

# Universal Service in Japan: the current situations and challenges

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 Research Institutes

Director: Yoneda, Yuitsu

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# The current move of postal business

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- April, 2003 Japan Post was transformed into corporatized Japan Post run by the state.
  - Japan Post had universal service obligation.
  - Postal liberalization has been launched.
  - Private mail Law has been implemented
  
- October, 2007 Postal Privatization has started.
  - Mail Company is obligated to provide universal postal service.
  - Postal parcels are excluded from universal service.
  - Post Office Company has obligation to set up post offices across the nation.
  - Financial services are excluded from the required business services.
  
- July, 2008 The government study group made a proposal of “full privatization in the future.”
  
- March, 2009 Comprehensive review of postal privatization will be planned.

# Universal Service in Japan

# Universal Service in the Major Countries

	USA	Germany	France	UK	Japan
Items Handled	No regulation (Items provided by USPS)	Letters up to 2 kg Parcels up to 20 kg, etc.	Letters up to 2 kg Parcels up to 20 kg, etc.	Letters up to 2 kg Parcels up to 20 kg, etc.	Letters up to 4 kg, etc. □ Parcel post discontinued following privatization)
Uniform Rate	○	○	○	○	○
Nationwide Service	○	○	○	○	○
Collection Frequency	×	○(6 days/week)	○(6 days/week)	○(Once/day on average)	○(6 days/week)
Establishment Standards for Post Offices	× (Cannot be closed simply due to financial deficit)	○(At least one in administrative units of over 2,000 people, etc. 1200 POs)	○(Proportion of population living more than 5 km from a PO must not exceed 10%)	○(Over 95% of total population should be within 5 km of a PO, etc.)	□(More than 1 PO in each city, town or village. Current level to be maintained in isolated areas.)
Standards for the Siting of Post Boxes	×	○(Within 1 km of the nearest box in city areas)	× (According to the needs of the local residents)	○(Within 500 m for over 99% of residents nationwide)	○(To be sited evenly in cities, towns and villages, etc.)
Delivery Frequency	×	○(6 days/week)	○(6 days/week)	○(Once/day on average)	○(6 days/week, in principle once/day)

## State of Competition in Postal Services in major Countries

trillion = 10<sup>12</sup>, FY = Fiscal Year

	USA	Germany	France	UK	Japan
US provider	USPS	Deutsche Post	La Poste	Royal Mail	Japan Post Group
Post sales (trillion yen)	8.79 (FY 2006)	2.166 (FY 2006)	1.832 (FY 2005)	1.652 (FY 2006)	1.9216 (FY 2006)
Scope of monopoly	All except very urgent letters. (Weight and rate standard to be added Aug. 2008)	None (Monopoly abolished Jan. 2008)	Anything less than 50 g by weight or 2.5 times the basic rate	None (Monopoly abolished Jan. 2006)	None (Conditional full liberalization in 2003)
Entry regulations	None	License	License	License	Permission
No. of providers entered	<input type="checkbox"/>	1,374 (Dec. 2005)	13 (May 2007)	18 (Dec. 2007)	213 (May 2007)
% of market secured by new entrants	<input type="checkbox"/>	10.2% (2006)	3.0% (2007)	0.3% (2005)	0.1% (2005)
Notes	USPS share of small-scale distribution market Next day: 5% 2-3 days: 59%	76% of entrants are small/medium companies. 3.2% of providers have access to Deutsche Post	First license granted June 2006	Form of entry centers on "linkage" to post network	Entrants limited to high value-added services only

# Policy Choices for Securing Universal Service

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	Main implementing countries	Concept and problems
Scope of monopoly	EU, France, USA	<ul style="list-style-type: none"> <li><input type="checkbox"/> Scope of monopoly set by weight, rates, etc. Most traditional means of securing US financial base.</li> <li><input type="checkbox"/> Profits from monopoly services are not always sufficient for bearing USO costs.</li> </ul>
Government support (Subsidies, tax measures)	France, UK, Germany, Italy	<ul style="list-style-type: none"> <li><input type="checkbox"/> State provides financial assistance or preferential tax measures to cover US-related costs.</li> <li><input type="checkbox"/> Problem for state finances or from viewpoint that tax measures work against fair competition.</li> </ul>
Competitive bidding	Germany	<ul style="list-style-type: none"> <li><input type="checkbox"/> Government accepts bids for disadvantaged regions and awards business to provider which carries out US at lowest subsidy cost.</li> <li><input type="checkbox"/> Law enacted in Germany but no implementation yet.</li> </ul>
US Foundation	Germany, France, Italy	<ul style="list-style-type: none"> <li><input type="checkbox"/> Related providers advance indemnity capital to US provider to cover US-related costs.</li> <li><input type="checkbox"/> Requires precise cost calculations and a mechanism for capital advances.</li> </ul>
Entry conditions	Japan, Finland	<ul style="list-style-type: none"> <li><input type="checkbox"/> New entry providers carry out entry conditions (compulsory nationwide service, etc.); prevents cream-skimming.</li> <li><input type="checkbox"/> Entry conditions affect degree of competition introduced.</li> </ul>

# Liberalization of the Postal Service in Japan

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## Current entry conditions... Implementation of conditional full liberalization in 2003

- Nationwide service type (General letter service)
  - Providers for nationwide basic “letter” and “postcard” type services
  - On condition that service provider builds its own delivery network and provides fair nationwide coverage at uniform rates  
(Site 100,000 post boxes, 6 deliveries/week, nationwide uniform rate system, etc.)
- High value-added service type (Special letter service)
  - Providers for high value-added special needs services
  - Service types
    - Large letter service → exceeding 4 kg and a total of 90 cm in all three dimensions
    - Express service → Delivery within 3 hours
    - High value-added service → Rates of 1,000 yen and over

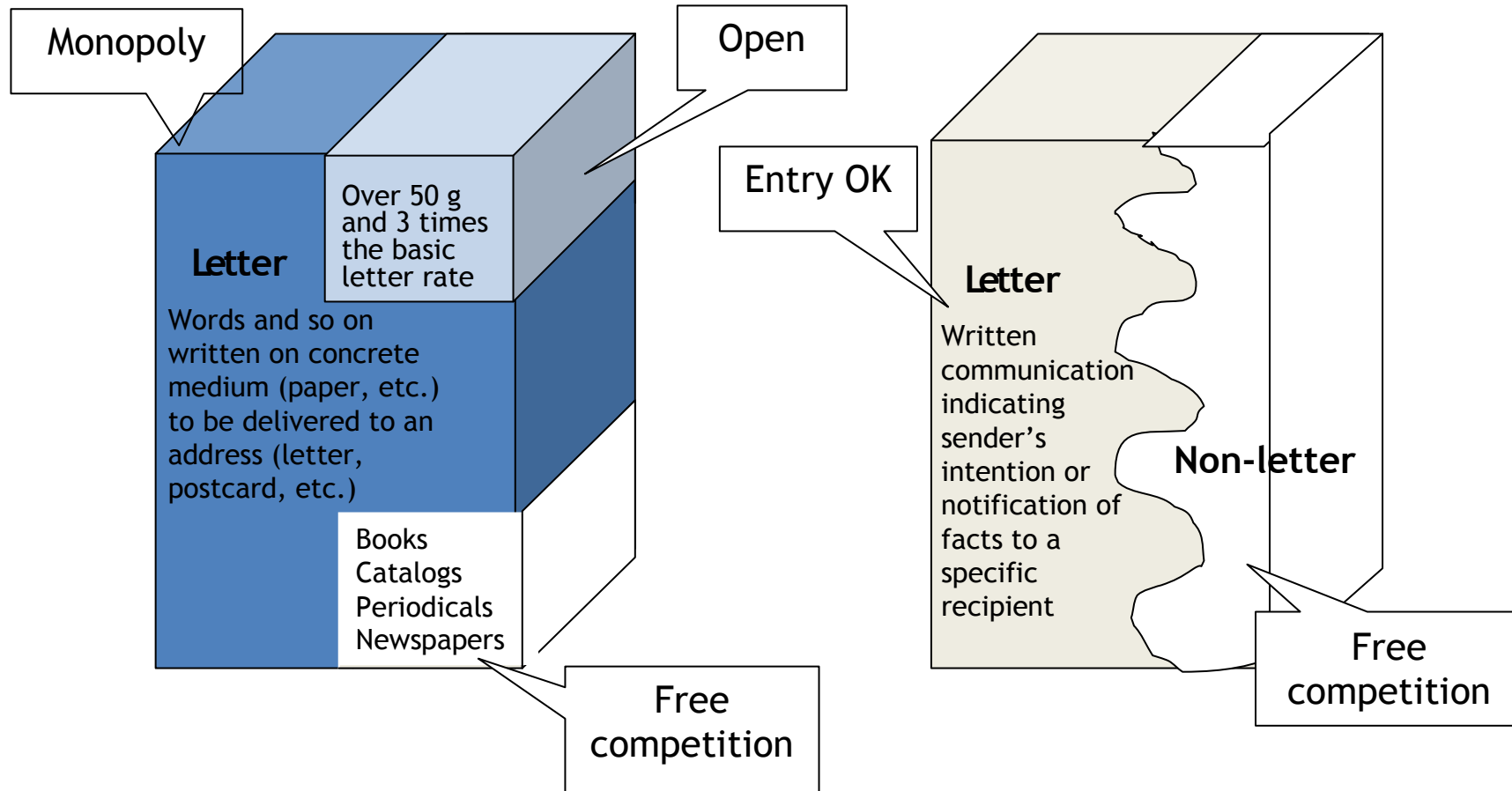
## Gov't considering new policy to encourage competition... Final report due June 2008

- Relaxation of conditions for new entry
- Discussion concerning linkage system between the postal network and other private service providers
- Discussion concerning the form of the Universal Service

# Comparison of Private Entry Standards - EU and Japan

EU: Weight and rate standards for letters

Japan: Letter concept standards





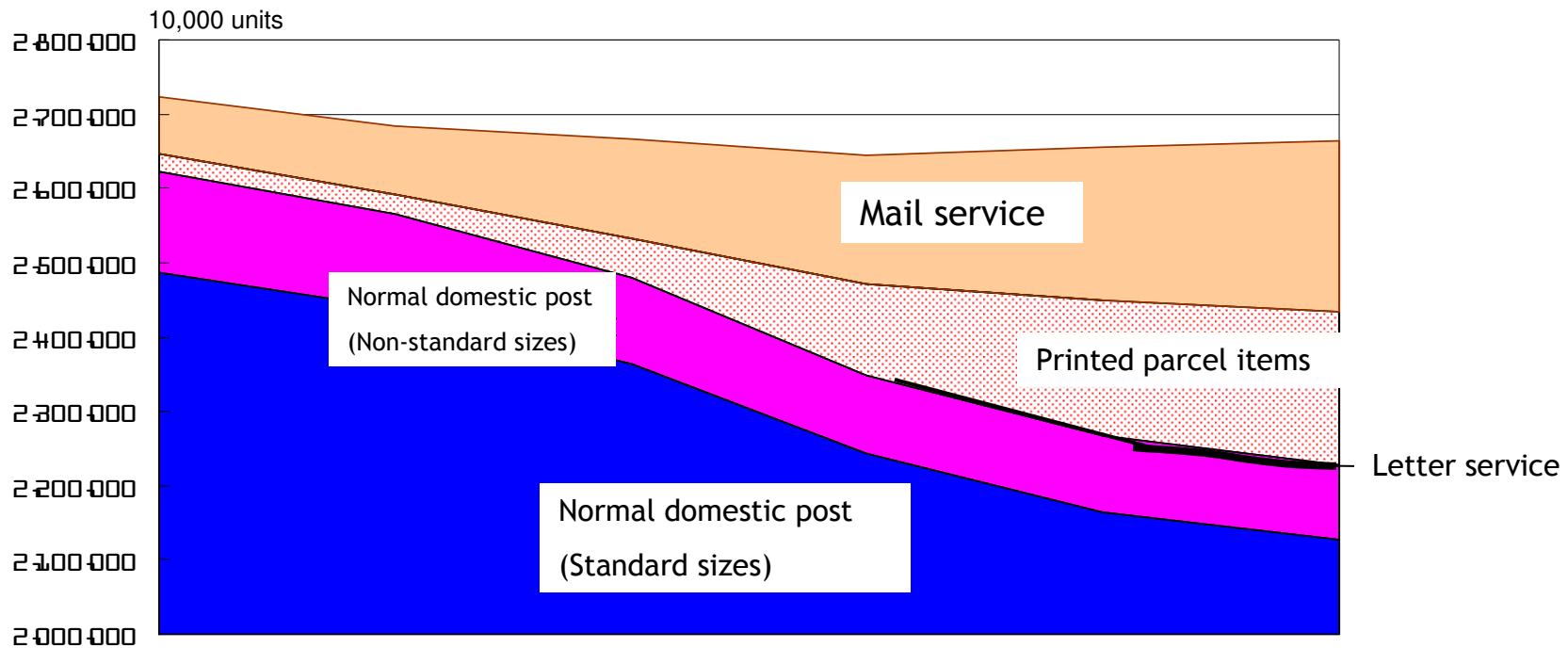
# Examples of “mail items” and “private mail items”

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<p>Mail items</p>	<ul style="list-style-type: none"> <li>○ correspondence</li> <li>○ bills □ invoices, receipts, estimates, applications, contracts □</li> <li>○ letter of convocations □ wedding invitations, business reports □</li> <li>○ licenses □ driver’s licenses, certifications, awards □</li> <li>○ certification □ family registers, resident cards, tax documents □</li> <li>○ DM             <ul style="list-style-type: none"> <li>□ documents on which addressees are shown.</li> <li>□ documents sent to which particular addressees</li> </ul> </li> </ul>
<p>Non-mail items □ private mails □</p>	<ul style="list-style-type: none"> <li>○ books □ newspaper, magazine, newsletters, handbooks, posters □</li> <li>○ catalogues</li> <li>○ checks □ bills, stock certificates □</li> <li>○ prepaid cards, tickets</li> <li>○ credit cards, members cards</li> <li>○ DM             <ul style="list-style-type: none"> <li>□ street leaflets and newspaper inserts</li> <li>□ pamphlets and leaflets distributed for customers in stores.</li> </ul> </li> </ul>

# Trends in Japan's Postal Services Market

Letter post market contracting at about 2 to 5% per annum



Fiscal Year	2001	2002	2003	2004	2005	2006
Change (1)	0.4%	-2.2%	-3.3%	-5.3%	-3.5%	-1.7%
Change (2)	□	-1.5%	-0.6%	-0.8%	0.4%	0.3%

Change (1): Total increase or decrease in no. of units of normal domestic postal items + letter service items

Change (2): Total increase or decrease in no. of units of normal domestic postal items + letter service items + printed parcel items + mail service items

“Mail service” is a delivery service for non-letters - magazines and catalogs, etc. - by freight transport providers

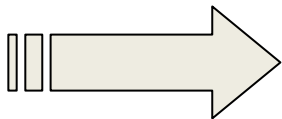
## Problems related with mail items and private mail items in the Japanese postal market

- The definition of letters is unclear due to the fact that it is not size-based on weights and prices.
- Commercial mail items like DM have been posted as private mail items.
- New entrants have entered only in high value-added services, while so far no company has participated in the nation-wide market.
- As regular mail items have declined 2-5% per year, universal postal service could have be on the edge of crisis.

# The examination objects of governmental postal policy

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- **Report issued from the Governmental Study Group “Reviewing of Mail and Private Mail System” in July 2008**
  - Maintaining the current system, and more competitions have been delayed.
  - Proper future vision
    - Creating a system in which entrants are able to freely compete in the postal market on the condition that universal service is guaranteed.
    - Aiming to establish measures to cover up universal service cost.
    - Aiming to enact a new “postal business law” by merging the current mail laws and private mail laws.
  
- **Government’s New Study Group started in September 2008.-A report will be issued in March, 2010.**
  - Key stone issues
    - How to calculate universal service cost.
    - The range, standard, ensuring, etc of universal service.
    - Estimating universal service cost



We are prepared for full liberalization of postal market which could be happened in the next 3-4 years. And Measures to guarantee universal service should be considered.

# JPGU's policy toward universal service

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## ■ Ensuring of quality of universal service

- Universal service should be stipulated as citizen's rights.
- Maintaining service standard as life infrastructures and economic ones.
- Establishing financial universal service.

## ■ Institutional guarantees to ensure universal service

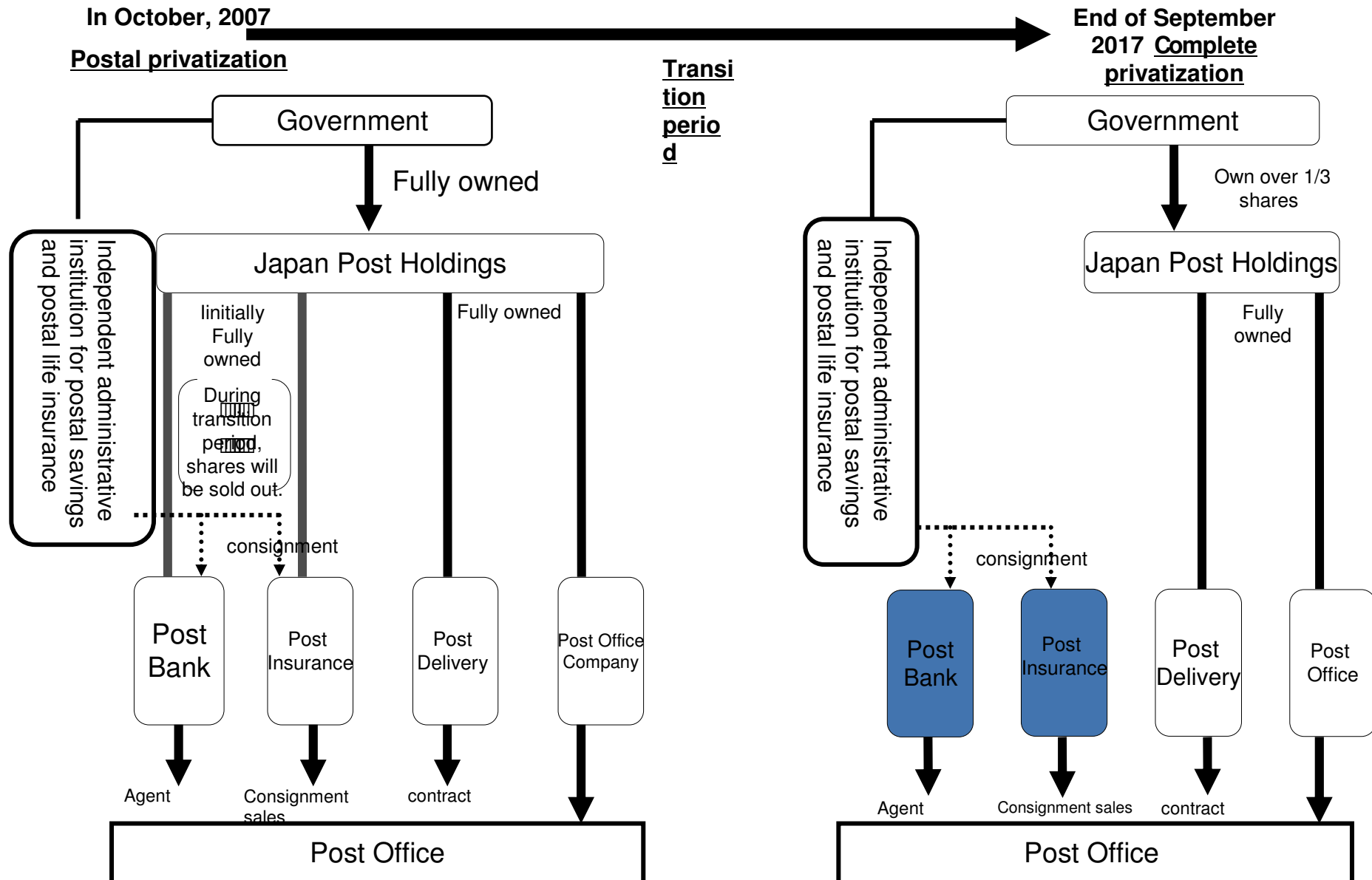
- Expanding the degrees of business freedom of Mail Company.
- Setting up financial aid measures to fairly cover up universal service cost.

## ■ Emphasizing of social dimension of mail service

- As social capitals, post office network including post offices should be maintained.
- Preventing unfair social dumping in the postal market.

# Union's further measures toward postal privatization

# Privatization process



# Business environments of Japan Post Group after the privatization

Book closing for FY 2007(October 1, 2007-March 31, 2008)

[unit: 100 million]

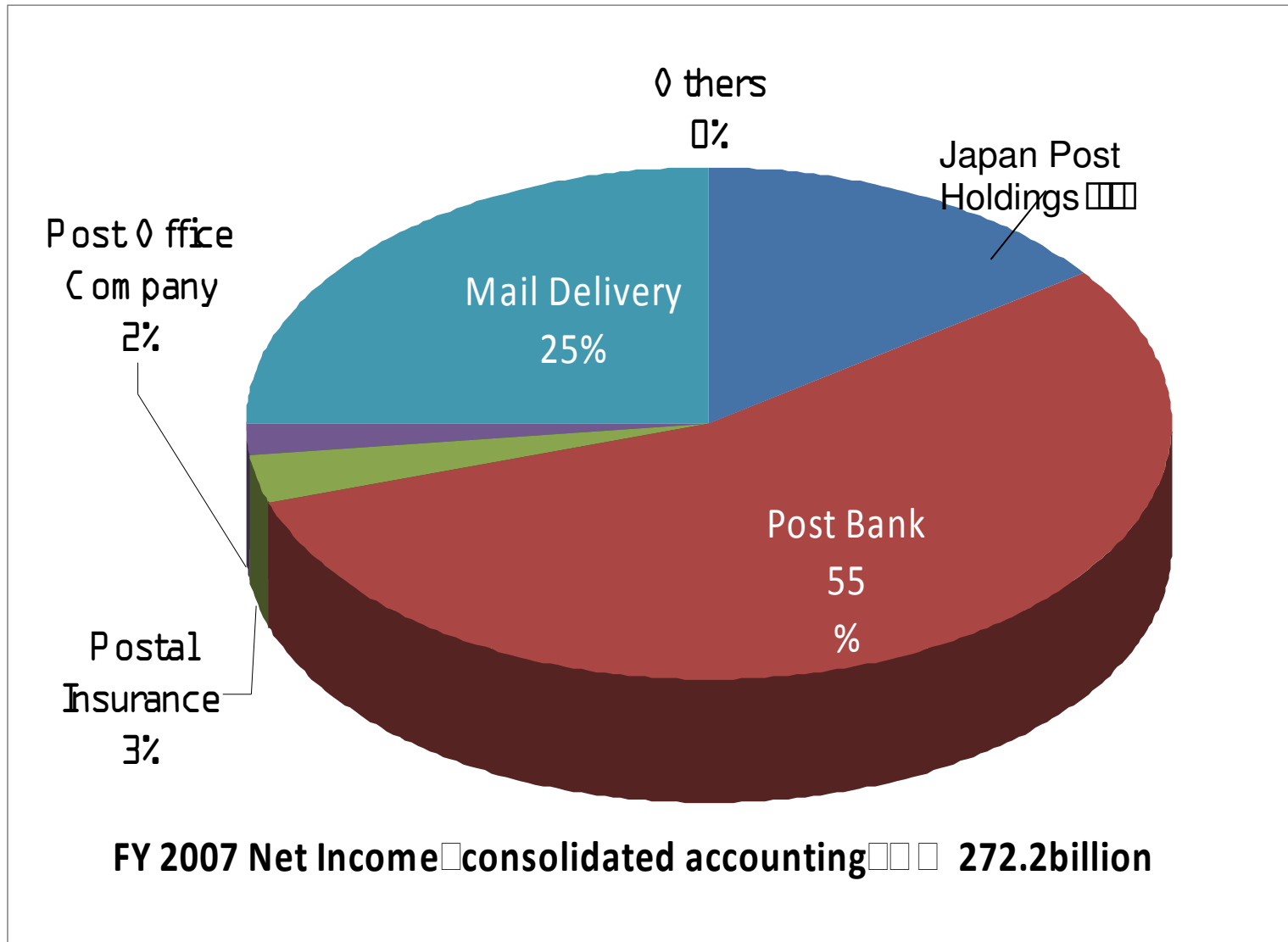
Name	figures for 2007	business plan		FY2008 business projections
Japan Post Group integrated	2,772			4,000
Japan Post Holdings (individual)	425	127	298	1,120
Mail Delivery Company	694	792	▲98	540
Post Office Company	46	321	▲275	310
Post Bank	1,521	1,300	221	2,800
Post Insurance	76	80	▲4	200

Business projections which was written by each companies in September,2007.

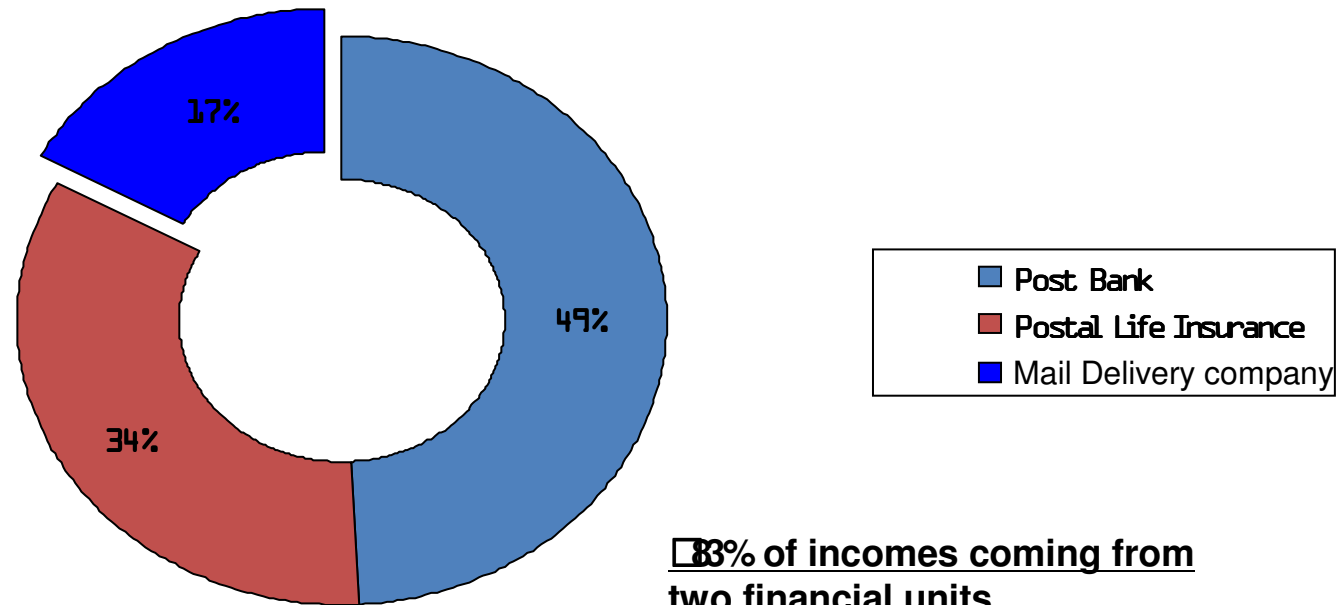
Post Bank and Post Insurance units presents business projections which was done in April,2007.



# The Net Income Compositions of Japan Post Group



# Post office Company □ Composition ratio of commission fees



	Mail Delivery	Post Bank	Postal Insurance	Total
figures for 2007	1,030	3,010	2,079	6,119
Succession plan	1,220	3,140	2,190	6,550
Balance	▲190	▲130	▲111	▲431

# Negative aspects of post-privatization

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- Declining of customer service.
- Increasing numbers of temporary post office closures.
- Slow down in business income.
- Emerging the loss cause by corporate breakups.
- Declining of workers' motivation.

## JPGU's policy toward the review of postal privatization

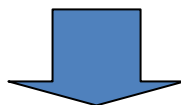
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- Providing integrated three businesses in post offices.
- Sustaining permanent integrated group management including two financial units.
- Maintaining nationwide network of post offices.
- Flexible attitudes toward the time and measures of selling out shares.
- Speeding up of providing commercial freedom.

# Political movements toward reviewing postal privatization

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- Ruling parties (consensus of coalition government by LDP and New Komeito)
  - Ensuring of universal service of three postal businesses.
  - For user-friendly-postal services.
- Opposition parties (Policy agreement between DPJ and the People's New Party)
  - Freezing to sell out shares of Japan Post Holdings, two financial units.
  - Reviewing of corporate breakups of 4 companies.
  - Providing integrated three services in post offices.



**The result of the upcoming election will bring a larger impact on reviewing postal privatization.**

**For sustainable growth and development of the postal business, JPGU aims to change governments.**