	6%		2%	8%	5%

Note: ^a For Western Europe, the market share estimation is for DHL-DPWN, and that of "DPO" is for "DPO and others".

Source: Compiled from Adrenale (2010), p. 22-31.

2. Basic postal delivery services and designated postal operators

29. Globally, basic postal delivery services are still largely provided by governments or public enterprises although, as seen in the next section, this situation has changed in certain countries. These entities are also providers of universal services and often benefit from certain exclusive rights. A major trend in the sector, however, has been increasing competition. According to the Universal Postal Union (UPU), the vast majority of public postal operators now face some form of competition from private companies. While *de jure* competition is uncommon, *de facto* competition is widespread.²⁰ The latest UPU data suggest that in more than two-thirds of economies, DPOs face competitors in the basic letter delivery segment. For basic parcel delivery, this is the case in more than 75 per cent of economies. Nevertheless, according to the UPU, the DPO faced no competition in the domestic basic letter delivery segment in 57 economies, and in the domestic basic parcel delivery in 23 economies. Generally, competition is greater – and the DPOs' share of the market lower – in international delivery than in domestic services.²¹

30. Operating revenue of DPOs worldwide reached SDR 210.4 billion in 2008.²² Industrialized countries account for most of revenues and growth. DPOs employ 5.6 million people worldwide, and operate 677'000 post offices. Through such networks, which are often used to provide a broader range of services than postal ones, they can have an important role in economic and social development.

31. The basic letter delivery services provided by DPOs have encountered difficulties in recent years. In developed economies, revenues and volumes have stagnated or declined – especially as regards international traffic – in light of competition from electronic messaging and other communication networks.²³ The economic crisis has exacerbated this trend. Its impact on postal operators has been strongest in the letter-post segment (5.9 per cent decline of domestic traffic during the fourth quarter of 2008) and in relation to DPO's express activities (with revenues dropping 7.8 per cent worldwide during the fourth quarter of 2008 compared to previous year's fourth quarter).²⁴

32. For the majority of postal administrations, the largest share of revenue still comes from traffic in letter post, although it has tended to diminish overall. In light of the decline in the traffic of letters, especially those originating from individuals (e.g., personal letters), advertising mail as well as the delivery of goods bought on-line are representing more important revenue streams for DPOs, although they are facing competition there too.²⁵ Traditional postal operators are also exploring opportunities in the area of hybrid mail, which responds to the trend towards substitution of physical mail by such electronic alternatives as e-mails. Hybrid mail most generally refers to messages sent electronically to the post office, which then prints and delivers them in physical form. Such emerging practices may help reduce cost and improve service quality in a number of market segments (e.g., bill statements,

²⁰ *De facto* competition is where many suppliers operate in a market that the law nominally reserves to an exclusive supplier.

²¹ Information provided by UPU. DPOs' average market share was 94 per cent in domestic basic letter post services and 75 per cent in international basic letter post services.

²² As noted earlier, UPU's postal statistics normally cover only activities of DPOs, not those of other suppliers providing similar services. They also cover activities of DPOs beyond postal services.

²³ Globally, the number of international letter-post items declined by 5 per cent between 2004 and 2008. See www.upu.int

²⁴ UPU (2009a).

²⁵ For example, in the EU, the volume of direct mail (or addressed advertisement) increased by about 20 per cent from 2004 to 2006, similar to developments in other developed economies. A number of EU Member States have liberalized this segment, and volumes have tended to grow faster in these countries. Business originating mail, as opposed to consumer originating mail, of which direct mail forms a part along with transactional mail (e.g. bills), represents about 85 per cent of all mail volumes in Europe (Ecorys (2008), p. 109).

bulk mail) since the message can be printed at a site closer to the delivery point and because there is no mail collection phase and a facilitated mail sorting process overall. According to the UPU, hybrid mail services were provided in more than 60 countries, and involved over 2 billion items worldwide. Almost all of the world's hybrid mail was produced for local domestic delivery.²⁶ The development of hybrid mail may prove important in developing countries in the future, where it could facilitate access to postal services and improve standards of delivery.²⁷ Competitors of designated postal operators are also increasingly involved in hybrid mail solutions.²⁸

33. In contrast to letters, DPO's parcel delivery activities have grown, both for the ordinary parcel delivery segment as well as the expedited or value-added one. Globally, the number of domestic ordinary parcels delivered by DPOs increased by 26 per cent from 2004 to 2007, to 6.5 billion, while that for international delivery grew by 17 per cent. DPOs' ordinary domestic parcel delivery service suffered the least from the crisis.

34. Faced with lower revenues from letters and greater competition from express delivery companies, DPOs have sought to "upgrade" their basic parcel delivery business, which resulted in many countries in such traditional services becoming "more 'express' in nature".²⁹ Indeed, parcel delivery operators are trying to close the gap with express delivery firms in terms of quality and value for money, although they still tend to focus to a greater extent on domestic services. Overall, traditional operators have been moving towards increased competition and higher-end, more profitable products. As a result, the traditional distinction between parcel and express services is becoming less clear; parcel companies, express operators and designated postal operators have broadened their product range to attract clients and compete against each other. DPOs have also expanded into such other areas as logistics or financial services.

35. For some traditional postal operators, movement into value-added, competitive, delivery services have paid off in commercial terms. For Deutsche Post (Germany) and TPG Post (Netherlands), express delivery activities represent a good part of total revenues. A number of other traditional operators have struggled, however. The United States Postal Service, for example, has faced serious financial difficulties, with operating losses of US\$3.7 billion and a cumulative debt of US\$10.2 billion in financial year 2009 (following losses of US\$2.8 billion and US\$5.3 billion in 2008 and 2007, respectively) despite reductions of expenses.³⁰ Among the 134 DPOs for which UPU obtained data on financial results for 2008, 50 suffered operating losses.³¹

36. Many developing economies, while experiencing a number of similar trends, are often facing different challenges. According to the UPU (2007), characteristics of the postal sector environment in many developing economies include the following: very low letter-per-capita ratios (e.g., less than 5 per year in Africa); poorly defined regulatory structures with *de jure* reserved areas, but with considerable competition *de facto* from private operators; slow implementation of postal reforms and inconsistent enforcement of regulatory regimes; dominant operators' poor network capacity; poor service standards (quality of services and access); financial dependence on government; and low

²⁶ The last UPU survey in this area showed that the top hybrid mail producer was Italy, with Europe accounting for preponderant part of the world's hybrid-mail. Malaysia ranked first in Asia-Pacific, and Tunisia first in Africa.

²⁷ See information on the website of the UPU's Postal Technology Centre: <http://www.ptc.upu.int/>

²⁸ Ecorys (2008), pp. 172-185

²⁹ Ecorys (2008), p. 109.

³⁰ USPS 2009 Annual Report, The Challenge to Deliver; Creating the 21st Century Postal Service; "Global Postal Reform from a U.S. Perspective", Commissioner Mark Acton, United States Postal Regulatory Commission, Mail & Express Review, August 2009.

³¹ <http://www.upu.int/en/resources/postal-statistics/about-postal-statistics.html>

priority with respect to government expenditures.³² At the same time, post office networks can sometimes represent a way to provide access to certain basic services to the population.

37. Some of these characteristics are reflected in Table A-1 (Annex). In developing economies, there may be no delivery at home at all; the majority of the African population has to collect mail from a postal establishment. Sometimes, both the sender and the addressee may pay for postal services. In some developing countries, international mail represents a far higher share of total mail volume than in developed economies. Developing economy characteristics are further reflected in the regulatory trends addressed in section V.

3. Express delivery

38. Over the last two decades, the express delivery industry has developed into a global industry "that provides value-added services with door-to-door collection and delivery."³³ In contrast to ordinary delivery of letters, the express segment is growing strongly. Express delivery involves the expedited movement of documents, parcels and merchandise goods. Operators maintain control of the goods throughout the delivery process – often using tracking technologies – and offer additional services such as collection from a point designated by the sender, guarantee of delivery within a specific timeframe, confirmation of delivery, and customs clearance. The growth of this segment results from such trends as the expansion of electronic commerce (home shopping); business-to-business developments favouring just-in-time systems that use small and frequent deliveries rather than bulk transport; and globalization of supply chains that place a premium on information management and speed of delivery. The types of goods delivered by express companies are usually high-value/low weight items.

39. The global express delivery industry has generated sales revenue of US\$175 billion in 2008, a 20 per cent rise in real terms since 2003, higher than the growth rate of the global economy. Estimations suggest that the industry's direct contribution to world GDP was in the order of US\$80 billion in 2008.³⁴ It directly employed 1.3 million people worldwide, in addition to indirectly supporting many other jobs in the economy. Like the whole sector, the express delivery segment has been negatively impacted by the economic crisis.³⁵ The reduction in international trade has had a direct impact on global operators' revenues.³⁶

40. As highlighted in Table 6, North America constitutes the largest express delivery market in terms of sales value, followed by Europe and Asia-Pacific, although the strongest growth has occurred in developing countries. Figure 3 shows that a great proportion of express deliveries are intra-regional. Indeed, express deliveries across America, Europe and Asia-Pacific regions accounted for 12 per cent of industry revenues.³⁷ The principal sectors using express delivery services include IT, telecommunications, pharmaceuticals, finance, and automotive & transport equipment industries. Firms in high-tech, or knowledge-intensive, sectors may be relatively more dependent on express delivery services, reflecting the fact that they deal with high-value items for which low stocks are essential, and items purchased on-line, where quick delivery to consumers is key. Express delivery operators also play an important role in facilitating e-commerce, and have benefited from the growth

³² See also Guislain (2004); Walsh (2001).

³³ Ecorys (2008), p. 129.

³⁴ Value of sales less that of intermediate purchases from intermediaries, e.g., fuel.

³⁵ For example, TNT experienced a 25% drop in volumes of air express at the beginning of 2009 (TNT Annual Report 2009).

³⁶ Oxford Economics (2009); UPU (2009a).

³⁷ Oxford Economics (2009).

of on-line retailing. It has been estimated that 35 per cent of all express deliveries in China derive from on-line purchases.³⁸

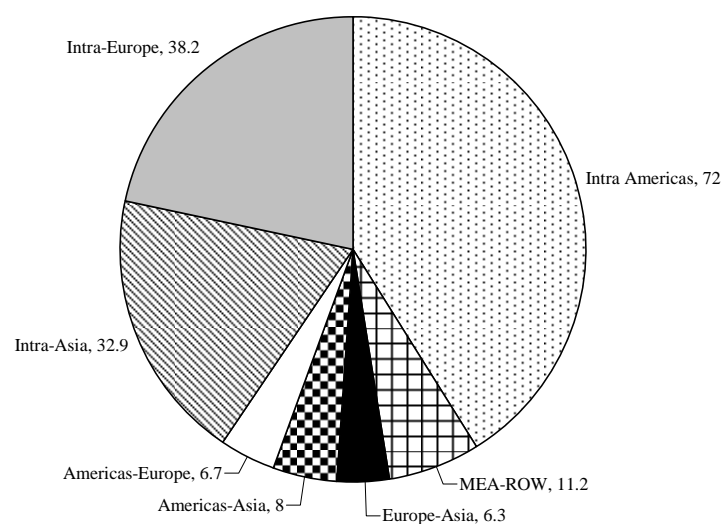
Table 6: Regional Trends in the Express Delivery Industry, 2003-2008

	Revenue (US\$ billion)		Annual growth	Global share
	2003	2008	2003-2008	2008
North America	58	76	6%	43%
Latin America and Caribbean	2	3	12%	2%
Europe	35	49	7%	28%
Asia Pacific	28	42	9%	24%
Middle East and Africa	4	6	10%	4%
Total	125	175	7%	100%

Source: Oxford Economics (2009).

Figure 3: Size of the Express Delivery Market per Region, 2008

Global express market = US\$ 175bn in 2008



Source: Oxford Economics (2009)

Note: MEA-ROW stands for Middle East & Africa-Rest of the World.

41. The top four global express delivery companies (UPS, FedEx, DHL and TNT) account for about 55 per cent of the global market.³⁹ In addition, there is a large number of express delivery companies, often operating at smaller scale, either at the domestic or even local level, sometimes focusing on same-day deliveries or exclusively on land transport. The four international market leaders, known as the integrators, will sometimes work with smaller express and courier operators focusing on the national market. In Europe, for example, it is estimated that about 50 per cent of the market is served by multiple small and medium size enterprises, while the other half is served by the

³⁸ Oxford Economics.

³⁹ DHL is now part of Deutsche Post DHL.

six larger players with international networks (DHL, TNT, UPS and FedEx, Royal Mail and La Poste).⁴⁰

42. The global operators own or control air transport fleets, and account for an important share of the world's air cargo services. FedEx is the largest airline in the world in terms of freight tons flown, ahead of Air France-KLM Group, while UPS ranks third.⁴¹ FedEx also has the second largest fleet, behind Delta Airlines.⁴² Express companies have developed to the greatest extent the concept of hubs and invested massively in special facilities or dedicated airports abroad.⁴³ Memphis, a FedEx international hub, is the world's largest cargo airport.⁴⁴

43. The express delivery industry plays, like such sectors as transport and freight forwarding, a key and growing role in facilitating international trade in goods, as well as more generally contributing to organising production more efficiently. Express operators constitute an important component of international supply chains, and help improve the competitiveness of firms, which, especially in light of the growing importance of just-in-time manufacturing, outsourcing, and online sales, rely on effective delivery of goods to connect with their consumers/users or between different branches of their production units.

44. Express delivery operators, especially those with large international networks, play an important role in world trade by providing reliable (tracking) and time-sensitive delivery to companies. They can assist companies seeking to expand into the global market, including SMEs or others that do not have their own transport delivery infrastructure, by facilitating lean-inventory (i.e. more streamlined production processes, and reduced storage costs) and global sourcing of inputs. In that context, restrictions on express delivery services can carry significant costs, including by reducing the ability of companies involved in trade in goods to fully take advantage of global markets, and by undermining a country's attractiveness as a trade platform and location for international production. In turn, global express companies also depend significantly on international trade, as restrictions to the flow of goods across borders limit business opportunities for exporting firms, which impacts on these express delivery operators.

45. As noted earlier, DPOs, especially in developed economies, are also providing services that compete directly with those of express delivery operators. They are doing so either by expanding the types of services offered to bring them closer to those of express companies, or establishing right-out subsidiaries, joint-ventures or acquiring private firms to compete directly against express companies. Some transport companies also compete with the express delivery operators, for example cargo operations of such airlines as United Airlines or Continental Airlines. In turn, express delivery firms have also developed their businesses beyond the delivery of documents and parcels to offer logistics and supply chain management services.

V. POLICY TRENDS IN THE SECTOR

46. Since the last Background Note, postal reforms have led to increased competition worldwide, and have had an important impact on market developments observed in the preceding section. Market-oriented postal reforms have been undertaken in most countries, to different degrees: public postal operators have been corporatized and/or privatized, and the scope of postal monopolies has been reduced or even abolished in some cases. As a result, the traditional dividing line between private and public operators has become much less clear. Key facets of market-oriented postal reform

⁴⁰ Ecorys (2008), p. 110.

⁴¹ Data for 2008. Source: *Airline Business*, October 2009.

⁴² For all types of aircrafts, whether for carrying freight or passengers.

⁴³ See WTO (2007), pp. 323-4.

⁴⁴ In terms of cargo tonnage, 2008. Source: *Airline Business*, October 2009.

relate, on the one hand, to the corporatization and privatisation of postal operators and, on the other hand, to the liberalization of postal markets and related regulatory developments. This section reviews each aspect in turn.⁴⁵

A. RESTRUCTURING OF POSTAL OPERATORS

47. In most countries, postal services had previously been supplied by the same state-owned entity that provided telecommunication services. As a result of the worldwide telecommunication liberalization that started in the 1980s, most national postal operators were split from telecom operators and became autonomous public entities.

48. A more substantial change for public postal operators subsequently came with corporatization, which involved transforming their legal status from a government department or a public entity into a state-owned enterprise with its own budget. In other words, the postal operator took the form and structure of a commercial enterprise, independent from direct political control. Corporatization is normally associated with internal reorganization whereby separate business units are set up within the same postal operator to provide different services, e.g., mail, express, parcel, logistics or postal savings. According to the latest UPU data, 170 economies have corporatized their public postal operators, while 21 still run postal services through a government department. Corporatization is also sometimes accompanied by the establishment of an independent regulator: 83 economies now have a separate regulator supervising the postal market.⁴⁶

49. A study of ten important Asian developing economies between 1980 and 2005 highlights the extent of changes in the management and conduct of postal business.⁴⁷ During that period, all economies reviewed – except China and India – had granted autonomy of management to their postal operators and commercialized their activities.⁴⁸ Privatization was implemented in Malaysia and Singapore in 2003, and a majority of the economies reviewed partially liberalized the sector over the period (see next section).

50. During the time span covered in that study, the institutional evolution of the sector differed markedly between China and India, and the other economies reviewed, which opted for management autonomy and greater participation of the private sector. In the former countries, the domestic postal traffic handled by the postal operator tended to grow at a pace below that of the economy between 2001 and 2005, while this was not the case for the second group of economies. The two groups also differed markedly in terms of postal traffic performance: for the second group, domestic postal traffic per capita went from a yearly average of 34 items for the period 1981-85 to 67 for 2001-2005, while for the second group it declined from 12 to 9. Further, the move towards structural separation and private sector participation coincided, for the second group of economies, with greater profitability and economic viability of traditional operators. Their profits per employee increased significantly between 1985 and 2005, unlike for India and China, which experienced financial losses per employee over the period.⁴⁹

51. Corporatization has become mainstream in the postal sector, regardless of economies' level of development. According to a report by the OECD, corporatization has typically led to substantial

⁴⁵ This section relies in part on Zhang (2008).

⁴⁶ Information provided by UPU.

⁴⁷ Anson and Toledano (2008), pp. 69-70.

⁴⁸ The other economies reviewed are: Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore; Republic of Korea; Thailand; and Viet Nam. A number of changes have taken place after 2005. In particular, the China Postal Group Corporation was established as a public corporation after its separation from the State Post Bureau in 2006.

⁴⁹ Anson and Toledano (2008), pp. 71-77.

improvements in profitability, service quality, productivity, and efficiency of postal operators.⁵⁰ That said, certain important DPOs have not been corporatized, including the United States Postal Service, the largest DPO in the world in terms of mail volumes.⁵¹

52. In some economies, the restructuring of the postal operator has gone beyond corporatization as steps have been taken to privatize the designated operators, moving from full government ownership to – at least partial – private ownership (see Box 1).

Box 1: Examples of Privatization in the Postal Sector

Germany partially privatized Deutsche Post in November 2000 through the sale of about one-third of equity. This had been preceded by the creation of separate departments for postal services, postal banking and telecommunications within the relevant ministry in 1989, as well as by the introduction of private sector management practices and new accounting practices. In 2002, Deutsche Post AG achieved full ownership of DHL International. They now form Deutsche Post DHL. The government retained – through the KfW Bankengruppe – about 30 per cent of shares.

In the Netherlands, TNT NV, which encompassed the incumbent postal operator, has been fully privatized since 2006, with the government now maintaining no ownership stake in the company. PTT Post had first been transformed into a public liability company in 1989, after which an IPO was done in 1994 (30 per cent share) and 1995 (additional 25 per cent), and the express carrier TNT was acquired in 1996. The company now employs 163,200 employees and has a corporate revenue of €1.2 billion (2008), of which 58 per cent relates to express services.⁵² In Asia, the government of Malaysia decided in 2001 to sell all shares of Pos Malaysia to a private investment holding, of which it held 32 per cent of ownership. Pos Malaysia is listed on the Malaysian Stock Exchange since 2007.⁵³ More recently, Post Danmark A/S was transformed into a public limited company (2002) and 22 per cent of its shares sold to a private investor (2005), while the Austrian Post Office started the privatization process through an IPO in 2006.⁵⁴

53. The general trend towards restructuring of postal operators has taken place as a result of increased competition, from private companies as well as from electronic means of communication. It may also stem from the stress put on public finances, the experience in reforming such other sectors as telecommunications, and the general desire to improve service levels, modernize, and cope with important technological changes.⁵⁵ In addition to corporatization, privatization or liberalization, governments have undertaken a number of other initiatives to help advance these goals. Major strides included the development of clearer and adapted universal service obligations, as well as allowing private sector participation through management contracts, strategic partnerships, or franchising of postal outlets.⁵⁶

⁵⁰ OECD (2001). See also UPU (2006b).

⁵¹ For recent regulatory developments, see Ecorys (2008), p. 1089. The Postal Accountability and Enhancement Act, adopted in 2006, aims, for example, at allocating the institutional costs of the Postal Service appropriately between market-dominant and competitive products.

⁵² ITA-WIK (2009), country fiches, p. 104.

⁵³ UPU (2006b); OECD (2001); Maruyama and Sano (2008); Crew, Kleindorfer and Campbell (2008).

⁵⁴ ITA-WIK (2009); Crew, Kleindorfer and Campbell (2008).

⁵⁵ Guislain (2004) highlights the urgent need for reforms in many developing countries so as to improve the performance of the sector. He argues that restructuring the incumbent traditional operator and sectoral regulations could result in more reliable and efficient services and greater investment, while reducing the need for subsidies.

⁵⁶ See Ianni (2008).

B. LIBERALIZATION

54. Another fundamental aspect of postal reform in recent times has been the elimination or reduction of exclusive rights.

1. Reserved areas and universal service obligations

55. For a long time, the provision of universal service was deemed possible only through the granting of exclusive rights, so as to compensate the relevant operator for engaging in unprofitable or less lucrative activities, for example providing various postal services at uniform rates in low volume areas. Under that approach, the profits made from the delivery of mail to high-volume areas were used to support loss-making delivery operations for low-volume areas. Pursuant to the UPU Convention, UPU members have to ensure that quality basic postal services are provided throughout their territory at affordable prices.⁵⁷

56. Over the past two decades, reforms have taken place in various countries to reduce the monopoly areas and enhance competition, while maintaining universal service obligations. Liberalization, in terms of introducing greater competition, was undertaken in order to provide postal operators with an important incentive for moving towards greater efficiency and innovation. The experience of a number of countries suggests that it is possible to reap the benefits of competition while providing universal service. Aside from the maintenance of a well-defined reserved area, other ways to ensure the provision of universal service may include subsidies to consumers, universal service funds, or cost-sharing (costs shared under an agreement with local entities).⁵⁸ As traditional postal operators have been restructured into commercial entities, governments have found it necessary to define the standards of universal postal service to be maintained.⁵⁹ They also considered it important to ensure that monopoly rents of the universal service provider were not used to cross-subsidize competitive activities outside the reserved area.⁶⁰

57. Most countries have formally defined universal postal service, either in regulations or in concession contracts or licences.⁶¹ National definitions differ depending on social and economic needs. Universal service is usually defined on the basis of the range of services covered (e.g., measured by weight), accessibility (access points), frequency of clearance and delivery, quality of service (transit time), and price. Letter post is a common component of universal service, although there are differences in weight limits and coverage of supplementary services. Most countries also cover basic parcel delivery, although again with different weight thresholds. With regard to the financing of the universal service, a great majority of countries chose to reserve certain postal services exclusively for universal service providers. It should be noted that nowadays the scope of the reserved services is often narrower than the scope of the universal service.

⁵⁷ See Article 3 of the UPU Convention.

⁵⁸ In those economies that have liberalized the reserved areas, different policies or mechanisms have been introduced to guarantee the provision of universal service. In some cases (e.g., Singapore, Sweden, United Kingdom), the universal service provider is required to provide that service under the terms of a licence or of an agreement with the government. The provider does not benefit from a compensation system, as regulators' estimations were that the cost involved was offset by the benefits of scale and the advantage of being able to have a nationwide service. In other countries, a special fund was set up to finance the provision of universal postal service. See Zhang (2008), pp. 385-7.

⁵⁹ It can be recalled that the existence of GATS commitments does not in itself affect standards of universal service.

⁶⁰ Zhang (2008), pp. 381-5.

⁶¹ UPU, *Results of the replies to the questionnaire on the universal postal service obligation*, available on the UPU website: www.upu.int.

58. Some analysts have questioned the idea of a monopoly-supported universal service obligation for mail in some developing countries. Pointing to low mail volumes in certain rural and poor areas, they suggest that governments instead encourage competition and promote access to a wider, bundled range of services, provided for example by post office franchises or various forms of private sector involvement, which would put lesser strain on public finances.⁶² Some of these views have been contested, including on the grounds that increasing access could lead to more demand and volume growth.⁶³

59. Other analysts have suggested focusing universal service obligations on residential and small business customers, thereby leaving operators greater commercial flexibility with respect to large commercial mailers, at least with respect to certain aspects of universal service, e.g. price setting or delivery frequency.⁶⁴

2. Liberalization of reserved areas

60. Competition has become a worldwide reality in delivery services. While most countries still maintain certain exclusive rights for their universal postal service providers, the coexistence of monopoly and competition is very common in the sector. For example, in Peru more than 450 private operators are licensed to provide postal services, while in Colombia 200 licensed "specialized operators" offer basic postal services with value-added options.⁶⁵ Further, in several developing countries, the scope of *de facto* competition is broader than that of *de jure* competition, as a number of private courier companies provide services that are nominally reserved to postal incumbents. Generally, there is an increasing trend to reduce the scope of monopoly rights.

61. Various countries have taken steps to reduce the scope of the reserved area and foster greater competition. Further, nearly 20 countries have completely abolished monopolies in their postal sector. Highly or fully liberalized markets include not only those of developed countries such as Germany, Finland, New Zealand, Norway, Sweden and the United Kingdom, but also a number of developing countries, such as Colombia, Peru, Singapore and Nicaragua.⁶⁶

(a) EU postal reform

62. A major liberalization effort, in view of the importance of the changes made and contemplated, but also the size of the postal market and number of countries involved, is that of the European Union. It covers various aspects of postal reforms that go beyond reduction of the reserved area.

63. According to a report prepared for the European Commission, at the beginning of the 1990s, postal services were provided in many Member States by "inefficient loss-making postal entities with a considerable lack of customer attention, resulting in substantial heterogeneity of service quality", and where "postal monopolies often covered delivery of letter post items up to 2 kg and sometimes included even express services".⁶⁷ The first Postal Directive, adopted in December 1997, mandated the gradual opening of Member States' postal markets while maintaining universal service as well as an adequate regulatory framework. The Directive set maximum limits for the services that may be reserved to the universal service provider(s) in each Member State. From 1996 to 2006, the reserved area was reduced three times and today only mail items weighing less than 50 grams and costing less

⁶² Kenny (2005); Guislain (2004).

⁶³ See Anson, Cuadra, Lindares, Ronderos and Toledano (2006). In turn, Ianni (2008) argues that it has not been demonstrated that increasing access leads to greater volumes.

⁶⁴ See, for example, Finger et al. (2005); and different views in Crew and Kleindorfer (2006).

⁶⁵ Ianni (2008), pp. 403-404.

⁶⁶ UPU (2009b).

⁶⁷ ITA-WIK (2009), p. XI.

than 2.5 times the basic tariff are exempt from competition. The third Postal Directive requires the majority of Member States (95 per cent of EU postal markets in terms of volume) to abolish exclusive rights by 1 January 2011 and by 1 January 2013 for the rest. Germany (2008), Finland (1991), Sweden (1992), the United Kingdom (2006), Estonia (2009) and the Netherlands (2009) have already abolished the reserved areas before the date foreseen in the Directive.⁶⁸ The Postal Directive is part of the European Economic Area (EEA), and the 'Second Postal Directive' has been transposed into national law by Iceland, Liechtenstein and Norway. EU candidate countries are at different stages in the transposition of the postal *acquis*.⁶⁹ Further information on the EU postal reform is found in the Annex.

64. As a result of regulatory changes and market developments, according to the European Commission (2008b), the traditional postal operators in the EU have modernized, restructured and moved towards more market-driven and customer-oriented supply of services, greater efficiency and service quality. For example, evidence suggests that greater competition has led to relatively greater mail volumes, the development of new value-added services and downward pressure on bulk prices.⁷⁰ Traditional operators have also expanded in areas beyond universal service provision. Actual competition in the letter-post market has emerged, but is developing slowly despite the liberalization steps undertaken. More than the reduction in the reserved area from 100 to 50 grams, the development of competition stemmed in particular from the full liberalization of specific segments of the addressed mail segments, for example direct mail (e.g., Italy, Netherlands) or intra-city mail (Spain).⁷¹

65. The evolution of the EU postal regime also highlights the importance of regulation, including the role of national regulatory authorities in monitoring developments and acting to prevent barriers to competition. Research has suggested that for most countries involved, the Postal Directives, which provide flexibility in transposition into national law, can be seen as a necessary, but not a sufficient condition for the development of competition.⁷² To complement the market opening flowing from the Directives, national regulatory authorities need to tackle or prevent the rise of *de facto* barriers allowing a continuation of limited competitive pressure on incumbents.

(b) Other examples of postal reform

66. Various other countries around the globe have taken measures to reduce, or even eliminate, exclusive rights so as to foster greater competition in the sector.

⁶⁸ At the same time, in 2007-2008, some have slowed their original plans to open their postal market before December 2010 and there have been attempts to broaden the scope of the reserved area and the Commission had to intervene to prevent it. See Ecorys (2008).

⁶⁹ EC (2008b).

⁷⁰ Ecorys (2008).

⁷¹ Market shares of new entrants have increased, but remain low, even where postal markets have been fully liberalized (e.g., 9 per cent in Sweden, 10 per cent in Germany, but below 2 per cent in the majority of other EU Member States). That said, in various instances, competitors have been able to establish profitable operations even on a small scale, e.g., CityMail in densely populated areas of Sweden, EP Europost for unaddressed delivery across Germany (Finger, Alyanak, Rossel 2005). In the United Kingdom, where there are no reserved areas, competition has developed in the upstream market, with competitors accounting for 20 per cent of the volume of addressed mail. Further advances in terms of incorporation and privatization have occurred in recent years, for example the German government reduced its shareholding in the German USP, while the Dutch government sold its remaining 10 per cent share and gave up its "golden share" in TNT. Poland and the Czech Republic started in 2007 the process of transforming the State enterprise into a joint stock company. All public postal operators in the EU have been corporatized, except in one Member State, Cyprus, where it is still a government department (ITA-WIK 2009). The majority of universal service providers has remained State-owned (EC 2008b).

⁷² Ecorys (2008).

67. For example, in Australia, the reserved area of Australia Post, a state enterprise, was reduced in 1989 and 1994, limiting it to letters weighting equal or less than 250 grams and costing less than or equal to four times the standard letter rate. Also, the reserved area does not cover such items as outbound international letters or advertising mail. In Switzerland, as a result of amendments introduced to the Postal Law in 2003, the parcels market has been completely open to competition since 1 January 2004. In Norway, the scope of the reserved area was also reduced several times and Norway Post's current license (valid from 1 January 2007 to 31 December 2010) grants only exclusive rights on sealed, addressed letter under 100 grams.

68. New Zealand abolished the postal monopoly in 1998. The universal postal service is guaranteed through an agreement (Deed of Understanding) between the government and the incumbent operator, New Zealand Post Limited, a state-owned commercial company. The Deed of Understanding also requires New Zealand Post to give access to the postal network, e.g., post office boxes, to third parties under certain conditions. Access is privately negotiated and not fixed by the government. Despite having no reserved area, New Zealand Post had a market share of about 80 per cent in the basic letter market.⁷³ In Singapore, postal monopoly ended on 31 March 2007, and Singpost, the incumbent operator, continues to provide universal service in a fully liberalized market.⁷⁴

69. In the United States, greater private sector participation has occurred through work-sharing arrangements, rather than as a result of liberalization of the reserved area. For example, private mailers may perform such work-sharing activities as bar-coding and pre-sorting. In recent years, about 80 per cent of mail delivered by USPS has been handled at some point of the network by a third party. Some estimations suggest this amounts to transferring about one-quarter of USPS' workload to the private sector.⁷⁵

70. In developing countries, postal reform has generally not been as profound or rapid as in some OECD countries. Many successful reforms have taken place, but in some cases new barriers have been erected, at least in comparison with the level of competition previously existing *de facto*.⁷⁶ General forces and motivations driving reforms have been similar: promotion of competition, technological change, and desire to improve the quality of service, make better use of government assets, and encourage a better performance and economic contribution of the whole sector. Strategies pursued have differed, but tended to include doses of liberalization, increased private sector

⁷³ Estimation for 2007: Ecorys (2008), p. 1083. See also Zhang (2008).

⁷⁴ UPU (2006b); Zhang (2008).

⁷⁵ Ecorys (2008), pp. 1095-6. Further, the exclusive rights of USPS as regards letters has been suspended for extremely urgent letters (express delivery), e.g., those whose price is six times higher than a first class letter of the lowest category. That does not extend to delivery to mail boxes, where USPS enjoys monopoly rights.

⁷⁶ See, for example, the recent situation in China: see WTO (2010), as well as WTO, "Trade Policy Review of China", Report by the Secretariat, 26 April 2010, WT/TPR/S/230, pp. 96-97. In India, a legislative proposal put forward in 2006 and subsequently withdrawn in 2009 suggested, among other things, an expansion of the reserved area and a rollback of FDI levels with respect to private suppliers of delivery services (Mukherjee (2009)). In Indonesia, the New Law on Postal Service (2009), while abolishing the reserved area for Pos Indonesia for certain postal services, requires that postal service suppliers (including courier and express delivery companies) be majority-owned by Indonesians. It also requires that the collaboration between domestic and foreign suppliers (with minority ownership) be limited to province or capital with international airport or harbour. The New Law also provides that private sector operators contribute to the financing of the universal postal service, and that non-universal service operators give priority to the delivery of items falling under the universal postal service, subject to compensation determined by the government (WTO (2010), p. 85).

participation, restructuring and improving the performance of the traditional operator, and regulatory reform. Reform experiences have highlighted the importance of an effective regulatory framework.⁷⁷

71. In Argentina, in 1993, the exclusive rights of the incumbent operator were abolished. Correo Argentino S.A., the state-owned operator, was providing a universal service, and had suffered losses of over US\$150 million per year. The government then decided in 1997 to proceed to privatization through a 30-year concession arrangement, which was won by a local consortium. Under the arrangement, *Correo* was required to provide universal service, and to invest US\$250 million in the postal infrastructure over ten years, as well as to pay US\$104 million per year for the concession rights.⁷⁸ The concession was revoked in 2003 after relevant conditions were not met. Correo Argentino later filed for bankruptcy, and the government took back full ownership of the company. Reasons for this turn of events may include the economic problems that affected Argentina at the time or the level of concession fees, but also, according to the UPU, an inadequate regulatory framework, where liberalization was initiated first and the attempts to regulate came later. In particular, the framework did not permit enforcing licensing requirements and curbing illegal postal operations, which made it difficult for the company to improve its commercial situation and take advantage of opportunities while meeting stringent universal service obligations in terms of prices and service quality.⁷⁹ After the termination of the licence in 2003, Correo continued to operate in a liberalized market, but the regulator undertook new actions to ensure competitive conditions and imposed stricter operating requirements and procedures.⁸⁰

72. Tanzania is another example of postal liberalization. The national market was characterized by low mail volumes – less than 1 mail item per capita –, essentially concentrated in a few large cities. In the four years preceding the commercialization of the postal operator in 1997, mail volumes had fallen by an average of 22 per cent per year. Performance of the operator in such areas as service quality was not monitored; the operator was financially and institutionally dependent on the public telecom operator. With World Bank support, Tanzania undertook reforms aiming to make the postal operator financially viable. The reform strategy aimed, first, at establishing an autonomous public operator and establishing a strong regulatory environment, second, at increasing accountability through performance contracts, and, third, at commercializing the operators' finances and operations to allow it to succeed in a competitive market. After regulatory steps were taken – clear definition of the USO, separation from telecom operator – the reserved area was set at 500 grams, and the parcel and package segment was liberalized. Competition has grown in the courier and parcel market, with 47 international, regional and national courier operators licensed as of 2009, as opposed to only two in 2001. The operator essentially has been self-financing, with operating costs below revenues between 2000 and 2006. The operator remains government-owned, but has entered into some partnerships with the private sector, e.g., contracts with transport companies for delivery and collection in remote areas. This case highlights, among other things, the importance of proper sequencing as regards regulatory reform and advantages of greater competition.⁸¹

73. A number of other countries have undertaken reforms to improve the performance of their public postal operators, even if these did not involve liberalization of the reserved area as such. Steps

⁷⁷ See for example World Bank and UPU (2001) and Guislain (2004).

⁷⁸ Walsh (2001), p. 26.

⁷⁹ UPU (2004). See also: "La privatización y regulación del correo oficial argentino en perspectiva", Mariano Wiszniacki, http://perio.unlp.edu.ar/question/numeros_anteriores/numero_anterior13/nivel2/articulos/informes_investigacion/wiszniacki_1_informes_13verano06.htm (accessed on 25 June 2010).

⁸⁰ See: Presentation by A. Javier Pérez (Argentina) at the UPU Forum on Postal Regulation, 12 November 2009.

⁸¹ Ianni (2008), pp. 411-412; Segni and Ianni (2004).

taken in that regard may include improvements to the regulatory framework, improved accountability and restructuring of the designated operator.⁸²

VI. BARRIERS TO TRADE⁸³

74. The main formal trade restriction in the postal and courier arena is exclusive rights. These may not be the main focus of the Doha negotiations in the sector, at least according to the plurilateral request or negotiating proposals, which rather focus on barriers within competitive areas. That said, the granting of exclusive rights for the commercial provision of services is a market access limitation under Article XVI.

75. As noted in section V, several countries have tended to reduce – or in some cases even eliminate – reserved areas. Furthermore, in a number of cases, *de facto* competition is greater than what is contemplated by law. Gaps between what the law provides and what is in effect permitted may create uncertainty about whether permitted situations of *de facto* competition will persist in the future.

76. In other cases, the reserved area is not clearly delineated, which may cast doubt on whether certain services can be provided by all suppliers and leaves scope for discretion. For example, some countries define the reserved area simply in terms of the activities of the public provider, and in other cases there is a general reference to letters and/or parcels, but without indication of the weight, price or level of service contemplated (e.g., whether the monopoly relates to basic delivery or express services). Yet in other cases, some monopoly rights may be defined overly broadly in relation to universal service objectives.

77. A number of other concerns in the sector revolve around the behaviour of the monopolies outside their reserved areas. These relate to fears of anti-competitive practices (e.g. cross-subsidies), and a variety of measures through which governments may maintain special treatment of like domestically-owned operators (e.g., price controls and surcharges, customs treatment, etc). The lack of an independent regulator, as well as of accounting separation, is also an important concern in a number of markets (e.g., postal entities sometimes license and regulate, or even tax their private competitors). Another important barrier relates to overly burdensome licensing requirements for the competitive activities not involved in the provision of universal service.

78. Further, suppliers are sometimes subject to discriminatory measures similar to those found in other sectors, for example taxes, fees, as well as to investment restrictions such as foreign equity limits, joint-venture and local incorporation requirements. Another barrier in the sector consists of preventing foreign delivery companies from conducting their own pick-up, delivery and customs clearance services. This complicates the provision of integrated services and reduces the efficiency of express delivery companies, thereby creating costs for users. In other cases, express delivery companies are barred from conducting domestic deliveries – including domestic legs of international deliveries. This may limit the viability of their presence in certain markets and, among other things, limit foreign direct investment.

79. Finally, it can be noted that barriers and inefficiencies in a host of other areas, be it customs clearance or transport (e.g., air traffic restrictions), will strongly affect suppliers heavily using such

⁸² For further developing country experiences with reform, see Ianni (2008), Segni and Ianni (2004), and World Bank and UPU (2001). Countries mentioned in these studies are: Azerbaijan, Brazil, Costa Rica, Guatemala, Indonesia, Morocco, Tanzania, Trinidad and Tobago.

⁸³ The terms "barriers to trade" or "trade restrictions" are used here to refer generally to measures that may negatively affect trade, and not to depict solely limitations on market access or national treatment as per Articles XVI and XVII of the GATS.

services. Undue delays at customs have a negative impact on express delivery firms, which rely on guaranteed delivery times. In some countries, express firms are affected by weight or value restrictions on their shipments, e.g., limiting express items to those weighting less than a certain quantity, and barring them from expedited processing at customs.

80. Nevertheless, the current market situation in many economies suggests that, regardless of such impediments, there is much scope for new or improved commitments on postal and courier services.

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ANNEX

Further Information on EU Postal Reform

In addition to liberalization, the EU Postal Directives also cover various other aspects, with the objective of developing common rules for the growth of the EU internal postal market and improving service quality. For example, it requires all Member States to provide a universal postal service for all users comprising a minimum of one delivery and collection five days a week, and provides that all users be permanently provided with a postal service of specified quality throughout the territory. It requires that tariffs for universal services be cost-based, transparent and non-discriminatory. Cross-subsidies from the reserved area to the competitive area are limited to the fulfilment of universal service obligations. Universal service providers have to apply transparent and separated cost accounting principles, and provide separate accounts for reserved and non-reserved universal services and non-universal services. Member States also have to establish regulatory authorities independent from postal operators.

The Directives also provide that Member States may establish a compensation fund to ensure that universal service is provided, should the universal service obligation constitute an unfair burden for the provider. While several Members have made provisions for setting up compensation fund arrangements, only one Member State had actually established one by end 2008.

Access to postal networks is another area covered by the Directives, although they do not impose specific access rules in that regard. Member States have different policies on whether the dominant operator needs to provide third-party access to its delivery network, and under what conditions, but there is a trend towards access to the delivery network by competitors. Lack of access to the postal infrastructure can constitute an important barrier to the development of effective competition in the postal market.⁸⁴ As of end 2008, ten Member States (including Germany, Spain, United Kingdom and France) had granted their regulatory authority the right to require downstream access to the public postal network under appropriate circumstances. Downstream access can consist of access to inward and outward sorting centres or delivery facilities. Access terms and conditions (e.g., access points, prices) can, for example, be regulated ex-ante by authorities, or left to the parties to negotiate with the regulation authorities to intervene if no agreement can be attained. A related issue concerns access to the postal infrastructure, such as letter boxes, post office boxes, and address database, but less has been achieved by Member States on that aspect.⁸⁵

⁸⁴ Ecorys (2008), p. 19.

⁸⁵ EC (2008a), pp. 19-21.

Table A-1: Characteristics of Postal Services, 2008

Member	Percentage of the population having basic mail delivered at home	Percentage of the population having to collect basic mail from a postal establishment	Percentage of the population without postal services	Average number of letter-post items posted per inhabitant
Angola	15	53	32	0.03
Argentina	93	4	3	14
Armenia	98	2	0	2.3
Australia	99.5	0.5	0	254*
Austria	99	1	0	-
Bahrain	100	0	0	72*
Bangladesh	100	0	0	0.8*
Barbados	100	0	0	152*
Benin	7	83	10	0.7
Bolivia	45	35	20	0.4
Botswana	0	100	0	-
Brazil	79	21	0	45*
Bulgaria	90	10	0	18
Burkina Faso	2*	100	0	0.2
Burundi	2	22	76	0.1
Cambodia	60	-	-	0.1
Cameroon	-	-	-	-
Cape Verde	20	80	0	1.7
Chad	2	20	78	-
Chile	87	13	0	20
China	-	-	-	19
Colombia	74	24	2	0.4
Congo	3.4	0	96.6	0.2*
Costa Rica	97	1	2	5.8
Croatia	75	25	0	72
Cuba	97	3	0	12
Cyprus	97	3	0	82
Czech Rep.	99.9	-	0.05	266
Democratic Rep. of Congo	5	15	80	0
Denmark	100	0	0	-
Djibouti	3*	97*	0*	0.5
Dominican Republic	85	10	5	-
Ecuador	65	20	15	0.2
Egypt	99	1	0	3
El Salvador	95	5	0	1.3
Estonia	97	3	0	184
Fiji	20	75	5	-
Finland	99	0.07	0	536
France	100	0	0	-
FYROM	100	0	0	18
Georgia	100	0	0	0.4
Germany	100	0	0	-
Ghana	7	93	0	1.2
Greece	100	0	0	61
Guatemala	91	8.5	0.5	3.4
Guinea	0.8	65	34.2	-

Member	Percentage of the population having basic mail delivered at home	Percentage of the population having to collect basic mail from a postal establishment	Percentage of the population without postal services	Average number of letter-post items posted per inhabitant
Guinea-Bissau	15	80	5	0.01
Hong Kong, China	99	1	0	-
Hungary	100	0	0	170*
India	100	0	0	-
Indonesia	75	25	0	1.9
Ireland	100	0	0	195
Israel	100	0	0	97
Italy	99	1	0	106
Jamaica	50	50	0	-
Japan	-	-	0	166
Jordan	55	42	3	-
Kenya	-	100	0	2.4
Korea, Rep. of	99.9	0.1	0	-
Kuwait	39	60	1	-
Kyrgyz Rep.	-	-	-	4.3
Latvia	100	0	0	65
Lithuania	99.9	0.1	0	55
Luxembourg	100	0	0	485
Macao, China	-	-	-	-
Madagascar	80	5	15	-
Malawi	1	99	0	-
Malaysia	94	1	5	44
Maldives	88	12	0	3.6
Mali	-	7*	6.1	0.2*
Malta	100	0	0	164
Mauritius	97	3	0	48*
Mexico	90	5	5	8.5
Moldova	98	2	0	9.3*
Mongolia	19.9	23.1	61.4	6.7*
Morocco	-	-	-	8.8*
Mozambique	-	-	-	0.1
Myanmar	-	-	-	1.7
Namibia	0	100	0	-
Nepal	-	-	0	2.6
Netherlands	100	0	0	-
Niger	2	30.7	67.3	0.2
Nigeria	36.6	61.7	1.6	-
Norway	100	-	-	546
Pakistan	95	5	0	2
Panama	20	75	5	3*
Papua New Guinea	0	27*	73*	0.5*
Paraguay	72*	10*	18*	0.3
Peru	85	5	10	0.6
Philippines	85	13	2	1.8*
Poland	99.8	0.2	0	62
Portugal	100	-	0	165
Qatar	0	100	0	-
Romania	99.9	0.1	0	29
Rwanda	0	100	0	0.2

Member	Percentage of the population having basic mail delivered at home	Percentage of the population having to collect basic mail from a postal establishment	Percentage of the population without postal services	Average number of letter-post items posted per inhabitant
Saint Christopher and Nevis	89.5	6	4.5	47
Senegal	100	0	0	-
Sierra Leone	95	5	0	0.02
Singapore	100	0	0	-
Slovak Rep.	99	1	0	100*
Slovenia	100	0	0	537
Solomon Islands	30	60	10	-
South Africa	64.9	15.3	19.8	-
Spain	99	1	0	-
Swaziland	0	100	-	-
Sweden	99.6	0.5	-	-
Switzerland	100	0	0*	701
Tanzania	0	100	0	-
Thailand	94	6	0	29
Togo	-	90	10	0.2*
Tonga	-	100	0	0.5
Trinidad and Tobago	87	9	4	-
Tunisia	90	10	0	13
Turkey	97	3	0	16
Uganda	5	85	10	0.2*
Ukraine	-	-	0	36
United Arab Emirates	-	-	-	69*
United Kingdom	100	0	0	315
United States	89.6	10.4	0	621
Uruguay	-	-	-	7.9
Venezuela	99.9	0.1	0	4.3
Zambia	30	60	10	0.4*
Zimbabwe	57	43	0	1.9

Note: * Data for 2007

Source: UPU