

SINGAPORE POST LIMITED

**SUBMISSION TO THE INFO-COMMUNICATIONS
DEVELOPMENT AUTHORITY OF SINGAPORE (“IDA”)**

**CONSULTATION PAPER ON FURTHER LIBERALISATION
OF THE POSTAL SERVICES SECTOR IN SINGAPORE**

29 September 2006

**SUBMISSION BY SINGAPORE POST LIMITED
IN RESPONSE TO THE CONSULTATION PAPER ON
FURTHER LIBERALISATION OF THE POSTAL SERVICES SECTOR
IN SINGAPORE ISSUED BY THE INFO-COMMUNICATIONS
DEVELOPMENT AUTHORITY OF SINGAPORE**

EXECUTIVE SUMMARY

The Executive Summary of the submission by Singapore Post Limited in response to IDA's Consultation Paper (Further Liberalisation of the Postal Services Sector in Singapore) highlights its main views, comments and suggestions. This follows IDA's overarching questions in Part 2, paragraph 16 of the Consultation Paper.

1. IDA: Whether the Basic Mail Services market should be liberalised?

Singapore Post Limited ("SingPost") believes that the Basic Mail Services market should not be liberalised. While we support IDA's policy objectives of maximising consumer welfare by ensuring that competitively priced, high-quality and reliable basic mail services are provided to consumers and businesses, as well as that the postal services sector should continue to contribute to the overall growth and development of the Singapore economy, we do not believe that the proposed deregulation contributes towards meeting these objectives. Rather, the proposed liberalisation may lead to lower service levels, duplication of resources, issues around mail security and integrity, and endanger current customer satisfaction (both sender and recipient).

- In a small market such as Singapore's, where price and service-quality regulations are already in place and where the postal system is characterised by low prices, high quality and very high customer satisfaction, more efficient ways of meeting consumers' needs can be developed without the introduction of competition.
- Significant risks in the further opening of the market exist, especially the threatening of the stability and confidence in the postal sector and the risk of fostering an adverse environment for investments in innovation.

2. IDA: What are the potential benefits to consumers and businesses in liberalising the Basic Mail Services market?

SingPost believes that the value to business and the economy will be limited and customers, both senders and recipients, will suffer from service deterioration and unstable market conditions.

- While the implementation of postal liberalisation in developed countries is targeted at achieving better service quality, the proposed liberalisation framework in Singapore introduces potential regression of service quality and increased risks of mail security and integrity (e.g. letterbox masterdoor key discussion).
- The impact of the proposed liberalisation on recipients of mail – a group as important as senders of mail – has been overlooked: far from being expected direct beneficiaries, recipients are in fact likely to face inconveniences, as is highlighted in **Exhibit 1**.

Exhibit 1: Limited Benefits from Proposed Further Postal Liberalisation

THE PROPOSED DEREGULATION WOULD ONLY GENERATE VERY LIMITED BENEFITS

- Objective fulfilled
- Objective not fulfilled
- ⚡ Worsening of situation

| Stakeholders | Potential related goals | Degree of achievement through proposed liberalisation |
|-------------------------|--|---|
| Government | • Open economy for investment | ● |
| | • Ensure emergency preparedness of postal system | ○ ⚡ |
| | • National security | ○ ⚡ |
| IDA | • Competitive pricing | ● |
| | • High quality service | ○ |
| | • Reliable service | ○ ⚡ |
| | • Consumer welfare | ● |
| | • Contribution to growth | ● |
| Mail recipients | • Mail integrity | ○ ⚡ |
| | • Reliable service | ○ ⚡ |
| Mail senders (business) | • Innovative products | ● |
| | • Better service | ○ |
| | • Competitive pricing | ● |
| Mail senders (consumer) | • Competitive pricing | ○ |
| | • Better Service | ○ |

Disadvantages suffered by mail recipients not reflected in current IDA proposal

Source: SingPost

3. **IDA: If the Basic Mail Services market is to be liberalised, what should be the licensing and regulatory frameworks to be adopted?**

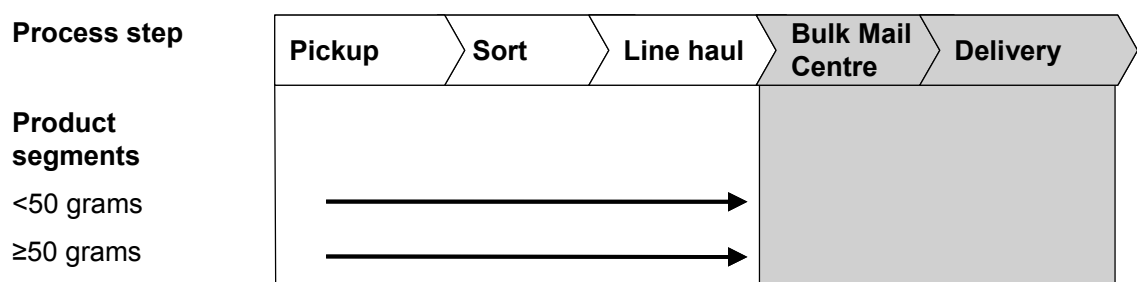
If the **Basic Mail Services** market is to be liberalised at all, SingPost suggests the following licensing and regulatory framework: We would see an immediate liberalisation as premature and propose a delayed/phased liberalisation by 2010; and no other licences should be issued that would allow operators other than SingPost to deliver to the final recipients (i.e. “last-mile” delivery including sorting at SingPost’s Bulk Mail Centre). Accordingly, SingPost should remain the only Public Postal Licensee and licence applicants should be restricted to upstream activities, and no other island-wide delivery licences for basic mail services should be allowed.

- The liberalisation of the Basic Mail Services market in 2007 seems premature considering the pace of liberalisation in other countries in the region and globally. To mitigate the associated risks, postal liberalisation in Singapore should build on a broad set of experiences internationally, including experience from the major European market, and should therefore be delayed until 2010.
- If liberalisation is to take place at all, competition should only be allowed in the upstream basic mail services collection process (i.e. restricted “last-mile” delivery – **Exhibit 2**) to avoid inefficient duplication of distribution costs and keep the postal sector in Singapore consolidated to maximise capacity to act in the case of national security or emergency threats.

Exhibit 2: Restricted Last-mile Delivery

Horizontal deregulation (last mile monopoly)

■ Monopolised



- Deregulation along process steps, e.g., monopoly restricted to last-mile delivery/sorting
- Applies to multiple product segments

Examples



U.S.

- Worksharing program introduced in 1976
- Continuously expanded over time

* Last-mile delivery includes sorting at SingPost’s Bulk Mail Centre

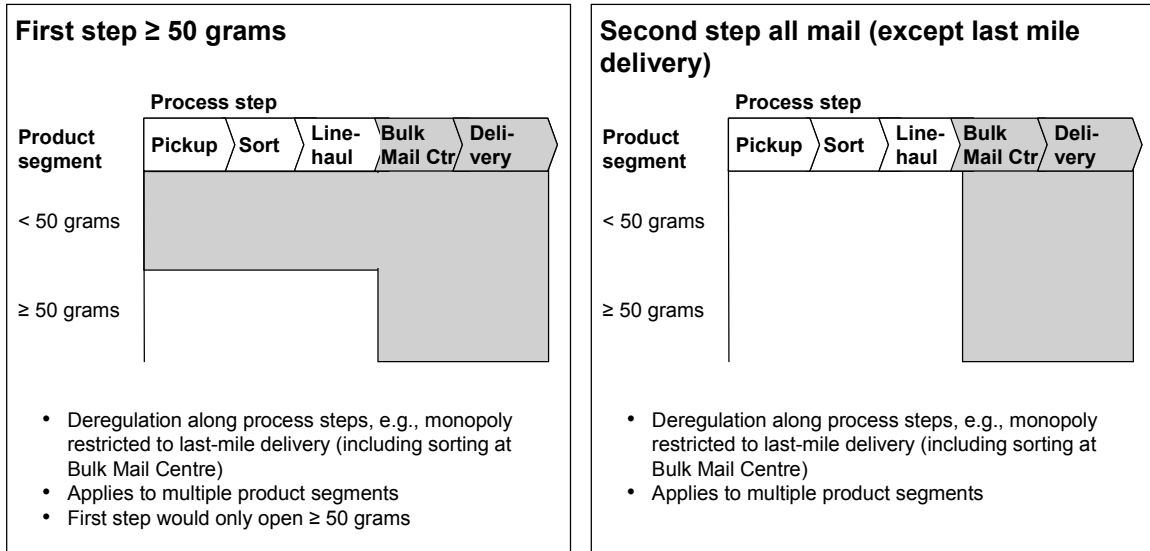
Source: SingPost

- SingPost further suggests not liberalising standard letters below the weight threshold of 50g to allow for a phased approach based on at least two weight-classes (**Exhibit 3**).

Exhibit 3: Phased Approach to Liberalisation

TO AVOID ADVERSE EFFECTS FOR MAIL CUSTOMERS, LIBERALISATION IN 2 STEPS NEEDED

■ Monopolised



Source: SingPost

- Finally, SingPost is strongly supportive of IDA's proposal not to liberalise the market for international inbound mail. SingPost also proposes not to liberalise international outbound mail. International arbitrage opportunities that would arise in case of liberalisation would raise postage costs significantly to Singapore businesses and consumers.

PART ONE

1. Introduction

- 1.1 Pursuant to a licence granted by IDA, SingPost is the exclusive provider of basic mail services with respect to local and international letters and postcards (excluding express letters) in Singapore and all incidental services such as collection and delivery services until 31 March 2007, and a non-exclusive provider of these services until 31 March 2017. SingPost provides highly efficient mail delivery services, employing advanced mail processing technology and a wide distribution infrastructure. It also offers one-stop logistics business solutions from warehousing to fulfillment to express delivery within Singapore and throughout the world.
- 1.2 SingPost welcomes the opportunity to respond to the Public Consultation on Further Liberalisation of the Postal Services Sector in Singapore ("**Consultation Paper**") issued on 18 August 2006.
- 1.3 This document has two parts: In Part One, we elaborate in detail why we believe that the Basic Mail Services market should not be liberalised. Part Two will provide answers to the more detailed questions set out in the Consultation Paper.
- 1.4 As we see this discussion of utmost importance for the future of the postal market in Singapore and as we are the incumbent player in this market, we wish to emphasise that we would like to further continue an open discussion on the key issues before a final decision is made.
- 1.5 As for the Basic Mail Services in this document, we refer to the domestic, international inbound and outbound markets currently under SingPost's exclusive right to collect and deliver ("**BMS**"). For the purpose of its Consultation Paper, IDA outlined a set of licensing and regulatory framework around three types of Postal Services Operation ("**PSO**") Licences:
- Licence applicants who commit to and have demonstrated their ability to provide island-wide delivery for BMS. For ease of reference, we refer to this as "**Category A**";
 - Licence applicants who commit to universal service obligations for both island-wide collection and delivery services, will be designated as a Public Postal Licensee ("**PPL**"); and
 - Licence applicants who could select the service coverage area. For ease of reference, we refer to this as "**Category C**".

2. **The intended benefits from liberalising the BMS market in Singapore can be achieved, for the most part, without the introduction of competition. Furthermore, there are significant risks associated with the opening up of the BMS market to competition, mainly the risk of undermining the stability and confidence in the postal sector and the risk of fostering an adverse environment for capital investments in innovation.**

2.1 In regulating the mail market, IDA is guided by its policy objectives of ensuring that competitively priced, high-quality and reliable basic mail services are provided to consumers and businesses while maximising consumer welfare; and that the postal service continues to contribute to the overall growth and development of the Singapore economy.

2.2 Until now, SingPost has been the primary provider, with about 95% market share of mail services in the market and has, under the oversight of IDA, continuously improved its service over the years. As the national postal operator of Singapore, SingPost takes pride in its achievements in the domestic as well as global postal arena. It has been at the forefront of improving operational efficiency via technology, resulting in a highly efficient postal operation that is held up as a model by postal operators around the world.

Minimal Positive Impact from Further Liberalisation

2.3 Liberalisation of the postal sector has been a global trend and, in some cases, has led to an improvement in services and a reduction in prices. The UK is one of the most cited models. A closer look at this example, however, suggests that the quality of the UK postal service was and is still significantly lower than what is now available in Singapore. The next day delivery rate for 1st class mail in the UK pre-liberalisation was only 91%, and dropped to around 66% at Christmas. Although liberalisation has improved the quality of service, Royal Mail is still far from achieving the 98-99% next-day delivery standard that SingPost is delivering on a regular basis, for mail posted by 5 p.m. outside the Central Business District (“**CBD**”) and 7 p.m. within the CBD respectively. Singapore thus, has very limited room for further improvements in the often cited standard performance metrics.

2.4 While the Consultation Paper agrees with the facts stated above (Consultation Paper paragraph 35, chart 5), IDA nonetheless appears to favour the option of liberalising the BMS market and opening it up to competition, believing that this will likely 1)

promote innovative service offerings for business customers, and 2) lead to price competition in this segment. Furthermore, IDA also believes that liberalisation 3) will increase SingPost's incentives to further improve its service quality and efficiencies. However, we will argue in the following that:

- 1) SingPost is fully prepared to provide further service improvements and has not been able to do so because of the limitations through the "Quality of Service Agreement",
- 2) Price competition will not happen on a substantial basis, because of the already very low price, coupled with the high efficiency of SingPost's production system,
- 3) SingPost is already subject to fierce competition from mail substitutes such as e-mails and therefore SingPost is innovating services and operations on a regular basis,

and therefore, further liberalisation of the postal market will not have much positive impact on the Singapore market. We will also elaborate further on in the document the significant risks arising from such liberalisation.

Inflexibility Arising From Quality of Service Agreement

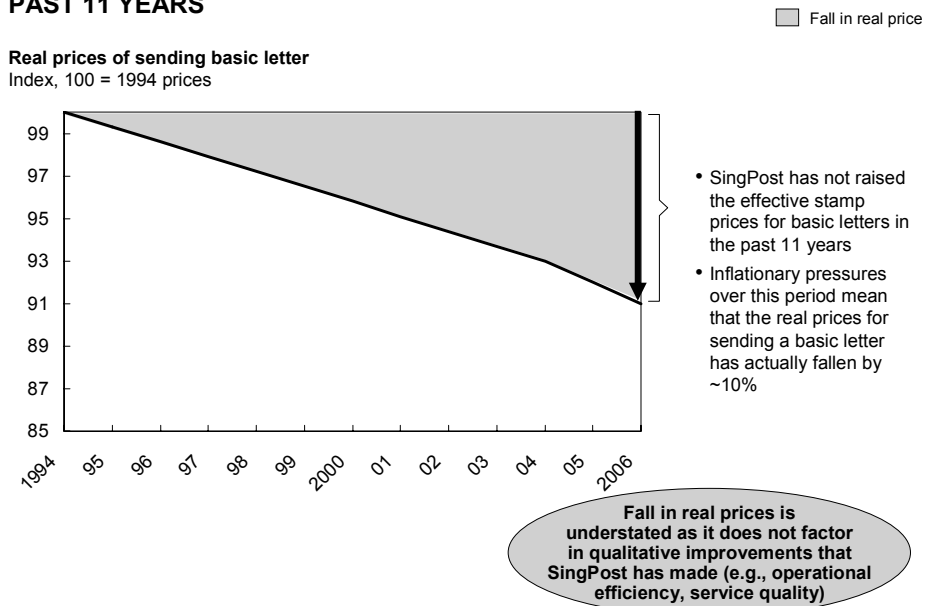
- 2.4.1 Unmet customer needs for individual solutions are a result of the "Quality of Service Agreement" regulations by which SingPost is restricted. SingPost has used the existing option space defined by the regulatory framework creatively, offering world-class products and services which it is prepared to expand upon as soon as the regulations offer the necessary additional scope.
- 2.4.2 On the customer service front, SingPost is fully commercialised and has invested in marketing, technology, quality and customer care programs and the results are shown in its annual customer satisfaction study carried out by an independent research company (**Annex 1A**). SingPost's highly efficient production system gives it the best possible starting position for such an expansion, although we feel that the goal of innovation (or innovative service offerings) should only be *faster* and *more reliable*, and not *slower* and *less reliable*, especially in this digital age. Our fiercest competition comes from mail substitutes (for example, e-substitution).

Price Competition Unlikely Given Already Suppressed Stamp Prices

2.4.3 Despite 11 years without effective stamp price hikes amidst inflationary and cost pressures, SingPost has been able to offer customers almost 100% next-day delivery at very low postage rates. Given the prevailing rate of inflation, stamp prices have actually decreased in real terms over these past 11 years by 9% (**Exhibit 4**).

Exhibit 4: Real Stamp Price for Basic Letter Has Fallen Over Past 11 Years

REAL PRICE OF POSTING A BASIC LETTER HAS FALLEN OVER THE PAST 11 YEARS



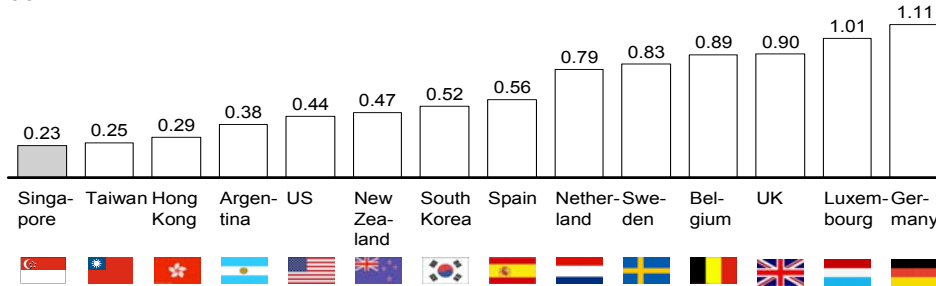
Source: Global Insight; SingPost

2.4.4 Furthermore, a comparison of postage rates from other countries illustrates that SingPost's prices are very low (**Exhibit 5**).

Exhibit 5: Singapore's Domestic Rates For Standard Letter Vs Comparable Economies

SINGAPORE'S DOMESTIC RATES FOR A STANDARD LETTER ARE CHEAPEST AMONG COMPARABLE ECONOMIES

Domestic rate for a standard letter
SGD



Source: IDA; literature search

2.4.5 In fact, the service level of SingPost's mail delivery at S\$0.23 for the first weight-step standard mail is almost the same as that of an express delivery service with an average unit price of S\$5.05 within CBD and S\$7.70 outside of CBD.

2.4.6 The challenge to maintain such high standards at low costs has been exceedingly difficult, given that e-substitution in this digital age has led to a shrinking BMS market.

Small and Declining BMS Market

2.4.7 Over the last few years, the market size of BMS has contracted to less than S\$200 million – a small portion of the S\$1.1 billion total postal services market (post and courier activities) indicated in the Consultation Paper. Compared to other markets like Sweden's estimated market size of S\$4 billion, this is a very small market.

Loss of Economies of Scale

2.4.8 The profitability that SingPost has achieved over the last few years is a product of the well-managed economies of scale, a constantly increasing operational efficiency and its ability to identify customer needs and transform them into viable products. SingPost's profits do not result from its monopoly position, since SingPost is in fact, not in control of the price and has not had an effective price increase for basic mail services since 1995. Furthermore, roughly 60% of the domestic mail volume is already open to competition, highlighting that SingPost's profits are earned based on scale, efficiency and innovation.

Constant Innovations by SingPost

2.4.9 As mentioned earlier, SingPost has and always will be at the forefront of innovation, not least because we are already facing fierce competition from a large number of mail substitutes including e-mail, electronic documents and telephones. SingPost has been constantly improving operational efficiency as well as service quality to customers.

2.4.10 In terms of operational efficiency, SingPost has always been a benchmark globally¹. Since 1999, SingPost's postman efficiency (mail items delivered per postman) has improved by a compounded annual growth rate ("CAGR") of 3.7% while efficiency in the sorting process (mail items processed per processing officer) has improved by a CAGR of 5.2%.

2.4.11 Over the years, it has introduced a number of initiatives to increase efficiency. SingPost initiated the six-digit postal codes approved by IDA that enabled automation in mail processing, reducing reliance on labour in resource-scarce Singapore. Its investment in the highly automated mail processing centre has been instrumental in increasing its productivity.

2.4.12 SingPost believes in constant innovation to introduce products and services to meet the changing needs of customers and to enhance convenience for customers. Over the last few years, it has expanded the range of services to provide one-stop integrated solutions in the mail value chain; these include

¹ For instance, benchmarking study by Postal Solutions: "Rating the National Postal Services – Benchmarking business results", www.postal-solutions.com

mailroom management, mail collection services and hybrid mail service (from printing to delivery). To reverse the declining trend of international mail, SingPost actively worked with the Economic Development Board to promote Singapore as a printing and distribution hub. Over the years, SingPost has also invested and applied technology to create products such as the patented Smart Lockers, Self-Automated Machines (SAM) and SAM^{PLUS}, the virtual portal vPOST, as well as personalised stamps, MyStamps.

Significant Risks of Liberalisation

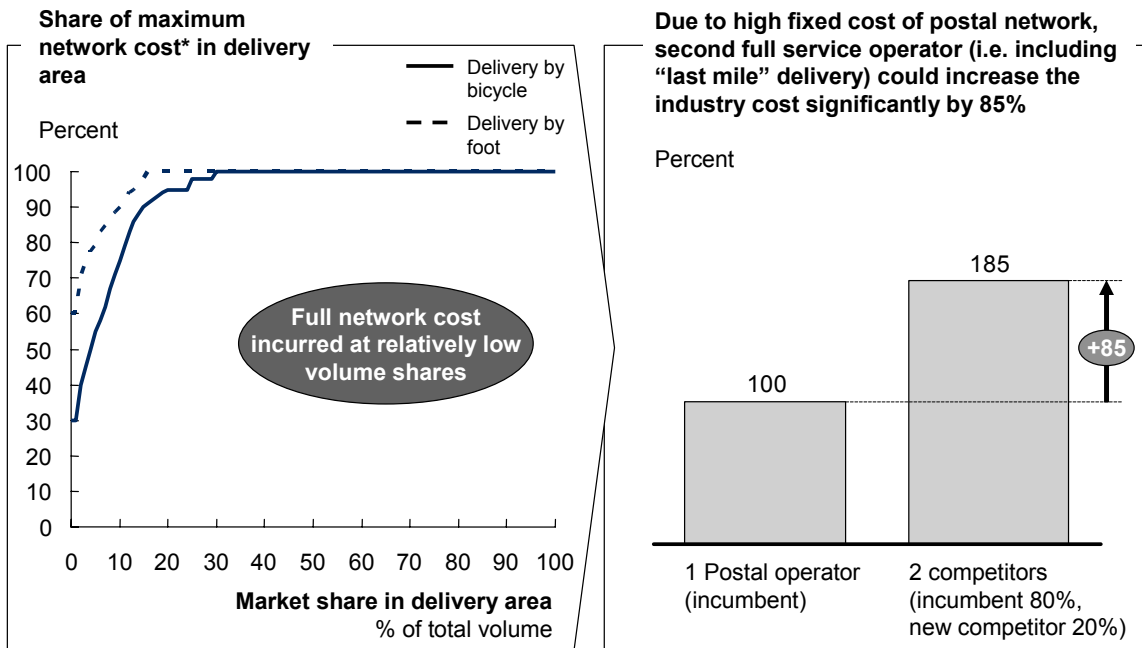
- 2.5 SingPost strongly believes that liberalisation of the postal market will have limited positive impact for Singapore. We furthermore believe that there are significant downsides to deregulating the postal market, and these far outweigh the general interest in a fully liberalised market. These include: 1) the risk of destabilising and undermining confidence in the postal sector, 2) fostering an adverse environment for long-term productive capital investment in innovative technology and 3) the risk of displacing small Singapore-based providers of mail services, who are currently niche market providers, through the entry of a large foreign- based provider.

Destabilising of the Postal Industry

- 2.5.1 Liberalisation in a small market such as Singapore's might not have the intended effects. A second provider offering island-wide postal services would need to duplicate facilities for collecting, sorting and especially distributing the mail. As seen in Exhibit 6, a general study of postal network costs, even at a low market share, showed that a significant cost of at least 60-70% of an incumbent's cost would be incurred, assuming a slightly lower quality level (Exhibit 6).

Exhibit 6:

HIGH FIXED COST POSTAL NETWORK NOT ECONOMICALLY VIABLE WITH 2 FULL SERVICE COMPETITORS# ILLUSTRATIVE



* In mail delivery, mainly cost of travelled routes
#: Established through research and consultation on international experience
Source: McKinsey

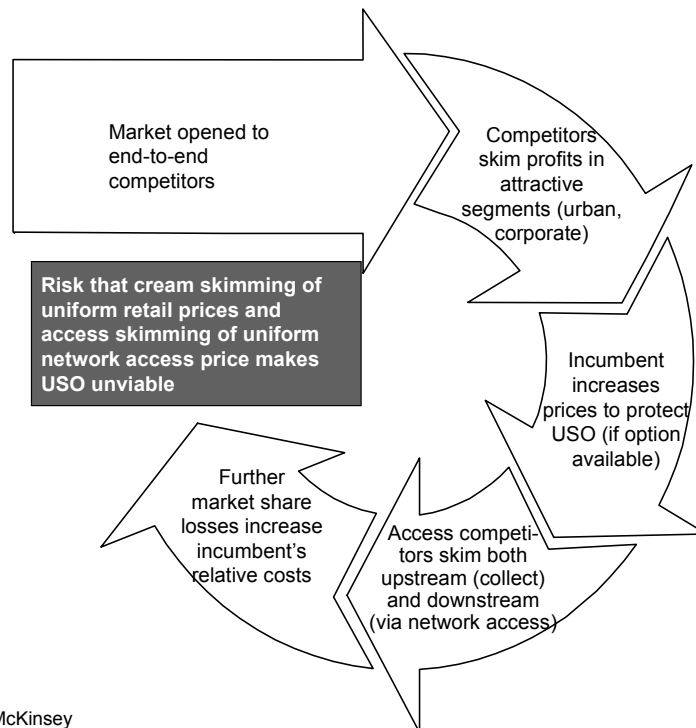
2.5.2 The total cost of provision of postal services would therefore rise for a given volume of postal services. However, the total revenue generated in the market stays the same, and therefore profits reduce substantially. The only way to sustain two providers in this situation is through increased prices. If however the price is deregulated, two providers will not sustain and the market will return to a monopoly situation after experiencing a bumpy transition phase.

2.5.3 These probable outcomes of liberalisation of high fixed cost industries in a small market such as Singapore are illustrated by the events that occurred after the markets in the print/media industry and the transport industry were opened. In the case of print/media, the industry consolidated in 2004 and has since returned to its pre-liberalisation status quo, with both MediaCorp and SPH incurring heavy losses in the interim. After the introduction of competition in the transport industry, statistics showed that the heavy users of public transportation spent more, with the amount spent rising by 10.7% over

the period from 1998 to 2003². Meanwhile, the North East MRT line under the second MRT operator incurred S\$41 million losses in the first year and is still in the red.

2.5.4 Once a new entrant has made investments, he will have the incentive to stay in the market for as long as possible to recoup at least part of the investment. The market could then fall into a downward spiral when competitors start to undercut each other's prices until the weaker one is forced out. The winner in this price war would then need to recover the losses in the highly competitive phase by returning prices to earlier levels. Consumers would be faced with unstable prices and changing products and services, the effects of which would erode confidence in the reliability and stability of the entire sector (Exhibit 7).

Exhibit 7: Potential Worst-Case Scenario Needs To Be Avoided



Source: McKinsey

Adverse Environment for Long-Term Capital Investment in Innovative Technology

2.5.5 SingPost has over the years invested substantially in technology to give users the best possible delivery service at an economical price. In resource-scarce Singapore, mechanisation has helped to reduce long-term reliance on

² "Monopoly's not a dirty word", The Straits Times, 29 August 2006

workers, which are the critical resource factor in postal services. Such capital-intensive investments, however, require a certain volume to make it economically viable. We strongly believe that in the long-run, the Singapore postal market can only support one full-service operator.

2.5.6 Temporary bursts of intense competition in a deregulated market, however, will foster an adverse environment for investments in innovative technology which could bring about significant productivity gains in the mid to long term. New technologies such as Radio Frequency Identification (“**RFID**”) and other technologies for single-letter tracking, or several security-related technologies such as X-ray and other screening technologies, which are currently being evaluated by postal operators all over the world, may not reach the Singapore market because of the adverse environment for investment.

Displacement of Small Businesses

2.5.7 The current market situation has allowed many local small operators to flourish in the upstream market. The liberalisation framework as discussed in the Consultation Paper will present a temporary challenge to SingPost, but will deal a heavy blow to the small niche providers and therefore reduce competition.

Conclusion

2.6 In conclusion, we believe that the intended improvements that IDA is hoping for by liberalising the BMS market can in part be realised without liberalisation (i.e. through customised products). We further believe that the expectation of lower prices is an unrealistic one. Liberalisation would, in our view, impose significant risks. In summary, these are reduced confidence in the postal market due to market instability caused by an unsustainable market structure being created in the short run; an adverse climate for investing in capital-intensive innovation; and the reduction of competition through the effect that fierce competition between two major players will have on several small players.

3. Further liberalisation of the Singapore postal market in 2007 seems premature considering the pace of liberalisation in most other countries globally. To mitigate the risks described earlier, liberalisation in Singapore should build on a broad set of experiences internationally, including experience from the major European market and should therefore be delayed until 2010.

3.1 To date, only a few major economies have opened the postal market: Spain was the first country in 1960, US followed in 1976, and the next major countries were only liberalised in the 1990s – Finland (1992), Sweden (1994) and New Zealand (1998). Most recently, the UK opened its mail market (2006). The major part of the European countries is still holding back and will only further open in 2009. Other major economies such as Japan are starting the discussions. While other countries in Asia have already started the liberalisation process (like Australia), their degree of liberalisation is still behind Singapore’s. Malaysia has even recently deferred postal liberalisation (**Exhibits 8a and 8b**).

Exhibit 8a: Pace of Postal Liberalisation – A Comparison (Industrialised Countries)

| Weight gm | Letters | | | Promotional Mail | | | Printed Papers | | | Magazines | | |
|--------------|---------|----|----|------------------|----|----|----------------|----|----|-----------|----|----|
| | SG | GR | AU | SG | GR | AU | SG | GR | AU | SG | GR | AU |
| 1-20 | √ | √ | √ | ✗ | ✗ | √ | ✗ | √ | √ | ✗ | √ | √ |
| 21-40 | √ | √ | √ | ✗ | ✗ | √ | ✗ | √ | √ | ✗ | √ | √ |
| 41-50 | √ | √ | √ | ✗ | ✗ | √ | ✗ | √ | √ | ✗ | √ | √ |
| 51-100 | √ | ✗ | √ | ✗ | ✗ | √ | ✗ | ✗ | √ | ✗ | ✗ | √ |
| 101-250 | √ | ✗ | √ | ✗ | ✗ | √ | ✗ | ✗ | √ | ✗ | ✗ | √ |
| 251-500 | √ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| >500 to 2 kg | √ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |

SG : Singapore
GR : Germany
AU : Australia

√ Regulated

✗ Non- Regulated

Source: SingPost

4. **If liberalisation is to take place at all in the BMS market, competition should be allowed only in the upstream collection process to avoid inefficient duplication of distribution cost and keep the “last-mile” (including sorting at SingPost’s Bulk Mail Centre) in Singapore consolidated to maximise capacity to act in a case of national emergency.**
- 4.1 If IDA should reach the conclusion that liberalisation is the way forward, then the framework for such a process should address the policy objectives of: a) providing adequate safeguards to ensure the continuance of basic mail services; and b) maintaining public confidence in the reliability and availability of basic mail services in Singapore. These objectives must be placed alongside IDA’s other objectives of providing competitively priced, high-quality and reliable basic mail services to consumers and businesses and the continuation of the postal services sector as a contributor to the overall growth and development of Singapore.

Risks to Further Liberalising “Last-mile” Delivery

- 4.2 In countries such as the US, the liberalisation discussion has been framed primarily around the postal value chain. The value chain can be divided into three discrete parts – collection (“pickup”), processing (“sort, line-haul”), and “last-mile” delivery (“sort, delivery”). SingPost firmly believes that strong risks attach to further liberalising the delivery component of the value chain. This would pose high risks to both Singapore’s national security and the reliability of the current mail delivery network.

Role in National Security

- 4.3 As heightened security procedures are being implemented in other key areas, the postal industry should not be overlooked, and SingPost believes that a single network operator with deep experience with the Singapore postal infrastructure is best equipped to handle such security concerns, especially anthrax and mail bomb threats.
- 4.3.1 The anthrax incidents that occurred in the US in 2001/2002 point to the importance of managing the security of the postal network in Singapore, to ensure that the infrastructure is not used for malevolent purposes. When anthrax was discovered in the US postal system, the Transport and Security Administration (“**TSA**”) entered postal depots to check thoroughly for traces of

anthrax. Inspections were greatly facilitated by the TSA having to deal with only one network operator (**Exhibit 9**).

Exhibit 9: US Example of Need For Coordination of Postal System To Ensure Proper Response to Anthrax Contamination

BETTER GUIDANCE STILL NEEDED TO ENSURE APPROPRIATE RESPONSE TO ANTHRAX CONTAMINATION

| Background | Causes | Response |
|--|--|--|
| <ul style="list-style-type: none"> • In September and October 2001, at least four letters containing anthrax spores were mailed to news media personnel and two U.S. Senators, leading to the first cases of bioterrorism-related anthrax in the United States. • The contaminated letters, which were delivered through the U.S. mail system, caused 22 cases of anthrax, 5 of them fatal. • Nine postal employees associated with two postal facilities that processed the letters—Trenton in New Jersey and Brentwood in Washington, D.C.—contracted anthrax and two Brentwood employees died. | <p>The Postal Service communicated information to affected postal employees but problems with accuracy, clarity, and timeliness led employees to question the information they received.</p> <ul style="list-style-type: none"> • problems with accuracy stemmed from incomplete information about health risks, and • problems with clarity occurred as information on the medical response to anthrax contamination changed with experience. • problems with timeliness occurred when the Postal Service delayed the release of quantitative data (anthrax spore counts) for one facility, in part because it was uncertain what the results meant for worker safety and public health. | <p>Initial response</p> <ul style="list-style-type: none"> • Established a center to coordinate information within the postal system • Developed with other agencies guidelines for responding to anthrax. <p>Follow-on recommendations</p> <ul style="list-style-type: none"> • Revise Interim Guidelines to define key terms, such as “suspected release” and “strong suspicion” of contamination. • Clarify the actions that the Postal Service would take under various scenarios, such as when (1) the Postal Service receives preliminary evidence of anthrax contamination or (2) a postal employee is diagnosed with either inhalation or cutaneous anthrax. • Establish and meet a definitive time frame for developing interim policies and procedures on paying for services that ensure <ul style="list-style-type: none"> – the availability of timely and appropriate emergency medical treatment – the timely payment for emergency medical services provided to postal employees |

Source: Government Accountability Office, 2005

Role in National Emergency

- 4.4 The postal infrastructure network plays a critical role in national emergencies. The issue of emergency planning becomes especially pertinent in today’s context, where the threats of terrorism and biological warfare constantly lurk in the shadows.
 - 4.4.1 SingPost has a critical role (**Confidential Annex A**) under the National Emergency Plan, and believes that it can best carry out its assigned role if it continues to be the sole network operator.
 - 4.4.2 For example, in the US, following Hurricane Katrina, the USPS network in New Orleans was heavily leveraged to deliver emergency relief supplies to victims.
- 4.5 SingPost recognises that some direct mail players are already engaging in “last-mile” delivery. IDA should make the decision about whether to regulate these players at its

own discretion. However, SingPost believes that, at a minimum, we should not act to exacerbate the security risk that is already inherent in the current system. As such, SingPost strongly argues for the consolidation of “last-mile” delivery, with the point of access being restricted to the Bulk Mail Centre.

Mail Integrity Issues

- 4.6 The issue of letterbox masterdoor keys is another factor in weighing against liberalisation of the delivery component of the value chain.
- 4.7 Mail senders and recipients place a high degree of trust in the current mail system, as evidenced by the posting of important and/or sensitive items through ordinary mail (e.g. cheque books, credit cards, invoices, legal correspondence). Consumers could well resist allowing multiple parties access to these important and sensitive items. Given the growing concern about identity theft and bank fraud, one or two incidents may prove sufficient to threaten the reliability of the mail system, possibly reviving the practice of “registering” mail at a significantly higher cost to consumers than ordinary mail.
- 4.8 This concern was clearly evident in the feedback given by various participants during the briefing and clarification session for the Consultation Paper held by IDA on 31 August 2006 (**Confidential Annex B**).
- 4.9 SingPost proposes that IDA conducts a focus group feedback session with the public as they will be significantly impacted by the issue of the access to letterbox masterdoor keys.
- 4.10 The problem of multiple letterbox masterdoor keys is well illustrated in Austria’s case where no solution has yet to be found. When the Austrian regulator [the Federal Ministry of Transport, Innovation and Technology (*Bundesministerium für Verkehr, Innovation und Technologie - BMVIT*)] decided to liberalise the market, one of their considerations was the high value that their society placed on the concepts of privacy and mail security. This resulted in the Austrian regulator’s decision to build an alternate set of mailboxes costing up to S\$300 million rather than to release the masterdoor keys.

Small Market Unable To Support Second Network

4.11 SingPost believes that the small Singapore market cannot support a second distribution network. A second network would be wasteful and unnecessary duplication, as there is no need for two postmen to serve the same HDB block. The consequence of such duplication is a rise in the total delivery cost of the industry (as seen earlier in Exhibit 6).

4.11.1 As mentioned, SingPost is already offering high-quality service at the lowest price, by all international standards. Our domestic standard letter rates have not had an effective increase in 11 years and SingPost has in the past been able to sustain this low price through high volumes. The economics of the distribution network is highly dependent on achieving a certain critical mass, due to the high fixed costs involved. A second distribution network may tip SingPost out of the critical mass that is needed to enjoy economies of scale, and thus support its Universal Service Obligations (“**USO**”).

4.11.2 Moreover, new entrants are likely to service the most profitable customers, again leaving SingPost without the critical mass needed to support its USO. In the liberalisation of the postal market in the UK, it is worth noting that it did not lead to new postal operators serving customers and business users in the Outer Hebrides in Scotland.

4.12 Competition in the postal market, in other words, can lead to high efficiency and service at the top, while compromising the overall integrity of the sector as a whole.

Restricted “Category C” Licences

4.13 Having laid out the above arguments, SingPost would strongly urge IDA to reconsider its licensing proposal, and issue only restricted “Category C” licences. We would also like to reiterate our strong commitment to customer satisfaction, as consistently shown in our strong performance in independent surveys (**Annexes 1A and 1B**).

4.14 Nonetheless, if IDA is of the opinion that liberalisation will best serve its policy objectives, then we recommend for the consolidation of “last-mile” delivery, with the point of access being restricted to the Bulk Mail Centre.

4.14.1 SingPost believes that the point of access should be the Bulk Mail Centre, in order to keep the sorting centre secure and centralised, and suggests not to

allow “Category C” to distribute any mail subject to this regulation to households (“last-mile”).

4.14.2 The US is an example of a regulatory model that maintains a monopoly in the “last-mile”. It has been around since the 1970s, and thus is a good source of learning.

4.15 SingPost supports IDA’s proposal that for restricted “Category C” operators:

- (a) the common access points shall be at the Bulk Mail Centre in SingPost Centre for reasons of better control, accountability and security. This will also prevent duplication of resources, and simplify operational and lodgment procedures;
- (b) no access shall be given at SingPost’s Delivery Bases;
- (c) access price shall be set on the same basis as “workshare” discounts for bulk mailers for homogeneous and/or sorted mail. For the other unsorted and heterogeneous mail, it shall be based on the principle of avoided cost.

In addition, a well-balanced access price regime would include:

- (d) differential pricing or zonal pricing on a commercial basis if there are specialised identifiable needs that are not provided for in the current bulk mail scheme; and
- (e) tailored access rates in tandem with each “Category C” requirement, as a one-size-fits-all scheme may not be appropriate in a different operating environment. For example, this could include access conditions such as volumes, mix of mail, quality of mail, etc.

4.16 SingPost is required to inform the “Category C” licensees in advance of the terms and conditions of their services, including the quality of service standards committed for each service, so that they can make an informed choice. As with all other postal licensees, this need not require the approval of IDA.

5. To gain some experience with the BMS market liberalisation under the specific conditions of Singapore, a phased approach for allowing upstream competition based on at least two weight-classes (<50g and ≥50g) for standard letters should be implemented.

5.1 In liberalising their postal markets, most countries have implemented a phased approach. A phased approach allows for careful consideration of the market environment and the opportunity to assess how well liberalisation is achieving stated policy objectives and adjust the approach for the next phase accordingly.

5.1.1 In Germany, for example, phased liberalisation started with opening the market for letters with weight threshold of over 100g in 2005. The last segment, for letters that weigh <50g, will kick-in in 2009, by which time the market will be completely liberalised.

5.2 As stated in Section 3, SingPost firmly believes that building on a broad set of experiences internationally, including the impending full liberalisation of the European market, will help to mitigate the risks of liberalisation in Singapore. However, the circumstances surrounding the Singapore postal market, while similar to certain European markets (e.g. population density of the Netherlands); contain elements that are unique to Singapore. A phased approach will provide the ability to incorporate country-specific learning from one phase to subsequent phases.

5.3 When implementing a new initiative, many companies usually start with a pilot, to test the viability of their suggested approach and gain key learning for the full roll-out. SingPost would strongly suggest erring on the side of caution with respect to deregulation, and seize opportunities to learn in a relatively less risky environment.

5.4 If liberalisation is decided upon as the way forward, then SingPost would suggest the phased approach as exemplified by the German deregulation experience and the EU Postal Directive.

5.4.1 When a start date for liberalisation has been decided upon (and on this point, SingPost firmly believes it should be no earlier than 2010), we propose that liberalisation should commence with letters in the ≥100g weight-class, followed by liberalisation in the ≥50g weight-class and finally, the <50g weight-class. Each of these phases should occur at two-year intervals, which will provide sufficient time for a full assessment of the key learning from each phase.

5.4.2 SingPost strongly believes that the <50g weight-class should be liberalised last, as consumers tend to fall into this category and are the main beneficiaries of our USO. SingPost hopes that if liberalisation should occur, it would have institutionalised sufficient Singapore-specific learning to liberalise without threatening its ability to deliver on its USO.

5.5 If liberalisation of the BMS market takes place before 2010, SingPost strongly believes that the <50g weight-class should remain protected up until 2010, especially in international inbound and outbound mail, to avoid any potential risks associated with remailing activities. This is elaborated upon in Section 6 below.

6. **SingPost is strongly supportive of IDA's proposal not to liberalise the international inbound BMS market. We would further recommend that the international outbound BMS market should not be liberalised as well. International arbitrage opportunities that would arise in the event of liberalisation, i.e. in the form of remailing, could increase postage costs to Singapore businesses and consumers significantly.**

6.1 Remailing is an issue that should be approached with caution. As pointed out in the Consultation Paper, the present system presents an arbitrage opportunity due to differential Terminal Dues (“TDs”) being charged to Developing Countries (“DC”) / Net Contributor Countries (“NCC”) and Industrialised Countries (“IC”) for light-weight mail items (typically refers to items which weigh <50g).

6.2 Moreover, if remailing activities cause a significant increase in the volume of lightweight mail sent to ICs, this could raise the cost of international mail services to consumers and business users in Singapore significantly. In order to protect customers in Singapore, SingPost strongly recommends that the international mail segment, both in- and outbound, should not be liberalised.

Increased Remailing Activities And Resultant Higher Costs From Liberalising International Inbound BMS

6.3 SingPost believes that if it is the only party permitted to handle international in-bound mail in the BMS market, it will be better equipped to tackle the issue of remailing and shield consumers and business users in Singapore from potentially higher rates in international mail services. SingPost will be in a better position to identify remailing activity and take the necessary actions to block such traffic.

6.3.1 If the international inbound mail segment for BMS were to be liberalised, it would be much more challenging for SingPost to identify remailing activities. Remailers would be able to lodge their items at the Bulk Mail Centre, and SingPost would have no way of distinguishing their items from the items posted by Singapore customers. The ultimate effect is to raise the TDs that SingPost must pay to other countries, thus resulting in more expensive international mail services for consumers and business users in Singapore.

6.3.2 Thus, SingPost strongly agrees with IDA that the international inbound BMS segment should not be liberalised.

Increased Costs From Liberalising International Outbound BMS

- 6.4 SingPost believes that the international outbound BMS segment should also not be liberalised, in order to maintain the volumes that are necessary to sustain the scale economies on international routes.
- 6.4.1 If the international outbound BMS were liberalised, it would result in operators taking advantage of Singapore's status to access the low DC postage costs for light-weight mail items to IC, exposing Singapore to the risk of higher TD costs.
- 6.4.2 In addition, SingPost would not be able to maintain the volumes that are necessary to sustain its scale economies on international routes, thus significantly reducing its ability to negotiate for favourable rates with airmail carriers for the conveyance of mail.
- 6.4.3 Extra-territorial Offices of Exchange ("**ETOE**s") operated by IC postal operators such as Deutsche Post, Swiss Post and Sweden Post are already active in Singapore. If the international outbound segment were to be liberalised for BMS, ETOEs could engage in cherry-picking of the international network. IC ETOEs may choose to channel traffic either through the international system (which they access at IC rates) or SingPost's international postal rates based on DC rates.
- 6.5 SingPost would strongly urge IDA firstly to reconsider its proposal to liberalise the international outbound segment. However, should a decision be taken otherwise, SingPost would then propose that such liberalisation be deferred to 2010 at the minimum, due to the lack of good liberalisation experiences to draw upon and pending the UPU Congress on the potential reclassification of Singapore to IC status.
- 6.5.1 The liberalisation of postal markets has typically taken place in ICs. The only DCs to date that have liberalised, as far as SingPost is aware, are Argentina and Tanzania. These two countries are different from Singapore as Singapore possesses an attractive geographical location and has good access to international infrastructure. Hence there is no precedence to look towards in terms of DCs that are as vulnerable to the threats posed by remailing activities. The potential threats that remailing activities pose are therefore still largely unclear.

6.5.2 At the next UPU Congress in 2008, the potential reclassification of Singapore and other countries as IC will be deliberated and decided upon, for implementation in 2010. Hence, any liberalisation, if at all, should be deferred to 2010, pending the decision of the UPU Congress.

A Phased Approach If International BMS Were To Be Liberalised

6.6 ETOEs have already been set up in Singapore to take advantage of the arbitrage, and liberalisation of the international BMS segment is likely to cause a significant increase in remailing activities.

6.6.1 As Singapore is also likely to be the only NCC/DC in the region to liberalise its postal market, this creates the possibility that a significant portion of IC-to-IC traffic (which currently makes up approximately 60% of total global mail) could potentially be diverted through Singapore.

6.6.2 With the significant increase in light-weight traffic from SingPost, SingPost is at risk of being penalised for higher TD rates by the destination countries. These higher rates will apply to all traffic from SingPost. As such, this cost increase may translate to higher prices for end-users in Singapore for sending international mail to the affected countries.

6.7 At the minimum, in order to shield Singapore from the risk of arbitrage, the <50g weight-class should be reserved. The differential TD system, and hence the arbitrage opportunity, applies primarily to lightweight mail (i.e. items weighing <50g). Moreover, it is in the lightweight mail class that destination countries are more likely to impose an additional fee per item if certain conditions are met.

6.7.1 SingPost firmly believes that should the international segment be liberalised before 2010, the only method available to manage the risks of increased remailing activity would be to protect the weight-class that is the most attractive target for remailers.

7. **In case of increased competition, unlimited freedom of pricing for business mail would be a key prerequisite for SingPost to be able to sustain its position as the primary provider of postal services in Singapore. However, even with freedom of pricing, the service quality of the mail in Singapore is at stake in the case of proposed liberalisation framework.**

Maintaining Minimum QoS Only For Public Mail

Public Mail (Domestic)

- 7.1 SingPost agrees with IDA that a minimum quality of service (“**QoS**”) standard of "next-day delivery" should be maintained to provide assurance to the public of the quality of mail delivery in Singapore.
- 7.1.1 The existing QoS should however be applied only to public stamped and franked mail posted at the street posting boxes where mail posted within the CBD before 7p.m. and outside the CBD before 5 p.m. will be delivered the next working day.
- 7.1.2 SingPost must have the flexibility to set and vary the minimum delivery standards for business mail to allow it to compete on a level platform with other operators. This will include the flexibility to negotiate and customise delivery standards to best meet commercial customers’ requirements.

Public Mail (International)

- 7.2 SingPost agrees with IDA that for public mail, the existing minimum QoS standards for incoming airmail received and outgoing airmail despatched should remain.
- 7.2.1 For incoming airmail received before 8 p.m. at the Airmail Transit Centre, 99% of the mail is delivered by the next working day within the CBD, and 98% is delivered by the next working day outside the CBD.
- 7.2.2 For outgoing airmail despatched, 95% of the outgoing mail is processed and connected to departing flights by the next working day.

Flexibility to Meet Business Customers’ Needs – Service and Price Levels At Commercial Rates

- 7.3 If liberalisation of the BMS market takes place, intense competition for business customers can be expected. Starting from the existing standards of top class

performance and low prices, the only way new entrants can establish themselves is by offering business customers different delivery timeframes and leveraging lower labour costs due to more targeted collection areas.

7.3.1 To be able to effectively respond to customer requests, SingPost agrees with IDA that it should be allowed the flexibility to deviate from the minimum QoS standards. SingPost proposes that minimum QoS need not be set for business mail, as it would obtain commercial agreement with customers for different delivery timeframes. SingPost will continue to maintain its minimum QoS of next-day delivery for all public mail.

7.3.2 To support it in meeting customer requirements, SingPost will therefore require flexibility in pricing.

7.4 SingPost does not agree that price regulation for SingPost is necessary even if the market is liberalised. SingPost is of the view that, unlike the telecoms sector, there is minimal investment required for new entrants. It is therefore not necessary to protect postal competition “in its infancy”.

Service Quality Commitments by All Postal Licensees

7.5 If there are price and quality of service regulations, SingPost is of the view that all PSO licensees should be subject to service quality commitments as examples of liberalisation in other industries such as utilities have shown.

7.5.1 The publishing of such service quality commitments by all licensees should be mandatory. Given the likelihood of different standards existing for different licensees in the market, consumers would end up being confused and frustrated if service quality commitments were not made known.

7.5.2 Service standard commitments by all postal licensees alike would allow consumers to know the prices, terms and conditions and service levels of each licensee they wish to contract with in providing postal services, and enable them to make an informed choice.

Flexibility to Adjust Quality Standards

7.6 SingPost would also have to adjust its quality standards to create a level playing field. Freedom that should be allowed to SingPost include: adjustments of collection timing, reduction of collection points, scale-down of post offices, focused customer

support on large business customers, cutback on service innovations in case these measures would be needed to secure SingPost's competitive position.

Conclusion

- 7.7 Therefore if liberalisation of the BMS market takes place, an open, competitive system is needed to allow SingPost flexibility to deviate from the minimum standards (QoS) to meet the requirements of customers. SingPost once again would like to emphasise that a deterioration of service level is clearly not its intended direction of development. However, such a development may be necessary to prevent SingPost from being saddled with an untenable cost position in a deregulated market.

PART TWO

1) *Current postal market environment and growth opportunities, particularly in the BMS segment. Whether all Public Service Operator (“PSO”) licensees should commit to providing island-wide delivery services (Option 1, paragraph 75) or whether PSO licensees could be allowed to select their service coverage area (Option 2, paragraph 75)?*

1.1 Shrinking BMS Market

1.1.1 SingPost believes that growth in the BMS segment, both in Singapore and worldwide, has been sluggish and will continue on the same trend.

1.1.2 BMS traffic has suffered negative growth in the past years due to technology adoption and e-substitution. This is in line with worldwide mail volume trends³ which showed a 0.3% and 8.1% compounded annual growth rate (“CAGR”) decrease in volumes for Domestic and International Mail traffic and a 3.5% CAGR decrease in Asia Pacific Domestic Mail volume since year 2000.

1.1.3 In addition to the limited growth opportunities in the BMS segment, the Singapore BMS market is also very small, at less than S\$200 million, in comparison to other countries.

1.1.4 In Singapore, with the higher emphasis on knowledge and use of technology (>100% of its population own mobile phones, >50% households own computers and are broad-band enabled⁴, school education on e-communication starts as early as primary level, all major banks provide on-line statements and e-bills), the postal market will continue to face shrinkage.

1.1.5 The growth segment in the postal services market has been in Direct Mail and publications. However, this market segment is already open to competition.

1.2 Restricted Category C Licence; No Category A Licence for Island-wide Delivery

1.2.1 SingPost believes that if IDA were to issue PSO licences, the licensees should not be allowed to engage in “last-mile” delivery (i.e. delivery to addresses). SingPost firmly believes that strong risks attach to further liberalising the delivery component of the value chain. This would pose high

³ Source: UPU Reports

⁴ IDA July 2006 statistics, IDA website, www.ida.gov.sg

risks to both Singapore's national security and the reliability of the current mail delivery network.

- 1.2.2 As heightened security procedures are being implemented in other key areas, the postal industry should not be overlooked, and SingPost believes that a single network operator with deep experience with the Singapore postal infrastructure is best equipped to handle such security concerns, especially anthrax and mail bomb threats.
- 1.2.3 The postal infrastructure network plays a critical role in national emergencies. The issue of emergency planning becomes especially pertinent in today's context, where the threats of terrorism and biological warfare constantly lurk in the shadows. SingPost has a critical role (**Confidential Annex A**) under the National Emergency Plan, and believes that it can best carry out its assigned role if it continues to be the sole network operator.
- 1.2.4 There will be many operational issues when letterbox masterdoor key access is granted to more than one island-wide operator. It is impossible to trace the source of pilferages or tampering of mail if more than one operator accesses the letterbox masterdoor. Administratively, it would be formidable for IDA or the operators to curb key duplications. IDA must resolve the accountability issue and ensure that the proposed solutions are water-tight, otherwise there will be accusations among operators and shifting of blame with the mail recipients being the victims of liberalisation.
- 1.2.5 Last-mile mail delivery always requires human intervention with no opportunity to automate this aspect. To have more than one operator in this last-mile delivery segment will lead to a wasteful duplication of resources. This will lead to a decline in national productivity, as more delivery men (who are employed by new entrants) will be covering the same number of letterboxes/building units (details in Part One of the document). In addition, the introduction of competition in the last-mile delivery has very limited opportunities to improve the quality of service as SingPost already provides for >99% next-day delivery standard at present.
- 1.2.6 SingPost therefore does not subscribe to the need for another operator to provide "last-mile" delivery at all, due to the inherent inefficiencies of building a second delivery network in the small Singapore market, and the threat that

letterbox masterdoor key access will pose to the integrity of the postal system.

2) *Needs and usage profile of end-users, experience with BMS provided (e.g. pricing and service qualities), and service innovations and improvements that could be brought about with liberalisation.*

2.1 High Customer Satisfaction with Innovative Service Offerings

2.1.1 SingPost believes that its customers are satisfied with the service level that is currently being delivered, as indicated by consistently high scores in its annual customer satisfaction study conducted by an independent research agency and also affirmed by the Postal Services Survey conducted by IDA in 2005.

2.1.2 SingPost has always been at the forefront of innovation, in improving its operational efficiency as well as service quality to customers. All currently available and applicable efficiency and technical improvements to mail processing and delivery are already made available to current users.

2.1.3 In operational efficiency, SingPost has always been a benchmark globally. Since 1999, SingPost's postman efficiency (mail items delivered per postman) has improved by a CAGR of 3.7% while efficiency in the sorting process (mail items processed per processing officer) has improved by a CAGR of 5.2%.

2.1.4 On the customer service front, SingPost is fully commercialised and has invested in marketing, technology, quality and customer care programs. SingPost's Sales and Account Management team establishes active communication with customers to facilitate flexibility in meeting customers' requirements and to proactively improve customer satisfaction.

2.1.5 SingPost believes in constant innovation to introduce products and services to meet the changing needs of customers and to enhance convenience for customers. Over the last few years, it has expanded the range of services to provide one-stop integrated solutions in the mail value chain; these include mailroom management, mail collection services and hybrid mail service (from printing to delivery). To reverse the declining trend of international mail, SingPost actively worked with the Economic Development Board to promote

Singapore as a printing and distribution hub. Over the years, SingPost has also invested and applied technology to create products such as the patented Smart Lockers, Self-Automated Machines (SAM) and SAM^{PLUS}, the virtual portal vPOST, as well as personalised stamps, MyStamps.

- 2.1.6 Customers trust the current highly-reliable postal system, evidenced by the mailing of important items through ordinary mail (e.g. cheque books, credit cards, invoices, legal correspondences, etc). A breach of this reliability and trust could only mean the revival of “registering” the mail, which would cause mail senders to incur significantly higher costs.

Part 5 (Overview of Liberalisation Trends in Other Postal Services Market):

- 3) *Experiences of market liberalisation in other countries that could be useful for Singapore’s reference.*

- 3.1 (Please refer to **Confidential Annex C** for country examples.)

Part 6 (Policy Objectives and Assessment of Prospects For Further Liberalisation of the Postal Services Sector):

- 4) *Potential benefits and costs that may arise from the liberalisation of the BMS market.*

4.1 Minimal Positive Impact From BMS Liberalisation

4.1.1 As SingPost currently provides the highest service quality at one of the lowest prices, we believe that potential benefits to consumers will be limited. The 2005 Postal Services Survey conducted by IDA, for example, indicates that “individuals and Small and Medium Enterprises may not benefit significantly from liberalisation of the BMS market as most of these users do not have ‘unmet needs’”. With >99% of mails being delivered next-day, there is little room for improvement on the key productivity metric.

4.1.2 Furthermore, SingPost firmly believes that the intended benefits from liberalising the postal market in Singapore can be achieved, for the most part, without the introduction of competition.

4.2 Risks From Further Liberalisation

4.2.1 There are significant risks associated with further opening up the market to competition.

a) Destabilising of the Postal Industry

Once a new entrant has made investments, he has incentives to stay as long in the market as possible to recoup at least part of the investment. Therefore, the market could fall into a downward spiral in which competitors start to undercut each other's prices until the weaker one is forced out. The winner in this price war would then need to recover the losses in the highly competitive phase by returning prices to earlier levels. Consumers would be faced with unstable prices and changing products and services, the effects of which would erode confidence in the reliability and stability of the entire sector.

These probable outcomes of liberalisation of high fixed cost industries in a small market such as Singapore's are illustrated by the events after opening the markets in the print/media industry and the transport industry.

b) Adverse Environment for Capital Investment in Innovative Technology

SingPost has over the years invested substantially in technology to give users the best possible delivery service at an economical price. In resource-scarce Singapore, mechanisation has helped to reduce long-term reliance on workers, which are the critical resource factor in postal services.

Temporary bursts of intense competition in a deregulated market, however, will foster an adverse environment for investments in innovative technology which could bring about significant productivity gains in the mid- to long-term. New technologies such as RFID and other technologies for single letter tracking, or several security-related technologies such as X-ray and other screening technologies, which are currently being evaluated by postal operators all over the world, might not reach the Singapore market because of the adverse environment for investment.

c) Displacement of Small Businesses

The current market situation has allowed many local small operators to flourish in the upstream market. The liberalisation framework as discussed in the Consultation Paper will present a temporary challenge to SingPost, but will deal a heavy blow to the small niche providers and therefore reduce competition.

5) Possible scopes of competition in Singapore's BMS market, e.g. the likely segments of the market that will attract more players; and the potential demand from business users and consumers.

5.1 Intended Benefits From Liberalisation Achievable Without Liberalisation

5.1.1 It is critical to note that the introduction of competition may not meet its desired objectives of more innovative service offerings at better prices. SingPost would like to reiterate our belief that the intended benefits from liberalising the postal market in Singapore can be achieved, for the most part, without the introduction of competition.

5.1.2 SingPost would also like to reiterate its strong commitment to customer satisfaction, as consistently shown in its stellar performance in its annual customer satisfaction study conducted by an independent research agency and also affirmed by the Postal Services Survey conducted by IDA in 2005. Moreover, SingPost is also fully prepared to provide further service improvements. The main reason for not having done so is primarily because of the limitations through the "Quality of Service Agreement".

5.2 Focus on Specific Segments

5.2.1 If the BMS market were to be liberalised, SingPost believes that new entrants are likely to cherry-pick segments like delivery to HDB and CBD areas while accessing SingPost for other areas. This has been evident in markets like the UK, Germany, Netherlands and Sweden where focused competitors have followed this strategy. This creates the risk that SingPost may not have the critical mass needed to sustain the high fixed costs that are involved in supporting its USO.

5.2.2 We do not expect that operators will not want to serve the higher-cost consumer segment of the BMS market. Consumers are the primary beneficiaries of SingPost's USO, and thus have the most to lose from any threats to SingPost's ability to deliver on its USO.

6) *Whether the BMS market should be liberalised and how liberalisation is likely to change the competitive landscape in the provision of postal services in Singapore?*

6.1 BMS Market Should Not Be Liberalised

6.1.1 Liberalisation in a small market such as Singapore's might not have the intended effects that IDA has in mind.

6.1.2 A second provider would need to duplicate facilities for collecting, sorting and especially distributing the mail. The total cost of provision of postal services would therefore rise for a given volume of postal services. Meanwhile, the total revenue generated in the market stays the same. SingPost strongly believes that the postal market in Singapore can only sustain one major provider in the long run, and liberalisation will only encourage the industry to engage in value-destroying behaviour before the market returns to a state of equilibrium (i.e. only one major provider).

6.1.3 The liberalisation of the print/media services and mass transit lines (Northeast Line) in Singapore are good reference points where competition in a very small market has led to inefficient allocation of resources at a national level and both operators have struggled to contain their losses due to duplication of expensive facilities and resources. In the print/media industry, for example, this led to irrational pricing and severe discounting, which eventually resulted in the consolidation of the industry in 2004. In the mass transit industry, the Northeast Line has been a loss-making venture for the new entrant. We should learn from the experiences of these two industries.

6.1.4 Singapore's BMS market segment is not only small to begin with, but also shrinking. SingPost has invested substantially over the years on technology to efficiently process the mail and can thus provide the highest quality of service at one of the lowest prices. In resource-scarce Singapore, mechanisation helps to reduce long-term reliance on manpower, a critical resource in the postal industry. Such capital-intensive investment requires a minimum volume

to make it economically viable. If the current mail volumes are re-distributed among many operators, the long-term implication will more likely be higher prices for the consumers; with retail customers bearing the brunt of the increase.

Part 7 (Proposed Liberalisation Approach and Licensing Scope):

7 IDA's proposal to liberalise the BMS market in a single step and not in phases, unless compelling reasons have been identified for specific segments of the market to be reserved.

7.1 Phased Approach

- 7.1.1 SingPost strongly believes that the BMS market should not be liberalised at all.
- 7.1.2 However, if liberalisation of the BMS market should occur now, our recommendation would be to implement it in phases, based on at least two weight-classes (below 50g and above 50g).
- 7.1.3 In liberalising their postal markets, most countries have implemented a phased approach.
- 7.1.4 Liberalising in phases provides the opportunity to incorporate country-specific learning from one phase to subsequent phases, to ensure that liberalisation is achieving stated policy objectives, and adjust the approach for the next phase accordingly. SingPost firmly believes that building on a broad set of experiences internationally, including the impending full liberalisation of the European market, will help to mitigate somewhat the risks of liberalisation in Singapore.
- 7.1.5 Furthermore, SingPost is strongly supportive of IDA's proposal not to liberalise the international inbound BMS market. SingPost recommends that the international outbound BMS market should not be liberalised as well.
- 7.1.6 International arbitrage opportunities that would arise in the event of liberalisation, in the form of remailing, could significantly raise postage costs for Singapore businesses and consumers.
- 7.1.7 The only DCs to date that have liberalised, as far as SingPost is aware, are Argentina and Tanzania. These two countries are different from Singapore as Singapore possesses an attractive geographical location and has good

access to international infrastructure. Hence there is no precedence to look towards in terms of DCs that are as vulnerable to the threats posed by remailing activities. The potential threats that remailing activities pose are therefore still largely unclear.

- 7.1.8 SingPost would propose to defer liberalisation to 2010 at the minimum, due to the lack of good liberalisation experiences to draw upon and pending the UPU Congress on the potential reclassification of Singapore to IC status.

8 IDA's proposed licensing objectives and the proposed changes to the scope of IDA's licensing jurisdiction.

8.1 Licensing Scope

8.1.1 SingPost firmly believes that it should continue to be the sole provider of BMS in Singapore.

8.1.2 Nonetheless, if liberalisation should be given the go-ahead, then SingPost fully supports IDA's proposed licensing objectives to provide adequate safeguards to ensure continuance of BMS; and maintain public confidence in the reliability and availability of BMS in Singapore.

8.1.3 However, SingPost firmly believes that the current proposed liberalisation framework is not the best framework to achieve these policy objectives and is at risk of adversely affecting the postal industry.

8.1.4 SingPost supports IDA's changing licensing scope which includes:

(a) Redefinition of BMS as "Addressed Letters" weighing 500g and below as it offers clarity to service providers on the types of mail delivery that require licensing; and

(b) Retaining separate class licence for Express Letters and removing the existing "price floors" placed on Express Letter licensees.

9) IDA's proposed definition of letters.

9.1 SingPost supports IDA's proposed definition of "letters" as "Addressed Letter", excluding any book, catalogue, newspaper or periodical.

Part 8 (Proposed Licensing Framework):

10) IDA's proposed licensing approach and the different categories of licences. Whether all PSO licensees should commit to providing island-wide delivery services (Option 1, paragraph 75) or whether PSO licensees could be allowed to select their service coverage area (Option 2, paragraph 75)?

10.1 Licensing Approach

10.1.1 SingPost supports IDA's licensing approach of two categories of licences, i.e. Category 1: Postal Services Operation (PSO) Licence and Category 2: Express Letter Service Operation Licence.

10.1.2 Within the PSO Licence category, SingPost strongly opposes the two licensing options, i.e. Option 1: Two types of PSO Licence, and Option 2: Three types of PSO Licence. SingPost strongly opposes the issuance of Category A licences and would argue for the issuance of restricted Category C licences at most. It is also meaningless to allow licensees a phased approach to build up its island-wide capability and yet be granted a Category A licence.

10.1.3 SingPost proposes a third option as follows:

Besides the current PPL granted to SingPost, we propose allowing restricted Category C licence applicants to engage in upstream activities, with access limited to SingPost's Bulk Mail Centre. Once the licence is granted, licensees will be required to seek IDA's approval before making any changes to their service offerings. As argued in Part One of this document, SingPost recommends that competition should only be allowed in the upstream collection process to avoid inefficient duplication of distribution costs and furthermore keep the "last-mile" in Singapore consolidated to maximise capacity to act in a case of national emergency or national security threats.

10.1.4 SingPost believes that there is no need for another PPL:

a) The small BMS market in Singapore (less than S\$200 million) can be expected to shrink further due to e-substitution and a diverse set of substitutes nowadays threatens the different letter segments;

- b) “Last-mile” mail delivery always requires the human intervention with no opportunity to automate this aspect. To have more than one operator in this last-mile delivery segment will lead to a wasteful duplication of resources. This will lead to a decline in national productivity, as more delivery men (who are employed by new entrants) will be covering the same number of letterboxes/building units;
- c) The introduction of competition in the “last-mile” delivery has very limited opportunities to improve the quality of service as SingPost already provides for >99% next-day delivery standard at present; and
- d) Allowing letterbox masterdoor key access will pose a threat to the integrity of the postal system. There will be many operational issues if letterbox masterdoor key access is granted to more than one island-wide operator.
- e) It will be impossible to trace the source of pilferages or tampering of mail if more than one operator accesses the masterdoor. Administratively, it would be very difficult for IDA or the operators to curb key duplications. IDA must resolve the accountability issue and ensure that the proposed solutions are water-tight, otherwise there will be accusations among operators and shifting of blame where the end-consumers will be the victims of liberalisation.

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| 11) <i>IDA’s proposed licence fee and licence duration.</i> |
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11.1 Licence Fees

11.1.1 SingPost supports that a licence fee of 0.4% of Annual Gross Turnover (“**AGTO**”) be applied to all licensees; with a minimum annual fee of S\$150,000 for PPL and Category A PSO (with island-wide delivery).

11.1.2 SingPost believes that the minimum annual fee of S\$3,000 if AGTO is below S\$1 million is too low and could potentially qualify many small players who may not have the financial capacity to provide the flexible and competitive landscape that business users seek in a competitive environment. Too many small players who operate to cream-skim will not value-add to the industry.

11.1.3 SingPost supports the proposed licence duration of 10 years for PSO Licence and 15 years for PPL.

12) *IDA's proposed Banker's Guarantee requirement and suggestions on safeguards necessary to ensure mail delivery or protect end-user's interest in times of market exits.*

12.1 SingPost believes that a Banker's Guarantee of S\$250,000 should be imposed on both PSO Licences (Categories A and C as earlier defined) regardless of whether there is island-wide delivery or selected coverage. Minimally this amount will help to defray the cost of around 1 million pieces of mail; typical of a major customer's posting in a month.

Part 9 (Regulatory Frameworks and Issues):

13) *IDA's proposal for a "Postal Identifier", and any implementation issues that need to be addressed. On alternative arrangements that could more effectively allow identification of the PSO licensee delivering the mail.*

13.1 Postal Identifier

13.1.1 SingPost supports IDA's proposal of a "Postal Identifier" to identify the PSO licensee responsible for the conveyance of mail.

13.1.2 For international outgoing mail, the Postal Identifier must include the mark of the UPU designated postal operator if the mail will be conveyed under the UPU convention.

13.1.3 A PSO licensee may use SingPost's current Postage Prepaid Impression (PPI) for both local and outgoing mail only if it accesses SingPost's network for distribution.

13.2 Other Identifiers

13.2.1 Other than the Postal Identifier, the return address of the PSO licensee must be clearly indicated. This is critical for SingPost to correctly channel any "returned mail", wrongly directed or mis-sorted mail, to the right party for follow-up. Such services must be chargeable to the relevant PSO licensees appropriately.

14) *Proposed framework to allow letterbox access. Arrangements or requirements that will help ensure mail security and integrity in a multi-operator environment.*

14.1 Risks of Letterbox Access

14.1.1 SingPost believes that the proposal to allow letterbox access without resolving the accountability issue will lead to the long-term destruction of the integrity of the postal system.

14.1.2 The greatest concern and risk is the accountability issue. IDA has stated that “serious mail security and integrity problems will arise if **many parties** are given access to the masterdoor keys.” SingPost believes that as long as **more than one** party is given access to the letterbox masterdoor keys, serious accountability issues will arise.

14.1.3 It would not be fair on any party to take on the responsibility of the appointed caretaker and issuer of the masterdoor keys to the other island-wide operator(s).

14.1.4 SingPost believes that the preliminary set of restrictions and requirements for access to letterbox masterdoor keys (as provided in Annex C of the Consultation Paper) will not be able to ensure accountability and adequate protection of mail security and integrity.

- a) The prescribed requirement that the PSO maintain a registry of its postmen and the detailed time-log of withdrawal and return of keys is not feasible due to frequent turnover of staff or change of delivery routes which can occur on a daily basis;
- b) There is no way to provide evidence to ensure that only authorised postmen access the letterbox and that the keys are not duplicated or given to unauthorised persons. Over a period of time, the letterboxes may become susceptible to thefts of mail or valuable products, and accountability becomes a real and serious issue;
- c) The guidelines prescribe that the Authority (IDA) must approve the duplication of keys and must be informed about lost keys. This will inevitably burden IDA with mundane daily operational problems. As mail delivery is on a daily basis, the resolution of such problems will require fast turnaround;

- d) Another requirement for the PSO to submit for IDA's approval guidelines or standard operating procedures that reasonably ensure the integrity of mail and access to letterbox by its postmen will result in differing standards adopted by the different service providers. Once IDA endorses varying standard operating procedures, the accountability inevitably falls within its domain to police compliance of the approved procedures; and
- e) SingPost's very stringent standard operating procedures currently imposed upon our postmen to observe strict mail integrity becomes ineffective if accountability cannot be enforced in a multi-operator environment. Currently, SingPost has not experienced any incidents whereby the access to such letterbox masterdoors have been abused or compromised.

14.1.5 In the current operating environment where SingPost is the only party with the letterbox masterdoor key access, there were instances where third parties have been found to have gained unauthorised access to certain letterboxes. Upon reports made to the property owners, the police would then be involved in the investigation of the misuse of the keys.

14.1.6 Accountability is a very serious issue and no amount of prescribed guidelines of restrictions and requirements placed on PSO or standard of operating procedures will be able to resolve this as long as more than one party accesses the letterbox using today's masterdoor key access.

14.1.7 Finally, multiple access to the letterbox masterdoor keys could also stimulate manipulation between operators, which would even further endanger mail integrity.

14.2 No Precedents In Master Key Access Resolution

14.2.1 We know of no precedents within the postal world where a common access key is being handled by more than one operator.

14.2.2 Singapore faces a unique situation where more than 80% of its population live in the HDB estates. A significant number of these HDB blocks together with many private high-rise property developers have letterboxes with locked apertures installed which require masterdoor key access for the delivery of mail items.

14.2.3 As to our knowledge, international examples show that so far, letterbox masterdoor key access has not been granted in major economies where similar structures exist:

- a) US – Disallowed masterdoor key access through protecting the “last-mile” delivery (USPS as sole operator).
- b) Austria – Decision not to grant letterbox masterdoor key access as it would endanger the privacy of correspondence. Alternative solution: Refurbish (exchange with new boxes that have letter slot of 3x32.5 cm to allow general access) mail boxes (estimated cost of more than S\$300 million, for Austria with 8 million inhabitants)
- c) Germany – Door key access so far only granted to the incumbent.

14.3 SingPost believes that the letterbox masterdoor key issues would be of great concern to all Singaporeans (as mail recipients), who may not be aware of the impact upon them as a result of the liberalisation and operation of a multi-operator environment.

14.4 SingPost proposes that IDA conducts a focus group feedback from the public as they will be significantly impacted by the issue of access to letterbox masterdoor keys.

15) *Whether access to SingPost’s distribution network is necessary in a liberalised environment and the framework proposed by IDA to allow access? Specifically, on where should such access be made available and what would be an appropriate access price or methodology to determine the access price?*

15.1 Access to SingPost’s Distribution Network

15.1.1 SingPost believes that if IDA were to issue PSO licences, the licensees should not be allowed to engage in “last-mile” delivery. In such a licensing framework, access to SingPost’s distribution network will be critical for new entrants. On this point, SingPost is happy to oblige, providing access to new operators at its Bulk Mail Centre.

15.1.2 If Category A licences should be issued, SingPost agrees that IDA shall not facilitate access for Category A operators. As Category A operators are committed to island-wide delivery, facilitating their access may encourage them to cherry-pick the lucrative areas like concentrated industrial and housing areas for delivery whilst interconnecting with SingPost to deliver the

higher cost areas like landed homes and remote areas. As such, SingPost will also not engage in any discussions or negotiations with Category A licensees to consider any access to SingPost's distribution network.

15.1.3 SingPost agrees with IDA that it should not be required to share its collection infrastructure with new entrants. SingPost is of the view that this will create unproductive segregation and processing of mail for PSO licensees which may eventually raise the cost for consumers.

15.1.4 SingPost supports IDA's proposal that for Category C operators:

- a) the common access points shall be at the Bulk Mail Centre in SingPost Centre for reasons of better control, accountability and security. This will also prevent duplication of resources, simplify operational and lodgment procedures;
- b) no access shall be given at SingPost's Delivery Bases; and
- c) access price shall be set on the same basis as "workshare" discounts for bulk mailers for homogeneous and/or sorted mail. For the other unsorted and heterogeneous mail, it shall be based on the principle of avoided cost.

15.1.5 A sound system should also include:

- a) differential pricing or zonal pricing on a commercial basis if there are specialised identifiable needs that are not provided for in the current bulk mail scheme; and
- b) tailored access rates in tandem with each Category C requirement as a one-size-fits-all scheme may not be appropriate in a different operating environment. For example, this would include access conditions such as volumes, mix of mail, quality of mail, etc.

15.1.6 SingPost is required to inform the Category C licensees in advance of the terms and conditions of their services, including the quality of service standards adopted for each service, so that they can make an informed choice. As with all other PSO, this need not require the approval of IDA.

16) *Whether access to PO boxes/mailboxes will be an issue that needs to be addressed by IDA? How such access to PO boxes/mailboxes should be implemented and charged?*

16.1 Access to PO Boxes/Mailboxes

16.1.1 Currently the provision of PO boxes is not regulated. SingPost supports that access to PO boxes/mailboxes shall be based on commercial terms.

16.2 Charges for Access

16.2.1 Access to PO boxes/mailboxes should be similar to the current situation where the mail is lodged with the service provider at commercial rates.

16.2.2 There is an accountability issue for allowing PO Box access, similar to the letterbox masterdoor key access issue. Unlike a letter box, a PO Box has no front aperture for slotting in the letters. SingPost has a backdoor masterdoor key access to the nest of PO Boxes. If the keys have to be shared, mail integrity and security will be compromised. Currently, many PO Box holders also use the PO Box to store some personal effects. These characteristics will pose even greater challenge in the sharing of facilities.

17) *Whether redirection of mail will be an issue that needs to be addressed by IDA? IDA's approach to handle mail redirection request. Alternative arrangements that could address the mail redirection issue more effectively.*

17.1 Mail Redirection Issues

17.1.1 SingPost is of the view that mail redirection is an important issue that needs to be addressed by IDA, as a result of possible inconveniences and confusion to mail recipients as well as possible service issues arising in a multi-operator environment.

17.1.2 We agree with IDA that a most cost effective system should be in place to prevent possible issues such as confusion and inconvenience to mail recipients and service issues that hinder seamless delivery of redirected mail.

17.1.3 However, SingPost disagrees that no charge should be imposed between the PSOs. This is due to the increase in administrative tasks that will be required of all PSOs to ensure that mail redirection information is updated and shared

in a timely manner. In particular, SingPost is expected to be handling the major share of the households' mail redirection requests, resulting in an uneven keel in terms of reciprocity.

17.1.4 SingPost is of the view that we should be the only point of application for mail redirection services. This is necessary, due to the following reasons:

- a) to minimise inconveniences and confusion to mail recipients;
- b) mail redirection may apply to incoming international mail, which will be under the domain of the PPL; and
- c) mail may be redirected for overseas delivery.

17.1.5 Given the administrative tasks involved in maintaining the redirection database, such as customer handling and data input, SingPost should be allowed to charge other PSOs a reasonable rate for work done. As investment in information systems may be required to support the maintenance of the redirection database to ensure proper updates and sharing of relevant information in a timely and efficient manner, new PSOs should pay a fee or contribute towards the cost of investment.

17.1.6 In addition, as the public will likely return mail (not redirected mail) by depositing into the posting boxes of the PPL, mail should be returned to the other PSO licensees at commercial terms.

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| <p>18) <i>Whether access to the Postal Code System by new entrants will be important for mail delivery in a liberalised environment.</i></p> |
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18.1 Postal Code System

18.1.1 The 6-Digit Postal Code is an important part of Singapore's addressing system to enable efficient sorting process, allowing for mail automation. New entrants can access the Postal Code System under the existing arrangement.

18.1.2 SingPost agrees with IDA that SingPost should continue to establish, maintain and administer the Postal Code System.

19) *Suggestions on effective and efficient solutions for new entrants to access the Postal Code System.*

19.1 Under the existing arrangements which have worked well, subscribers to the Postal Code System pay a fee for access to the postal codes. SingPost is of the view that the new PSOs could subscribe to the Postal Code System for a fee, following the procedures of the existing arrangements. This will not require additional costs to be incurred in setting up and maintaining a new notification system.

20) *Frameworks or Codes of Practice that need to be set up to ensure mail integrity and address common operational procedural issues. Specifically, views on the preferred approach to be adopted for establishing these Codes of Practice.*

20.1 Framework or Codes of Practice

20.1.1 SingPost believes that national security may be compromised in a multi-operator environment (**Confidential Annex A**).

20.1.2 SingPost is of the view that no framework or codes of practice will be able to resolve the accountability and mail integrity issues arising in a multi-operator environment, in particular one with Category A licensees. Mail integrity and accountability will be compromised once more than one party is able to access an addressee's mailbox.

20.1.3 Frameworks or codes of practices applied in the telecom industry are not practical to the postal situation. The example of the sharing of telecom risers – where telecom operators have access to a telecom riser for installation/maintenance of cables – does not apply to the postal circumstances of allowing more than operator to access mailboxes. There are inherent differences between the two situations. In a telecom riser situation, there is ability to trace liability, immediate awareness of misdemeanours due to the impact to a large number of phone users, recovery of losses, etc. However, in a compromised situation in mailbox access, there is no means of tracking and getting proof of misdeeds, as well as no or limited recovery of lost personal mail by recipients, if they even discover missing mail items at all.

20.1.4 These difficulties underline the need for a broad discussion to create a new framework or code in case of liberalisation.

20.2 Codes of Practice – Mail Integrity

20.2.1 While codes of practice may be established, SingPost is of the view that no such codes will be able to practically resolve the accountability and mail integrity issues. We note that, whatever the code of practice, there will always be situations that may not be addressed by the procedures set. The code of practice can at best address only the known issues.

20.3 Codes of Practice – Common Operational Procedures

20.3.1 SingPost is of the view that IDA should adopt Option A, that is, to specify the means by which all PSO licensees will cooperate, subject to details to be worked out with SingPost due to the changes that would arise.

21) *IDA's proposal to set up a sectoral competition framework to facilitate and ensure fair competition in the Basic Mail and Express Letter Services markets. Specifically, on IDA's proposal to model the framework after the framework adopted in the telecommunication sector as set out in the Telecom Competition Code 2005.*

21.1 Sectoral Competition Framework

21.1.1 SingPost is of the view that any proposed framework must be broad-based. It should encompass all sectors which have been identified in order to facilitate the development of a multi-operator playing field which is level for all.

21.1.2 However, as a dominant market player only in the area of BMS in Singapore, SingPost considers that any regulatory requirement imposed on SingPost alone for the sake of market continuity or national interest must not unduly prejudice its commercial or competitive position in the market in the name of fair competition.

21.1.3 If international BMS segment is liberalised, the definition of the market would encompass the world international mail market. Hence SingPost will no longer be deemed a dominant market player in international mail.

21.1.4 SingPost does not support IDA's views that price regulation for SingPost is necessary even if the market is liberalised. SingPost is of the view that, unlike the telecoms sector, there is minimal investment required for new entrants. It is therefore not necessary to protect postal competition in its

infancy. If there are price and quality of service regulations, SingPost is of the view that all PSO licensees should be subjected to them.

21.2 Telecom Competition Code

21.2.1 As discussed earlier, the framework of the Telecom Competition Code 2005 (“TCC”) is not fully applicable to the postal services sector as there is no need to protect new entrants since no heavy capital investments are necessary.

21.2.2 IDA developed the TCC to define the boundaries for the conduct of competition in a fully liberalised telecommunications (“**telecoms**”) environment in Singapore. It is an important step in the development of IDA’s pro-competitive regulatory regime which is based on a comprehensive generic competition framework.

21.2.3 However, the telecoms sector is different from the postal services sector. Telecoms require a more complicated regulatory framework as the infrastructure alone is more complex. The postal market is not likely to continue to expand significantly. Furthermore, the postal services sector is less technologically intensive and consequently more labour intensive. Accordingly a new framework or code needs to be based on a broad discussion in case liberalisation would go ahead.

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| <p>22) <i>Whether there is a need for Quality of Service (QoS) Standards to be established for all PSO licensees or only the PPLs? Specifically, views on the minimum QoS standards that should be set if they were to apply to all PSO licensees</i></p> |
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22.1 Minimum QoS

22.1.1 SingPost agrees with IDA that a minimum quality of service (QoS) standard of “next-day delivery” should be maintained to provide assurance to the public of the quality of mail delivery in Singapore.

22.1.2 Therefore, the existing minimum QoS standards should apply only to public stamped and franked mail posted at the street posting boxes where mail posted within the CBD before 7p.m. and outside the CBD before 5 p.m. will be delivered the next working day. SingPost must have the flexibility to set and vary the minimum delivery standards for business mail to allow it to compete on a level platform with other operators. This will include the

flexibility to negotiate and customise delivery standards to best meet commercial customers' requirements.

22.1.3 SingPost agrees with IDA that for public mail, the existing minimum QoS standards for incoming airmail received and outgoing airmail despatched should remain.

22.1.4 For incoming airmail received before 8 p.m. at the Airmail Transit Centre, 99% of the mail is delivered by the next working day within the CBD, and 98% is delivered by the next working day outside the CBD.

22.1.5 For outgoing airmail despatched, 95% of the outgoing mail is processed and connected to departing flights by the next working day.

22.1.6 To be able to effectively respond to customer requests, SingPost agrees with IDA that it should be allowed the flexibility to deviate from the minimum QoS standards. SingPost proposes that a minimum QoS need not be set on bulk mail, as it would obtain commercial agreement with customers for different delivery timeframes. As such, SingPost should be able to revise the bulk mail scheme (without the need to seek IDA's approval) to tie in with the new definition of addressed letters and the different service standards to be responsive to customers' requirements. SingPost will continue to maintain its minimum QoS of next day delivery for all public mail.

22.1.7 To assist customers in making an informed choice, SingPost should also be able to inform in advance of the terms and conditions of its services, including service standards adopted for each service.

22.1.8 To support it in meeting customer requirements, SingPost will therefore require flexibility in pricing.

22.2 Service Quality Commitments by all PSOs

22.2.1 SingPost is of the view that all PSOs should be subject to quality of service commitments as examples of liberalisation in other industries such as utilities have shown.

22.2.2 From a consumer's perspective, service standards should be established and made known to all consumers by all PSO licensees alike. The publishing of such service standards by all licensees should also be mandatory, as by not

doing so, consumers would end up being confused and frustrated due to different standards existing for different licensees in the market. Further, in order to satisfy consumer service, licensees would have to devote substantial time to clarify consumers' queries and complaints.

22.2.3 IDA needs to ensure that consumers continue enjoying consistency in quality of service and a high level of satisfaction, as experienced by consumers and business users currently.

22.2.4 At present, SingPost is required as the PPL to engage an external auditor to ensure that an independent assessment of the quality of service standard is conducted. In a liberalised environment, it would only be prudent that this requirement be similarly imposed on all licensees for transparency.

22.2.5 By imposing service standard commitments on all PSO licensees alike, it would provide a level playing field for all. Consumers would know the prices, terms and conditions and service levels of each licensee they wish to contract with in the providing postal services, and similarly, this would enable them to make an informed choice.

22.3 Flexibility to Adjust Quality Standards

22.3.1 SingPost would also have to adjust its quality standards to create a level playing field. Freedom that should be allowed to SingPost include: adjustments of collection timing, reduction of collection points, scale-down of post offices, focused customer support on large business customers, cutback on service innovations in case these measures would be needed to secure SingPost's competitive position.

22.3.2 Therefore if IDA should decide to liberalise the market, an open, competitive system is needed to allow SingPost flexibility to deviate from the minimum standards (QoS) to be meet the requirements of customers. SingPost once again would like to emphasise that a deterioration of service level is clearly not its intended direction of development. However, such a development may be necessary to prevent SingPost from being saddled with an untenable cost position in a deregulated market.

Part 10 (Issuance of Postage Stamps):

23) *IDA's approach on the issuance of postage stamps in Singapore. Whether further guidelines are required to govern the pre-payment impressions or stamp imprints from other PSO licensees?*

23.1 Issuance of Postage Stamps

23.1.1 SingPost supports IDA's proposal that the privilege to produce and issue national postage stamps bearing our country's name "Singapore" in any language and any national symbol of Singapore (e.g. the Lion Head symbol, Singapore National Flag, and Singapore State Crest) be conferred to only SingPost; and the current framework for producing national postage stamps be retained.

23.2 Pre-Payment Impressions or Stamp Imprints

23.2.1 SingPost supports IDA's proposed guidelines for PSO licensees to produce their own pre-payment impressions or stamp imprints and in conformity with the UPU convention, such pre-payment impressions or stamp imprints shall not be referred to as "postage stamps".

Part 11 (Remailing in International Mail Market Segment):

24) *Problems of remailing should the BMS market be fully liberalised? Specifically, the extent of remailing activities that are likely to occur in a liberalised environment and the severity of the problems created. Suggestions on how these problems could be effectively addressed in order for full liberalisation to be allowed?*

24.1 Problems From Remailing Activities

24.1.1 SingPost is strongly supportive of IDA's proposal not to liberalise the international inbound BMS market. We would recommend that the international outbound BMS market should not be liberalised as well. International arbitrage opportunities that would arise in the event of liberalisation i.e. in the form of remailing could significantly increase postage costs to Singapore businesses and consumers.

24.1.2 Remailing is an issue that should be approached with caution. As pointed out in the Consultation Paper, the present system presents an arbitrage opportunity due to differential Terminal Dues ("TDs") being charged to Developing Countries ("DC") / Net Contributor Countries ("NCC") and

Industrialised Countries (“IC”) for light-weight mail items (typically refers to items which weigh < 50g).

24.1.3 Moreover, if remailing activities cause a significant increase in the volume of lightweight mail sent to ICs, this could raise the cost of international mail services to consumers and business users in Singapore significantly. In order to protect customers in Singapore, SingPost strongly recommends that the international mail segment, both in- and outbound, should not be liberalised.

Increased Remailing Activities And Resultant Higher Costs From Liberalising International Inbound BMS

24.2 SingPost believes that if it is the only party permitted to handle international inbound mail in the BMS market, it will be better equipped to tackle the issue of remailing and shield consumers and business users in Singapore from potentially higher rates in international mail services. SingPost will be in a better position to identify remailing activity and take the necessary actions to block such traffic.

24.2.1 If the international inbound mail segment for BMS were to be liberalised, it would be much more challenging for SingPost to identify remailing activities. Remailers would be able to lodge their items at the bulk mail counter, and SingPost would have no way of distinguishing their items from the items posted by Singapore customers. The ultimate effect is to raise the TDs that SingPost must pay to other countries, thus resulting in more expensive international mail services for consumers and business users in Singapore.

24.2.2 Thus, SingPost strongly agrees with IDA that the international inbound BMS segment should not be liberalised.

Increased Costs From Liberalising International Outbound BMS

24.3 SingPost believes that the international outbound BMS segment should also not be liberalised, in order to maintain the volumes that are necessary to sustain the scale economies on international routes.

24.3.1 If the international outbound BMS were liberalised, it would result in competitors taking advantage of Singapore’s status to access the low DC postage costs for light-weight mail items to IC, exposing Singapore to the risk of higher TD costs.

24.3.2 In addition, SingPost would not be able to maintain the volumes that are necessary to sustain its scale economies on international routes, thus significantly reducing its ability to negotiate for favourable rates with airmail carriers for the conveyance of mail.

24.3.3 Extra-territorial Offices of Exchange (“**ETOE**s”) operated by IC postal operators such as Deutsche Post, Swiss Post and Sweden Post are already active in Singapore. If the international outbound segment were to be liberalised for BMS, ETOEs could engage in cherry-picking of the international network. IC ETOEs may choose to channel traffic either through the international system (which they access at IC rates) or SingPost’s international postal rates based on DC rates (**Confidential Annex D**).

24.4 However, should the international outbound segment be liberalised, SingPost would strongly urge IDA firstly to reconsider its implementation. As a second-best option, SingPost would propose to defer the liberalisation to 2010 at the minimum, due to the lack of good liberalisation experiences to draw upon and pending the UPU Congress on the potential reclassification of Singapore to IC status.

24.4.1 The liberalisation of postal markets has typically taken place in ICs. The only DCs to date that have liberalised, as far as SingPost is aware, are Argentina and Tanzania. These two countries are different from Singapore as Singapore possesses an attractive geographical location and has good access to international infrastructure. Hence there is no precedence to look towards in terms of DCs that are as vulnerable to the threats posed by remailing activities. The potential threats that remailing activities pose are therefore still largely unclear.

24.4.2 At the next UPU Congress in 2008, the potential reclassification of Singapore and other countries as IC will be deliberated and decided upon, for implementation in 2010. Hence, any liberalisation, if at all, should be deferred to 2010, pending the UPU Congress.

A Phased Approach If International BMS Were To Be Liberalised

24.5 ETOEs have already been set up in Singapore to take advantage of the arbitrage, and liberalisation of the international BMS segment is likely to cause a significant increase in remailing activities.

- 24.5.1 As Singapore is also likely to be the only NCC/DC in the region to liberalise its postal market, this creates the possibility that a significant portion of IC-to-IC traffic (which currently makes up approximately 60% of total global mail) could potentially be diverted through Singapore.
- 24.5.2 With the significant increase in light-weight traffic from SingPost, SingPost is at risk of being penalised for higher TD rates by the destination countries. These higher rates will apply to all traffic from SingPost. As such, this cost increase may translate to higher prices for end-users in Singapore for sending international mail to the affected countries.
- 24.6 At the minimum, in order to shield Singapore from the risk of arbitrage, the <50g weight-class should be reserved. The differential TD system, and hence the arbitrage opportunity, applies primarily to light-weight mail (i.e. items weighing <50g). Moreover, it is in the light-weight mail class that destination countries are more likely to impose an additional fee per item if certain conditions are met.
- 24.6.1 SingPost firmly believes that should the international segment be liberalised before 2010, the only method available to manage the risks of increased remailing activity would be to protect the weight-class that is the most attractive target for remailers.