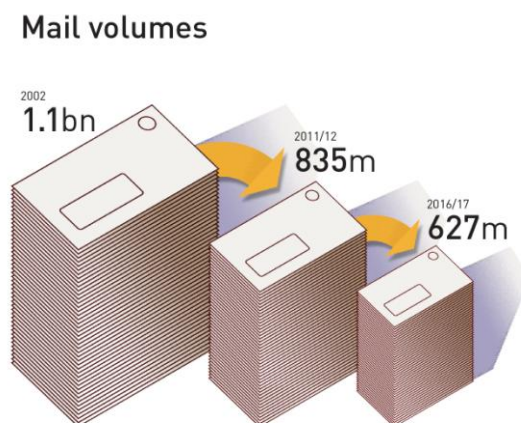


Proposal by New Zealand Post to Minister for Communications and Information Technology

January 2013

**Review of Deed of Understanding
between New Zealand Post Limited
and the Government of New Zealand
dated 17 February 1998**



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Section 1: Summary

1.1 New Zealand Post is proposing changes to the universal service obligation for postal services

This is a proposal by New Zealand Post Limited (New Zealand Post) to change the universal service obligation set out in the Deed of Understanding between New Zealand Post and the Crown, which was signed in 1998 (the 1998 Deed).

The terms of the 1998 Deed are set out in *Appendix 1*.

Universal service obligation (USO) is the term used internationally to describe obligations on service providers which aim to ensure the availability of services where market forces alone may not provide a satisfactory level of service from a public policy perspective. Universal service obligations are a particular feature of network industries providing services which the government considers essential.

The 1998 Deed reflects a universal service obligation which was established in 1989. That obligation has become outdated in its current form. Letter volumes are in irreversible decline as a result of new communications technologies. This trend is an issue for postal businesses internationally.

New Zealand Post believes that a new approach to the universal service obligation is needed. New Zealand Post is proposing that the 1998 Deed be replaced by a new deed of understanding between New Zealand Post and the Crown, in which New Zealand Post will agree to:

- provide a minimum basic postal service for delivery of letters which includes not less than three day per week delivery to 99.88 % of delivery points within New Zealand Post's network;
- include within its network a minimum of 1,910,010 delivery points (being the number of delivery points in the network as at 30 June 2012);
- not reduce the frequency of delivery under the basic postal service to those areas where New Zealand Post offered a three or two day delivery service as at 30 June 2012;
- increase the number of delivery points within its network if and to the extent there is demand for it to do so, but this undertaking will be subject to New Zealand Post's reasonable opinion about what is commercially sustainable and operationally practicable; and

- maintain a network throughout the country where consumers can purchase postal services. The network will contain no fewer than 880 service points in total, including no fewer than 240 where consumers can, in addition to purchasing postal services, use such bill payment services as New Zealand Post may provide from time to time. The network may be made up of a combination of outlets owned by New Zealand Post, services hosted in other businesses and electronic self-service kiosks.

New Zealand Post is seeking flexibility and regulatory certainty now to enable it to plan for the changes it will need to make in the future. Given current information and trends on volume declines, New Zealand Post considers it unlikely that frequency reduction would be implemented before 2014/15. Changes in customer needs, volumes or the competitive environment could bring this timeframe forward or postpone it.

Although implementation of frequency reduction may be some time away, making the necessary changes to the universal service obligation now will provide New Zealand Post (and by association its customers and users) with the certainty it needs to plan and prepare its customers for change, while offering the flexibility to act earlier if market dynamics require.

This document explains why New Zealand Post is seeking this change, describes the policy context for the postal services universal service obligation, and describes and assesses four policy options for responding to the changing communications market.

Those options are:

Option 1 - Status quo: no change is made to the 1998 Deed;

Option 2 - Constrained response: incremental changes to some of the number targets specified in the 1998 Deed;

Option 3 - Flexible response: as described above, a new deed of understanding which sets out New Zealand Post's commitment to provide a minimum basic postal service and to maintain a network of retail outlets, while providing flexibility as to how services are provided and what additional services are offered; *and*

Option 4 - Market response: New Zealand Post provides postal services without any arrangement with the Crown.

New Zealand Post is proposing Option 3. This flexible response offers a commitment to a sustainable minimum universal service, while providing New Zealand Post increased flexibility to adapt its business model to the changing communications environment.

New Zealand Post's proposed new deed is set out in *Appendix 2*.

1.2 Competition and access to New Zealand Post's postal network

The 1998 Deed includes an undertaking by New Zealand Post to provide access to its postal network to other postal operators on non-discriminatory terms (clause 17 of the 1998 Deed).

New Zealand Post currently provides access to its postal network to six other postal operators. One of these postal operators runs its own partial street delivery and box network in most urban and large provincial centres and lodges residual volumes into New Zealand Post's postal network. The remaining five postal operators choose not to have processing and delivery networks and instead sell stamps and postage-included envelopes which are valid for New Zealand Post's postal network.

An independent committee established by New Zealand Post in consultation with those other postal operators and MED now governs the terms and conditions on which New Zealand Post provides access to its postal network.

New Zealand Post is not seeking any change to clause 17 as part of this proposal.

1.3 Terminology used in this Proposal

A number of terms are defined in this Proposal, and in other cases terms are used which have particular meanings in the postal industry.

A glossary of terms is set out in *Appendix 5*.

Section 2: Why New Zealand Post is seeking change

This section covers:

- 2.1** The New Zealand Post physical postal network;
- 2.2** The 1998 Deed prevents New Zealand Post from responding to changing market demand for postal services;
- 2.3** The New Zealand Post Group retail network;
- 2.4** New Zealand Post is trialling changes to improve its retail network; *and*
- 2.5** The 1998 Deed limits New Zealand Post's ability to respond to customers' changing retail needs.

2.1 The New Zealand Post physical postal network

Letter volumes in New Zealand have declined steadily in recent years.

New Zealand Post's total mail volumes have fallen from 1.1 billion items in 2002 to 835 million items in the 2011/2012 financial year (ending 30 June 2012). The rate of decline for the most recent financial year – 6.9% – equates to 61 million items and is the highest percentage decline ever.

The decline has been even more dramatic for FastPost, which has fallen from 46 million letters in 1998 to 8.2 million in 2011/2012. Fewer and fewer letters are being sent, and postal services are no longer used for time-critical communications.

A 2010 report by the Ministry of Economic Development (MED) (now part of the Ministry of Business, Innovation and Employment (MBIE)) stated:¹

Much of this decline is attributed to the growth in digital communications (internet and text messaging). Both transactional and social letter mail has been affected. Businesses are increasingly offering online statement and payment options. Social mail is today predominately sent via new media technologies such as email, text messaging and social networking websites.

There is no turning back from this decline. As access to digital communications increases, including through Government projects such as the Ultra-Fast Broadband and Rural Broadband Initiatives, letter volumes will continue to fall, possibly at an increasing rate.

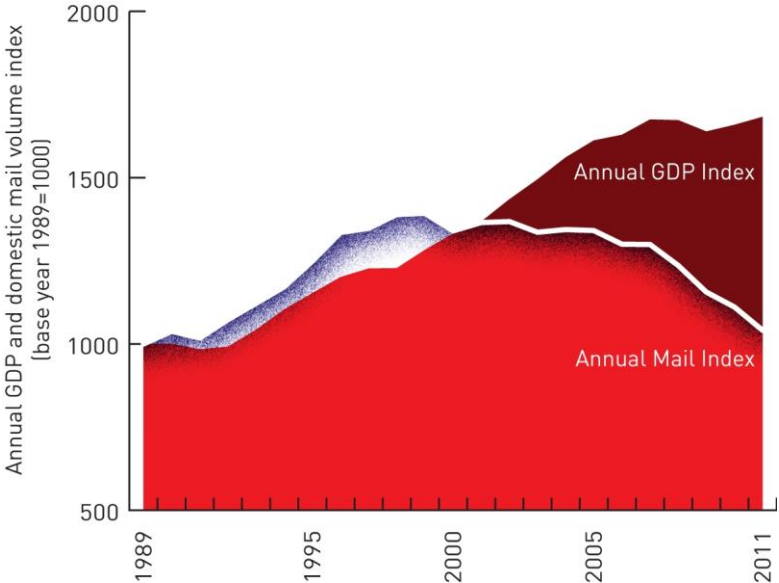
¹ MED, *Review of Postal Regulation: Network Access and Governance, Stakeholder Report*, May 2010, page 7.

In addition, Government fiscal policies and reforms such as the Better Public Services programme are also encouraging government departments (traditionally very large users of postal services) to increase their use of digital channels to provide government services and so are likely to contribute to further declines in letter volumes.

Historically, mail volumes have grown in tandem with gross domestic product (GDP), but globally, that relationship is growing weaker.²

Figure 1 below shows the decoupling in New Zealand between economic growth and mail volumes. The same phenomenon has been observed in the United Kingdom and elsewhere, and is referred to in the industry as the 'technology wedge'.³

Figure 1: Annual GDP and domestic mail volumes (as index numbers)



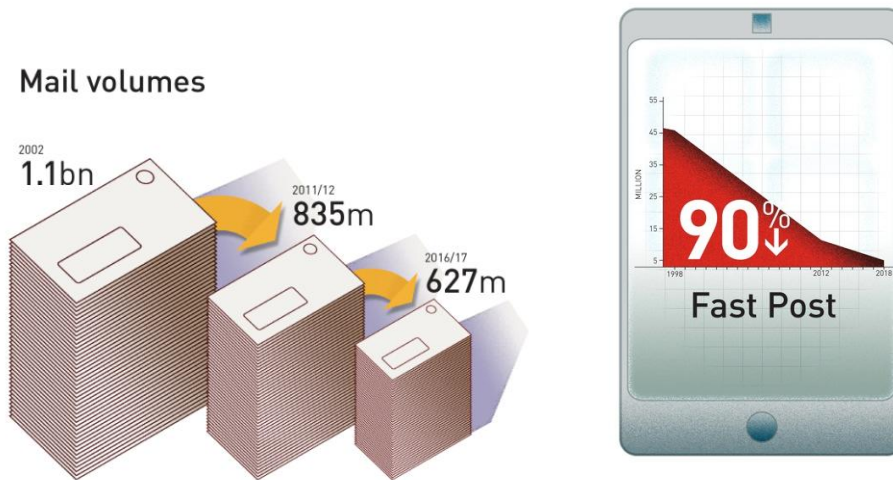
New Zealand Post's current forecasts indicate that annual mail volumes will fall to 627 million items by 2016/17 – a 44% drop from 2002's mail volumes. That represents more than 470 million items.

Annual volumes for our priority letter services (FastPost and Boxlink) are forecast to fall from over 45 million letters in 1998/1999 (and eight million letters in 2011/12) to five million letters by 2016/17. The actual decline could well be steeper.

² Universal Postal Union, *The Evolution of the Postal Sector: Implications for Stakeholders (2006 - 2012)*, 2007, pages 31-2.

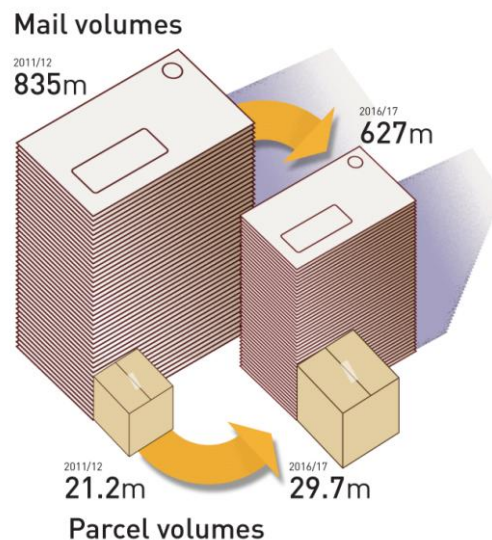
³ Richard Hooper CBE et al, *Modernise or Decline: Policies to maintain the universal postal service in the United Kingdom, An independent review of the UK postal services sector*, 2008, paragraphs 48-53.

Figure 2: Annual mail volumes, and annual volumes for priority letter services⁴, forecast decline until 2016/17



There are opportunities for New Zealand Post to grow its postal business outside of its letters services, but these will not be sufficient to compensate New Zealand Post for lost letter volumes. For example, growth in the parcels market is expected to continue as online retailing grows in popularity, but the scale of the parcels market is not comparable to the letters market. New Zealand Post's parcel volumes are forecast to increase by approximately 8.5 million items over the next five years, but that will not make up for lost revenue on 217 million letter items.

Figure 3: New Zealand Post forecast annual mail volumes and forecast annual parcel volumes⁵

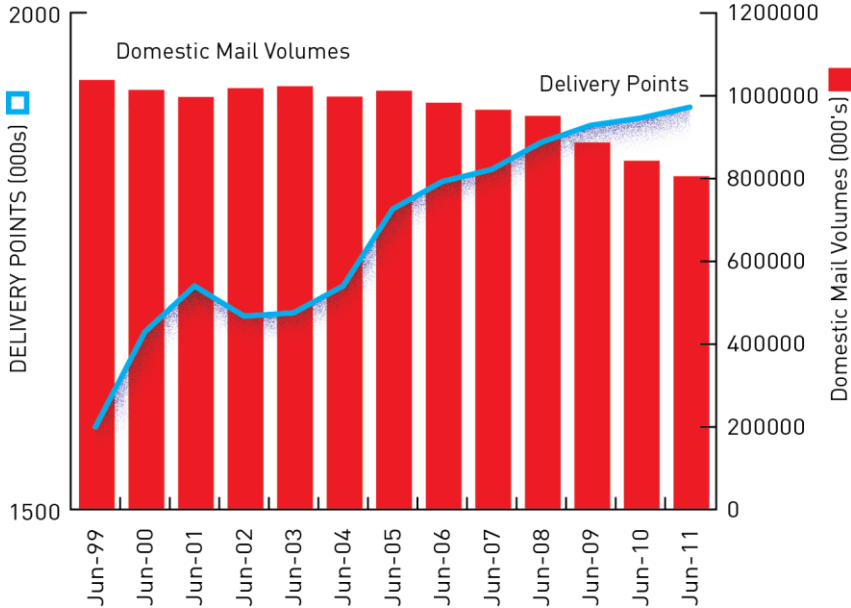


⁴ FastPost and Boxlink.

⁵ Note that parcel volumes are a subset of total mail volumes shown in this graph. See the glossary in Appendix 5 for definitions of 'mail', 'letters' and 'parcels' as used in this Proposal.

The number of delivery points in New Zealand Post’s postal network is also increasing, from approximately 1.6 million in 1999 to approximately 1.9 million in 2011. Postal services are unique, in that unlike most other network industries (e.g. telecommunications, electricity, gas) receivers generally do not pay to be connected to the postal network. In a context of decreasing letter volumes and increasing delivery points, the result is a high cost to operate network with a decreasing revenue stream.

Figure 5: Domestic mail volumes and delivery points 1999-2011



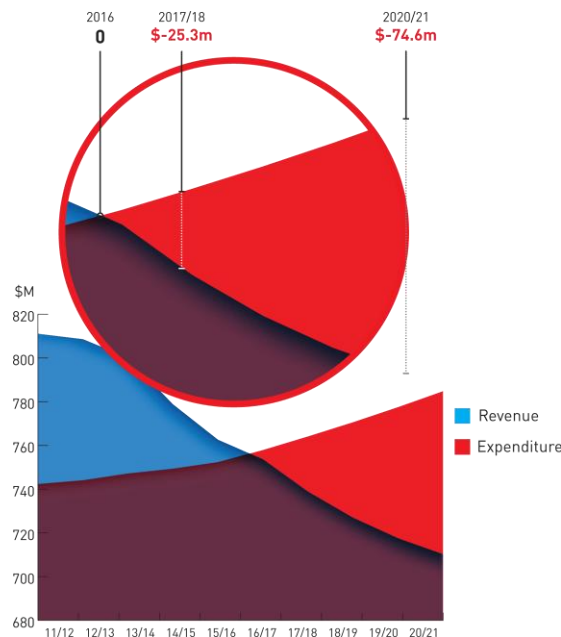
2.2 The 1998 Deed prevents New Zealand Post from responding to changing market demand for postal services

New Zealand Post has applied a range of cost cutting measures in recent years to address declining volumes and increase the efficiency of its postal network. For example, New Zealand Post is trialling a new payment model for its Posties as well as trialling integration between its Postie network and CourierPost’s courier delivery network. New Zealand Post’s street receiver and transport networks have been rationalised and New Zealand Post has suspended extensions to its Rural Post delivery network. Although the focus has been on efforts to increase efficiency, prices have also increased to counter rising costs.⁶

However these measures are no longer sufficient to meet the challenges created by declining volumes. If New Zealand Post does not make the necessary changes, as shown by the following graph, its postal services business will start losing money from 2016/17, and potentially earlier.

⁶ The price for a standard letter increased on 1 July 2012 from 60c to 70c. The previous increase in the standard letter price was from 50c to 60c on 1 October 2010.

Figure 6: New Zealand Post’s core postal revenue and expenditure forecast⁷



New Zealand Post’s ability to make the necessary changes is constrained by the 1998 Deed. Mail processing capacity can be scaled back to match the declining demand, but the terms of the 1998 Deed - and in particular the requirement to provide five or six day delivery to 99.88% of delivery points - prevent a redesign of the processing and delivery networks as a whole. For New Zealand Post to develop a sustainable business model in response to irreversible volume decline, fundamental redesign is required.

2.3 The New Zealand Post Group retail network

The New Zealand Post Group operates one of the largest retail networks in the country, providing a range of postal and other services under the New Zealand Post brand.

The size of that retail network is in part a legacy of the New Zealand Post Office’s original role as a government department. Historically the New Zealand Post Office played two key roles; providing access to government communication and banking services, and acting as the agency which connected communities with other government departments.

For much of the 20th century Post Offices acted as a government ‘front office’. By 1987 Post Offices performed some 60 government functions, some (but not all) of which are still provided today under commercial arrangements.⁸

⁷ This graph shows revenue and expenditure for New Zealand Post’s retail, mail house and postal services (i.e., essentially letters and parcels) businesses. For the purposes of this graph, retail and mail house revenue and expenditure has been held constant in order to show the impact of forecast changes in postal services revenue and expenditure.

After the New Zealand Post Office was split into three separate organisations in 1987 (banking, post and telecommunications), New Zealand Post was the 'default' provider of services on behalf of Post Office Bank and Telecom Corporation as well as government organisations such as the Ministry of Transport and Department of Justice.

That historic role of Post Offices has been reflected in the successive Deeds of Understanding signed between New Zealand Post and the Crown. The 1998 Deed requires New Zealand Post to maintain a network of 880 postal outlets and post centres providing 'over the counter' postal services, 240 of which must also provide 'agency and/or other services' in addition to postal services.

'Agency and/or other services' is not defined. Today, New Zealand Post provides bill payment services for a variety of government and private organisations – such as power companies, local councils, insurance and telephone companies. More recently, New Zealand Post has provided other services such as authentication and application processing services for organisations such as the Hospitality Association of New Zealand and the British High Commission.

As at 30 June 2012 the New Zealand Post Group retail network today consisted of:

- 139 corporate⁹ PostShops offering postal and agency services;
- 147 'franchise' postal outlets offering postal and agency services;¹⁰ and
- 608 Post Centres¹¹ offering postal services only.

In addition, over 1500 resellers (e.g. bookshops, supermarkets, dairies and petrol stations) distribute New Zealand Post postal products (e.g. stamps and postage-included envelopes).¹²

2.4 New Zealand Post is trialling changes to improve its retail network

The pressures from declining demand that are affecting the economics of New Zealand Post's processing and delivery networks are also being felt in its retail network.

As customer preferences change, volumes are declining in the retail network. This is reflected in reducing foot traffic and lower postal revenues in stores.

⁸ Vivienne Smith, *Reining in the Dinosaur, The story behind the remarkable turnaround of New Zealand Post*, New Zealand Post, 1997, page 13.

⁹ Owned by the New Zealand Post Group.

¹⁰ This includes 141 PostShop branded outlets owned and operated under a franchise model, and 6 post centres which provide agency services in addition to postal services.

¹¹ Operated under an agency model, usually located inside a host business with the Post Centre business not being the primary business of the operator.

¹² Some of which have multiple outlets (e.g. supermarket chains).

In addition to declining use of postal services, revenue from bill payment services is declining as the growth of online and mobile payment technologies changes the market for payment services. Bill payment transaction numbers have decreased from approximately 21.5 million in 2006/7 to approximately 17.7 million in 2010/11.

If New Zealand Post was designing its retail network from 'scratch', it would not have the network it has in place today. More likely, it would distribute its products and services via resellers and agency arrangements. At the same time, New Zealand Post recognises that consumers value its services not only when using them, but also because the service is available to use at any time, and because of the historical role of the New Zealand Post Office at the centre of communities.

The challenge for New Zealand Post is to maintain convenient access to its services, and its relevance to communities, while also addressing revenue decline by reducing the cost to serve its customers.

To that end, New Zealand Post is trialling changes to its retail network. Those changes will seek to reduce the cost of the network, but will also reflect feedback from New Zealand Post customers about how they want to do business with New Zealand Post; the changes being considered include improving the design and appearance of stores, removing sundry merchandise, simplifying product offerings, and reducing queue lengths through improved layouts and the introduction of in-store self-service options in high volume areas.

These changes are likely to involve less ownership of outlets by the New Zealand Post Group, with a focus instead on agency and franchise models whereby postal outlets are hosted within other businesses. That will mean more local community ownership of New Zealand Post outlets.

In some cases, outlets will be relocated away from areas that are no longer significant shopping areas to locations with more foot traffic such as shopping malls, supermarkets or petrol stations.

Over time this will include a 'service points' approach, using self-service technology to have entirely unmanned kiosks hosted within other businesses. Self-service kiosks have the potential to increase New Zealand Post's total presence in communities and make its services easier and more convenient to access.

Initial changes have been piloted in the Kapiti area, with encouraging results. Self-service kiosks for bill payment and postal transactions have also been trialled elsewhere in New Zealand, with positive customer reactions. Further trials are likely, and final decisions about changes to the size and shape of New Zealand Post's retail network have not yet been made.

2.5 The 1998 Deed limits New Zealand Post's ability to respond to customers' changing retail needs

2.5.1: Over the counter services

The 1998 Deed limits New Zealand Post's flexibility to respond as market demand and customers' retail needs change.

The 1998 Deed requires New Zealand Post to maintain a fixed number of postal outlets or post centres offering 'over the counter' services. The required number of over the counter services – 880 – has not changed since 1989.

Since then, technology has provided new ways for people to access services. Pricing information can be found, and postal products purchased, online, and customers are familiar with self-service technologies in other contexts such as banking, supermarkets and airline check-in. These technologies have the potential to enable faster and more convenient transactions for New Zealand Post customers, potentially in more locations than at present.

In terms of the government's policy objectives, New Zealand Post believes the focus should be on ensuring access to services, not on requiring such access to be provided in particular ways, especially in the context of rapidly changing market demand.

Preliminary discussions have indicated that some stakeholders are concerned about the number of service points. New Zealand Post is not proposing to reduce the total number of service points within its retail network, but the make-up of those service points will change. In particular, some service points will be electronic self-service kiosks, rather than shops offering over the counter service.

New Zealand Post is proposing that the new deed retain the minimum of 880 outlets that is in the 1998 Deed, but that the reference to 'over the counter' services be removed. New Zealand Post is proposing that the new deed explicitly provide that the network of at least 880 service points may be made up of a combination of outlets owned by New Zealand Post, services hosted in other businesses and electronic self-service kiosks.

2.5.2: 'Agency and/or other' services

The requirement to offer 'agency and/or other' services at a fixed number of stores where postal services are offered is also problematic. The expression 'agency and/or other services' was first introduced in the 1998 Deed, but is not defined. New Zealand Post believes that a broad obligation to maintain a certain number of outlets offering 'agency' services is difficult to justify from a purely policy perspective in a context where a wide range of services that could be considered 'agency' services are provided, each of which have different characteristics.

As noted above, in addition to its bill payment services, New Zealand Post provides a number of other agency service offerings which it has developed over

recent years, such as authentication and application processing for organisations such as the Hospitality Association of New Zealand and the British High Commission. New Zealand Post believes that any obligation in relation to agency services should be limited to its bill payment services.

An obligation to provide services which are subject to competitive tenders, and which no organisation has any obligation to use, cannot be justified on economic grounds. Although the 1998 Deed obliges New Zealand Post to maintain a certain number of outlets offering agency services, there is no corresponding obligation on any organisation to use them. Unlike the historic role of the New Zealand Post Office in connecting communities with government, New Zealand Post competes to provide bill payment and other agency services via competitive tender processes, and provides services pursuant to arm's length contracts with the relevant organisations. The obligation only applies to the extent that New Zealand Post actually continues to provide agency services.

New Zealand Post understands that its bill payment services currently provide a connection between the historic role of the New Zealand Post Office and New Zealand Post in the 21st century.

New Zealand Post is proposing to commit to providing 240 outlets at which such bill payment services as New Zealand Post offers from time to time will be available – consistent with the current obligation in the 1998 Deed regarding 'agency and/or other services'. New Zealand Post is proposing that this commitment allows New Zealand Post to provide those services in a number of ways, including via self-service technologies.

Of course, it is possible that the organisations which currently use New Zealand Post's bill payment services might in the future stop using those services.

If the bill payments market changes such that New Zealand Post considers it to be no longer viable to maintain bill payments services and ceases to do so, then the obligation in relation to how they are made available would at that point necessarily be of no effect and should be interpreted in this manner.

Section 3: Public Policy Context

This section covers:

- 3.1** The background to the 1998 Deed of Understanding;
- 3.2** New Zealand's membership of the Universal Postal Union;
- 3.3** Government objectives for the postal industry;
- 3.4** What is an adequate universal service in 2012 and for the future?; *and*
- 3.5** Agency services are not a communications policy issue.

3.1 Background to the 1998 Deed of Understanding

Over 25 years ago (on 1 April 1987) the New Zealand Post Office was 'corporatised' with its core businesses split into three separate companies - Telecom, Post Office Bank and New Zealand Post.

New Zealand Post became a state-owned enterprise. Under the State-Owned Enterprises Act 1986 (SOE Act), New Zealand Post is required to operate as a successful business and to be:¹³

- as profitable and efficient as comparable businesses not owned by the Crown;
- a good employer; *and*
- an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when it is able to do so.

After corporatisation, New Zealand Post initially retained a statutory monopoly over letters delivered for under NZ\$1.75 or weighing less than 500 grams. That monopoly was gradually removed between 1989 and 1998. By 1998 the postal market was fully open to competition.

An outline of the current structure and regulation of the postal industry in New Zealand is set out in *Appendix 3*.

In 1989 a Deed of Understanding between New Zealand Post and the Crown was first established, setting out certain social, price and service undertakings to be met by New Zealand Post.

¹³ State-Owned Enterprises Act 1986, section 4.

The 1989 Deed required New Zealand Post to:

- provide six day a week delivery to more than 90% of delivery points and five day a week delivery to more than 99% of delivery points;
- not increase the proportion of counter delivery services or community mail boxes beyond 0.85% of all delivery points;¹⁴
- maintain at least 1,202,073 delivery points;
- maintain a uniform basic letter price at 40c, with certain changes allowed in line with changes in the Consumer Price Index; *and*
- maintain a network of at least 880 'official' (i.e. staffed by New Zealand Post personnel) and 'agency' (i.e. not owned and operated by New Zealand Post) post offices and postal delivery centres, including at least 330 official post offices.

The Deed was incrementally reviewed several times between 1992 and 1998, including changes to the required number of delivery points, the percentage of delivery points requiring six or five day a week delivery, the permitted proportion of counter delivery services and the required number of postal outlets.

When the postal market was fully opened to competition in 1998, the Deed of Understanding was reviewed again. The 1998 Deed requires New Zealand Post to:

- maintain six day a week delivery to at least 95% of delivery points, and five or six day delivery to at least 99.88% of delivery points;
- not increase the number of counter delivery points or community mail boxes beyond 1.5% of all delivery points;¹⁵
- maintain at least 1,463,938 delivery points;
- maintain a network of at least 880 postal outlets and post centres, including at least 240 post centres which provide 'agency and/or other services';
- not reintroduce the rural delivery fee; *and*
- not increase the price of the standard letter beyond 45 cents for at least three years (this obligation expired in 2001).

The 1998 Deed was amended in 2010 to allow exceptions to the delivery frequency requirements on public holidays.

¹⁴ Counter delivery points are where mail is picked up by the recipient at an approved outlet instead of at a residential or rural delivery point. Community mail boxes are aggregated post boxes arranged by New Zealand Post generally at a distance from the receiver's residence.

¹⁵ In some cases where New Zealand Post cannot accommodate a request for a new delivery point, it offers the applicant a free PO Box instead at the nearest outlet, where these are available and where it is not practical to provide a community mail box. For reporting purposes New Zealand Post includes those PO Boxes within the 1.5% threshold set by the 1998 Deed.

3.2 New Zealand's membership of the Universal Postal Union

New Zealand is a member of the Universal Postal Union (UPU). The UPU is a specialised agency of the United Nations responsible for coordinating international postal services.

New Zealand Post is the sole 'designated operator' for New Zealand's participation in the UPU, which means that New Zealand Post is responsible for meeting New Zealand's obligations under UPU regulations and for coordinating New Zealand's participation at UPU meetings and negotiations.

Article 3 of the UPU Convention requires member countries to:

1. *...ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.*
2. *With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions...*
4. *Member countries shall ensure that the universal postal service is provided on a viable basis, thus ensuring its sustainability.*

New Zealand has an international obligation to ensure the provision of a universal postal service. The UPU expectation is that the universal service obligation takes into account the needs of the population and national conditions, and is sustainable.

There is an implicit expectation that the designated operator for each UPU member country will be responsible for providing the universal service in that country, and will be capable of providing that service in its own right. This is reflected in the 1998 Deed, which includes a requirement that it be reviewed in the event that New Zealand Post loses its status as sole designated operator.

3.3 Government objectives for the postal industry

In May 2010, MED¹⁶ reviewed the policy objectives for regulation of the postal industry and concluded that it is in New Zealand's interest for there to be a postal industry that:

- is efficient and self sustaining/viable;
- is reliable and low cost;
- provides adequate universal service;
- is flexible in adapting to business and residential needs and innovative in identifying and filling customer needs; *and*

¹⁶ Now part of the Ministry of Business, Innovation and Employment (MBIE).

- offers market segmentation (mass standardised service complemented by niche services tailored to individual needs).¹⁷

3.4 What is an adequate universal service in 2012 and for the future?

3.4.1: Rationale for a postal services universal services obligation

Governments do not put in place universal service obligations (USOs) for all goods and services. It is therefore appropriate to ask whether the rationale for a USO for postal services, or the scope and design of that USO, need to be re-examined in light of the technological changes of recent years.

Postal services enable people to:

- send and receive information to and from businesses providing goods and services, local and central government, and community organisations (churches, charities, schools, residents associations etc.);
- send and receive invoices and payments for goods and services; *and*
- send and receive social mail.

For most of the twentieth century, those unable to access postal services may not have been able to access those goods and services, government services and community organisations, and so may have been effectively unable to participate in society on an equal basis. This is referred to below as 'economic and community participation'. Globally, as postal services ceased to be run as government departments, many governments put in place USOs in order to ensure access to postal services was available to facilitate such economic and community participation.

An implicit concern underlying USOs in any industry is that in the absence of a USO, certain groups would be effectively excluded from accessing the service in question – either because it would not be supplied at all, or because it would be supplied at prices which are considered too high. A particular rationale for a USO in the context of high fixed cost networks such as the postal network is to ensure access to services in low density, high cost-to-serve locations – in other words, rural areas.

In the postal context in New Zealand this concern has been addressed via requirements (now expired) for uniform pricing (which implies that revenues from delivery in lower cost (high density) areas are used to cross-subsidise delivery in higher cost (low density) areas), in the current requirement that New Zealand Post provide five or six day per week delivery to almost all delivery points, and in the requirement that New Zealand Post not re-introduce a rural delivery fee.

¹⁷ MED, *Review of Postal Regulation: Network Access and Governance, Stakeholder Report*, May 2010, pages 4 and 13.

On the other hand there has historically been recognition that absolute equity between urban and rural locations is not practicable. The rural delivery fee was an established feature of the postal network until it was removed in 1995 following disputes in relation to the level of the fee.¹⁸ The current postal service USO also accepts differences between urban and rural service levels by allowing for a small percentage of delivery points to have five day per week or lower delivery frequencies and for 1.5% of delivery points to be community mail boxes or counter delivery points.

3.4.2: Specific social benefits from postal services – democratic participation

Postal services also support democratic institutions by enabling local and central government elections (e.g. local government postal ballots, postal registration on the electoral roll, and use of postal services to distribute information about elections). However it is not clear that this role of postal services (as distinct from their role in facilitating economic and community participation) is a sound rationale for a USO covering 'day to day' services. Postal services' role in elections is not a capability that needs to be continuously available.

3.4.3: Is a postal services USO still required given the changing communications market?

Economic and community participation is increasingly possible without physical postal services. Businesses, government and community organisations can disseminate information via the internet, and invoices can be sent and payments made online. Social communication, because it generally lacks a need for formality, can occur through an even larger number of media – telephone, text messages, email and online social networks.

Those trends are of course borne out in the volume decline New Zealand Post is experiencing. Fewer letters being sent does not suggest people are participating any less in the economy and their communities, or communicating less with friends and family. Rather, people are communicating by different means. This is consistent with evidence about changes in the telecommunications market. The Commerce Commission's latest Telecommunications Monitoring Report observes that broadband connections have grown steadily from 0.48 million in 2006 to 1.09 million in 2011. The Commerce Commission expects this trend to continue.¹⁹

However the rural areas that have historically been the implicit target of postal USOs are also areas where access to the internet at speeds sufficient for digital communication options to displace postal services is most likely to be limited. In New Zealand, access to broadband in rural areas is more limited than in urban centres, but is increasing.

¹⁸ *Federated Farmers of New Zealand inc v New Zealand Post Limited*, CP No 661/92, McGechan J, provides a useful history of the rural delivery fee.

¹⁹ Commerce Commission, *Annual Telecommunications Monitoring Report 2011*, April 2012, page 3.

Statistics New Zealand data shows that in 2009 55% of households in 'all rural' areas had access to broadband, compared with 22% in 2006. A 2011 AUT survey found that 84% of rural internet users had a broadband connection at home, compared with 47% of rural internet users in 2007.^{20, 21}

Access to broadband in rural areas will increase over time, and will be both helped and potentially accelerated by wider communications policy. The Government's urban-focused Ultra-Fast Broadband Initiative and the rural-focused Rural Broadband Initiative will together ensure that, by 2019, 97.8 percent of households and businesses will have access to broadband speeds of at least 5 Mbps (downlink) and the remaining households and businesses will have access to broadband speeds of at least 1 Mbps (downlink). A brief description of these initiatives is set out in *Appendix 4*.

Nevertheless it is likely that a small percentage of rural residents will not have access to broadband, and even those that do may not find it sufficient to displace postal services.

Even in areas where broadband access is physically available, its use might be constrained by factors such as affordability or lack of computers. Quality of access is important; using slow or old equipment, or having access to the internet only via community facilities such as public libraries, limit the extent to which digital alternatives can be used in place of postal services.²² Some people may also lack the skills needed to use digital alternatives to postal services. However, to the extent groups affected by these factors are not in high-cost (low density) areas, there is less cause for concern that postal services would not be provided in the absence of a USO.

3.4.4: Access for senders

Access to postal services encompasses the ability to send letters as well as receive them. In the 1998 Deed this has been manifested in the requirement that New Zealand Post maintain 880 postal outlets and post centres offering 'over the counter' postal services.

In terms of the Government's objectives, however, New Zealand Post believes the focus should be on ensuring that consumers can access services, not on requiring services to be provided in particular ways. Technology can now provide new ways for people to access postal services. In particular, self-service technologies have the potential to enable faster and more convenient transactions for New Zealand Post customers.

There is also now a significant level of competition for retailing postal services.²³

²⁰ Including those who have multiple connection types in the home and those who access the internet at home solely through a mobile phone, a cable or satellite connection or a USB device.

²¹ World Internet Project New Zealand, *The Internet in New Zealand 2011*, Institute of Culture, Discourse & Communication, AUT University, Auckland, New Zealand, page 35.

²² See Department of Internal Affairs, *Community Access to Digital Technologies, a Literature Review*, February 2012, page 17, for a discussion of how these factors affect internet usage.

²³ See *Section 5* for more information on competition in the postal industry.

Competitor postal operators such as Croxley and New Zealand Mail distribute stamps and postage-included envelopes which are valid for New Zealand Post's postal network via arrangements with other retailers, and without maintaining their own networks of retail outlets.

3.4.5: An adequate universal service – some conclusions

Given changes in the importance of postal services in recent years, an adequate universal service in 2012 does not look like the universal service put in place in 1989 and amended over the years until 1998. Set out below are some conclusions on the scope and design of an adequate USO:

1. For most people, postal services are already one communication method among many, and a postal services USO is unlikely to provide a significant benefit for those people. For consumers with less choice, a postal services USO is still a useful mechanism to help facilitate economic and community participation;
2. The level of service secured by the USO should therefore be a level of service needed to facilitate economic and community participation. The USO does not need to cover all services available (e.g. expedited services for which a premium is paid);
3. The USO should provide for consumers to have access to postal services as senders. It should not require services to be provided in a particular way;
4. There are various options for funding the USO. If a USO is funded solely via revenues from the relevant service, the service secured by the USO will need to be proportional to the overall market demand for that service. If the level of service required under the USO is not commercially sustainable, the USO will need to be funded externally (e.g. by a subsidy or levy); *and*
5. Given the uncertainty about the future role of postal services and increasing availability of alternative communications options, the USO should enable flexibility for the USO provider to respond to changing market dynamics, and should be subject to review.

3.5 Agency services are not a communications policy issue

As discussed earlier, New Zealand Post is proposing to commit to providing 240 outlets at which bill payment services will be available in addition to postal services.

New Zealand Post is proposing that it have the flexibility to provide those services in a number of ways, including via self-service technologies.

The provision of agency services by New Zealand Post is not a communications policy issue. The mention of 'agency' services reflects the New Zealand Post Office's historic role as a government 'front office'.

The total number of postal outlets and post centres required under the successive Deeds of Understanding between New Zealand Post and the Crown (880) has not changed since 1989. However it is interesting to note that the obligation to provide 'agency and/or other' services at 240 outlets was introduced as late as 1994. Before 1994, New Zealand Post was obliged to maintain 330 (reduced to 240 in 1992) post offices staffed by New Zealand Post personnel; agency services were not mentioned.

Today, as noted previously, New Zealand Post provides bill payment services for a variety of government and private organisations – such as power companies, local councils, insurance and telephone companies, and NZTA. More recently, New Zealand Post has provided other agency services such as authentication and application processing services for organisations such as the Hospitality Association of New Zealand and the British High Commission.

New Zealand Post's obligation in relation to agency services is unusual from a policy perspective. The obligation in its current form is very broad and uncertain, and appears to encompass a wide range of services with very different characteristics. Moreover, as noted in *Section 2*, no organisation has any obligation to use New Zealand Post's agency services.

New Zealand Post is proposing to commit to making bill payment services available at no fewer than 240 of its outlets because New Zealand Post considers that those services best correspond with the 'legacy' agency services the 1998 Deed appears to be concerned with. That obligation is of course dependent on the organisations continuing to contract with New Zealand Post to provide bill payment services.

New Zealand Post notes that like the communications market, the payments market is also going through a period of rapid change, as online and mobile payments technologies proliferate. Revenues for bill payment services are declining and New Zealand Post will be looking for ways to offer bill payment services in more efficient ways.

New Zealand Post is therefore proposing that, just as its retail network as a whole will be made up of different types of service points, including self-service kiosks, its commitment to make bill payment services available at no fewer than 240 outlets allows those services to be provided via self-service kiosks. The potential for rapid change also means that the commitment from New Zealand Post should be subject to review.

Given the changing payments market, the Government might in the future have a public policy objective to ensure that key service providers (utilities, local councils etc.) offer a way to pay bills in person, so that those who are unable to use internet or mobile payment options are not prevented from accessing those key services. That is an objective that could be met in a number of ways, and as noted above, is not a communications policy issue. New Zealand Post notes that an obligation on New Zealand Post to offer bill pay services will not achieve that

objective. That is because the organisations providing those key services have no obligation to offer customers an option to pay in person, and if they do wish to offer such an option, have no obligation to use New Zealand Post's service to do so.

Were this issue to arise in the payments market in the future, any solution would need to involve the wider payments market and the organisations providing the relevant services (i.e. the recipients of payments) in addition to organisations offering payment services.

Section 4: Policy Options

This section identifies four policy options to respond to the changing communications market. It covers:

- 4.1** An outline of the policy options, the assumptions and evaluation criteria used to assess those options;
- 4.2 to 4.5** A discussion of each option, outlining the impacts of each option on New Zealand Post, senders and receivers, and other postal operators; *and*
- 4.6** An assessment of each option against the evaluation criteria.

4.1 Policy options, evaluation criteria, assumptions and legislative implications

4.1.1: Policy options

The section considers four policy options that progressively involve more flexibility in the level of universal service. Those options are:

- **Option 1- Status Quo:** No change is made to the 1998 Deed;
- **Option 2 - Constrained response:** Incremental changes to some of the USO targets specified in the 1998 Deed;
- **Option 3 - Flexible Response:** A new deed of understanding between New Zealand Post and the Crown, which sets out New Zealand Post's commitment to provide a minimum basic postal service and to maintain a retail network of a minimum size, while providing flexibility as to how services are provided and what additional services are offered; *and*
- **Option 4 - Market response:** New Zealand Post provides postal services without any arrangement with the Crown.

Each option is described further below, focusing on the likely impact on New Zealand Post, senders and receivers, and other postal operators.

4.1.2: Evaluation criteria

In light of the Government objectives and the discussion presented in *Section 3*, set out below are the key criteria against which the four policy options identified here have been evaluated:

- Commercial sustainability: New Zealand Post is able to develop a viable and self-sustaining business model which reflects changing consumer preferences and market demand. This includes an assessment of whether New Zealand Post is able to meet its obligation under the SOE Act to be as profitable and efficient as comparable businesses not owned by the Crown;
- Fit for purpose universal service: The Government has assurance that a national letter delivery service will be provided that is consistent with the conclusions on the scope and design of an adequate USO set out in *Section 3* of this proposal;
- Rural/urban equity: This criteria seeks to identify the extent to which the different options result in equity in terms of the services available to urban and rural communities. However, as noted in *Section 3*, there has historically been recognition that absolute rural/urban equity is not practicable.;
- Regulatory certainty: The policy option enables development of and investment in longer term solutions by participants in the postal industry;
- Flexibility: The policy option allows adaptability and innovation by participants in the postal industry;
- Industry efficiency: Static and dynamic efficiency are both important. Static efficiency means that, at a point in time, the postal industry generates maximum output from the capital and other resources it employs and prices its services to reflect production costs. Dynamic efficiency concerns the productivity of the industry over time, including the ability of the industry to adapt quickly and at low cost to changes in the competitive environment. Investment in research and the development of new products, services and processes is often important for dynamic efficiency; *and*
- Compliance with international obligations: New Zealand meets its UPU obligation to have a universal service that takes into account the needs of the population and national conditions, and is provided on a viable basis.

Table 1 in *Section 4.6* summarises the assessment of the policy options against the evaluation criteria.

4.1.3: Assumptions

The discussion below assumes that under any of the four options:

- New Zealand Post will remain the sole designated postal administration for New Zealand's participation in the UPU;
- New Zealand Post will continue to have obligations under the SOE Act to be as profitable and efficient as comparable businesses not owned by the Crown and to have regard to the interests of the community in which it operates;
- New Zealand Post will continue to seek out other revenue sources as new market opportunities arise (for example in the digital sphere and parcels market), but cross-subsidisation from other parts of the New Zealand Post Group to its letter services will not be a viable long-term strategy; *and*
- New Zealand Post will continue its policy of not extending the Rural Post delivery network where a property is not within an existing delivery route. There will continue to be situations where New Zealand Post aggregates nests of privately owned boxes within existing delivery routes (subject to constraints proposed under the various options discussed in this section).

New Zealand Post is not proposing any change to Clause 17 of the 1998 Deed (which requires New Zealand Post to provide access to its postal network to other postal operators and is discussed in *Section 5* of this Proposal).²⁴ Accordingly, where the assessment below discusses the impact on competitor postal operators, the focus is only on how changes to the USO will affect them, not on wider issues surrounding the terms and conditions on which access is provided to New Zealand Post's postal network. The discussion below therefore assumes that:

- New Zealand Post will provide other postal operators with access to its letter services on economically efficient and commercially sustainable terms;
- the access provided will reflect the configuration of the postal network as it may be changed by New Zealand Post as a result of the policy options being considered (e.g. where delivery frequency is reduced, the terms of access will reflect that);
- the processes currently being undertaken by the independent postal network access committee will continue; *and*

²⁴ New Zealand Post currently provides access to its postal network to six competing postal operators. One operator operates its own partial street delivery and box network in most urban and large provincial centres and lodges residual volumes into New Zealand Post's network. The remaining five operators insert all of their mail into New Zealand Post's network.

- there will continue to be a competing delivery network in parts of the major towns and cities.

4.1.4: Legislative implications

The policy options considered in this proposal would not require any changes to the Postal Services Act 1998.

The Postal Services (Information Disclosure) Regulations 1998 (Regulations) require (among other things) New Zealand Post to disclose the following information in its annual report:

- a table (the Disclosure Table) setting out the number of delivery points in specified categories (residential, rural, business, PO Box, counter delivery etc.) and the number of delivery points in each category which have six, five or one to four day per week delivery;
- the number of post centres and postal outlets at the close of each financial year;
- the results of an independent survey on the percentage of domestic letters delivered within advertised deadlines, the percentage delivered within three days of advertised deadlines, and the percentage not delivered within three days of advertised deadlines; *and*
- separate profit and loss statements for letters carried within New Zealand for less than \$0.80 (including GST); and other services.

Where the options being considered include changes to the Regulations, this is identified below.

4.2 Option 1 - Status quo

The first option is that no change is made to the 1998 Deed and New Zealand Post must continue to meet the USO defined in it, namely:

- maintain six day per week delivery to at least 95% of delivery points, and five or six day per week delivery to at least 99.88% of delivery points;
- not increase the number of counter delivery points or community mail boxes beyond 1.5% of all delivery points;
- maintain at least 1,463,938 delivery points (there are approximately 1.9 million delivery points as at 2012);
- maintain a network of at least 880 postal outlets and post centres, including at least 240 postal outlets which provide 'agency and/or other services'; and
- not reintroduce the rural delivery fee.

This option would not require any changes to the Regulations.

4.2.1: Impact on New Zealand Post

Under this option New Zealand Post would be severely limited in how it can respond to continuing volume decline and ongoing cost pressures.

There are productivity improvements New Zealand Post can make within the scope of the 1998 Deed. For example, over time New Zealand Post can make changes to the configuration of its processing network to reflect changing sending patterns and mail sorting technologies. However without changes to delivery frequency and/or significant revenue increases, those initiatives will not be sufficient to keep pace with declining revenues from letter services beyond the short term.

Within the terms of the 1998 Deed, New Zealand Post is currently able to change 45,000 delivery points from six day to five day per week delivery. Those changes will not be sufficient to offset revenue losses from volume decline; the total savings available of up to \$1.2 million per annum make a negligible contribution to improving network productivity, representing as little as 0.3% of annual network costs.

Recent valuations by First NZ Capital and Macquarie both highlight the negative impact the 1998 Deed has on the business' value.²⁵

This option risks cementing New Zealand Post as a company in decline, with effects on the New Zealand Post Group beyond its postal business. New Zealand Post's credit rating may be affected. It may struggle to innovate and invest in areas where there is growth potential, such as digital communications, parcels, and freight. The need to cut costs within the terms of the 1998 Deed might also

²⁵ Available on <http://www.comu.govt.nz/publications/information-releases/valuation-reports/2011/>

put pressure on New Zealand Post's ability to meet its published service standards.

This would severely compromise New Zealand Post's ability to deliver on its vision of bringing New Zealanders together with the people and things that matter to them. It would also mean that New Zealand Post was not able to achieve its obligation under the SOE Act to operate as a successful business.

4.2.2: Impact on senders and receivers

New Zealand Post's service standards would not change for the majority of senders and receivers. However, as noted above, a loss-making New Zealand Post with a focus on cost cutting without changing the delivery network may struggle to meet its published service standards in practice.

45,000 delivery points would be reduced from six day per week to five day per week delivery. To achieve maximum savings, those reductions would be focused on the highest cost-to-serve areas. That means the effects would mainly be felt in remote rural locations, which are also those areas with the least access to alternative communications methods.

As noted earlier, under any of the options, New Zealand Post will continue its policy of not extending the Rural Post delivery network. In some cases New Zealand Post currently offers free PO Boxes or community mail boxes where it is unable to accommodate a request for a new delivery point. Under the status quo, New Zealand Post would likely be constrained by the 1.5% cap on counter delivery points and community mail boxes from continuing to offer free PO Boxes in these scenarios. However the option of receiver-owned delivery points sited at a point within an existing delivery route would continue to be available.

4.2.3: Impact on other postal operators

This option is unlikely to have a material impact on other postal operators, except to the extent that New Zealand Post is unable to meet its service standards and this further accelerates declining volumes.

4.2.4: Retail network and agency services

Maintaining the status quo would not necessarily constrain New Zealand Post from making changes to its retail network to the same extent as it would in relation to the delivery network, but it would limit New Zealand Post's commercial flexibility and ability to provide access to its services in the most efficient manner.

New Zealand Post will continue with its programme to upgrade its retail network over time, including redesigning outlets, changing the location of some outlets, and increasing the use of self-service kiosks and stamp vending machines. The 1998 Deed does not require New Zealand Post to own and operate postal outlets

and post centres, and New Zealand Post's retail network will continue to include a mix of corporate owned, franchise and agency ownership models.

'Over the counter' services can be offered via different store formats than New Zealand Post currently has in place without resulting in a breach of the 1998 Deed. However new technologies may make over the counter service unnecessary for the majority of transactions. The constraint of having to continue to offer over the counter services at a fixed number of outlets will undermine New Zealand Post's business case to offer more efficient and convenient ways to access its services.

Customers using New Zealand Post's retail network will notice changes. Some outlets will relocate, others may be closed, outlets will look different and may be as simple as a self-service kiosk located within another business. Inevitably, some customers will not like the changes New Zealand Post makes. However, New Zealand Post believes that most customers will find that location changes, better outlet design, self-service kiosks and stamp vending machines offer them quicker and more convenient access to postal services than at present.

The markets for the various types of agency services New Zealand Post provides will continue to change. Uncertainty about the scope of the obligation regarding agency services in the 1998 Deed may prevent New Zealand Post from innovating in how it provides those various services – for example by providing different types of services in different locations to reflect the different characteristics of, and demand for, each service.

4.2.5: Potential to mitigate risks/negative impacts

To provide an adequate return for the shareholder a subsidy would be required - initially in the order of \$30 million per annum simply to support the delivery network.²⁶ New Zealand Post's revenue forecasts indicate that the required subsidy would be likely to grow by approximately \$10 million per annum. Even if the Government, as New Zealand Post's shareholder, did not require New Zealand Post to pay dividends, taxpayer subsidisation or a Crown guarantee would be necessary to avoid business failure.

Another mechanism to mitigate the effects of volume losses would be to reinstate New Zealand Post's monopoly over letter delivery or introduce a levy arrangement on postal operators other than New Zealand Post to support the USO. Currently, high cost-to-serve areas are funded through an implicit cross-subsidy between low cost-to-serve areas and the high cost-to-serve areas. The existence of a competing delivery network in parts of the major cities and towns undermines the viability of that cross-subsidy, placing even more pressure on the current USO.

However a reinstated monopoly, or a levy paid by competing postal operators, are, at best, short term solutions. The primary challenge to the USO is from

²⁶ Note that this estimated subsidy does not include any costs associated with maintaining New Zealand Post's retail network.

irreversible volume decline, which will not be addressed by a reinstated monopoly or levy paid by other postal operators.

4.3 Option 2 – Constrained response

In the second option the Government determines changes to some of the metrics specified in the 1998 Deed, for example by requiring New Zealand Post to:

- provide five day a week delivery to at least 99.88% of delivery points (down from six day a week delivery to 95% of delivery points);
- not increase the proportion of counter delivery points or community mail boxes above 5.0% of all delivery points (up from 1.5%);
- maintain a network of at least 780 postal outlets and post centres, including at least 150 postal outlets providing 'agency and/or other services' (down from 880 and 240 respectively); *and*
- not re-introduce a rural delivery fee.

This option would not require significant changes to the Regulations. The Disclosure Table would need to be amended to reflect the move to five day a week instead of six day a week delivery, but no other changes would be required.

4.3.1: Impact on New Zealand Post

Under this option an incentive is established for New Zealand Post to maximise cost removal within the constraints set by the amended Deed. The resultant changes would not necessarily be about meeting customers' needs or developing a sustainable system-wide business model, but rather operating within the Government-defined constraints. This option would not enable New Zealand Post to develop a commercially sustainable business model, resulting in New Zealand Post seeking ongoing changes to the metrics as volumes continue to decline.

New Zealand Post would likely move to five day a week delivery as soon as possible. However the savings from moving to five day delivery are estimated to reduce costs by just \$12 million per annum (2.8% of annual network costs).

Because New Zealand Post would have no further flexibility in relation to delivery frequency, one other way for it to reduce the cost of its network would be to replace the highest cost rural delivery points with community mail boxes to the maximum extent permitted. If New Zealand Post converted existing delivery points to community mail boxes it would be unable to offer these to new applicants for a delivery point where New Zealand Post was unable to extend its network. However, as under option 1, receiver-owned delivery points located within an existing delivery route would continue to be available.

New Zealand Post's analysis indicates that as compared with option 1, these changes would defer loss making on postal operations for approximately two years only. After those two years, the effects on New Zealand Post would be as under option 1 – a loss-making postal business, with a negative impact on New Zealand Post's credit rating, reputation and ability to meet its service standards and to innovate and invest.

New Zealand Post would therefore need to seek further changes to the Deed. The onus would be on the Government to set the metrics within which New Zealand Post must act, which would create regulatory uncertainty for New Zealand Post and undermine its incentive to invest in development of new services to meet changing demand.

Incremental changes to the metrics in the Deed are also likely to be more costly as compared with the flexible response set out in option 3. Reducing delivery frequency from six days per week to five days per week would require considerable planning. In the worst case scenario New Zealand Post might be implementing five day per week delivery while volumes were already at a level for which only three day per week delivery would be commercially sustainable. If the metrics were later changed to further reduce delivery frequency, the network redesign costs would be duplicated.

There would also be costs associated with the re-work required to adjust the processing network to incremental changes in delivery frequencies, although these are less significant than the costs associated with incrementally redesigning the delivery network.

4.3.2: Impact on senders and receivers

Customer research indicates that changing to five day per week delivery would be acceptable to the majority of senders and receivers.

If New Zealand Post converted Rural Post or Postie delivery points to community mail boxes, around 60,000 delivery points would be affected. Assuming that the highest cost delivery points were targeted for conversion to community mail boxes, the main impact would, as under option 1, be felt in rural locations where people also have the least access to digital communications methods. Over a quarter of the existing Rural Post delivery network would be affected.

Senders and receivers might experience uncertainty if New Zealand Post had to seek frequent changes to the Deed. That uncertainty has the potential to hasten moves to digital communication methods and so increase the rate of volume decline in New Zealand Post's network.

As under option 1, a loss-making New Zealand Post with a focus on cost cutting with a limited ability to change the delivery network may struggle to meet its published service standards in practice.

4.3.3: Impact on other postal operators

This option is unlikely to have a material impact on other postal operators except to the extent that New Zealand Post is unable to meet its service standards and this further accelerates declining volumes (as under option 1).

Reducing the majority of delivery points to five day per week delivery is unlikely to create significant opportunities for other postal operators to develop alternative delivery networks. New Zealand Post understands that the major existing competing delivery network - operated by New Zealand Document Exchange Limited (DX Mail) - generally offers only five day per week delivery.

4.3.4: Retail network and agency services

As under option 1, the constrained response would not necessarily prevent New Zealand Post from making changes to its retail network to the same extent as it would in relation to the delivery network, but it remains problematic.

The constrained response will slightly increase New Zealand Post's commercial flexibility as compared with the status quo. However the constrained response still reflects a dynamic focused on cost-cutting within the existing business model rather than allowing New Zealand Post to adjust its business model to the changing market and consumer preferences. As under option 1, the constrained response will undermine New Zealand Post's business case to offer more efficient and convenient ways to access its services via the use of technology, and leaves in place the existing uncertainty about the scope of the 'agency and/or other services' obligation.

4.3.5: Potential to mitigate risks/negative impacts

As under option 1, a taxpayer subsidy would ultimately be required to maintain profitability under the metrics described above. The timing of a subsidy may be delayed under this option as compared with option 1.

4.3.6: Assessment

This option reflects a focus on short term solutions, which would undermine opportunities to develop a sustainable system-wide business model. In the short term most consumers would experience minimal change, but those who did experience change would be those with least access to digital alternatives. In the long term, this option does not address the challenges created by changing consumer preferences and market demand, and New Zealand Post is likely to seek ongoing changes to the Deed.

4.4 Option 3 – Flexible response

The third option is a new deed of understanding between New Zealand Post and the Crown, which sets out the minimum basic postal service for delivery of letters that New Zealand Post will provide. That basic postal service will include not less than three day per week delivery to 99.88% of delivery points within New Zealand Post's network.

The greater flexibility provided by a reduction in the minimum delivery frequency for the basic postal service means less flexibility would be required in relation to the proportion of community mail boxes within the postal network, as New Zealand Post will be able to reduce costs through reduced delivery frequency. Therefore the current cap on community mail boxes of 1.5% can be increased to 3% rather than the 5% as proposed in option 2.

Under this option, New Zealand Post would also agree not to reduce the frequency of delivery under the basic postal service to those areas where New Zealand Post offered a three or two day delivery service as at 30 June 2012. New Zealand Post would also commit to including within its network a minimum of 1,910,010 delivery points, being the number of delivery points in the network as at 30 June 2012.

New Zealand Post would also agree to increase the number of delivery points within its network if and to the extent there is demand for it to do so, but New Zealand Post would not be obliged to add any delivery point to its network where to do so would, in New Zealand Post's reasonable opinion, be operationally impracticable or would jeopardise the commercial sustainability of the postal services it provides pursuant to the new deed.

Of course, it may be unlikely that adding any individual delivery point would jeopardise the commercial sustainability of the basic postal service as a whole. However, New Zealand Post operates in an environment where we need to treat customers consistently. Therefore when applying this test in respect of a given delivery point, New Zealand Post will also look at the extent to which adding a new delivery point in similar circumstances would increase the average cost of the network.

New Zealand Post will also give a commitment to maintain a network throughout New Zealand where consumers can purchase postal services. The network will contain no fewer than 880 service points in total, including no fewer than 240 where consumers can, in addition to purchasing postal services, use such bill payment services as New Zealand Post may provide from time to time. The network may be made up of a combination of outlets owned by New Zealand Post, services hosted in other businesses and electronic self-service kiosks.

New Zealand Post would agree that it would not introduce a universal receiver-pays rural delivery fee for the basic postal service.

The objective of this option is a commitment to provide a basic level of service that is commercially sustainable without a requirement for a subsidy. As volumes decline and alternative communications technologies increase, the services provided by New Zealand Post will change and may exceed the level specified in

the deed, but the commitment from New Zealand Post will represent a minimum level of service.

In the future it is likely that premium services over and above the basic postal service will require additional payments.

This option would require some changes to the Regulations to amend the terminology used in relation to disclosure of the size of New Zealand Post's retail network (as the current Regulations refer to 'post centres' and 'post shops', terms which would no longer be used in New Zealand Post's proposed new deed). The Disclosure Table would need to be amended to reflect reduced delivery frequencies, although this would not need to be done immediately.

4.4.1: Impact on New Zealand Post

Under this option, New Zealand Post is likely to reduce delivery frequency when volumes, competition and customer needs dictate. New Zealand Post is not able to commit to a time-frame in which frequency reduction may occur, as that is dependent on market dynamics, including New Zealand Post's ongoing assessment of customer needs, its competitive position, the development of alternative services and the rate of volume decline. The postal environment is continually changing. Based on current information and trends, frequency reduction is unlikely to be implemented before 2014/15. However a variety of factors could bring this timeframe forward or postpone it.

The flexibility and regulatory certainty this option provides makes it more likely that frequency reductions would be implemented in an optimal manner than under option 2. The change might happen universally across the whole network, or be phased in gradually in different areas, taking into account factors such as the availability of alternatives, density and volumes.

Time-critical physical delivery services would continue to be available for the majority of delivery points (predominantly in urban areas and provincial towns) at a premium price. Time-critical delivery to rural areas would be unlikely to be available unless an arrangement could be reached with other users of the rural delivery network, as discussed further below.

Regulatory certainty would also allow New Zealand Post to take a long term approach to planning the frequency reduction and to prepare its customers by announcing changes well in advance.

A dramatic reduction in frequency has the potential to undermine the perceived value of the postal service and so hasten the volume decline, but under this option that risk would be managed by New Zealand Post rather than via regulation. New Zealand Post will be under competitive pressure to adequately prepare senders for any future changes, since a badly managed reduction in frequency could hasten moves to digital communication methods.

As noted in the assumptions, New Zealand Post is unlikely to resume growth of its rural network under any of the four options assessed here. Under this option however, a trade-off is made between flexibility regarding delivery frequency

and flexibility as to the number of community mail boxes New Zealand Post can allow within its network. New Zealand Post would still have increased flexibility to introduce community mail boxes rather than 'to the gate' delivery where appropriate, but this would be subject to a cap of 3% of total delivery points. Because New Zealand Post would have more flexibility in relation to delivery frequency, there may be less pressure on New Zealand Post to increase the proportion of community mail boxes.

Regulatory certainty and the flexibility to respond to a changing market would provide New Zealand Post with increased incentives to invest in new services, such as digital communications offerings and options for receivers to receive services tailored to their preferences.

4.4.2: Impact on senders and receivers

Reduced delivery frequency would mean that some letters would take longer to arrive. For many senders and receivers that would not be a material change, since most time-critical communications are already sent by other means. The longer delivery times implied by reduced delivery frequencies may have an impact on organisations sending invoices (since payment of invoices may be correspondingly delayed, with an impact on cash flow), but that impact can be mitigated as discussed below.

Senders and receivers might experience some uncertainty if the parameters within which New Zealand Post could change its service offerings were not constrained by regulation. On the other hand, as noted above, the potential for a more prescriptive USO (e.g. option 2) to become rapidly unsustainable, resulting in frequent incremental changes, would also create uncertainty. To some extent, it must be accepted that a level of uncertainty is inevitable in this market. The trend – declining letter volumes and increasing digital communication – is clear, but the likely extent of that decline, and if and when a plateau will occur, is inherently unpredictable.

The proposed commitment is for a minimum of three day per week delivery to 99.88% of delivery points with New Zealand Post's network – the same percentage of delivery points as are currently required under the 1998 Deed to receive 5 or 6 day per week delivery. This option means that up to 0.12% of delivery points within New Zealand Post's network could have only one or two day per week delivery (under the current terms of the 1998 Deed 0.12% of delivery points may have 1 to 4 day per week delivery). 0.12% of delivery points within New Zealand Post's delivery network currently equates to approximately 2200 delivery points. By comparison, approximately 1926 delivery points currently have one to four day per week delivery.

In practice, New Zealand Post does not expect to put in place large numbers of one or two day per week delivery contracts, because of the difficulty of making such contracts financially viable for Rural Post drivers (who, as discussed below, are independent contractors rather than employees).

Under this option New Zealand Post would commit to including within its network a minimum of 1,910,010 delivery points, being the number of delivery points in

the network as at 30 June 2012. This would provide the Government with assurance that New Zealand Post will not make dramatic changes to the size of its network. Being a network business, reducing the total number of delivery points in the network would be unlikely to be in New Zealand Post's commercial interests.

In the future there may be some areas where New Zealand Post needs to discontinue existing delivery services (e.g. where there is significant population decline or where a delivery contract is tendered and New Zealand Post is unable to negotiate satisfactory terms), but its ability to do so will be subject to this minimum number of delivery points. By comparison, under options 1 or 2, the terms of the 1998 Deed limit New Zealand Post's ability to withdraw service from delivery points that existed when the 1998 Deed was signed (though not from delivery points established after that date).

4.4.3: Impact on rural areas

The main impact of reduced delivery frequency would be felt by receivers on Rural Post delivery routes. As discussed in *Section 3*, rural areas have less access to alternatives. Access to broadband in rural areas is expected to increase but will remain less than in urban areas.

Moreover the impacts in rural areas would be wider than the provision of postal services. Currently most Rural Post delivery routes are five or six day per week services. The drivers on Rural Post delivery routes are independent contractors with non-exclusive contracts with New Zealand Post. Many drivers therefore carry other goods in addition to the mail they deliver for New Zealand Post – primarily courier items and local newspapers but also occasionally groceries and deliveries for local businesses. Carriage of other goods is often arranged through Coural (Rural Couriers Society Limited), which is an incorporated society owned and operated commercially by a group which includes many Rural Post drivers. In other cases carriage of goods is arranged directly with individual drivers.

If New Zealand Post no longer paid Rural Post drivers for five or six day per week delivery, those other goods would not be able to be carried without extra payments to drivers, whether by the provider of those other goods, the receiver, or otherwise (e.g. via a subsidy).

Therefore, changes to rural delivery frequencies would have a potential impact that is wider than changes to delivery frequency in urban areas. The Government's objectives relating to access to communications do not provide a policy rationale for New Zealand Post to 'underwrite' the delivery of other goods by maintaining a higher delivery frequency than is sustainable on the basis of letter volumes alone.

However, New Zealand Post values its relationship with the rural sector, and would not want to see it unduly disadvantaged. New Zealand Post is therefore keen to work with the rural community and other customers of Rural Post drivers to develop a commercially sustainable solution for all parties. New Zealand Post will actively engage with rural sector organisations to that end.

New Zealand Post is proposing that it would agree not to introduce a universal receiver-pays rural delivery fee for the basic postal service.

New Zealand Post would however retain discretion to introduce a receiver-pays rural delivery fee for any service which provides more frequent delivery than is available under the basic postal service.

This proposal reflects that rural/urban equity would not be served if rural receivers had to pay to receive the basic postal service while urban receivers did not, but that it may benefit rural communities if discretion is retained for New Zealand Post to charge a receiver fee for premium services such as more frequent delivery.

4.4.4: Impact on other postal operators

A reduction in delivery frequency by New Zealand Post would mean that other postal operators whose mail is delivered by New Zealand Post would have to change their service standards to reflect New Zealand Post's reduced delivery frequency.

That would not place those operators at a commercial disadvantage in competing with New Zealand Post, since New Zealand Post and those other operators would be offering the same delivery frequency.

However, as noted earlier, one operator - DX Mail - currently operates a competing delivery network in parts of the major cities and towns, which New Zealand Post understands generally offers five day per week delivery. If New Zealand Post reduced its delivery frequency, DX Mail might choose to reduce its delivery frequency to match New Zealand Post's, but it might choose not to. If DX Mail chose not to reduce its delivery frequency, postal operators whose mail is currently delivered by New Zealand Post might seek to have their mail delivered by DX Mail instead of New Zealand Post, where possible. If DX Mail chose not to reduce its delivery frequency, DX Mail might also be able to increase its own market share.

New Zealand Post is also aware of some smaller operators who offer delivery of local mail in specific locations. The operators of those networks may be able to increase volume on their networks if New Zealand Post does not deliver every day. However, those opportunities are likely to be sporadic and local. The reality of declining letter volumes makes the development of new wide-spread alternative delivery networks unlikely.

4.4.5: Retail network and agency services

This option includes a commitment by New Zealand Post to maintain a network of no fewer than 880 service points throughout the country where consumers can purchase postal services, including no fewer than 240 where consumers can also use such bill payment services as New Zealand Post provides from time to time. The commitment would state that New Zealand Post's network of outlets

will comprise a combination of outlets owned by New Zealand Post, services hosted in other businesses and electronic self-service kiosks.

As under options 1 and 2, New Zealand Post will continue with its programme to make changes to its retail network over time, including changes to outlet design and relocations in some cases.

This option explicitly acknowledges that self-service kiosks will form part of New Zealand Post's network in the future. Some customers may prefer to use over the counter services, and these will continue to form part of the retail network. However New Zealand Post believes that most customers today are familiar with self-service technology and will find self-service kiosks a convenient and easy way to access postal and bill payment services.

The commitment to include within the retail network 240 outlets where bill payment services are available in addition to postal services would allow New Zealand Post to offer other agency services in different locations to bill payment services. In the short term it is unlikely that there would be any widespread change to how bill payment and other agency services are provided, but this would change over time as the use of self-service technology for bill payment services became more embedded (whereas other agency services might continue to require over the counter service).

Under this option, the number of outlets offering agency services other than bill payment services (e.g. application processing) would be determined by negotiations between New Zealand Post and the organisations using those other agency services, and would depend on the characteristics of, demand for, and economics of, the particular service. To oblige New Zealand Post to provide all services at all locations where bill payment services are available may constrain New Zealand Post from participating in the provision of some services at all.

As noted in *Section 2*, it is possible that in the future the organisations which currently use New Zealand Post's bill payment services might stop using those services. If the bill payments market changes such that New Zealand Post considers it to be no longer viable to maintain bill payments services and ceases to do so, then the obligation in relation to how they are made available would at that point necessarily be of no effect and should be interpreted in this manner.

4.4.6: Potential to mitigate risks/negative impacts

The impact on senders' cash flows, and the potential for senders and receivers to experience uncertainty, can be managed by New Zealand Post announcing changes well in advance and senders changing their sending habits to minimise the impact on their cash flow. As noted above, competitive pressures will incentivise New Zealand Post to carefully manage delivery frequency reductions.

As also noted above, New Zealand Post is keen to work with the rural community and other customers of Rural Post drivers to help manage the impact of reduced delivery frequencies on the carriage of other goods.

4.5 Option 4 - Market response

In the fourth option, it is determined that the postal USO is no longer required. New Zealand Post would provide postal services without any arrangement with the Crown.

Under this option, the Regulations could be amended to reflect that a USO is no longer in place by removing the requirement to disclose the number of postal outlets and post centres and include the Disclosure Table in the annual report. Alternatively, those requirements could be retained for a period.

4.5.1: Impact on New Zealand Post

As under option 3, New Zealand Post is likely to move to a lower delivery frequency when volumes, competition and customer needs dictate. However, as compared with option 3, a larger number of delivery points might have less than three day per week delivery frequency, and market forces might lead to greater service differentiation in different parts of the country.

Time-critical physical delivery services would continue to be available for the majority of delivery points (predominantly in urban areas and provincial towns) at a premium price, but are unlikely to be available for delivery to rural areas unless an arrangement can be reached with other users of the rural delivery network.

4.5.2: Impact on senders and receivers

The potential for more service differentiation means customers in different areas may experience different impacts. As under option 3, rural customers would experience the most material impact from frequency reductions. In theory, New Zealand Post might feel less compelled to work with the rural community to help manage the impact of reduced frequencies on the carriage of other goods, although the value of its relationships in the rural sector and its obligation under the SOE Act to have regard to the interests of the community in which it operates would still provide it with an incentive to work constructively with rural communities.

As under option 3, New Zealand Post would be under competitive pressure to adequately prepare senders for any future changes, since badly managed changes could hasten moves to digital communication methods or alternative providers. But senders and receivers would have no certainty that a minimum level of service will continue to be provided.

4.5.3: Retail network and agency services

As under the previous options, New Zealand Post will continue with its programme to make changes to its retail network over time. The main difference between this option and option 3 is that the Government would have no public commitment from New Zealand Post that it intends to maintain a

nationwide retail network or to continue to make postal and bill payment services available at a minimum number of service points.

As noted earlier, there is potential for rapid change in the payments market as well as the communications market, and therefore the commitments proposed in option 3 will necessarily be subject to review. As compared with option 3, under this option New Zealand Post would be able to cease making bill payment services available at all 240 outlets without discussion with the Government first (subject to its obligations to the Government as its shareholder under the SOE Act).

4.5.4: Impact on other postal operators

As under option 3, a reduction in frequency across New Zealand Post's network may create new market opportunities for New Zealand Post's competitors. To the extent more people receive less than three day delivery or there is greater service differentiation, those opportunities may be greater under this option than under option 3. However, for small network operators, those opportunities are still likely to be sporadic and local and the development of new wide-spread alternative networks is no more likely under this option than under option 3.

4.6 Evaluation of options

Table 1 below assesses the four options against the evaluation criteria. This shows option 3 to be the preferred option.

Table 1: Evaluation of Policy Options

Option	Commercial sustainability, including ability to meet SOE Act obligation	USO fit for purpose	Equity	Regulatory certainty	Flexibility	Efficiency	Compliance with international obligations
Status Quo	<p>X Postal business losing money</p> <p>X Subsidy required</p>	<p>X Focused on the past, not current or future needs</p> <p>Emphasis on business activities not customer services</p>	<p>✓ Same service imposed across entire network</p>	<p>X Unable to design and invest in longer term solutions in conflict with obligations</p>	<p>X Unable to respond to market</p>	<p>X Inefficient</p> <p>X New Zealand Post continues to provide services not valued by most customers</p> <p>Subsidy masks economic signal</p>	<p>✓ New Zealand has USO but it is not sustainable</p>
Constrained Response	<p>X Losses deferred a year or two</p> <p>X Short term solution focus – sub-optimal design</p> <p>Subsidy will be required</p>	<p>X Gradually adjusting the past to catch up to current needs</p> <p>Not forward looking</p>	<p>✓ Same service imposed across entire network</p> <p>Pressure on high cost to serve regions</p>	<p>X Uncertainty as to next government decision</p> <p>No business confidence to design and invest in longer term solutions</p>	<p>X Opportunity to negotiate changes periodically after market has changed</p>	<p>X Inefficient</p> <p>X New Zealand Post continues to provide services not valued by most customers</p> <p>Will eventually require a subsidy or removal of commitment</p>	<p>✓ New Zealand has USO but it is not sustainable</p>
Flexible Response	<p>✓ Sustainable model can be developed</p>	<p>✓ Basic USO reflects changing demand</p> <p>Minimum service assured</p>	<p>✓ Minimum service level for 99.88 %</p> <p>Additional services may be available in some areas</p>	<p>✓ New Zealand Post able to design and invest in longer term solutions</p>	<p>✓ Can respond as market evolves, subject to minimum service level for 99.88%</p>	<p>✓ Supports innovation and adaptability (dynamic efficiency)</p>	<p>✓ New Zealand has sustainable USO</p>
Market Response	<p>✓ Sustainable model can be developed</p>	<p>X No USO</p> <p>SOE Act requires a sense of social responsibility</p>	<p>X No obligations</p> <p>X Customer focused</p> <p>Services based on willingness to pay</p>	<p>✓ New Zealand Post free to respond to market forces</p>	<p>✓ Can respond as market evolves</p>	<p>✓ Supports innovation and adaptability (dynamic efficiency)</p>	<p>X New Zealand has no USO</p>

Section 5: Competition for physical postal services and access to New Zealand Post's postal network

In addition to setting out New Zealand's postal services USO, the 1998 Deed includes a commitment by New Zealand Post (in clause 17) to provide access to its postal network to other postal operators on non-discriminatory terms. New Zealand Post is proposing that the current terms of clause 17 be retained in the new deed of understanding.

This section covers:

- 5.1** Background to clause 17 of the 1998 Deed;
- 5.2** Review of Clause 17 in 2010;
- 5.3** Postal Network Access Committee; *and*
- 5.4** No change to clause 17 proposed.

5.1 Background to clause 17 of the 1998 Deed

Before 1987, New Zealand Post held a statutory monopoly on the delivery of standard letters. With New Zealand Post's corporatisation in 1987 and the commencement of progressive deregulation of the New Zealand postal market, this reserved area was reduced to letters delivered for under \$1.75 or weighing less than 500 grams. In 1991 the reserved area was further reduced to letters under 200 grams carried for less than \$0.80. In 1998 the final postal service monopoly on delivery of letters weighing less than 200 grams was removed.

At that time it was not known to what extent competition would develop in the letters market. Clause 17 therefore requires New Zealand Post to provide access to its postal network to its competitors on non-discriminatory terms.

Clause 17 states:

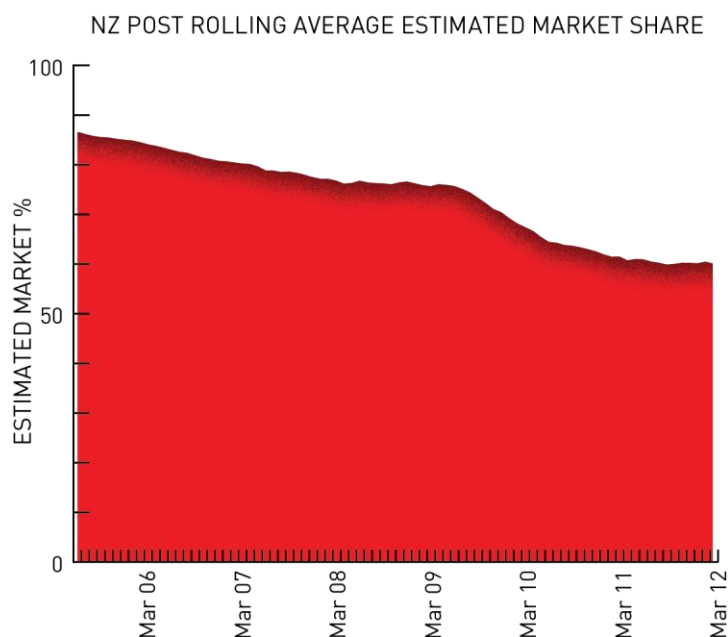
New Zealand Post shall provide access to its postal network to other postal operators on terms and conditions that are no less favourable than those offered to customers in the same circumstances, where the postal operator concerned is able to meet the requirements of the particular service offer. This clause does not preclude New Zealand Post from negotiating particular arrangements with individual customers or postal operators. The terms of access will also be subject to any relevant provisions contained in the Commerce Act or any other legislation.

As the 1998 Deed is an agreement between New Zealand Post and the Crown, this clause does not provide an enforceable right for other postal operators. Any concerns in relation to access arrangements can be raised with the Government or the Commerce Commission.

New Zealand Post currently provides access to its network services to six other postal operators. Five of them (Fastway Post New Zealand Limited, New Zealand Mail Limited, Pete’s Post Limited, Croxley Stationery Limited and Quantum Solutions (New Zealand) Pty Limited) choose not to have processing and delivery networks and instead sell stamps and postage-included envelopes which are valid for New Zealand Post’s network. The other, DX Mail, operates its own partial street delivery and box network in most urban and large provincial centres and lodges residual volumes for New Zealand Post to deliver.

The graph below shows that the six other postal operators using New Zealand Post’s network services have obtained a significant proportion of the ‘full rate’ (i.e. Standard Post and FastPost) letters market.

Figure 7: Estimated New Zealand Post market share for retail of ‘full rate’ letter services ²⁷



5.2 Review of Clause 17 in 2010

In October 2010 MED released a public discussion document on proposed changes to the 1998 Deed to clarify New Zealand Post’s access obligations under clause 17 and create an exemption to the frequency of delivery requirements to deal with public holidays. The changes were agreed to by New Zealand Post. The changes relating to public holidays were adopted on 15 December 2010. The six postal operators accessing New Zealand Post’s postal network (access operators) were opposed to the proposed changes to clause 17, and that change did not proceed.

The proposed changes to clause 17 arose out of a review by MED of the regulatory arrangements for the postal industry in May 2010.²⁸ That review considered a number of options for regulation of the postal industry and concluded that the 'enhanced status quo' model - involving an industry-run independent access committee - should be progressed. The report also concluded that clause 17 should be amended to remove confusion from the text.

Since that report, the governance arrangements for access have been modified by the introduction of the Postal Network Access Committee to give effect to the intent of the enhanced status quo recommendation.

5.3 Postal Network Access Committee

Through to late 2010 the terms and conditions of access were negotiated between New Zealand Post and the party seeking access. Since late 2010, the terms and conditions of New Zealand Post's network access services are set by an independent Postal Network Access Committee (PNAC).

PNAC was set up by New Zealand Post in consultation with access operators and MED (now part of the Ministry of Business, Innovation and Employment). PNAC is governed by a charter which is signed by the PNAC Chair, the access operators and New Zealand Post (PNAC Charter). The PNAC also has a mandate to consider and resolve any operational disputes between New Zealand Post and the access operators.

Access operators continue to be able to raise matters under the Commerce Act with the Commerce Commission or to make a complaint to the Minister.

5.4 No change to clause 17 proposed

Although the existing clause 17 is not perfect, and officials have recommended that it be reviewed, the issues relating to clause 17 are not central to the operational flexibility that New Zealand Post is seeking via this proposal. Access issues are being progressed via an industry-led mechanism.

In terms of this proposal, it is preferable for the focus to be on the operational flexibility needed for New Zealand Post to operate a sustainable postal network, rather than the separate issues relate to access and competition. New Zealand Post is therefore proposing that the current terms of clause 17 be retained in the new deed of understanding.

²⁸ MED, *Review of Postal Industry Regulation: Network Access and Governance Stakeholder Report*, May 2010.

Appendix 1: 1998 Deed of Understanding

THIS DEED OF UNDERSTANDING MADE

ON THE 17TH DAY OF FEBRUARY 1998

BETWEEN HER MAJESTY THE QUEEN in right of New Zealand, acting by and through the Minister of Communications ("the Minister")

AND NEW ZEALAND POST LTD, a duly incorporated company having its registered office at 7 Waterloo Quay, Wellington ("New Zealand Post").

Recitals

- (A) The Government of New Zealand ("The Government") has decided to remove the statutory protection for the delivery of certain postal services which had previously been conferred on New Zealand Post Ltd under the Postal Services Act 1987.
- (B) The Government desires that New Zealand Post should continue to meet certain social, price and service quality obligations ("the social obligations").
- (C) The Government and New Zealand Post wish to record the social obligations which New Zealand Post will continue to provide.
- (D) The Government has agreed that, for a period of 5 years, New Zealand Post will continue to be the sole designated postal administration for New Zealand for the purposes of acting as a representative of New Zealand at the Universal Postal Union and the Asian Pacific Postal Union and shall have the sole right to issue postage stamps on which the words "New Zealand", or any abbreviation of those words appear, except where those words appear as part of the name of the postal operator by which the stamp is issued; and those words form part of the name under which the postal operator is registered as a company; and that company name of the postal operator appears in full on the stamp, with the words "New Zealand" appearing in the same typeface and point size as the company name.
- (E) The Government and New Zealand Post have agreed that the deed entered into by the Government and New Zealand Post dated 6 April 1993, and extended by further deeds dated 11 March 1994, 14 March 1995, 28 March 1996 and 18 March 1997 shall be terminated with effect from the date that this deed comes into force.

BY THIS DEED:

- 1 This deed shall come into effect on the date that this deed is executed by both parties. In the event that the Postal Services Bill, as reported back to

the House of Representatives in December 1997 is amended by the House in such a way as to impose additional social obligations on New Zealand Post, this deed shall be of no effect, and the parties will negotiate a further deed.

- 2 The Government shall review the terms of this deed three years after the deed comes into effect.

Statutory Protection

- 3 The parties acknowledge that this deed has been entered into on the basis that New Zealand Post shall continue to be the sole designated postal administration for New Zealand for the purposes of acting as a representative of New Zealand at the Universal Postal Union and the Asian Pacific Postal Union.

Frequency of Deliveries

- 4 New Zealand Post shall provide:
 - (a) six day per week deliveries to more than 95 percent of delivery points;
 - (b) five or six day per week deliveries to more than 99.88 percent of delivery points; *and*
 - (c) one to four day per week deliveries to the remainder of delivery points.

PROVIDED THAT in any case where a person elects to have the frequency of that person's delivery service reduced, that person shall be regarded as continuing to receive the same frequency of service as before that election for the purposes of this clause.

- 5 New Zealand Post shall not increase the proportion of delivery points comprising counter services or community mail boxes beyond 1.5 percent of total delivery points

PROVIDED THAT in any case where a person elects to take counter or community mail box service, that person shall be regarded as continuing to receive the rural delivery service for the purposes of this clause.

- 6 New Zealand Post shall maintain at least the total number of delivery points recorded in the table provided by New Zealand Post entitled "Frequency of Service" and comprising the Schedule to this deed.
- 7 New Zealand Post may only reduce the frequency of service provided to any delivery point at the commencement of this deed if:
 - (i) shifts in population (including density and numbers) or changes in the conditions of access to any delivery point enable it to do so in

accordance with its rules regulating provision of delivery services which applied at the commencement of this deed; or

- (ii) a reduced delivery frequency is agreed by the majority of addressees in any particular area; or
- (iii) a person who is, or has previously been, receiving any postal service, elects to discontinue that mode of delivery or fails or refuses to comply with the published conditions for provision of that service; or
- (iv) another postal operator provides a service no less than that required under this deed, at no greater price, and that operator will accept mail from New Zealand Post for delivery in that area.

- 8 New Zealand Post shall not be liable for any failure to meet the obligations recorded in clauses 4, 5, 6, and 7 of this deed where such failure is the result of circumstances outside its control. Such circumstances shall include, but not be restricted to fire, flood, earthquake, accident, civil disturbances, war, strikes or labour problems or delays in transportation, or Acts of God.
- 9 Nothing in clauses 4, 5, 6 and 7 is intended to preclude New Zealand Post from introducing new ways of providing delivery services that meet the social obligations set out in this deed.

Service Charges

- 10 New Zealand Post shall not increase the price of the service described at the date of execution hereof as the post, medium letter above \$0.45 for a period of three years following execution of this deed.
- 11 New Zealand Post shall not re-introduce the Rural Delivery Fee.
- 12 Nothing in clause 11 precludes New Zealand Post from introducing alternative forms of charging for other services.

New Zealand Post Network

- 13 New Zealand Post shall maintain a network of at least 880 postal outlets and post centres, excluding stamp retailers.
- 14 New Zealand Post shall, within the network referred to in clause 13 of this deed, maintain at least 240 postal outlets,

PROVIDED THAT New Zealand Post may reduce the number of postal outlets below 240 by converting postal outlets to post centres at the rate of up to 8 postal outlets for every \$2 million per annum reduction in service contract revenues after the date of execution of this deed.

- 15 For the purposes of clauses 13 and 14 of this deed:

"Post centre" means an outlet that offers over the counter postal services to the public, including, but not limited to, the purchase of stamps and the postage of postal articles, pursuant to an agreement with New Zealand Post.

"Postal outlet" means an outlet that offers the services offered by a post centre, plus agency and/or other services.

"Service contract revenues" means all revenues received by New Zealand Post from contracts for the performance of agency services.

- 16 Postal outlets or post centres may be operated by New Zealand Post or by a person other than New Zealand Post under an agreement with New Zealand Post.

Access

- 17 New Zealand Post shall provide access to its postal network to other postal operators on terms and conditions that are no less favourable than those offered to customers in the same circumstances, where the postal operator concerned is able to meet the requirements of the particular service offer. This clause does not preclude New Zealand Post from negotiating particular arrangements with individual customers or postal operators. The terms of access will also be subject to any relevant provisions contained in the Commerce Act or any other relevant legislation.

Enforcement

- 18 If the Minister receives an allegation that New Zealand Post is failing to comply with the terms of this deed the Minister may refer the allegation to New Zealand Post. New Zealand Post shall consult with the Minister on the accuracy of the allegation and any corrective action required.
- 19 This deed records an arrangement between New Zealand Post and the Government. It does not create any right or obligation enforceable at the suit of any other person.

Review

- 20 If the Government decides to remove New Zealand Post's exclusive designation as postal administration for the purposes of acting as a representative of New Zealand at the Universal Postal Union and the Asian Pacific Postal Union, the Minister will inform New Zealand Post as soon as possible after the Government makes its decision, and will review the provisions of this deed in consultation with New Zealand Post.
- 21 New Zealand Post may request the Minister to amend the provisions of this deed during its term. The Minister shall consider any such request and, following consultation with the Minister for State-Owned Enterprises, may amend the deed, but shall not be bound to make any amendment requested by New Zealand Post.

22 This deed shall continue to apply and New Zealand Post shall continue to perform its obligations under this deed during the course of any such review.

Termination of the Previous Deed

23 The Government and New Zealand Post hereby agree that the deed entered into by the Government and New Zealand Post dated 6 April 1993, and extended by further deeds dated 11 March 1994, 14 March 1995, 28 March 1996 and 18 March 1997 will terminate with effect from the date that this deed comes into force.

24 In the event that this Deed is of no effect because either:

(a) The Postal Services Bill is not passed; or

(b) The Postal Services Bill as reported back to the House of Representatives in December 1997 is amended in such a way as to impose additional social obligations on New Zealand Post the parties agree that the previous deed will be deemed not to have been terminated under clause 23 of this deed.

SCHEDULE

	Delivery Points	Frequency of Service		
		6 day	5 day	1-4 day
Residential	1,088,617	1,086,499	2,117	1
Business	51,673	39,654	12,011	8
Private Box				
- Farmers	6,451	5,175	1,276	0
- Business and Individuals	168,752	142,609	25,808	335
Counter and Community MailBoxes	18,387	11,132	6,960	295
Rural	130,058	118,359	11,140	559
TOTAL	1,463,938	1,403,428	59,312	1,198

Appendix 2: Proposed new deed of understanding between New Zealand Post and the Minister for Communications and Information Technology (on behalf of the Crown)

Deed of Understanding

Parties

Her Majesty The Queen in right of New Zealand, acting by and through the Minister for Communications and Information Technology (the 'Minister')

New Zealand Post Limited, ('New Zealand Post')

Background

- A New Zealand Post has provided postal services in New Zealand for over 170 years, first as a government department and, since 1987, as a state-owned enterprise.
- B Between 1989 and 1998, as the postal market in New Zealand was gradually liberalised, New Zealand Post committed to a universal service obligation in a series of Deeds of Understanding between New Zealand Post and the Government of New Zealand (the 'Government').
- C Since 1998, new communications technologies have developed to the point where today, for most people, postal services are just one communication method among many.
- D While New Zealand Post believes that postal services continue to have an important role to play, the business model New Zealand Post has had in place for the last 25 years and earlier is no longer commercially sustainable. New Zealand Post is therefore embarking on a programme of change to meet the challenges posed by the rise of digital communications.
- E Amidst this change, New Zealand Post remains committed to providing a basic universal postal service. This Deed of Understanding sets out an agreement between New Zealand Post and the Government in relation to that service.

The Parties Agree As Follows:

1 New Zealand Post's Commitment to a Sustainable Universal Postal Service

Basic postal service

- 1.1 New Zealand Post will offer a basic postal service for delivery of letters

within New Zealand. That basic postal service will include not less than three day per week delivery to 99.88% of delivery points within New Zealand Post's network and not less than one day per week delivery to the remaining 0.12% of delivery points within New Zealand Post's network (subject to practical considerations such as force majeure events and public holidays).

- 1.2 New Zealand Post will not reduce the frequency of delivery under the basic postal service to those areas where New Zealand Post offered a three or two day delivery service as at 30 June 2012.
- 1.3 New Zealand Post will not introduce a universal receiver-pays rural delivery fee for the basic postal service.

Delivery points

- 1.4 Delivery points within New Zealand Post's network may include letter boxes, rural delivery points, community mail boxes, P.O. boxes, central points in apartment and office buildings and counter delivery at postal outlets.
- 1.5 New Zealand Post will not increase the proportion of delivery points comprising community mail boxes or counter delivery services (excluding counter delivery services for periods up to 3 months or any case where a person elects to take counter delivery or community mail box service) beyond 3% of total delivery points.
- 1.6 New Zealand Post will maintain at least 1,910,010 delivery points (being the number of delivery points within its network as at 30 June 2012).
- 1.7 New Zealand Post will increase the number of delivery points within its network if and to the extent there is demand for it do so, provided that New Zealand Post shall not be obliged to add any delivery point to its network where to do so would, in New Zealand Post's reasonable opinion, be operationally impracticable or would jeopardise the commercial sustainability of the postal services it provides pursuant to this deed.

Network of outlets

- 1.8 New Zealand Post will maintain a network throughout New Zealand where consumers can purchase postal services. The network will contain no fewer than 880 service points in total, including no fewer than 240 where consumers can, in addition to purchasing postal services, use such bill payment services as New Zealand Post may provide from time to time. The network may be made up of a combination of outlets owned by New Zealand Post, services hosted in other businesses and electronic self-service kiosks.

2. Access to letter services

- 2.1 New Zealand Post will provide access to its postal network to other postal operators on terms and conditions that are no less favourable than those offered to customers in the same circumstances, where the postal operator concerned is able to meet the requirements of the particular service offer. This clause does not preclude New Zealand Post from negotiating particular arrangements with individual customers or postal operators. The terms of access will also be subject to any relevant provisions contained in the Commerce Act or any other relevant legislation.

3 Enforcement

- 3.1 If the Minister receives an allegation that New Zealand Post is failing to comply with the terms of this deed the Minister may refer the allegation to New Zealand Post. New Zealand Post shall consult with the Minister on the accuracy of the allegation and any action required.
- 3.2 This deed records an arrangement between New Zealand Post and the Government. It does not create any right or obligation enforceable at the suit of any other person.

4 New Zealand Post as sole designated operator

- 4.1 The parties acknowledge that this deed has been entered into on the basis that New Zealand Post shall continue to be the sole designated postal administration for New Zealand for the purposes of acting as a representative of New Zealand at the Universal Postal Union and the Asian Pacific Postal Union. If New Zealand Post ceases to be the sole designated operator, this deed will terminate automatically on the date that any other designated operator status takes effect.

5. General

- 5.1 This deed shall come into effect on the date that this deed is executed by both Parties.
- 5.2 The Deed of Understanding entered into by the Government and New Zealand Post dated 17 February 1998 shall be terminated with effect from the date that this deed comes into effect.
- 5.2 New Zealand Post and the Government each acknowledge that there is uncertainty about how the markets in which New Zealand Post operates will change as digital technologies continue to develop. New Zealand Post and the Government therefore agree that their representatives will meet at the initiation of either party to review the commitments made here.

Executed and delivered as a deed by:

.....

Appendix 3: Structure and regulation of the postal services industry in New Zealand

Postal services before 1998

Before 1987 the New Zealand Post Office provided postal services as a government department with a statutory monopoly. On 1 April 1987 the New Zealand Post Office was 'corporatised' with its core businesses split into three separate companies - Telecom, Post Office Bank and New Zealand Post. New Zealand Post became a state-owned enterprise.

After corporatisation New Zealand Post initially retained a statutory monopoly over letters delivered for under NZ\$1.75 or weighing less than 500 grams. That monopoly was gradually removed between 1989 and 1998. The Postal Services Act 1998 fully opened the postal market to competition, making New Zealand one of the first countries in the world to have a fully liberalised postal market.

Postal Services Act 1998

The Postal Services Act 1998 (the Postal Services Act) regulates the provision of postal services in New Zealand.

All 'postal operators' must be registered under the Postal Services Act. A postal operator is defined as a person whose business "consists, wholly or partly, of the carriage of letters."²⁹

A "letter" is defined as:³⁰

- "(a) ... any form of written communication, or any other document or article,—
 - (i) that is addressed to a specific person or a specific address; and
 - (ii) that is to be conveyed other than by electronic means; and
 - (iii) for which a charge of not more than 80 cents (inclusive of goods and services tax) is made in respect of carrying, taking charge of, or sending it; *and*
- (b) includes an envelope, packet, package, or wrapper containing such a communication, document, or article."

In addition to providing for the registration of postal operators, the Postal Services Act sets out how postal articles are to be handled (e.g. under what circumstances postal articles may be opened and when a postal identifier must be applied), and sets out other rules regarding postal operators (e.g. as regards rights to erect street receivers and obligations on postal operators ceasing business).

²⁹ Postal Services Act 1998, section 26.

³⁰ Postal Services Act 1998, section 2.

Letters, parcels and courier services

New Zealand Post operates a postal network which carries both letters and parcel items. For its internal purposes New Zealand Post generally defines a 'letter' as any item which does not exceed 260mm x 385 mm height and length, 20mm thickness and/or 1kg weight or which falls within New Zealand Post's 'Bulk Mail' suite of services. New Zealand Post generally defines a 'parcel' as an item which does not fall within New Zealand Post's 'Bulk Mail' suite of services and exceeds the dimensions set out above.

In addition to postal networks, a number of courier networks operate in New Zealand. Courier networks offer express delivery of documents and parcels, generally involving faster delivery speeds than postal services, and sometimes offering other features such as enhanced security, item tracking and delivery confirmation.

The largest courier companies in New Zealand are Express Couriers Limited (which is 100% owned by New Zealand Post and which operates under the CourierPost brand, among others) and Freightways Limited (which operates New Zealand Couriers, among other brands).

In New Zealand the legal distinction between postal services and courier services rests on the price threshold in the definition of a 'letter' in the Postal Services Act. If a business only carries items at a price over \$0.80 (including GST), they are not considered a 'postal operator' and so are not regulated by the Postal Services Act.

This Proposal discusses the universal service obligation in terms of communications policy. The focus is therefore on letters. In practice it is likely that while New Zealand Post continues to carry parcels in its postal network, any basic letter service will be related to a basic parcel service. However, letter delivery and parcel delivery are distinct markets, with significant parcel volumes being carried by courier networks.

Unaddressed mail

In addition to postal and courier companies, there are companies which distribute unaddressed mail - primarily advertising material, but also some community newspapers and community information.

In urban areas these companies generally operate their own delivery networks. In rural areas these companies sub-contract either New Zealand Post or Coural (Rural Couriers Society Limited) to deliver their unaddressed mail.

One of these companies – Reachmedia New Zealand Limited – is a 50:50 joint venture between New Zealand Post and Salmat International Pty Limited. Businesses which carry only unaddressed mail are not regulated by the Postal Services Act.

Structure of the postal services industry

The postal services industry involves:

- Mail production: this encompasses the production of stamps and postage-included envelopes, and mail preparation services such as mail room services, the operation of digital postal meters, and data processing and printing of bulk mailings at mail houses;
- Retail market: senders purchase end-to-end mail delivery services from postal operators, either at 'mass market' retail outlets such as stamp resellers and postal outlets or directly from postal operators;
- Wholesale market: Postal operators that are not vertically integrated acquire the functions that they cannot themselves provide. This includes postal operators accessing New Zealand Post's letter services, as well as postal operators distributing stamps and postage included envelopes via resellers (eg. stationary suppliers, bookshops, supermarkets, dairies, etc.), agency or franchise arrangements; *and*
- Mail processing and delivery: the process of letters going from the mailer to the recipient involves distinct functions such as collection from street receivers and retail outlets, lodgement at mail centres, sortation, transportation and delivery.

Postal services industry participants

Because the focus of this Proposal is on New Zealand Post's processing and delivery networks and retail network, the discussion below focuses on the retail, wholesale and mail processing and delivery aspects of the postal industry. The mail production level is not discussed further.

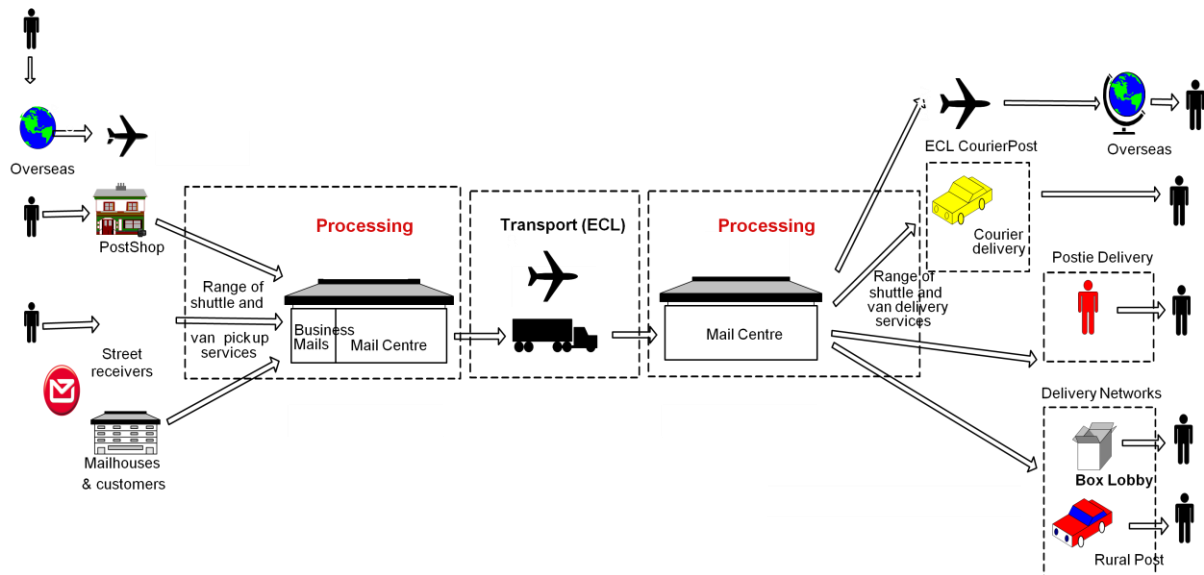
Postal operators operate at the retail, wholesale and mail processing and delivery levels of the postal market. As at 12 June 2012, 23 postal operators were registered in New Zealand under the Postal Services Act.

New Zealand Post

New Zealand Post provides a full range of mail services to household and business customers. New Zealand Post is the only operator which operates a large scale national end-to-end network.

The diagram below shows a simplified version of New Zealand Post's end to end network.

Figure 8: New Zealand Post's end-to-end network



Mail is processed primarily at six large mail centres with automated sorting machines in Auckland, Hamilton, Palmerston North, Wellington, Christchurch and Dunedin. New Zealand Post also has an International Mail Centre near Auckland Airport which processes outbound and inbound international mail.

New Zealand Post's delivery network incorporates Postie delivery, Rural Post delivery, Post Office Box Lobbies, community mail boxes and counter delivery services. New Zealand Post also uses CourierPost's courier network to deliver parcels in urban areas.

New Zealand Post is also the only postal operator which operates its own retail network. New Zealand Post's retail network is described in *Section 2.3* of this Proposal.

New Zealand Post is the designated operator for the purposes of New Zealand's participation in the Universal Postal Union (UPU), a specialised agency of the United Nations responsible for coordinating international postal services. New Zealand's membership of the UPU is discussed in *Section 3.2* of this Proposal.

DX Mail

New Zealand Document Exchange Limited ('DX Mail') is owned by Freightways Limited and has developed from a document exchange service to a full service postal operator for business customers. DX Mail operates its own delivery network in parts of major New Zealand cities and towns. For addresses not included within DX Mail's delivery networks, DX Mail lodges mail at New Zealand Post mail centres for processing and delivery by New Zealand Post.

Other postal operators

Five other postal operators have what are called 'prepaid' access agreements with New Zealand Post; Fastway Post Limited, New Zealand Mail Limited, Quantum Solutions Limited, Croxley Stationary Limited and Pete's Post Limited.

These 'prepaid access operators' do not have their own delivery networks but instead manufacture stamps and postage-included envelopes which are valid for New Zealand Post's postal network. That means that letters bearing those operators' stamps or in those operators' postage-included envelopes can be lodged in New Zealand Post's street receivers or at New Zealand Post's mail centres for processing and delivery by New Zealand Post.

Each of the prepaid access operators operates slightly differently, either selling its product directly to end users, or to resellers at a wholesale level, or to a combination of both.

Arrangements regarding the terms and conditions on which New Zealand Post provides other postal operators with access to its letter services are discussed in *Section 5* of this Proposal.

There are also a number of smaller operators with small-scale local delivery networks who do not access New Zealand Post's network. New Zealand Post has very limited information about these operators.

Postal Services (Information Disclosure) Regulations 1998

The Postal Services (Information Disclosure) Regulations 1998 were introduced in May 1998.

Under the regulations, New Zealand Post is also required to disclose the following information in its annual report:

- A table (the Disclosure Table) setting out the number of delivery points in specified categories (residential, rural, business, PO Box, counter delivery etc.) and the number of delivery points in each category which have six, five or one to four day per week deliveries;
- the number of post centres and postal outlets at the close of each financial year;
- the results of an independent survey on the percentage of domestic letters delivered within advertised deadlines, the percentage delivered within three days of advertised deadlines, and the percentage not delivered within three days of advertised deadlines; *and*
- separate profit and loss statements for letters carried within New Zealand for less than \$0.80 (including GST); and other services.

New Zealand Post is also required to disclose the full text of access agreements with other postal operators, and on a quarterly basis, the standard terms and

conditions for the carriage of letters, each discount of more than 20% on the rate for carriage of letters on standard terms, and the principles and guidelines applied when giving discounts on such carriage.

Other relevant legislation

The Commerce Act 1986 and Fair Trading Act 1986 are two further pieces of legislation most relevant to the postal industry.

The Commerce Act prohibits those with a substantial degree of market power utilising it for anti-competitive purposes and the Fair Trading Act prohibits misleading or deceptive conduct in trade.

Appendix 4: Government ICT policy

The Government has put in place two initiatives to bring faster broadband to households, businesses, schools, health facilities and public libraries around the country: the urban-focused Ultra-Fast Broadband Initiative (UFB) and the rural-focused Rural Broadband Initiative (RBI). Together, the initiatives will ensure that, by 2019:

- 97.8 percent of households and businesses will have access to broadband speeds of at least 5 Mbps (downlink) and the remaining household and businesses will have access to broadband speeds of at least 1 Mbps (downlink); and
- 97.7 percent of schools will be connected to broadband speeds of at least 100 Mbps (downlink and uplink) and the remaining 3 percent of schools will be connected to broadband speeds of at least 10 Mbps (downlink).

In addition, to encourage uptake in areas where it sees key productivity gains coming from the UFB and RBI, the Government has created a Five Point Action Plan for faster broadband.

Ultra-Fast Broadband Initiative

The Government is spending \$1.35 billion on the UFB, with the rest of the build funded from private sector investment. The network is 'fibre-to-the-premise' or FTTP (i.e. fibre connections going all the way into houses and buildings). The network will be available to a substantial proportion of businesses, schools and health services by 2016, and cover 75% of the population by the end of 2019.

The Government created a stand-alone company to manage the commercial aspects of the UFB process, called Crown Fibre Holdings Limited (CFH). CFH has entered into contractual arrangements with four companies to deliver the UFB infrastructure:

- NorthPower (Whangarei Local Fibre Company (LFC) for Whangarei);
- WEL Networks (Ultrafast Fibre Limited LFC covering Hamilton, Tauranga, New Plymouth and certain other North Island towns);
- Enable Networks (covering Christchurch and Rangiora); *and*
- Chorus (for the remaining candidate areas).

Rural Broadband Initiative

Going beyond the 75% of the population to be served by the UFB, the RBI is a response to concerns that regulatory interventions have failed to incentivise the level of investment in rural broadband infrastructure that the public expected, with the potential to constrain productive sectors of the economy.

Improving rural broadband service is therefore seen as a way to lift productivity in the rural sector and is a key part of a wider strategy to increase New Zealand's global competitiveness, particularly compared to other OECD countries.

The RBI is a grant-based scheme. The grant budget is \$300 million: \$48 million from Government funding and \$252 million from the newly created Telecommunications Development Levy. The grant is to be paid out over five years, meaning that the RBI funded infrastructure will be fully constructed by 2016.

The RBI comprises four grants:

- a grant of \$285 million, for the provision of services to rural schools, households and businesses (awarded to Chorus and Vodafone in April 2011);
- three grants totalling \$15 million:
 - for the provision of fibre services to semi-urban schools, public hospitals, integrated family health centres and public libraries (awarded to Chorus and Network Tasman in April 2012);
 - for the provision of services to 57 remote schools and surrounding communities (awarded to Chorus, Araneo, Inspite.net and Gisborne.net in April 2012); *and*
 - for the provision of services to the Chatham Islands (yet to be awarded).

Five Point Government Action Plan for faster broadband

The Government Five Point Broadband Action Plan provides an overview of what the government is doing to support the benefits of faster broadband in five key sectors – health, business, education, community, and government.

The Action Plan pulls together a range of initiatives in each of these sectors which will leverage off or will be enabled by the UFB and RBI.³¹

³¹ For further information see: <http://www.med.govt.nz/sectors-industries/technology-communication/fast-broadband/government-action-plan-for-broadband>

Appendix 5: Glossary

Community mail box:

Community mail boxes are aggregated post boxes arranged by New Zealand Post generally at a distance from the receiver's residence.

Counter delivery:

Counter delivery points are where mail is picked up by the recipient at an approved outlet instead of at a residential or rural delivery point.

Coural:

Coural (Rural Couriers Society Limited) is an incorporated society owned and operated commercially by a group which includes many Rural Post drivers. Coural primarily offers rural delivery of unaddressed mail, parcel and courier items.

CourierPost:

CourierPost is the primary courier business operated by ECL.

Delivery network:

The collective of channels by which a postal operator delivers mail to receiving customers. New Zealand Post's delivery network incorporates Postie delivery, Rural Post delivery, Post Office Box lobbies, community mail boxes and counter delivery service locations.

Disclosure Table:

New Zealand Post is required under the Regulations to include this table in its annual reports. The table sets out the number of delivery points in specified categories (residential, rural, business, PO Box, counter delivery etc.) and the number of delivery points in each category which have six, five or one to four day a week deliveries.

DX Mail:

New Zealand Document Exchange Limited. DX Mail is owned by Freightways Limited and has developed from a document exchange service to a full service postal operator for business customers. DX Mail operates its own delivery network in parts of major New Zealand cities and towns. For addresses not included within DX Mail's delivery networks, DX Mail lodges mail at New Zealand Post mail centres for processing and delivery by New Zealand Post.

ECL:

Express Couriers Limited is a courier business 100% owned by New Zealand Post, operating as Pace, CourierPost, Roadstar and Contract Logistics. Until recently ECL was a joint venture between New Zealand Post and DHL.

GST:

Goods and services tax.

Letter:

In this Proposal the term 'letter' is generally used for items which do not exceed 260mm x 385 mm height and length, 20mm thickness and/or 1kg weight or

which fall within New Zealand Post's 'Bulk Mail' suite of services. Note that this is different to the definition of a 'letter' in the Postal Services Act, which refers to items for which a charge of less than \$0.80 (including GST) is charged (see *Appendix 3* for the full definition of a letter in the Postal Services Act).

Mail:

In this Proposal, the term 'mail' refers to letters and parcels. Except where otherwise noted references to the volume of 'mail' in New Zealand Post's postal network includes international inbound and international outbound letters and parcels, as well as domestic letters and parcels. It does not include ECL or Reachmedia items.

MED:

Ministry of Economic Development (now part of the Ministry of Business, Innovation and Employment).

New Zealand Post:

New Zealand Post Limited.

New Zealand Post Group:

This refers to New Zealand Post Limited and its wholly owned subsidiaries.

New Zealand Post Office:

This refers to the government department which provided postal services (in addition to telecommunications and banking services) before April 1987.

Parcel:

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

Post Offices:

In this Proposal the expression 'Post Office' refers to the post offices maintained by the New Zealand Post Office.

Postal Services Act:

Postal Services Act 1998.

Postie:

This is the term used by New Zealand Post for the New Zealand Post employees and independent contractors who sort and deliver mail to residential and business delivery points in non-rural areas.

Processing, processing network:

In this Proposal, 'processing' generally refers to the acceptance of mail from sending customers, and the sorting and distribution of mail items to the delivery network.

Reachmedia:

Reachmedia New Zealand Limited is a 50:50 joint venture between New Zealand Post and Salmat International Pty Limited which provides unaddressed mail services.

Regulations:

The Postal Services (Information Disclosure) Regulations 1998.

Retail network:

In this Proposal the expression 'retail network' refers to New Zealand Post's network of PostShops and post centres. It does not include resellers who distribute New Zealand Post products.

Rural Post:

Rural Post is the New Zealand Post business unit which provides delivery services in rural areas. Rural Post drivers are independent contractors. The Rural Post delivery network also delivers on behalf of CourierPost and Reachmedia in rural areas.

SOE Act:

State-Owned Enterprises Act 1986.

Street receiver:

A public letterbox, usually located on streets, that accepts postal items.

UPU:

The Universal Postal Union, a specialised agency of the United Nations responsible for coordinating international postal services.

USO:

This is the term used internationally to describe obligations on service providers which aim to ensure the availability of services where market forces alone may not provide a satisfactory level of service from a public policy perspective. Universal service obligations are a particular feature of network industries providing services which the government considers essential.