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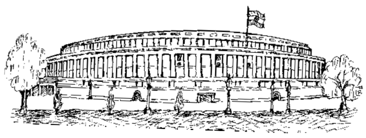

Parliamentarians' Forum on Economic Policy Issues (PAR-FORE)

INDIAN POST OFFICE (AMENDMENT) BILL 2006: Need to Think Out of Box

Background

The postal system of India dates back to 1837 when the postal services were opened to the public. Since the time Indian Post Office was reorganised as an institution in 1854, postal services have grown both in terms of the extent of postal network and its scope and the variety of services it offers. From being simple providers of mail facilities, today Department of Posts (DoP) has branched out into money transfer services, banking facilities, small savings services, insurance services, utility payment services and even mutual funds and bonds.

The statute governing postal services in the country is the Indian Post Office Act 1898 which vests the Government with exclusive privilege of collecting, carrying and delivering letters within the country.

Over the past one and a half century of postal services in India, the operating environment of services has witnessed many changes. Emergence of alternative forms of communication (telecom, e-mail, SMS, etc), have thrown challenges and opportunities for postal services. Further, entry of courier companies over the past two decades has provided competition to DoP in mail delivery.

In order to meet the twin challenges of technology and competition, attempts have been made to carry out amendments in the Indian Post Office Act, 1898. Placed in that context, a Bill was earlier introduced in the Parliament in May 2002 in a bid to preserve the exclusive privilege of DoP to convey all letters with certain exceptions. But due to dissolution of the Lok Sabha the said Bill lapsed.

Of late, to attune itself to working in a competitive and liberal environment, DoP has proposed the Draft Indian Post Office (Amendment) Bill, 2006 on liberalizing the mail industry, encouraging competition, and bringing qualitative improvements in postal service throughout the country.

Key Amendments Proposed

- As per existing Law, the Central Government is vested with exclusive privilege in conveying of letters and providing other incidental services there to. Through this amendment, the Central Government proposes to liberalize and confine its exclusive privilege to carrying letters up to 300 grams.
- Establishment of a Universal Service Obligation (USO) fund to offer subsidised postal services in economically unviable areas. Courier companies with revenues of over Rs.25 lakh would be made to contribute 10 percent of their annual revenues towards the USO fund.
- Registration of all courier companies to regulate the largely unorganized courier industry and to ensure accountability of private courier companies.
- Establishment of an independent Mail Regulatory and Development Authority for creating a level-playing field for all mail service providers including DoP and for safeguarding interests of consumers.
- Setting up of a Mail Disputes Settlement Tribunal for adjudication of disputes between registering authority and registered service providers; amongst service providers; and between service providers and a group of consumers.

Encouraging competition or preserving monopoly

The DoP argues on its website that "[c]ompetition has to be allowed where needed and possible"; however the government, seeks to exclude courier companies from competing with DoP on carrying letters less than 300 grams.

The reasoning for granting such a vast monopoly, which otherwise goes against the current policy of opening up public services elsewhere, lies in the strategy of courier companies: cherry-picking 'creamy areas' and leaving uneconomical and remote areas for the DoP. Consequently, DoP makes losses and the monopoly proposed on letters up to a specified weight limit seeks to provide it with a secured source of revenue to make good its losses.

? Is this the right strategy to generate revenues for DoP

Market segmentation: 'weight' criterion or 'express vs ordinary mail' criterion

The industry body: Express Industry Council of India (EICI) highlights that, "[c]ourier and express operators do not carry ordinary mails.They are not in competition with DoP for this business but do compete, for value added services provided by Speed Post and Express Post".

This stand is not held only by the EICI (*who some people may claim has obvious vested interests*) but the High Courts in various states have upheld it. This view was already challenged by Post Masters-General in various states throughout the 1980s and 1990s without success.

Thus, in the current scenario there is already segmentation of market for postal services: ordinary mail vs express. Common sense suggests: customers who desire express service pay a significantly higher rate than they would do in the DoP. Alternatively, a citizen who is not in a rush to deliver his parcel or who cannot afford express charges would in any way send it via ordinary mail through DoP. Thus, in the existing system, choice is entirely on consumers. Through the proposed amendments, the government seeks to further segment the market, which would leave no choice for consumers in sending letters weighing less than 300 grams.

? Is the segmentation based on weight criterion desirable under existing market reality
? What is paramount: consumer interest or DoP's interest
? Should government limit choice of mail service for consumers, to protect DoP's interest

***USO fund: can it be managed efficiently*?**

The proposed amendments provide for setting up of a USO fund to meet the losses suffered in providing services in financially non-viable areas. Here it would be relevant to consider the example from telecom sector. There is already a USO fund established in telecom sector to meet similar objective, but with not much success. Out of Rs 10,753 crore collected by the government since 2002-03, almost two thirds of it (Rs 7189 crore) is still waiting to be used (the forecast for 2010 is Rs 25000 crore)!

In the light of this revelation,
? Should the government set up another similar fund
? How will it ensure timely provision of mail service in rural and remote areas

Another issue that needs consideration is whether courier companies and DoP compete for the same segment of the market? If the answer is 'NO', as it emerges from above, then why would large courier companies pay 10 percent tax towards the USO fund?

***Mail Regulator: Autonomy*?**

The amendment proposes setting up a Mail Regulatory and Development Authority (MRDA) for postal and courier services to ensure all private courier service companies and mail services of DoP comply with the terms and conditions of registration. It will promote competition and efficiency in operation of mail services and seek to achieve universal access to service goal. It will also lay down quality of service standards for mail services providers.

As regards, selection and appointment, clause 6B of draft amendment bill mentions "…a Chairperson, to be appointed by the Central Government …, from amongst persons who is or has held a post, not below that of the Additional Secretary to the Government of India … …" Similar provisions are there for other members of MRDA. Further, the age limit for Chairperson and members of MRDA has been fixed at sixty-five years. These provisions allow for appointment of retired/retiring bureaucrats as mail regulator.

? Are retired bureaucrats the best talent available for appointment as regulators
? How can selection process be made transparent and objective
? Should the government form a committee of professionals for making appointments to MRDA
? Would these provisions ensure autonomy to MRDA.

Exploring Alternate Ways

The objective to serve rural and remote areas is benign. Anyhow,

? Is the government's strategy of providing monopoly to DoP in less than 300 grams segment and creation of USO fund, the best way to achieve this objective

? Are there other avenues through which DoP can raise revenue to meet the losses incurred in shouldering a social obligation

? With the kind of reach that DoP has (as against limited coverage of courier companies), should the discussions not focus on how DoP could leverage its nationwide network to provide non-mail services, especially in rural areas and raise additional revenues in the process

This is already happening:

➢ Post Offices offer non-mail services such as insurance, bill payment, and savings schemes.

➢ It was recently reported that private cellular operators have struck a deal with DoP to promote mobile services, especially in rural areas. For the cash-strapped DoP this will bring additional revenues.

➢ DoP is also tying up with financial service providers to sell their products through post offices. It is also looking at the retail space to make use of its presence across the country.

Similar opportunities can be explored and exploited which would provide enough revenues to the DoP to wipe off its deficit and turn it into a surplus-generating organisation.

✓ Various state governments have adopted e-governance in a big way to provide government services to the general public. DoP can tie up with relevant government agencies and use its network to provide these services.

✓ The Postal Department could also follow the example of Railways to exploit its huge and prime real estate to generate revenue on a continuing basis.

However, this is not expected to happen in a scenario where DoP gets secured revenue through its proposed monopoly and its deficit being met through USO fund. Incentives to innovate and improving efficiency comes only when there is pressure to perform. The birth of speed post to meet competition from courier companies is one such example. Therefore,

? Are proposed amendments a step in the right direction

? If DoP is allowed to reinvent itself and develop new niches to raise revenues, would setting up of a USO fund continue to be relevant.

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