Policy Challenges and the Privatization of Japan Post

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On its face, Japan’s plans to privatize Japan Post appear to be laudable. New publicly held corporations will take over key functions of the government-owned post office and its current delivery, banking and insurance interests. In essence, the legislation breaks Japan Post into four new operating companies, a holding corporation for the four new entities, and a public service company to hold many of the old investments in the old savings bank and insurance fund that still have government guarantees. The Japanese government also created several other bodies to facilitate and oversee the privatization process, including a group in the Prime Minister’s Office and a newly formed Privatization Planning Corporation. The privatization process will occur over a 10-year transition period ending in 2017.

The resulting postal, transportation, finance and insurance operating entities will adopt private sector management practices and compete internationally. Funds that had been in government-guaranteed savings accounts and insurance policies will be moved to market-oriented savings accounts and insurance policies. Hundreds of thousands of civil servants will move off the government payrolls. The age-old system of using postal savings accounts to purchase large amounts of Japanese government bonds will end. It is hoped that Japanese capital markets and its postal and transportation industries will become more efficient and profitable. Indeed, in theory, the privatization of Japan Post entails many praiseworthy steps towards ensuring Japan’s economic recovery continues.

However, despite its good intentions, the government of Japan is changing the role of this state-owned monopoly without considering the potential harm to domestic and international markets. While a series of reviews are intended to insure that any new operations increase competition within the express delivery and financial indus-
tries, the structure and design of the review process, which includes a variety of ministries and government institutions, is vague and its procedures are not transparent to the Japanese and international entities affected by the privatization.

If the newly reorganized Japan Post does become a significant competitor in global markets it will do so in large part due to the enormous government-won assets it possesses and the sizable monopoly profits it generates. The resulting entities will have the potential to undercut the position of domestic and international competitors that have grown their businesses in competitive markets without the benefit of government largesse. Although one could argue that consumers in all affected sectors might benefit from lower costs, the distortion of market forces will in the long run both harm consumers and lead to misallocations of capital.

In addition, Japan Post’s success might lead other governments to take a more mercantilist approach to privatizing government-owned entities. Given the success of a financially strong former government monopoly in upending competitive markets, what would prevent other nations from privatizing government banks or postal operations in a similar way? They would only need to insure that such privatized entities possessed the financial resources – in the form of an associated insurance or financial operation – that would insure that as a private corporation they could undercut established global firms. This model would change the recent success stories of privatization and might undermine the market position of many firms in addition to those in express delivery.

If the government of Japan supports a privatization process that reduces competition and fails to impose strict oversight, it will not increase its economic efficiency and the implications for international trade and sustained domestic growth will be grim. The privatization process will fail to create more efficient markets unless safeguards are put in place. For example, the Japanese government must evaluate each prospective joint venture for potential harm to the markets they enter. At the outset of each such venture, the Japanese government should establish metrics for determining public benefits and/or harm. Private industry comment should be sought in determining these metrics. Importantly, if the venture proves to be anti-competitive, the
approvals must be rescinded. The international community and the Japanese electorate should hold the government responsible if this privatization process ends up distorting market forces or decreases the overall competitiveness of the express delivery and financial industries.

**International Expansion of “Competitive” Delivery Services**

To improve its profitability, Japan Post is already expanding abroad. It has established an international joint venture with Japanese airline All Nippon Airways (ANA). The Ministry of Internal Affairs and Communications (MIC) must still approve this joint venture and forward it for approval to an oversight body, the Postal Privatization Committee, and to the Prime Minister’s office. Japan Post’s aggressive new executives lobbied hard for the approval of this first step towards an expanded international presence, a key part of their new business plan. Japan Post recently received approval for the ANA joint venture with few strings attached.

Shortcomings in the oversight of Japan Post’s international expansion are already evident. In approving the joint venture with ANA, MIC failed to provide a detailed analysis of any possible anti-competitive effects. Instead, it added an admonition that the joint venture not “unduly injure the interests of its rival companies.” But MIC overlooked the need to define which firms were “rival companies,” whether they are airlines or delivery firms, or how to measure “undue harm.” In addition, it did not specify which government group would evaluate whether harm had occurred and said little about what steps might be taken to remedy the situation if an oversight body determines that harm did occur. MIC also did not define how Japan Post might fund its joint ventures and did not determine whether Japan Post might use funds from its domestic operations to sustain a wave of international investments.

**Use of Government-Owned Assets to Support Competitive Services**

A vital, vibrant express delivery industry is critical to the growth of international trade. But when authorities overseeing the privatization
process omit specifying how to determine if competition in domestic and international markets is going to be negatively impacted, it is difficult to ensure that a healthy express delivery industry will be maintained. Ultimately, Japan Post will expand its existing international express delivery business and establish strong bases in other countries like China. The question is whether it helps or hinders the maintenance of a competitive global express delivery industry. Since funding is a key element in its expansion, Japan Post’s new holding company may be the lynchpin in its global strategy. It appears that it will be able to use its position as a shareholder in the four new corporations created from Japan Post to transfer funds to these new firms or their joint ventures. It also may be able to transfer money to the Post Office Corporation that manages them. With such formidable financial support, Japan Post could rapidly scale up its operations in China and move into other Asian markets, such as South Korea and India. This would pose a significant challenge to three of the largest international express delivery firms, UPS, FedEx, and Deutsche Post, that are developing positions in these markets.

**Potential for Anti-Competitive Cross-Subsidization**

Japan Post’s privatization is problematic because the government of Japan lacks a framework to insure that there will be no anti-competitive impact. In Japan, MIC and other government bodies have not defined the products or market for domestic mail delivery clearly. Consequently, any firm that tries to enter this market faces huge fines if the authorities rule that it has broken the vague rules. Thus, the new Post Office Corporation will continue to operate as if it has an effective monopoly over domestic mail delivery since the poor definition of the market has created effective barriers to market entry. With one of the highest first class mail charges in the world and new executives to restructure its loss-making mail operations, the Post Office Corporation could exploit this monopoly to create a profitable mail operation that could unfairly cross-subsidize steps to enter the domestic parcel delivery market. Under the current privatization process, there is no institution that can effectively determine whether Japan Post’s expansion of its domestic operations might have a harmful impact on its domestic rivals, such as Yamato, Sagawa, Nippon
Express and other Japanese parcel delivery firms, and ultimately a harmful impact on consumers.

**Discriminatory Benefits of a Government-Owned Legacy**

In addition, the government will continue to grant Japan Post privileges that its competitors don’t have. It will be exempt from traffic regulations under the Road Traffic Law, so it can pick up mail and parcels where competitors can’t. It will benefit from simplified procedures for the importing and exporting of mail under the Customs Law. This special treatment lowers its cost of doing business and gives it a super-competitive position in the economy.

**Lessons Learned from Anti-Competitive Behavior of Deutsche Post**

If Japan Post is able to use the privatization process to exploit its effective monopoly in mail delivery at home in order to expand abroad, it will emulate Deutsche Post, which has profited from a high-priced domestic mail monopoly to support expansion throughout Europe and the rest of the world. Japan Post could also bend the rules to gain market share internationally. Policies need to be set in place now to ensure Japan Post’s privatization does not follow the same anti-competitive path that Deutsche Post pursued.

**Policy Actions that Will Help Ensure Fair Global Competition**

This study questions the adequacy of current efforts to ensure that Japan Post’s privatization process is not anti-competitive. If Japan Post’s international plans are approved without establishing clear standards to evaluate their potential anti-competitive impacts, it will be able to recreate itself as a global express delivery firm that could also dominate mail and parcel delivery markets at home. Several steps could be taken if effective oversight of the privatization process and a level domestic playing field fail to materialize.

First, the United States and other countries could press Japan to abide by the pro-competitive undertakings for mail delivery and express
services that Japan has proposed to the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO). Second, the United States and other nations could also request that Japan’s Fair Trade Commission (FTC) play a central role in overseeing the privatization process. This would provide careful evaluation of whatever steps Japan Post decides to take in domestic markets, in order to ensure that they have no anti-competitive impacts. The FTC might also oversee and evaluate any transfers of funds between Japan Post’s successor corporations to ensure that they are not used to cross-subsidize competitive operations. Third, the United States and other governments could help the government of Japan understand that Japan Post will not maximize the welfare of Japanese citizens if it acts in an aggressive and anti-competitive manner in domestic and world markets.
Introduction

Prime Minister Koizumi is trying to achieve a remarkable transformation of one of the largest bureaucracies in Japan, the Japan Post. He has focused on the privatization as a way to move funds that were invested in postal savings accounts and then in government bonds into private markets. Even more remarkably, Prime Minister Koizumi has used the Japan Post privatization issue to reshape Japanese politics. The Liberal Democratic Party (LDP), which built its base upon rural postmasters and the services they provided in less populous areas, has changed dramatically. Its strength now depends on voters in urban areas who hope that decisive moves to modernize Japan’s economy will renew growth and usher in an era of prosperity.

The old system based on the LDP’s patronage and strength in rural areas seems to be a thing of the past. In the new system, the Prime Minister and cabinet formulate policies and direct bureaucrats to implement them. In addition, cabinet members will depend upon the Prime Minister for their political power and, in return, act more like powerful cabinet members in Western governments, often exerting a profound influence on the reform process. Last September, after making Japan Post’s privatization the central issue in a crucial election, Prime Minister Koizumi returned with a far larger majority than most observers had expected. This opened the way for passage of six laws to implement the privatization. (See Appendix 1 for a detailed report on the politics and empirical background of the Japan Post privatization.)
The legislation breaks the old Japan Post into four new operating companies:

1. The Postal Service Corporation will handle network or branch services and will operate the old network of Post Offices;
2. The Post Office Corporation will manage delivery and be a partner in international joint ventures with firms that include ANA;
3. The Postal Savings Bank Corporation will become a wholly separate publicly held bank; and
4. The Postal Life Insurance Corporation will, like Japan Post’s bank, become a stand-alone, publicly held insurance company. (See Table 1 below for a company listing and description of business functions.)

The Privatization Law Calls for Privatization to Occur in Three Stages

1. A “Preparation Period” starting now through October 1, 2007; Japan Post will be split up into four companies under a holding company; The four companies are the Postal Service Corporation, the Post Office Corporation, the Postal Savings Bank Corporation, and the Postal Life Insurance Corporation.
2. “Transition Period” from October 1, 2007 through March 31, 2017; The Japanese government will reduce its stake in the holding company from 100% to 33%; the Postal Saving Bank Corporation and Postal Life Insurance Corporation will be fully privatized and the government stake in them will be reduced to zero.
3. Full Privatization after April 1, 2017 – the Holding Company will continue to own 100% of the shares of the Postal Service Corporation and the Post Office Corporation.
## Table 1. New Functions of the Four Corporations Created by the Privatization of Japan Post

<table>
<thead>
<tr>
<th>Holding</th>
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<tbody>
<tr>
<td>Japan Post Corporation/ (Privatization Preparatory Corporation until October 2007)</td>
</tr>
<tr>
<td>Postal Service Corporation (“Network” Corporation)</td>
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<tr>
<td>Postal Office Corporation (Yubin) (“Delivery Corporation”)</td>
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<tr>
<td>Postal Savings Bank Corporation (Yucho)</td>
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<td>Postal Life Insurance Corporation (Kampo)</td>
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<th>Head</th>
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<tr>
<td>Yoshihumi Nishikawa, former President, Sumitomo-Mitsui Financial Group</td>
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<tr>
<th>Current Function</th>
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<tr>
<td>Holding Company. Develops the plan for the privatization. This firm does not come into being until October 2007. Until then, it will be called the Privatization Preparatory Corporation.</td>
</tr>
<tr>
<td>Operates over-the-counter services at 24,700 offices nationwide.</td>
</tr>
<tr>
<td>Mail delivery and stamp sales. Continues to hold letter mail delivery monopoly and operate under universal service obligation.</td>
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<tr>
<td>Postal savings. Including holding of government guaranteed savings (to be transferred to new Yucho/Kampo Management Corporation).</td>
</tr>
<tr>
<td>Postal life insurance including holding of government guaranteed insurance policies (to be transferred to new Yucho/Kampo Management Corporation).</td>
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<th>New Function</th>
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<tr>
<td>Selects executives and sets business models for four corporations. Transfers Japan Post’s staff and assets to the four firms. Sells all the stock of the Postal Savings Company and the Postal Life Insurance Company by 2017.</td>
</tr>
<tr>
<td>Serves as a sales agent for other postal products. Sells investment trusts and offers related services for Postal Savings Bank.</td>
</tr>
<tr>
<td>Manages international logistics and express delivery joint ventures. Opening “research” office in Beijing.</td>
</tr>
<tr>
<td>Sells/ manages investment trusts, sells mortgages, issues credit cards, and offers personal loans.</td>
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<tr>
<td>Sells health insurance.</td>
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<table>
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<tr>
<th>Employees</th>
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<tbody>
<tr>
<td>4,000</td>
</tr>
<tr>
<td>133,000</td>
</tr>
<tr>
<td>109,000</td>
</tr>
<tr>
<td>12,000</td>
</tr>
<tr>
<td>5,500</td>
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<table>
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<tr>
<th>Projected Profits in 2007*</th>
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<tbody>
<tr>
<td>38.2 billion yen</td>
</tr>
<tr>
<td>204 billion yen</td>
</tr>
<tr>
<td>228.9 billion yen</td>
</tr>
<tr>
<td>-35.1 billion yen</td>
</tr>
</tbody>
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*Note: Yoshiaki Hompo of Japan Post presented these estimates and noted that they were developed assuming that the four new corporations would not enter any new lines of business. This could mean that the forecast substantially underestimates future profits.
A major goal of the privatization is to turn Japan Post into a profitable firm and put it on an equal footing with the private sector. This would represent a dramatic shift away from the hobbling losses Japan Post has experienced as a result of declining mail and insurance revenues. The four corporations to be created from Japan Post are changing their focus from traditional postal areas to more profitable express delivery and financial services. The Postal Service Corporation is selling investment trusts, mutual fund-like investments that not only invest in securities, but also in real estate and in other investment trusts under the reform of the Investment Trust Law in 2000. The Post Office Corporation is managing joint ventures like the one Japan Post developed with ANA. Even the Postal Savings Bank Corporation is expanding. Not content to merely manage investment trusts, it also plans to sell mortgages, issue credit cards, and offer personal loans. The Postal Life Insurance Corporation plans to sell health insurance in addition to life insurance.

The new legislation also established several bodies to oversee the privatization process and insure that no harm is done to Japan Post’s competitors in express and parcel delivery. As Table 2 and Figure 1 that follows it show, the Postal Privatization Commission is the first body to receive requests by Japan Post to enter new lines of business. Once the Commission gives its approval, it passes its recommendation along to the Ministry of International Affairs and Communications (MIC) for a second level of approval. MIC evaluates the proposals and sends its recommendations to the Headquarters for Promotion of Privatization and the Committee for Privatization. These bodies need to agree with MIC’s opinion for any proposals to get final approval. In approving Japan Post’s joint venture with ANA, the Privatization Commission and MIC said Japan Post’s new “Delivery Corporation” (the Post Office Corporation) could establish a joint venture in a new area of business - logistics, as long as it did not do “undue harm” to any competitors. It then passed this along to the Headquarters for final approval, which includes approval from the Prime Minister’s office.
Table 2. Bodies Overseeing the Privatization Process

<table>
<thead>
<tr>
<th></th>
<th>Postal Privatization Commission</th>
<th>Ministry of Internal Affairs and Communications</th>
<th>Headquarters for Promotion of Privatization</th>
<th>Committee for Privatization – Linked to Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head</strong></td>
<td>Naoki Tanaka, President of the 21st Century Public Policy Institute</td>
<td>Heizo Takenaka, Minister (also serves as Minister of State for Privatization of the Postal Services in the Cabinet)</td>
<td>Prime Minister Koizumi serves as Chairman</td>
<td></td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td>5 members including head.</td>
<td>All Cabinet members plus the Prime Minister</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Role</strong></td>
<td>Must provide the first approval for any proposals by Japan Post to enter new business areas. Sends recommendation to MIC. Must be consulted by MIC on other decisions. Supervises the process of the privatization of Japan’s postal services. Reviews the privatization process every 3 years.</td>
<td>Must approve of any new areas into which the four new companies wish to expand. This approval must also be examined and approved by the Prime Minister and the Headquarters</td>
<td>Advances measures to make a smooth transition from a public company to private companies as well as to realize the final privatization.</td>
<td>To enhance and supervise the privatization process along with the Headquarters for Promotion of Privatization.</td>
</tr>
<tr>
<td><strong>Reporting</strong></td>
<td>The Commission will advise ministers on how to avoid situations where Japan Post and the four companies to be created from it will squeeze the private sector by expanding their business during the privatization process.</td>
<td>MIC must obtain the Commission’s opinion about any proposal by Japan Post to enter or invest in international freight transportation, or for the postal delivery company to enter new business areas.</td>
<td>After privatization, establishes a surveillance group comprised of intellectuals. It conducts a review every three years after privatization, assessing its progress and management structures. It provides suggestions on important management issues.</td>
<td></td>
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</table>

Japan Post is using the laws for privatization to enter the international logistics market and expand its international express delivery services. Japan Post has already announced an arrangement with All Nippon Airways (ANA). Besides organizing a joint venture for express delivery, the collaboration with the Japanese all-cargo airline, begun in October 2005, will result in a business partnership. This will create a new Japanese cargo airline focusing on markets in the Asia-Pacific region and offering logistics, freight management, and other parts of the “value-chain” for express delivery. The new airline, AJV, established on February 1, 2006, will commence operations in August 2006. Shareholders include: ANA with 51.7%; Japan Post with 33.3% (this funding will only take place once it is approved); Nippon Express with 10%; and Mitsui O.S.K. Lines with 5%.

New international commercial ventures not only move Japan Post into new lines of business, but also build on important strengths. The
long-term relationships that Japan Post has with Japan’s leading corporations offer the joint ventures a ready base for business in China. These relationships will also support Japan Post’s efforts to expand the express delivery volume it carries within Asia, from China to Europe, and from China to the United States. In addition, China’s market is weak in its logistics support for international express delivery, so it is a fertile ground for Japan Post to build its expertise in logistics. If successful, Japan Post may be able to use its logistics expertise to expand its overseas express delivery business to other areas or to acquire a major logistics company.

By expanding in China, Japan Post, through its collaboration with ANA, also gains a fleet of planes. With an air transport network, Japan Post can operate like one of the larger global express delivery firms. This removes one constraint that Japan Post faced in becoming a global service firm. Without an air fleet, its vision could not easily extend to international express delivery. Participating in the aviation venture transforms it into a full-fledged express delivery firm with a much wider geographical scope. It may even give Japan Post an opportunity to expand its express delivery service to Europe and North America.

Japan Post’s executives have made international expansion a cornerstone of their move into new businesses. With swift approval of their first efforts to enter the Asian express delivery market looking likely, a key question is whether there will be any constraints on Japan Post’s ability to operate internationally.

Shortcomings in the oversight of Japan Post’s international expansion have been evident during MIC’s recent approval of the joint venture with ANA. In approving the joint venture, MIC failed to provide a detailed analysis of any possible anti-competitive effects. Instead, it added an admonition that the joint venture not “unduly injure the interests of its rival companies.” But MIC overlooked the need to define which firms were “rival companies,” or even whether they are airlines or delivery firms. It also failed to define how to measure “undue harm.” Finally, it did not bother to specify which government group would evaluate whether harm had occurred or what steps might be taken to remedy the situation if an oversight body determines that harm did occur. MIC also did not define how Japan Post might fund its joint ventures and did not determine whether Japan
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Post might use funds from its domestic operations to sustain a wave of international investments.

These initial moves suggest what Japan Post’s strategy is likely to be. It will build a base of services in Japan, China, and Asia. It will use the air fleet from its joint venture to build closer links to Europe and possibly develop a joint venture or a partnership with a major European player, either TNT or Deutsche Post. It will also build its logistics skills in partnership with others, first in Asia and then in Europe. If these moves succeed, Japan Post will seek a way to enter the US market, either with a European partner or, more likely, by partnering with a US firm. The end goal is to become a significant global player in the express delivery market.

USE OF GOVERNMENT-OWNED ASSETS TO BEGIN PROVIDING “COMPETITIVE” SERVICES

A vital, vibrant express delivery industry is critical to the growth of international trade. However, when groups overseeing the privatization process omit specifying how to determine whether competitive harm is occurring in domestic or international markets, it is difficult to insure that this goal is being met. Ultimately, Japan Post will expand its existing international express delivery business and establish a strong base in other countries like China. Since funding is a key element in this expansion, Japan Post’s new Japan Post Corporation (the “Holding Company”) may be the lynchpin in its global strategy.

This new Holding Company can use its position as a shareholder in the four new operating corporations created from Japan Post to transfer funds among these new firms or their joint ventures. It also may be able to transfer money to the Postal Office Corporation that manages the joint ventures. Several organizations have expressed concerns about the ability to cross-subsidize different corporations created from Japan Post, including the American Council of Life Insurers (ACLI). With such formidable financial support, the network delivery company could rapidly scale up its international competitive operations without having to compete for the funds on which that expansion is based. This would pose a significant challenge to international express
delivery firms that are developing positions in these markets fairly—without government assistance.

An asset chart published by the Prime Minister’s Office illustrates how the Holding Company could shift funds from one of the new Japan Post corporations to another of the new corporations that needs to finance an investment. (See infra page 10, Figure 2, Asset Chart.) For instance, if the Holding Company or the new corporation that is given ownership of Japan Post’s valuable urban real estate sells these properties, then the Holding Company could transfer the funds gained from the sale to one of the new operating corporations. Under Japanese law, the company that transfers the funds and the company receiving the funds would need to have reasonable explanations of the benefits they gain from any transfers for their shareholders and any oversight groups. In addition, the company making the transfers would have to insure that it is done at “arm’s length,” so accountants can trace the transfers.
Policy Challenges and the Privatization of Japan Post

Figure 2. Balance Sheets for New Entities Created by Japan Post’s Privatization

Legend: Note that all boxes present assets on the left hand side and liabilities on the right hand side according to the usual accounting practice.

Source: http://www.kantei.go.jp/jp/singi/yuseimineika2/051212kaisai/dai2/2gijisidai.html
Translation by Economic Strategy Institute
As a result, the Holding Company should be able to act as a vehicle for fund transfers that could cross-subsidize a wide range of new business activities. It may even be able to issue stock that could help it finance new investments.¹

The Asset Chart also demonstrates how the new Holding Company will be able to use funds from any of three entities to finance Japan Post’s forays overseas as well as new domestic investments. There will be at least two key centers of assets among the four new corporations receiving the assets of Japan Post: the Delivery Company and the Postal Savings Bank Corporation. There is also the likelihood that the “Yucho/Kampo Management Institution,” will have a considerable amount of assets under management in the form of the government-guaranteed Yucho time-deposit savings and Kampo insurance policies. The Management Institution will be the only non-profit, public corporation that the privatization process creates, but new Holding Company will very likely control how its assets are managed. As a result, if the Management Institution retains substantial assets – the Postal Savings deposits stood at nearly $2 trillion in early 2006² — it could produce about $2 billion in profits in 2007.

Japan Post’s international joint ventures may also provide a way to finance any new operations. If the new Post Office Corporation (“Delivery Corporation”) can sell stock in its joint venture with ANA, it may be able to raise funds for other international investments.

Japan Post will need about $2 billion a year to implement its domestic and international expansion. It should be able to obtain nearly $2 billion each from the Postal Savings Bank Corporation (or the Management Institution) and the Delivery Corporation. If it can amass funds at this pace, Japan Post might make a substantial international acquisition in three to five years. This would require about $10 billion to $12 billion in funds and loans. If it achieves such a growth rate, Japan Post would easily outpace the rate that Deutsche

¹ New issues of stock will be used to fund the Universal Service Fund. Larger issues might need the approval of the MIC, but they could be an important source of investment funds.

² The lifespan of the Management Institution could be shortened if investors shift assets out of their old yucho and kampo accounts quickly once they lose their government guarantee. How rapidly these asset shifts occur is likely to depend upon the maturity of the deposits or policies they hold and the success of alternative investments that the new Postal Savings and Postal
Post set for its own international expansion. Deutsche Post built its domestic presence and expanded abroad with roughly $2 billion of annual investments, with the initial funds coming from real estate sales and its monopoly mail business.

**Potential for Anti-Competitive Cross-Subsidization**

Japan Post's privatization is problematic because the government of Japan lacks a framework to insure that it has no anti-competitive impacts. In Japan, MIC and other government bodies have not defined the products or market for domestic mail delivery clearly. Consequently, any firm that tries to enter this market faces huge fines if the authorities rule that it has broken the vague rules. Thus, the new Post Office Corporation will continue to operate as if it has an effective monopoly over domestic mail delivery since the poor definition of the market has created effective barriers to market entry. With one of the highest first class mail charges in the world and new executives to restructure its loss-making mail operations, the Post Office Corporation could exploit this monopoly to create a profitable mail operation that could unfairly cross-subsidize steps to enter the domestic parcel delivery market. Under the current privatization process, there is no institution that can effectively determine whether Japan Post’s expansion of its domestic operations might have a harmful impact on its domestic rivals, such as Yamato, Sagawa, Nippon Express and other Japanese parcel delivery firms, and ultimately a harmful impact on consumers.

Japan’s vague definition of correspondence and high fines for violators of mail delivery rules act as barriers to entry for any competitors. Japan’s Postal Law “makes it illegal for anyone other than Japan Post to deliver correspondence (shinsho)”™, while the Law Concerning the Delivery of Shinsho by Private Business defines very limited exceptions to this rule.” A lack of clarity in the Postal Law’s definition of “correspondence” helps to reinforce the mail monopoly. The law does describe the dimensions of packages, package weights, and delivery
times, but does so in such a vague way that it doesn’t provide a workable definition of what qualifies as correspondence and documents.

One explanation for the vague postal laws is that they give Japan Post monopoly powers in order to prevent cream skimming. This skimming would occur if competitors could offer just urban mail delivery service in a few major cities without providing universal service. To prevent this, the 2002 Law Concerning Mail Delivery by Private Firms sets strict requirements for new entrants. They must: 1) set a single rate for mail, no more than 80 yen for letters weighing as much as 25 grams, 2) collect and deliver mail daily even if only a single item is delivered, and 3) provide mailboxes for secure and speedy delivery. According to the MIC, “the policy regarding mailboxes dictates that they have 10,000 boxes.”

These structural requirements make it difficult, if not impossible, to enter the market without making a significant investment. Sagawa Express estimated that any new competitor to Japan Post must have more than 100,000 mailboxes to comply with the new rules for delivering mail and parcels that have been in effect since 2003. Building such a network would cost 11.1 billion yen and require annual maintenance spending of 1.1 billion yen.

Japan Post is also planning a major reorganization of its mail delivery operations so that it will be a profitable monopoly, not a money loser. It has begun a restructuring program that will introduce more efficient mail distribution and management for its delivery services. It will also close unprofitable post offices. In addition, Japan Post expects to introduce new ways to get customers to use the mail, such as placing drop boxes in convenience stores.

Since there is concern that Japan Post may abuse its monopoly in mail delivery, some observers have called for “strong regulatory controls on cross-subsidization from monopoly services to services outside the universal service obligation.” These controls would need to evaluate “whether Japan Post is using direct or indirect subsidies provided to its universal postal service to support businesses that should be competing on an equal playing field with private companies.”
**DISCRIMINATORY BENEFITS OF A GOVERNMENT-OWNED LEGACY**

The most significant point about Japan Post’s legacy is that the Japanese government built it into what it is today. Until privatization, Japan Post was receiving an estimated 1 trillion yen (nearly $10 billion) of subsidies annually.

The privatization will end or reduce many of Japan Post’s subsidies and limit its special treatment (see Tables 3 and 4 below for details). For instance, government guarantees for new savings accounts and life insurance policies will end. The exemption from taxation will end, but the new Postal Insurance Corporation and Postal Savings Corporation will continue to be exempt from paying certain taxes. These include taxes to record licenses and to acquire real estate and vehicles that Japan Post transfers to them. Many other special privileges will also come to an end.

In addition, the government will continue to grant Japan Post privileges that its competitors don’t have. It will be exempt from traffic regulations under the Road Traffic Law, so it can pick up mail and parcels where competitors can’t. It will benefit from simplified procedures for the importing and exporting of mail under the Customs Law. This special treatment lowers its cost of doing business and gives it a special position in the economy.

Japan Post and its successor corporations will continue to be regulated by the MIC while the Ministry of Land, Infrastructure, and Transport (MLIT) will regulate its competitors in the package and express delivery industries. Clearing customs will remain a problem for competitors, since they will need to file for clearance using a cargo declaration and calculating duties for each item, and must hold all imported goods in a bonded warehouse pending clearance. This is a costly process that requires competing carriers to pay for the hundreds of staff who are needed to comply with the clearance terms. By contrast, the Customs and Tariffs Bureau clears international mail and express packages for Japan Post at no cost.” In addition, the clearance is special and operates at a higher speed than the Customs’ Nihon Automated Cargo-Clearance System that competing carriers must use.
at substantial cost.\textsuperscript{xiii} Clearance for Japan Post is also exempt from the filing process and agents are often present in Post Offices.

International express delivery firms also bear other costs that Japan Post does not pay. MLIT has forced these firms to upgrade their post-9/11 security at airports and cargo facilities. MIC has not imposed these special regulations on Japan Post.\textsuperscript{xiii}

Japan Post will also continue to receive sizable interest revenues from savings that were originally deposited in the Postal Savings system. The new Yucho/Kampo Management Institution will manage these savings during the privatization. These accounts originated when customers placed their savings in Postal Savings accounts that received preferential interest rates because they were part of the Fiscal Investment and Loan Program (FILP). Funds in such accounts received interest as though they were in ten-year government bonds that paid an additional 0.2 percent interest.

Although the requirement that Japan Post put all Postal Savings into the FILP ended with the FILP reform in 2001, the new Management Institution that holds the old Postal Savings accounts will continue to have large savings balances. As a result, it will receive a substantial amount of interest revenue.\textsuperscript{xiv} The Management Institution will not need to pay fees to the Deposit Insurance Corporation (DIC) for the government-guaranteed savings accounts that it will receive from the old Postal Savings (\textit{yucho}). By contrast, private banks will continue to “pay 0.084 \% of their deposit balance of the previous fiscal year”\textsuperscript{xv} to the DIC for insurance. The Management Institution will also hold government-guaranteed life insurance policies from Japan Post’s old Postal Insurance (\textit{kampo}) operation. It will not need to pay fees to the Life Insurance Policyholders Protection Corporation and the government will continue to guarantee the old policies.\textsuperscript{xvi}
### Table 3. Reductions in Special Treatment for Japan Post during Privatization

<table>
<thead>
<tr>
<th>The End of Government Guarantees of savings deposits and insurance policies.</th>
<th>“On October 1, 2007, Japan Post is to be dissolved and its functions inherited by new companies established for four business areas: government-chartered companies for postal delivery and the postal network (counter services), and private companies carrying on the postal bank and postal life insurance businesses… The four companies will be taxable, but will receive special tax benefits.” [1] “As of October 1, 2017, the postal bank and postal life insurance company will be privately held, and subject to the same regulation as private banks and insurance companies.” [2]</th>
</tr>
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<tr>
<td>Exemption from paying national and other taxes. (Note that some special exemptions are continued during the transition period.)</td>
<td>“The four [new] companies will be taxable, but will receive special tax benefits.” [3 – emphasis is not in the original] “The Privatization Laws also provide that during the transition period, the Postal Insurance Corporation and Postal Savings Bank do not have to pay any license recordation taxes, real estate acquisition taxes, and automobile acquisition taxes for any flow of assets from Japan Post to the Postal Insurance Corporation and Postal Savings.” [4]</td>
</tr>
<tr>
<td>Exemption from contributing to depositor policy or policyholder security funds</td>
<td>“The postal bank and insurance companies will pay into depositor or policyholder security funds, and the government will not guarantee bank accounts and insurance policies opened after October 1, 2007.” [5] “A government corporation will be established to hold pre-privatization savings and insurance accounts of Japan Post.” [6]</td>
</tr>
<tr>
<td>Oversight by special regulatory bodies</td>
<td>“As of October 1, 2017, the postal bank and postal life insurance company will be privately held, and subject to the same regulation as private banks and insurance companies.” [7] “The regulator for Japan Post and its postal successor entities is MIC, not the Ministry of Land, Infrastructure, and Transport, which regulates its competitors in the package and Express industry.” [8 – this continues special treatment for Japan Post]</td>
</tr>
<tr>
<td>Ability to cross-subsidize other parts of the former Post Office</td>
<td>“As long as the banking and insurance businesses are tied to the network and/or delivery companies by equity or contract relationships, the pressures for cross-subsidies will continue.” [9] “The privatization package envisions that the network company will provide counter services for the other ex-postal units, private companies and local government, and receive fees in return. This separation will make visible any cross-subsidization by postal financial services units.” [10]</td>
</tr>
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### Table 4. Continuation of Special Treatment for Japan Post during Privatization

| Continuation of Special Customs Treatment | “Express delivery companies must undertake customs clearance by filing a cargo declaration and calculating duties for each item, and must hold all imported goods in a bonded warehouse pending clearance. This is a costly process, to which private carriers dedicate entire departments and teams of employees, while Japan Post faces no such obligation. Private carriers must also use the Customs Nihon Automated Cargo-Clearance System, for which substantial fees are charged; but again, Japan Post faces no such obligation.” [11]

“Express delivery companies …. employ hundreds of people to handle these tasks, comprising a major portion of the costs they must pass along to their customers. In contrast, the Customs & Tariff Bureau performs these tasks for Japan Post at no charge.” [12] |
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<tr>
<td>Post-9/11 Security Enhancements</td>
<td>“MLIT recently imposed a series of costly, post-9/11 security regulations involving airport facilities and cargo that are intended to protect the public; however, Japan Post is exempt from those regulations because it is not regulated by MLIT.” [13]</td>
</tr>
<tr>
<td>Exemption from Parking, Traffic Obstruction, and Construction regulations</td>
<td>“Japan Post receives a formal or informal exemption from most regulations concerning parking, traffic obstruction, construction and operation of transfer facilities.” [14]</td>
</tr>
</tbody>
</table>
| New Funds for Universal Service Support | “The legislation required JPSC [Japan Postal Savings Corporation] to set up a ¥1 trillion (US$9.1 billion) fund, to be financed by share sales. JPSC will make grants from this fund to the postal delivery and postal network companies for the costs of socially mandated free and reduced-rate mail, and other USO-related functions in local areas. In June [2005], Koizumi agreed that JPSC would be able to retain up to ¥2 trillion (US$18.2 billion) in the fund; the purpose of increasing the fund is to ensure that universal service includes not just mail delivery but also financial services. [15]

“The prerequisites for tapping into the fund are as yet unclear.” [16] |


LESSONS LEARNED FROM ANTI-COMPETITIVE BEHAVIOR OF DEUTSCHE POST

If Japan Post is able to use the privatization process to exploit its effective monopoly in mail delivery at home in order to expand abroad, it will emulate Deutsche Post, which has profited from a high-priced domestic mail monopoly to support expansion throughout Europe and the rest of the world. Unchecked by a strong regulator, Japan Post could also bend the rules to gain market share internationally. Definitive oversight protections need to be set in place now to insure Japan Post’s privatization does not follow the same anti-competitive path exploited by Deutsche Post.

Deutsche Post’s behavior during its privatization suggests how Japan Post will carry out its own strategy for expansion. There are many similarities between the two firms – both start with a high priced mail delivery monopoly and intend to become significant players in logistics and express delivery, perhaps on a global scale. If Japan Post wants to emulate this strategy, however, it must transform its mail delivery arm and make it quite profitable by using new management techniques and restructuring its operations. It may also need to grab a larger share of the domestic parcel delivery market.

The strategy Deutsche Post followed was to expand into express delivery, both at home and abroad. Often, it fueled its European acquisitions with funds gained from its profitable mail delivery operations and real estate sales. Deutsche Post’s monopoly in mail delivery contributed 68 percent of its revenues and 49 percent of its profits in 2002. These profits helped support the $12.5 billion in investments that Deutsche Post made in the 1998-99 period to move rapidly into the express mail market.

Deutsche Post’s monopoly power was such that it could use its mail delivery profits to subsidize its parcel delivery operations. German regulators turned a blind eye to this practice until the European Commission’s Competition Directorate launched its antitrust investigation into Deutsche Post AG. In concluding this investigation, the Competition Directorate ruled that Deutsche Post illegally used profits from its monopoly in letter delivery to subsidize its prices for busi-
ness parcels. It imposed a fine of 24 million Euros on Deutsche Post and also required that it split its operations, creating a separate entity to run its business-parcel service. \textsuperscript{xxix}

In a second case involving state aid, the Competition Directorate claimed that Deutsche Post used public subsidies unlawfully to finance an aggressive pricing policy intended to undercut the prices of rivals in the parcel delivery market. After its investigation, the Directorate ruled that the firm “used 572 million Euros, received to fund its public service mission, to finance an aggressive pricing policy intended to undercut private rivals in the parcel sector between 1994-1998. This behavior breaches the principle that companies that receive state funding for services of general interest cannot use these resources to subsidize activities open to competition. The European Commission's Competition Directorate ordered Deutsche Post AG to repay this amount plus interest.”\textsuperscript{xxx}

These actions by the Competition Directorate seem to corroborate economists’ conclusions that former state-owned monopolies have incentives to behave anti-competitively when they want to exploit cost complementarities in regulated markets.\textsuperscript{xxi} But Germany’s national regulators never understood or evaluated these incentives. So it was not until the Competition Directorate collected information about the pricing and sources of financing for Deutsche Post’s expansion in Europe that legal proceedings were begun against its anti-competitive practices.

As we pointed out in our earlier study, there are few international remedies for such behavior. It would certainly be difficult for trade negotiators to use the General Agreement on Trade in Services (GATS) to raise issues about the behavior of Deutsche Post at the World Trade Organization (WTO). Trade negotiators or national governments have little experience using previous undertakings to bring anti-competitive issues to the WTO. The lack of any precedent would very likely mean that efforts to address anti-competitive behavior at the WTO level might take considerable time.

Because Deutsche Post had a mail delivery monopoly, it was able to move rapidly into parcel delivery and to expand abroad, in spite of the legal actions brought against it. The German government also had an
economic interest in the firms’ success because it held a large amount of its stock. If Deutsche Post did well, the government could sell the stock and reduce its budget deficit. Thus, German regulators did little to analyze the impact of Deutsche Post’s expansionary moves on domestic or international competitors.

In Japan Post’s case, anti-competitive behavior might play a key role in achieving business goals. Japanese laws insure that the Postal Privatization Commission as well as MIC must approve of any expansion into new business areas. But the Privatization Commission, MIC, and other groups like the Fair Trade Commission have limited the scope of their oversight. The Commission’s operations to date have not been very transparent. It does not plan to review Japan Post’s plans about express mail or other existing lines of business. In its approval of Japan Post’s joint venture with ANA, the Privatization Commission did not define what constitutes a “rival company,” (are they other airlines or other logistics service providers?). It also did not determine how “undue harm” should be measured and defined. It avoided identifying a government body or agency to examine whether any harm is occurring when Japan Post enters new lines of business (or expands existing activities). The Privatization Commission has also spent little time determining what form the harm might take if it occurs. The current assumption appears to be that existing lines of business will not be examined as carefully as new ones. Thus, Japan Post’s expansion raises serious questions about how well the Japanese Government will review its investments and fund-raising during the privatization.

Delays by the Fair Trade Commission (FTC) will most likely mean that Japan Post can rapidly build its presence in domestic parcel delivery and international express delivery before the FTC is ready to act. Although the FTC knows that Japan Post can exploit economies of scale and scope in mail delivery that its competitors in express delivery cannot, it has not yet discovered how to overcome this uneven situation and let competitors enter the mail delivery market. The FTC has considered abolishing the universal service requirement to open the mail delivery market to competition, but it is hesitant to do so. It has stated that it needs to study monopoly and competitive markets before it can set standards that will provide a means to evaluate
whether a business is operating below cost (under the terms of the Anti-Monopoly Law). If the FTC had begun to develop these standards a while ago, it would have been more comforting.

In addition, the courts appear to be unlikely to constrain Japan Post’s efforts to expand its parcel delivery business. Yamato, one of Japan Post’s parcel competitors, brought an unsuccessful lawsuit against its rival. It lost largely because the Tokyo Court ruled that it did not document its claim adequately. The Court found that the new links between Lawson department stores and Japan Post to offer “Yu-Pack” parcel-delivery service was not unfair “because it [Yamato] has not suffered any increase in deficit, regardless of a rise in the number of parcels handled.” xxiii This suggests that the Courts are likely to be unsympathetic to Japan Post’s rivals when they challenge its actions. Competitors might try to turn to the FTC with their complaints, but if the FTC is unable to measure Japan Post’s costs, it might not be sympathetic to these rivals either.

If regulators and the courts are “going lightly” on Japan Post, it may be able to use the substantial funds it obtains from its asset-rich government funded operations to build a substantial acquisitions war chest even faster than Deutsche Post. With such a bounty, it will be able to make a significant international acquisition in express delivery or logistics within a few years, rather than the seven or eight years it took Deutsche Post.

If such a rapid pattern of growth were based upon anti-competitive actions that are not addressed by the government of Japan, it would leave competitors with few forums for their complaints. Asia, unlike Europe, has no regional government and no regional competition bodies that might have jurisdiction over these matters as the Competition Directorate does in Europe. Were Japan Post to use anti-competitive actions, such as cross-subsidization or cutting prices to enlarge its market share in Asian markets, trade officials from the United States and other nations would find it difficult to complain.

The current effort to forge a new global trade initiative built around the Doha Round is lagging. The European Union, New Zealand, Japan, and US are the authors of a proposal on express delivery and postal services. If ultimately successful, the process may provide a
series of accords that international express delivery carriers could use in the event of anti-competitive problems. But even with the undertakings that Japan has made on Postal Services and Express Delivery to the WTO, the lack of a precedent in addressing anti-competitive measures – except in telecommunications – might mean that action by the WTO and GATS would take a considerable amount of time. The United States, European Union and other negotiators would need to press Japan to take action against Japan Post. Even with its undertakings to the WTO, Japan’s policy makers might say that its commitments apply to classical mail or express delivery services, but not to services the way they are defined by the GATS. Given the WTO’s lack of a history of acting to counter anti-competitive behavior, it would need to establish new precedents before it could impose sanctions on Japan. These sanctions would be imposed if Japan failed to rectify the problems and any “undue harm” that Japan Post caused. If the process were drawn out, Japan Post’s competitors would have a real problem because its expansion might continue until there was a significant move to press Japan to react. Given that many policymakers have not confronted anti-competitive behavior in service industries, particularly by firms that had been government monopolies, the process of bringing them to implement steps at the WTO might require a considerable effort.

**Public Policy Actions that Will Help Ensure Fair Global Competition**

This study questions the adequacy of current efforts to ensure that Japan Post’s privatization process is not anti-competitive. If Japan Post’s international plans are approved without establishing clear standards to evaluate their potential anti-competitive impacts, it will be able to recreate itself as a global express delivery firm that could also dominate mail and parcel delivery markets at home. Several steps could be taken if effective oversight of the privatization process and a level domestic playing field fail to materialize.

First, the United States and other countries should press Japan to abide by the pro-competitive undertakings for mail delivery and
express services that Japan\textsuperscript{xxiv} has made to the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO).\textsuperscript{xxv} Second, the United States and other nations should also request that Japan's Fair Trade Commission (FTC) play a central role in overseeing the privatization process. This would provide careful evaluation of whatever steps Japan Post decides to take in domestic markets in order to insure that they have no anti-competitive impacts. The FTC might also oversee and evaluate any transfers of funds between Japan Post's successor corporations to insure that they are not used to cross-subsidize competitive operations. Third, the United States and other governments should help the government of Japan understand that Japan Post will not maximize the welfare of Japanese citizens if it acts in an aggressive and anti-competitive manner in domestic and world markets.

What if Japan Post succeeds in becoming a “giant” international express delivery firm? What if it is able to win a significant market share in China and the rest of Asia?

Japan Post is likely to follow Deutsche Post's model for privatization, where international expansion is the keystone for supporting rapid growth. The initial steps it has taken to develop an international express delivery partnership with ANA suggest that it is emulating Deutsche Post's achievements. If the new Post Office Corporation expands into China in partnership with others, it may even influence how other foreign and US firms develop supply chains for their customers in China. It could also affect the profitability of the largest US express delivery firms, FedEx and UPS.

The United States and other nations should encourage the Japanese government to adjust the approach it is taking to privatize Japan Post by implementing the goals that the American Chamber of Commerce in Japan (ACCJ)\textsuperscript{xxvi} has proposed. These goals include: 1. Having a clear definition of “Privatization”; 2. Setting clear objectives for the privatization; 3. Maintaining a strong political commitment and effective communication; 4. Establishing an effective regulatory framework that includes the goal of establishing a level playing field for competition; 5. Ensuring transparency in the privatization process; 6. Limiting post-privatization government oversight to a
legitimate regulatory role with clear ways to measure “undue harm.”

If these goals are not fulfilled, they will impose significant costs on the global economy and on the Japanese domestic economy. As this paper has noted, Japan has not yet met many of the ACCJ’s goals, neither creating a “level playing field” nor insuring transparency in the privatization process. In addition, as discussed in the previous section, because Asia does not have a regional government, if Japan Post behaves in an anti-competitive manner, the US and other governments will need to bring complaints to the WTO. Since there is little history in dealing with anti-competitive behavior except in telecommunications services, the US government and the affected firms would need to begin an educational process to highlight the economics of the express delivery industry. This would include making it clear that besides the impacts of anti-competitive behavior on the express delivery industry itself, this behavior could place additional costs on firms that need to create global supply chains and on the efficiency of the Japanese economy.

Besides the goals listed above, a series of specific steps should be taken to insure adequate competition with private express delivery firms in Japan’s domestic market. These steps should include: 1. Creating mechanisms to minimize the impact of market barriers that limit the ability of foreign express delivery firms when they try to compete in the Japanese market; 2. Creating structural reforms that reduce Japan Post’s ability - and its post-privatization-affiliated firms’ ability - to leverage their financial power in the market by using market distorting pricing in the Japanese market; 3. Establishing international guidelines for Japan Post’s operations and acquisitions after privatization so that domestic financing (via cross-subsidization) and market power cannot be used to achieve unusual gains in Asian or other markets.

Japan Post could represent a new kind of “super” former government owned monopoly that poses unique challenges for policy makers. Although most observers hoped that the Japanese government would set up rules and regulations that would limit Japan Post’s expansion into new business areas during privatization, it has imposed few restrictions on what Japan Post can do. Since the privatization legisla-
ation was adopted last fall, Japanese authorities have done little to respond to worries about an uneven playing field in mail delivery and express delivery services.

The express delivery industry, particularly UPS and FedEx, the people of Japan, and the global economy have much to lose if privatization turns out to support anti-competitive behavior. Thus it is important for policy makers to put the spotlight on the potential for “undue harm” that Japan Post might cause as soon as possible. If the initial decisions regarding Japan Post’s expansion into new lines of business are not transparent and do not reflect significant concerns regarding a “level playing field,” policy makers must act immediately. Equitable rules and limits on Japan Post’s expansion into new markets need to be established very early in the privatization. Transparent ways to measure any harm and to repair any harmful impacts need to be determined as early as possible.

If these steps are not taken, policy makers will find that the Asian and Japanese economies are shortchanged by the impacts of anti-competitive behavior by an important player in the mail and express delivery markets. We are likely to witness a repeat of the problems created when Deutsche Post emerged as a global competitor to UPS and FedEx. Then, without measures to address the potential harm, expansion continued unabated. With Japan Post’s privatization just beginning, concerns need to be voiced now rather than being postponed until later.
Appendix 1
Background and Details of the Privatization Process

Prime Minister Koizumi has established “three fundamental policies of no recovery without reform, shrinking the size of the public sector, and encouraging a society that rewards effort.” The Japan Post reform, while not as critical to Japan’s future as dealing with the large government budget deficit, has become the crucible for galvanizing what some observers view as a key shift in governance. Thus, it is the keystone to progress on a series of reforms and to Koizumi’s efforts to reshape politics in Japan.

The main political change that Prime Minister Koizumi is promoting is nothing less than sweeping away the old entrenched Liberal Democratic Party system. Under the new system, the Prime Minister and cabinet formulate policies and direct bureaucrats to implement them. In addition, cabinet members now depend upon the Prime Minister for their political power and thus should act more like powerful cabinet members in Western governments, often exerting a profound influence on the reform process. The best example of the new style of cabinet minister is Heizo Takenaka, a former professor who is the architect of Japan’s successful financial reforms. Minister Takenaka lead the cabinet’s efforts on postal reform. After last September’s election, he was given the additional post of head of the Ministry of Internal Affairs and Communications (MIC). The Prime Minister has also retained Takenaka as the special minister for Postal Reform, giving him a strong voice in deciding what business models can be used for the privatized corporations developed from the old Japan Post and how stock in the Postal Bank and Postal Insurance Corporation will be sold.

In the old party-centric system, without agreement at the Party level, legislation did not go forward. Policies were formulated in the party
and reflected the views of a divergent range of interests. Bureaucrats at ministries played a large role in policy formulation because the cabinet was not the focus of policy development. This fractured system had Diet members conferring with bureaucrats in the ministries rather than talking to cabinet level officials. The process limited the Prime Minister's options: without the complete backing of the Party, controversial issues could not be addressed.

Prime Minister Koizumi has changed the character of the Prime Minister's office, governing as a modern executive who has garnered his influence from the public's support of reform, rather than party bosses. This gives him more leeway to object to rebels in his own party, as he did in August 2005 after the Postal Reform legislation was rejected. It also means that he has made himself a Prime Minister of "big ideas," with the communications skills to sell them to a receptive public. In shifting power in the LDP from the old postmasters and party bureaucrats to a new group of cabinet ministers clearly cut in his own image, he hopes to reformulate Japanese politics by addressing many of the most problematic issues challenging Japan.

Koizumi has built the postal privatization effort inside a party that has been riven by disputes, proving he is a deft politician. He has taken advantage of the “special council,” a bureaucratic mechanism the LDP has employed when it needed to address important financial, fiscal and corporate reforms. The Economic Strategy Council, established in 1998, whose driving force was "then professor, now minister Heizo Takenaka" took advantage of a special council, the Expert Council on a Vision for the 21st Century, to establish the broad agenda for postal privatization.

Prime Minister Koizumi is proceeding with the privatization of Japan Post following an election that backed this effort after dissention in his own party blocked passage of the legislation in August 2005. Following a successful election, the Prime Minister succeeded in getting the bill to privatize Japan Post passed in October 2005.

Japan Post is “a huge financial and distribution conglomerate.” At the end of fiscal 2004, Japan Post had “261,937 employees, 24,678 postal offices and total assets of 388 trillion yen [$2.88 trillion at today’s exchange rate].” Its number of postal outlets equals the total num-

-- 28 --
ber of branches of all banks and credit unions combined. The outstanding deposits of the postal savings (Yucho) were larger than the total for Japan’s Big 4 banks and the total assets of postal life insurance (Kampo) equal the amount of insurance for Japan’s Big 4 Insurance companies (Figure 3). By comparison, Citigroup, the largest US financial services firm, had $1.5 trillion in assets at the end of the fourth quarter of 2005, or just over half the assets of Japan Post.

**Figure 3. The Asset Value of Japan Post**

Prime Minister Koizumi’s government developed a framework for privatization after years of deliberation. These discussions were complicated because of the large impacts that the kampo and yucho, the insurance and postal savings operations, have on the Japanese economy.

The reform process has included two stages. In the first stage, soon after Koizumi took office in April 2001, he “chartered a commission to study the future of the three postal businesses and moved forward on the first round of postal reform legislation. After difficult negotiations within the LDP, he finally sent his package of four bills to the Diet without prior LDP approval, and it was enacted in July 2002.”

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The 2002 package “established Japan Post as a public corporation staffed by civil servants and supervised by the Ministry of Internal Affairs and Communications. It also authorized limited competition for some types of mail delivery. Postal account monies were no longer sent to the Finance Ministry, but were to be invested in Japanese Government Bonds (JGBs), or bonds issued by FILP on capital markets. (Japan Post owns about one quarter of the outstanding stock of JGBs today.) Koizumi did not stop there; in 2003 he was re-elected as head of the LDP promising postal privatization by April 2007 as his platform for the 2003 Diet election.”

Under the second initiative, Koizumi was able to get the Diet to begin the long privatization process by setting up a framework for several new organizations. In October 2005, new legislation provided that “a new government company, the Japan Postal Services Corporation (JPSC)*,” would be established within six months of passage of privatization legislation. Other legislation established a Cabinet-level Postal Privatization Headquarters, advised by a five-person Postal Privatization Commission (PPC), which commenced operations on April 3, 2006. Both the Headquarters and the PPC will cease to exist on October 1, 2017. The Prime Minister and MIC Minister, through the Headquarters, are to develop a “succession plan” for Japan Post, and JPSC is to produce an implementation plan subject to approval by the Prime Minister and MIC with input from the Commission. The succession plan will resolve key issues such as how the assets, liabilities, and employees of Japan Post will be divided between the successor companies. The legislation authorizes Japan Post to enter or invest in international freight transportation and related domestic delivery services before 2007, if approved by MIC after receiving the views of the PPC. The bills call for MIC to consider potential damage to the interests of competing private sector businesses, when it decides whether to permit Japan Post to enter or invest in competitive areas.”

The Council on Economic and Fiscal Policy (CEFP) developed a privatization roadmap in support of this legislation. It “emphasized the importance of establishing an ‘equal footing with the private sector,’

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* We have referred to this company throughout the paper as the Japan Post Corporation - the holding company for the four new operating entities. The discrepancy is due to differing translations from the Japanese.
imposing market discipline on the largely inefficient businesses, and reducing the ‘invisible’ burden on citizens as a result of Japan Post’s exemption from payment of taxes.” The CEFP called the privatization “one of the greatest reforms since the Meiji Era and is ‘at the heart of’ the current structural reform program.” The main points of the framework were:

1. Phase in privatization over a 5- to 10-year period, starting in 2007.
2. Establish financial self-sufficiency for the four functions of Japan Post: The post office network, mail service, postal savings, and postal life insurance.
3. Maximize the freedom of Japan Post to expand its business operations in order to ensure its self-sufficiency. This includes diversifying the services provided at post office counters and moving into other domestic or overseas markets to strengthen their mail services.
4. Strike a balance between placing Japan Post and private companies on an equal footing (i.e., a level playing field) and allowing Japan Post more freedom in its business operations. This balance will be considered throughout the privatization process.
5. Maintain Japan Post’s role in providing over-the-counter services for mail, postal savings, and postal life insurance.
6. Establish a framework that allows Japan Post to continue supplying “universal services.”
7. Create a business model to take into account the need to maintain jobs of existing Japan Post employees.
8. Maintain 100 percent government guarantee for pre-privatization deposits and insurance policies, while providing post-privatization deposits and policies with the same guarantees afforded by private insurance companies.
9. Minimize Japan Post’s “invisible burden on the public.” By conducting business while paying into deposit insurance and other [safety net programs], from which they are now exempt, efficiency will be promoted and they will become entities able to pay taxes.
10. Reduce the flow of capital to the public sector (i.e., reduce the channeling of funds from Japan Post into inefficient, publicly owned institutions).
The government has offered the following reasons to support the privatization:

1. It will reduce the contributions that the Japanese government makes to the social welfare and retirement costs of its employees (this includes 280,000 people who work in the Japan Post network);
2. It will make the Japanese capital market more efficient so that it is attractive to domestic investors; and
3. It will improve the profitability of Japan Post so that its investment in a vast network can survive and provide new services for several decades or more. 

The new set of laws that the Japanese legislature adopted include the following provisions:

1. “In October 2007 Japan Post will be split into four stock companies which, under a holding company, take over mail delivery, postal savings, ‘kampo’ life insurance and the network of post offices.
2. The holding company will dispose of its entire stakes in the savings and life insurance companies by March 2017 but will be able to buy them back immediately afterward. 
3. The government will maintain more than a one-third-equity stake in the holding company.
4. The mail delivery and network companies will stay as wholly owned subsidiaries of the holding company.
5. The network company will maintain the post offices so they are universally accessible nationwide and able to take over banking and insurance services from the respective financial units.
6. A fund worth up to 2 trillion yen can be set up to keep postal savings and insurance services universally available across Japan.
7. A government monitoring committee will review the progress of the privatization every three years.”

The new legislation also gives the five-person Postal Privatization Commission (PPC) the authority to obtain accounts and information

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3. The Holding Company will be able to dispose of its savings and life insurance companies through a stock offering. Some Japanese observers assume that if it repurchases this stock in 2017, the savings and insurance companies will be private firms competing in the marketplace.
from the ex-postal companies, like the subpoena powers of postal rate regulators in other countries. This is a step toward greater transparency to detect unfair cross-subsidies or preferential treatment.\textsuperscript{xl}

By 2017, the Japanese government will reduce its ownership of bank and insurance entities to zero. By the same year the government must reduce its ownership of the holding company to one-third. Nevertheless, the holding company will continue to own mail and counter services outright because it has a mandate to insure that there is universal service. One amendment to the October legislation permits the state to repurchase shares in the bank and insurance businesses. In addition, the legislation authorized the creation of a fund of up to 2 trillion to insure that the holding company could maintain loss-making operations, such as those in small post offices around Japan.\textsuperscript{xii} The final steps in the privatization are described in Figure 4 below.

\textbf{Figure 4. Final Phase (no later than October 2017)}

\begin{center}
\begin{tikzpicture}
    \node [align=center] (government) at (0,0) {Government};
    \node [align=center] (holding) at (0,-2) {Holding Company};
    \node [align=center] (postal) at (-2,-4) {Postal Service Co.};
    \node [align=center] (office) at (0,-4) {Post Office Co.};
    \node [align=center] (savings) at (2,-4) {Post Savings Bank Co.};
    \node [align=center] (insurance) at (0,-6) {Postal Life Insurance Co.};

    \draw [->, thick] (government) -- (holding) node [midway, below] {Minimum of 33.3\%};
    \draw [->, thick] (holding) -- (postal) node [midway, below] {100\%};
    \draw [->, thick] (holding) -- (office) node [midway, below] {100\%};
    \draw [->, thick] (holding) -- (savings) node [midway, below] {100\%};
    \draw [->, thick] (holding) -- (insurance) node [midway, below] {100\%};

\end{tikzpicture}
\end{center}

Appendix II

Japan Post’s Expansion into New Lines of Business and International Markets

Japan Post has argued that the rationale for entering new markets is its eroding financial stability. Losses at Japan Post “roughly doubled between fiscal 2003 and fiscal 2004 after the total profit generated by the three arms declined to 1.36 trillion yen in fiscal 2004 from 2.46 trillion yen in the previous” fiscal year. Because of a jump in the value of some of Japan Post’s savings fund’s holdings, fiscal year 2005 profits will be around 2 trillion yen.

In early 2005, Japan Post released information showing that many post offices were losing money in their mail delivery operations. It reported that 27 percent of about 5,370 post offices nationwide incurred losses in fiscal 2004, compared with 2,870, or 14%, in fiscal 2003.

If Japan Post was able to move into new markets, simulations have shown that it would run a profit of about $10 billion by 2016. This assumes that the postal delivery operations would have little difficulty entering international distribution and logistics.

During Japan Post’s search for a new business model after privatization, its leaders concluded that improving traditional services was necessary but not sufficient to return the firm to profitability. The new business model they discovered was the one that Deutsche Post adopted. The centerpiece of this model was entry into new markets at home and abroad. In January 2005, Klaus Zumwinkel, the CEO and Chairman of Deutsche Post World Net, told a conference on Japan Post’s privatization that Deutsche Post’s privatization had been successful because it “focused on internationalization strategy, developing new business platforms and value-added services for our customers. Above all this has been achieved by several acquisitions, especially Danzas and DHL.”
Japan Post took this model to heart. When Yoshifumi Nishikawa, the “president of Japan Post Corporation, the firm in charge of preparing for the privatization of the nation’s postal services, . . . [requested that] procedures should be changed to make it easier for privatized postal units to acquire other companies,” he cited Deutsche Post as an example. He noted that “privatization of Germany’s Deutsche Post has proved successful partly because it was allowed to undertake a series of corporate buyouts, spending the equivalent of nearly 3 trillion yen.”xlviii

Entry into new markets became the byword for Japan Post. In shaping its strategy during the privatization process, Japan Post’s leaders equated new markets with financial revival. Analysts familiar with Japan Post’s financial situation reinforced this thinking, saying expansion was the only way for Japan Post to become more competitive. Osuke Itazaki, transport analyst at Credit Suisse First Boston Securities (Japan) said, “For its survival, it has to expand businesses other than standard mail and postcard delivery. For that reason, it eventually has to aggressively pursue parcel delivery and other logistics businesses.”lxix

1. ENTRY INTO INTERNATIONAL FREIGHT TRANSPORTATION AND RELATED DOMESTIC DELIVERY SERVICES PRIOR TO 2007

The October 2005 legislation authorized Japan Post to enter or invest in international freight transportation and related domestic delivery services before 2007. In order for market entry to proceed, the Ministry of Internal Affairs and Communications has to approve of each entry after receiving the views of the Postal Privatization Commission.1 The new legislation also requires that the MIC “consider potential damage to the interests of competing private sector businesses”lix when it decides whether to permit Japan Post to enter or invest in new areas.

Express delivery firms have concerns about Japan Post that are similar to ones that have already been raised by insurance companies. At the center of these concerns are questions about the even-handedness
of MIC’s evaluation of market entry. Brad Smith, the American Council of Life Insurers’ vice president for international relations identified the key issues. He said they were: 1) Whether supervision of a privatized kampo will be the same as private firms; 2) Whether business separation will be real or if the new holding company structure is likely to permit “the potential for cross-subsidization between enterprises” and “de facto avoidance of tax liability through use of consolidated tax returns;” and 3) Whether there will be a “commingling of revenues from old and new policies” that will facilitate Kampo’s entry into new markets. Similar concerns have been raised about the privatization of delivery operations.

Entry into International Express Delivery

Japan Post’s first move into a new business area has been its entry into the international express delivery market. Until now, the “big four” delivery firms: UPS, FedEx, DHL of Germany and TNT of Holland, have dominated Japan’s express delivery market with a 70 percent share. Japan Post earns about 8 percent to 10 percent of its revenues from express delivery and the remainder appears to be divided up among a number of smaller parcel delivery firms including freight forwarders. Executives from Japan Post argue that international expansion is necessary because the domestic mail market has been shrinking at about 2 percent annually due to email and other factors. So the emphasis is on creating a new business model that moves away from domestic mail.

ANA’s Joint Venture with Japan Post

In October 2005, shortly after the passage of the legislation to carry out the privatization of Japan Post, ANA and Japan Post “signed a strategic agreement that will see both companies cooperate in the field of international air cargo services from April 1, 2006. The new venture will include …a new cargo airline and the joint development of international express courier services particularly to the growing Asian market.” According to later descriptions, the firm will “concentrate on small-lot cargo bound from Japan to Asia. In October [2006], it intends to open a North American route and expand its network to include cargo between Asia and North America. To maximize cargo space in its air-
craft, the firm will also need to transport parts and products from manufacturers and distributors, an area in which it will cooperate with established players Mitsui O.S.K. and Nippon Express.\textsuperscript{lviii}

The new firm, ANA & JP Express, will be an international express courier service that will compete against more established logistics companies such as DHL and FedEx. ANA will own 51.7 percent of the firm, Japan Post will own one-third, Nippon Express will own 10 percent and Mitsui O.S.K. Lines will own 5 percent.\textsuperscript{lx} Japan Post has said that it expects its “network of collection and delivery points throughout Japan – and the growing number of Japanese companies based in Asia – would help it compete against more established logistics rivals.”\textsuperscript{lix} The new company will use “ANA’s fleet of Boeing 767 freighters, which currently comprises three aircraft. Four more are expected to be delivered by October 2008, three of which will be converted versions of ANA 767 passenger aircraft.”\textsuperscript{lxi} ANA will be “coordinating flight schedules and priority space for products developed by Japan Post”\textsuperscript{lxsii} but Japan Post has not described the new products.

Japan Post’s President, Masaharu Ikuta, described this joint venture as “our first move into the international express courier business, and [a] springboard …on the path to becoming a global provider of integrated logistics services. We have considerable hopes for excellent results from the synergy of both companies.” For ANA’s part, “the new venture with Japan Post will bring its stated aim to make air cargo one of its three core businesses, alongside domestic and international passenger transportation, closer to reality.” Its President and CEO, Mineo Yamamoto, said, “this is just the start, moving forward we will explore new ways in which we can strengthen the cooperation between Japan Post and ANA.”\textsuperscript{lxxxiii}

A number of months after the agreement was announced, Nippon Express and Mitsui OSK lines agreed to invest in ANA and JP Express. Japan Post’s participation in the new firm is “subject to Japanese government approval and will take place in April [2006], as will that of Nippon Express and Mitsui O.S.K. Lines. Until that point, ANA will be the sole shareholder and ANA & JP Express will be established as the air cargo arm of Air Japan,” and be an ANA Group airline.\textsuperscript{lxiv} Under the new shareholding arrangement, ANA and JP Express was founded on February 1, 2006 and expects to begin operations on August
2006, with a paid-in capital of 30 million yen.\textsuperscript{lxv} “Utilizing its long experience in international air cargo logistics, Nippon Express will be involved in planning cargo flights and cooperating in cargo collection systems, while Mitsui O.S.K.‘s interest is expected to lie in future cooperation with the new airline across the international logistics field in general.” The joint venture will “be completing all procedures required under the Aviation Law in anticipation of operating its own cargo aircraft from August 2006 (tentative).”\textsuperscript{lxvi}

Japan Post officials said the deal would secure “cargo flights linking Japan and other major Asian cities such as Shanghai,” and give it the ability to “compete with private-sector providers of international express delivery services.”\textsuperscript{lxvii} Nikkei Weekly surmised that the deal was largely to get Japan Post planes to support its hopes of entering the international cargo market in Asia. According to the paper, Japan Post lacked the fleet of planes that some of its competitors in Japan, like FedEx and DHL, already employ. In addition, Japan Post had to move quickly. As Nikkei Weekly noted, “the cargo delivery market has been rapidly expanding in China and other Asian countries, prompting Japan Post’s effort to enter the business as soon as possible. It intends to build its own international distribution channel through the tie-up with ANA.” Nikkei Weekly also gave more details of the partnership, indicating that “under the alliance, Japan Post and ANA will initially deliver business documents and other items to China. The partners will then set their sights on expanding into distributing goods and parts in Asia on behalf of companies. With more Japanese businesses shifting production to Asia, the market for cargo distribution linking Asia, Japan and North America is rich with business opportunities as firms pare inventory and shorten product cycles.”\textsuperscript{lxviii}

ANA’s motivation for joining such a partnership was due to its inability to expand its passenger operations. According to Nikkei Weekly, it has “limited landing slots at Haneda and Narita airports,” so it cannot increase its passenger flights. By contrast, ANA’s air cargo operations account for only 10% of group revenue, and, thus, “hold the key to the company’s growth.”\textsuperscript{lxix}
2. Expansion of Domestic Operations

Efforts by Japan Post to Enlarge its Domestic Parcel Delivery Services

Even before the privatization bill passed, Japan Post began what Japan Times writer, Taiga Uranaka, described as “an aggressive effort to enter the parcel delivery arena, which is currently dominated by market pioneers Yamato Transport Co. and Sagawa Express Co…Japan Post cut its delivery fees, expanded overnight delivery areas and launched new services, including transporting ski equipment and golf clubs for holidaymakers. Japan Post now charges 600 yen to deliver its smallest parcel within Tokyo, compared with 740 yen by rival Yamato. Thanks to price cuts and other marketing efforts, Japan Post said its parcel deliveries jumped 18 percent year-on-year to a record 214.68 million units in fiscal 2004.”

On top of these efforts to expand its role in parcel delivery, Japan Post has diversified the type of products it offers to keep up with its rivals. It now offers five different parcel post items, the Yu-Pack and Chilled Yu-Pack, the Furusato and international Furusato, and Booklet parcels. The main product is the Yu-Pack, or ordinary parcel, which includes a wide variety of “economic and convenience services.” Japan Post has reduced rates that include drop off discounts, special prices for ten or more parcels, and redirecting the parcel when the recipient is not at home. A related product is the “Chilled Yu-Pack” which keeps goods chilled or frozen. In 2004-5, Japan Post has differentiated the Yu-Pack into the “Golf Yu-Pack” for golf gear (caddy bags, etc.); “Ski Yu-Pack” for skiing equipment (skis, ski rucksacks, etc.); and “Kuko Yu-Pack” for traveling bags (suitcases, etc.).” It has also introduced a smaller, lower cost parcel service called the Expack that includes a tracking service. Yamato has a series of parcel products built around its basic Takkyubin parcel service that compete directly with Japan Post’s services. It range of products include Cool Takkyubin, Golf Takkyubin, Ski Takkyubin, Air Takkyubin, Takkyubin Time Service and Collect Service.

For Furusato or gift parcels, customers can purchase local food specialties from around Japan using catalogs in Post Offices. These gifts
are then delivered by Yu-Pack, although the service is named Furusato. There are also overseas Furusato parcels.

A fifth product is “Booklet Parcels” which lets customers “ship booklets and other printed materials for a lower rate than standard parcel post rates.”

The section below explores a number of the new partnerships that have been established.

**Alliance with Lawson, Inc**

Prior to privatization, Japan Post created a number of partnerships with firms to expand its domestic delivery capabilities. In December 2002, it formed an alliance with Lawson, Inc. This put “post boxes inside all of the approximately 7,700 Lawson stores nationwide, and collection of mail began on January 1, 2003.” When Japan Post became a public corporation on April 1, 2002, “a character sticker was affixed to the in-store post boxes in cooperation with Lawson.” The character was named Lawpos-kun after a public contest. “At the same time, change of address notification postcards were supplied in stores.”

The link with Lawson has created a great deal of controversy because it has been a partner of Yamato Transport. In fact, Yamato sued Japan Post in Tokyo District Court in September 2004, arguing that if Japan Post expanded its parcel delivery business through Lawson’s nationwide network, it “would be unfair under the Anti-monopoly Law as long as it receives preferential treatment in taxation and other areas.” Yamato has also argued that the link between the two firms “authorizes Lawson outlets to act as parcel collection points for the public corporation’s Yu-Pack parcel service.” Yamato also “claims Japan Post unfairly courted Lawson by allowing the convenience store operator to open small outlets in some post offices for unreasonably low rental fees.” As a remedy, Yamato had wanted Japan Post to terminate its contract with Lawson, “under which 7,800 convenience stores [were] are to start handling the Yu-Pack service in mid-November” 2004. In addition, Yamato claimed that Japan Post was “offering parcel services at prices below those of private-sector competitors, accusing Japan Post of predatory pricing in violation of the Anti-
monopoly Law.” Data published at the time showed that “the average cost to send a Yu-Pack parcel is 605 yen, lower than Yamato’s 683 yen but higher than the roughly 500 yen at Sagawa Express Co. and Nippon Express Co.”

In January 2006, “The Tokyo District Court ruled that Japan Post is not running its “Yu-Pack” parcel-delivery service unfairly because it [Yamato] has not suffered any increase in deficit, regardless of a rise in the number of parcels handled.” The Presiding Judge said that Yamato, Japan’s biggest parcel-delivery service provider, failed to present “specific figures on the Yu-Pack service’s costs and failed to back up its claim.” “The judge also rejected Yamato’s argument that the Yu-Pack service puts Yamato’s business at a disadvantage.”

This case appeared to be an obvious one where Japan Post had used lower prices and other inducements to grab a major customer away from a rival. If Japan’s courts require that strict evidence of injury and figures on the costs of the rival service be presented to make a case, it will provide a green light to Japan Post to make other efforts to erode the customer base of its parcel delivery rivals. This could prove to be a serious problem in the creation of a level playing field for parcel and express delivery in Japan.

**Acquisition of Daimaru’s distribution services subsidiary**

Japan Post has acquired a controlling share in Daimaru Inc.’s Asocia Corp., the department store chain’s wholly owned distribution services subsidiary. The Internal Affairs and Communications Ministry approved the merger in September 2005. Japan Post purchased a “67.6 percent stake in Asocia for some 650 million yen” in October. Daimaru is to “continue to hold the remaining 32.4 percent of the Osaka-based company, whose mainstay business is to act as a shipping agent for Daimaru group firms, including the storage and packing of parcels.” This was Japan Post’s first acquisition.

This acquisition will complement other moves that Japan Post has made to strengthen its role in the parcel delivery industry. Following the change, Asocia will “reorganize its operations to fit with Japan Post’s strategy and sell its services to other department store chains.” “Japan Post plans to handle Asocia’s logistic work exclusively through
the Yu-Pack service after converting the firm into a subsidiary.” This will alter its current relationships and further erode Yamato’s business since Asocia had previously farmed out “most of the delivery of parcels to other companies. In the March-July [2005] period, Japan Post's Yu-Pack service accounted for 20 percent of the delivery and Yamato Transport Co. captured a 10 percent share.”

**Joint Company with Mitsukoshi**

In January 2006, Japan Post and Mitsukoshi Ltd. “agreed to cooperate in developing new services and distributing goods. The tie-up is aimed at helping the two entities expand business by combining the network of post offices with the department chain operator's know-how on gift services.” Both firms are expected to set up a joint company. “As their first joint operation under the alliance, they will allow consumers to apply for Mitsukoshi’s Catalog Gift delivery service at post offices beginning in April 2006. Users can send catalogs along with messages, and people who received the catalogs can choose the gifts they want.” The two companies are “studying a plan to jointly produce corporate giveaways overseas and deliver them to domestic consumers. The plan would provide Japan Post with a chance to expand its overseas distribution network,” according to Japan Post’s president.

This tie up will also give Japan Post a chance to make inroads into the market that Nippon Telegraph and Telephone Corp. dominates “for telegrams and other message delivery services that customers use to express congratulations or condolences. By offering a catalog from which recipients can select gifts as part of its own message delivery service, Japan Post aims to compete with NTT and develop demand among customers seeking to send gifts for such occasions as births and job promotions.”

**Alliance with Sankyu**

Japan Post formed another alliance with Sankyu Inc., in October 2003, to support the voluntary recycling of personal computers. Japan Post began using Yu-Pack in conjunction with its partner Sankyu Inc., for recycling.
Agreement with Tobu Department Store

In 2005, Japan Post finalized an agreement with Tobu Department Store to ship nearly 2 million of its 2.8 million shipments a year to households and other customers. This displaced much of the business that Tobu had done with Yamato Transport Co. “Tobu Department Store President Koichi Nezu cited “the good balance between Japan Post’s services and prices” as the reason for tapping the postal system to deliver its goods. Tobu Department Store expects to reduce its distribution costs by an annual 100 million yen through the partnership.”

JAPAN POST’S DEVELOPMENT OF NEW PRODUCTS

Parcel Delivery Products

Japan Post has been developing a number of products to expand its parcel delivery business. It has always been a weak competitor in this area, but is hoping to gain advantages because of its large network of mailboxes and its reputation for service.

One of its important new products is the new “Expack small package service.” This product is easier to use than the usual parcel. It is a flat-rate special envelope that costs 500 yen ($4.30), including postage, that is dropped into a mailbox. “It is delivered regardless of weight or distance.” This strategy aims to reduce the number of empty mailboxes and to turn the large number of mailboxes to a business advantage for Japan Post by offering a more convenient way for customers to send larger parcels without going to a Post Office. Japan Post’s 180,000 mailboxes would then become money earners and the strategy will be one that competitors cannot emulate because they don’t have a network of mailboxes.

Japan Post is also “developing a door to door ‘frozen parcel’ product, rivaling its leading competitor Yamato Transport Co. In order to do this the postal operator is entering into agreements with other parcels companies, including Nippon Express, to serve a domestic B2C market.” In these new product development efforts, “Japan Post will be
responsible for marketing and will not need to make any new investments of its own.” To avoid an enormous capital investment..., Japan Post will not install freezers for storage or purchase the freezer vehicles needed for delivery.” Instead, “it will consign delivery of frozen parcels to private companies such as Nippon Express Co., under the Yu-Pack logo.” Parcels will not be accepted at post offices because they are not equipped with frozen facilities. Japan Post planned to start the service at “Izutsuya department store in Kitakyushu, Fukuoka Prefecture, as early as summer 2005.

In addition, Japan Post has developed a new type of mailbox called a Post Cube. It is “a coin-operated locker-type mailbox for small parcels.” A mail carrier following instructions on the Post Cube’s monitor leaves information about a package and drops it off. Later, when coming home from work, a customer uses his or her “mobile phone as a “key” to unlock the locker and retrieve the parcel.” The lockers went into service in September 2005, before rivals such as Yamato Transport developed similar services focused on “businesspeople who live alone and women who dislike nighttime visits by deliverymen.”

Japan Post’s 2005 Annual Report also noted that it had “began three new delivery services: “Golf Yu-Pack” for golf gear (caddy bags, etc.); “Ski Yu-Pack” for skiing equipment (skis, ski rucksacks, etc.); and “Kuko Yu-Pack” for traveling bags (suitcases, etc.).”

Sales of mutual funds

Changes in the privatization legislation and other laws have given the Japan Post a chance to sell mutual funds at post offices. Changes in Japan’s banking laws now permit banks to offer securities products and allow Japan Post to sell mutual fund-like investments through its 25,000 offices.

In October 2005, Japan Post began selling mutual funds “at 550 of its 24,700 post offices.” The first three funds were quite conservative; Nomura Holdings offers a balanced fund of cash, stocks and bonds that has the lowest risk of the three funds now offered. It has won 69 percent of the 41 billion yen that investors have put into the different funds, largely because Japanese investors are very risk-averse. 

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Goldman Sachs and Daiwa Securities offer stock index funds that won the balance of investments that Japan Post employees sold.\textsuperscript{xcii} By June 2006, Japan Post will market four more funds. It expects to add a total of 20-30 funds over the next few years and to expand the number of branches offering these investments to 1,150 by October 2006. It expects that more than 20 fund companies will bid for the chance to sell funds at post offices.\textsuperscript{xciii}

One foreign press journalist estimated that the sales of mutual funds would mean that Japan Post would have “around 1 trillion [yen, about $10 billion] in mutual funds accounts by 2010, generating an annual 10 billion [yen, about $100 million] in commission.”\textsuperscript{xciv}

**Sales of life insurance policies**

Private insurers are also expecting to get access to the customers of Japan Post’s insurance company, which now issues 30 percent of Japan’s life insurance policies.\textsuperscript{xcv} If this market were open to foreign insurers like American International Group and Aflac Inc., it would provide a major new market for them.
Endnotes


Policy Challenges and the Privatization of Japan Post


xxiv As well as the European Community, New Zealand and the United States.

xxv These undertakings were made as part of the Doha Round, and Japan should be held to these undertakings even if the Doha Round is not completed successfully.


xxxi The exchange rate used was 117.43 yen to the dollar. Gertrude Chavez-Dreyfuss, “FOREX-Dollar declines on rate speculation, weak U.S. data,” Reuters, March 14, 2006.


Taiga Uranaka, “Japan Post stands firm on parcel delivery quest, Japan Times, August 9, 2005.
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lxvii Taiga Uranaka, “Japan Post stands firm on parcel delivery quest,” Japan Times, August 9, 2005.


lxxvii “Japan Post hurries to expand in runup to privatization; Post offices, mailboxes likely to be revenue bases; private sector rivals cry foul,” Nihon Keizai Shimbun, October 31, 2005.

lxxviii “Japan Post hurries to expand in runup to privatization; Post offices, mailboxes likely to be revenue bases; private sector rivals cry foul,” Nihon Keizai Shimbun, October 31, 2005.


xcii Martin and Hyuga, op. cit., p. 108.

xciii Martin and Hyuga, op. cit., p. 110.


xcv Martin and Hyuga, op. cit., p. 110.