

4.1 Introduction

The postal services sector is an important component of the economic sector in South Africa contributing approximately 3,16% to GDP. This includes the courier and express parcel market. The sector enables individuals and businesses economically and plays an important role in development.

The letter post is declining both in terms of volume as well as a percentage of total revenue generated in the sector. The declining trend in letter mail volumes is ascribed to the global recession and electronic substitution effects.

Despite this trend, the need for a postal service is unlikely to disappear. While efforts are being made to bridge the wide digital divide in South Africa, postal services remain important for people and communities who do not have ready access to e-mail or the internet, for example, when applying for jobs or keeping in touch with family. The postal network also serves as a conduit for government to communicate with communities in the most rural parts of the country, as well as communities without access to electronic media.

Besides, almost every business relies on the postal, courier and express parcel market for daily operations. From a social perspective, a basic postal service is the right of all citizens and is essential to the social and economic development of South Africa. Almost every individual is dependent on postal services and almost every business's value chain intersects with the postal service's value chain.

There is a need to fulfil the social obligations of the sector while still ensuring that it remains commercially viable. The social objective is characterised by universal service obligations and is driven by affordability, equity and keeping costs down, while the commercial objective is driven by profit maximisation, efficiency, and quality of service imperatives.

4.2 Policy and regulatory environment

The Postal Services Act No. 124 of 1998 (the Postal Services Act), provides for an operator to be invited by the Minister to provide services within the reserved area. Currently SAPO holds a 25-year licence and is the only operator licensed to provide services within the reserved area. Operators wanting to operate within the unreserved area must apply for a registration certificate with the regulator. The registration is valid for one year from the date of issue and costs a non-refundable fee of R500. SAPO is also required to register in order to provide unreserved postal services.

The Act provides for the Regulator to suspend or cancel any licence or registration certificate issued, if the holder has contravened the terms and conditions of the licence or certificate or the provisions of the Act.

ICASA is expected to monitor not only SAPO's compliance with licence terms and conditions as well as the law, but that of all postal operators serving the unreserved market. However, due to capacity constraints, over the years ICASA has relied on compliance reports submitted by SAPO and has performed limited inspections.

4.3 Overview of postal services and products

According to the South African Standard Industrial Classification (SIC) system an industry is made up of enterprises engaged in the same or similar kinds of economic activity. In terms of this classification, postal activities include the following:

- pick-up, sorting, transport and delivery (domestic or international) of letter-post and mail parcels and packages by postal services operating under universal service obligation.
- collection of letter-mail and parcels from public letter boxes or from post offices, and
- distribution and delivery of mail and parcels

Courier activities on the other hand include:

- pick-up, sorting, transport and delivery (domestic or international) of letter-post and mail parcels and packages by firms not operating under a universal service obligation
- distribution and delivery of mail and parcels

The Postal Services Act defines a postal service as including the following:

- the provision of a reserved postal service or an unreserved postal service as contemplated in Schedule 1 and Schedule 2 of the Act, respectively.
- the issuing of postage stamps
- the provision of roadside collection and address boxes

As part of its extended services SAPO also provides financial services through the provision of a savings bank. This has been provided through the Postbank, and has allowed SAPO to further diversify its income stream away from mail revenue.

4.4 Market structure and competition

The following section analyses the various ways in which the postal services sector can be segmented.

4.4.1 Reserved and unreserved market segments

The unreserved market includes the provision of all courier services together with any postal service that falls outside of the reserved area. According to ICASA's database, there were just under 300 courier operators registered in 2012. While there may be several hundred postal and courier operators in South Africa, the sector is dominated by approximately 20 firms, accounting for 98% of the industry's revenue. The five largest firms account for 78% of the total revenue in the sector, indicating a high level of concentration.

SAPO's exclusivity renders it the most dominant operator in the sector, accounting for about 60% of market share in terms of revenues from postal and courier services in 2012.

Despite the legislative delineation of the market into reserved and unreserved segments, there are unlicensed operators encroaching on the reserved services market. Despite being illegal, this practice amounts to unfair competition to SAPO, given that operators in the unreserved market segment do not have universal service obligations. For this reason, the capacity of the Regulator to monitor compliance in the sector cannot be over-emphasised.

4.4.2 Communications and distribution market segments

The distribution market includes the transport and delivery of goods to a specified address. Postal delivery is a specialised sector of the distribution market, especially the distribution of individual parcels.

According to the South African Express Parcel Association (SAEPA), a courier service is any company that transports/ships time-definite parcels. The amount of time required to deliver couriered parcels varies from one day to three days. Therefore SAEPA sees courier as any service that delivers items that have a maximum of three days for delivery and are more than 1kg in weight.

4.4.3 The letter and parcel market segments

The parcel distribution market caters for all material falling outside the definition of a letter. Services are offered by companies on high-volume and localised routes which demonstrate the practice of "cherry-picking".

4.4.4 Individual and business customer segments

Customers in the postal services sector are segmented according to individual consumers and business consumers living or operating in the rural or urban areas of South Africa. Urban areas are characterised by heavy postal traffic, whereas rural areas are characterised by light postal traffic.

4.4.5 The Postbank

The Postbank was established in 1910 as a savings bank. It may not provide loans or overdraft facilities to its customers. It is, however, a member of the multinational financial services organisation VISA, and participates directly in the National Payments System (PASA). In its 2012 Annual Report, SAPO reported that deposits grew by 6.9% in the year, bringing the total savings under management by Postbank to R4 258 million. As at 31 December, 2012, there was an industry total of R151 816 million in 'savings deposits' of which the Postbank deposits represent 2,6%. However, with over six million customers, the Postbank ranks in the top five banks and has a formidable customer base to launch new services and products in the lending, borrowing and investment sectors and thus provide much needed competition in the sector.

The Postbank is currently undergoing the necessary legal and regulatory processes to become a fully-fledged bank.

4.5 Postal Universal Service and Access

4.5.1 The postal address system

According to the Universal Postal Union (UPU), an address is a basic human right. To this end member countries adopted a White Paper during the 2012 Doha Plenipotentiary Congress of the UPU, at the heart of which is a call for member countries to commit to the development of address infrastructure and the provision of an address to everyone.

Notwithstanding the declining mail volumes, SAPO has managed to roll out millions of addresses over the recent past. The target of providing addresses to first-time address owners supports SAPO's mandate of ensuring the right of every citizen to be connected socially and commercially, at an affordable cost. In the 2012 Annual Report, SAPO committed to rolling out an additional 3,6 million addresses between 2011-2013. The

amended licence sets a target of 2,3 million new addresses between the years 2012-2014. In the financial year that ended on 31 March, 2012, 1199 273 addresses were rolled out to first-time address owners against a target of 1195 690.

The address system is important for a number of reasons, including:

- location finding for ambulance, fire, police and rescue services
- geographical analysis and information about a city and its people, for instance as conducted in the census
- home and location addresses for easy communication and delivery
- business and tax applications
- provision of municipal services
- maintenance and repair of water, electricity, sewerage and telephone systems
- facilitation of law enforcement

4.6 Postal services in the digital age

The flow of mail has changed from a two-way communication process, to a one-way flow. The mail business is increasingly moving towards 'pull' effects, that is, a customer or business requests an item, rather than 'push' effects where a business or friend sends a letter. The postal market can be viewed as moving away from social mail services, and towards business and corporate mail, albeit with consumers on the receiving end of those transactions. SAPO is uniquely placed to leverage on the vast network of postal outlets, fleet of delivery vehicles and telecommunications infrastructure to offer integrated services such as telecommunications, financial services and logistics.

SAPO's broadband infrastructure, depending on architecture and capacity, could be leveraged to offer broadband services in rural and under-served areas, or to provide Wi-Fi zones within a specified radius of the retail footprint.

4.7 Postal reform trends

The postal sector in most OECD countries remains dominated by a state-owned vertically-integrated monopoly, still largely protected from the forces of competition.

Globally there is a trend towards greater corporatisation, commercialisation or privatisation prior to liberalisation of the postal market. The general intention is to create a more efficient governance structure for the postal operator particularly when it must compete with private operators in a liberalised market.

The following are some of the conclusions and lessons from international postal reform:

- Many countries have successfully undertaken reform;
- Where postal monopolies have been eliminated this has led to commercial flexibility;
- Reforms have frequently involved changes in the universal service obligation;
- Many governments have removed universal service delivery from the postal service itself and shifted it to another entity, such as the regulator;
- The experience in countries that have eliminated their monopolies, such as New Zealand and Sweden, suggests that universal service can still be maintained at affordable prices without a delivery monopoly;
- Many reforms have included a mechanism for making the cost of providing universal service explicit such as a universal service fund; and
- Postal reform in some countries has included changes from government to private ownership, as in Germany and Holland.

Policy questions:

1. Is the distinction between reserved and unreserved services a clear one in practice? Should this distinction be maintained into the future? If so, is the scope of the monopoly broad enough to fund universal service obligations?
2. How can SAPO's infrastructure be leveraged to rollout government services?
3. Should the Postbank continue to be a subsidiary of SAPO or should it be a stand-alone fully-fledged independent banking institution?
4. How do we ensure the right of every citizen to an address? Should government continue subsidising SAPO in order to fund universal service?
5. What role should operators in the unreserved segment of the market play insofar as universal service is concerned?
6. What role can SAPO play in the roll-out of broadband?