

THE ARGENTINE CASE

1 Introduction

1.1 The era of contemporary postal services in Argentina was initiated in the post war period (WWII) with the foundation of the Department for Postal and Telecommunication Services of Argentina on 26 January, 1949. The department was elevated into a public ministry in May 1949. All postal services provided in the country were tied to ENCOTEL (La Empresa Nacional de Correos y Telégrafos) which was founded on 23 May, 1972 and which was announced official postal carrier of the country on 1 January, 1974. With the foundation of ENCOTEL all domestic and international mail and complementary postal services were granted to the enterprise.

1.2 General information: Correio Argentina SA, 2000

- Size of country: 2,800 km²
- Population: 36.6 million
- GDP per inhabitant: 7,700 USD
- Revenue: USD 436,8 million
- EBITDA: 10.8%
- Number of employees: 13,185 (as of September 2000)
- Postal outlets: 5,500 (2,000 owned and 3,500 franchised)
- Mail sorting centers: 26
- Distribution centers: 1,000

2 Deregulation

- 2.1 In 1975, the government established a licensing system for the right to deliver letters, thus, in effect, leading the post towards deregulation. With it belief that the postal business did not differ widely from other businesses, the Argentine government felt that the free market model adopted widely in the rest of Argentina ought to be extended to the postal sector.
- 2.2 As a result, ENCOTEL constantly lost market share to private competitors and non-registered operators in the distribution of letters and parcels. Reasons for the massive loss of market share (6.5% per year between 1981 and 1991) were partially higher prices charged for letter and parcel distribution. Companies operating in the illegal market as well as private competitors paid lower wages than the government owned postal services resulting in a far more competitive cost structure. Furthermore, non-registered companies have managed until today to avoid paying taxes. Moreover, the poor service level of ENCOTEL drove especially businesses away from the state owned postal service company. A big part of the transactional mail and small packages was shifted from the State Post to its competitors.
- 2.3 In 1989 a postal law was passed that paved the way towards complete deregulation of the postal sector. In the early 90's, the government, under Carlos Menem, decided to boldly move towards liberalisation and deregulation of the postal sector.
- 2.4 Hence, Argentina in the 1990s, became the most progressive country in the world in relation to the deregulation of government controlled services. Hyperinflation and empty cash desks led the government to search for new ways of funding their national budget. Consequently, the plan was born to sell state companies to the private sector (examples include the airline Aerolinas Argentinas and state highways). Economic development was fostered with the currency tied to the US Dollar.
- 2.5.1 In 1992, a decree based on the 1989 postal law transformed ENCOTEL into a corporation with a limited privatized structure, named Encotesa.
 - 2.5.1 Shares were jointly held by the state (51 percent), employees (14 percent) and public operators (35 percent). In May 1993 ENCOTEL was incorporated into

Encotesa, (Law N° 2793 was passed on 29 December 1992) which became the official Argentine post under a more “level playing field”, with an arrangement that included:

- Paying similar taxes as private competitors
- Requiring subsidies to be paid if necessary, if necessary, to help Encotesa meet its service obligations

2.5.2 Despite Encotesa’s exclusive right to delivery mail for the state administration and the city of Buenos Aires, the government would adopt competitive tendering based on prices for these services in the future.

2.6 In June 1993, the postal monopoly was fully eliminated and the sector deregulated. The monopoly was abolished and the domestic and international postal markets are declared “open and competitive”. Postal rates were eliminated with prices “freely negotiated among interested parties without government intervention”. Encotesa was to provide without exclusivity and by decree, universal postal service.

2.7 There has been no weight or price limit for letters since the letter monopoly of *Correo Argentino* was abolished in 1993. However, under licensing agreements that date back to 1975, competitors have been able to compete with *Correo Argentino* in the letter market. Currently, there are about 300 postal companies in Argentina that hold licenses to deliver letters. *Correo Argentino* must provide universal letter service at a uniform price and maintains an obligation to deliver the government’s mail. No regulation on number of post offices the post must maintain.

3 Privatisation of the Argentine Post

3.1 In November 1994, the Argentine Senate passed a bill that proposed re-regulating the postal sector and selling the post under a 30-year concession. The privatisation of the postal sector was completed through a concession arrangement, when the government passed Decreto Number 265/97 on 24 March 1997. By this decree, the government established guidelines for granting a concession to a private company of the services for running the post.

3.2 In May 1997 the National Commission of Communications (“CNC”) was created as an “independent” government body in charge of enforcing postal regulation with the following key roles:

- 3.2.1 Issuance of postal licenses, issuance and modification of postal laws, assurance of free market competition, execution of penalties, arbitration among industry players, setting of maximum prices for the industry
 - 3.2.2 As of December 1999 there were 278 postal companies registered with the CNC.
- 3.3 Encotesa was privatized in September 1997 and sold for US\$3.6 billion, through a 30-year concession agreement awarded to a private consortium formed by Itron S.A., Sideco Americana S.A., Banco de Galicia y Buenos Aires S.A., and Royal Mail UK as technical advisor. However, recently announced plans, which are still subject to approval from the Secretary of Communications, would transfer Itron's share to Sideco, giving Sideco a 73.5 percent controlling interest.
- 3.4 The concessionaire can have a qualified third-party technical adviser, either from the UPU or from another postal service provider that is a member of the UPU and is the official postal service provider of its home country.
 - 3.4.1 For letters weighing not more than 20 grams, telegrams of not more than 20 words, and money orders of not more than ARS 1,000 (USD 1,000), the concessionaire is required to provide universal service but receives the exclusive right to deliver these items.
- 3.5 The decree allows for the possibility of compensation from the National Treasury if the concessionaire is obligated under the universal service requirements to deliver to a region where it is not financially viable.
- 3.6 The Argentine state retains the right to implement new technologies, to remain the ultimate custodian of the provision of essential public postal services, and to cancel the concession and return to the use of an official postal service provider.
- 3.7 Through other legislation, the length of the concession was established as 30 years with the option of extending it an additional ten, and an investment requirement of ARS 25 million (USD 25 million) in the first ten years of the contract and one percent of revenues in the next 20 years was imposed. Additionally, a price cap requires that the cost to the customer of these items not exceed the current rates charged by

Correo Argentino, such as the ARS 0.75 charge for letters weighing up to and including 20 grams.

4 Lessons learned

4.1 Argentina is the only country in the world whose postal market is fully deregulated with full competition allowed in all postal segments. Since 1997, the official post (*Correo Argentino*) is privately owned.

4.2 Looking back to the history of deregulation and privatization of the Argentine postal services market the following observations can be made:

Objectives of the deregulation not well defined

4.2.1 Officially announced as improving the service quality and stop the government funding the privatization/deregulation process was mainly driven by urgent cash needs of the government in the Menem period. On-time delivery has been improved by 72 to 98% in the period from 1993 to 1997 but at the same time the company lost many service contracts due to the poor performance to its competitors.

Speedy deregulation process

4.2.2 Unlike in European countries, no individual phases of the deregulation process with clear milestones had been defined.

Poor financial performance

4.2.3 The poor financial performance of the former government owned company has not improved. The first years after deregulation showed increasing revenues but stagnating profitability. In 1997 a net loss of US\$ 15 million was reported. Recently the Argentine Post has managed to destroy industry value by entering a price war with its main competitor OCA. In 2001, the company was not able to pay the operating license to the government.

Sources: www.cnc.org.arg (Deregulation authority)

Correio Argentino SA

PWC: Correio Argentina