

The Case against a 10% Charge on Express Operators

A 10% government charge on the gross revenues of the express operators will not solve the financial problems of the Indian Post Office, but it will ruin an industry which is critical to the development of the Indian economy.

National Post Offices the world over have a universal service obligation. While India is larger in geographic size and population than almost all other countries, it does not mean that the challenges India Post faces are unique.

A monopoly is given to a Post Office so that the costs of meeting a universal service obligation are borne by all users of the post. A monopoly is granted so that the cost of servicing remote post offices is supported by the revenue received from servicing dense urban areas.

The granting of a monopoly coupled with a charge on express carriers to fund the universal service obligation is in effect introducing two anti-competitive devices into the market.

In addition, such a charge unfairly singles out express operators as being responsible for the losses of the Post Office. There is no question that the Indian Post Office is losing a huge amount of money every year – around Rs 950 Crores. The Indian Government must foot the bill for these losses rather than spending the money on roads, schools or hospitals.

These chronic losses can be reversed in many ways. The Indian Post could be better held accountable for its actions and becomes more efficient, or the postal monopoly could be enforced at all levels. A universal service fund which targets the most productive members of the economy – the users of express services - is not the solution.

Furthermore, everyone in the community benefits from the USO, so why should the express industry be singled out to pay for it? Why not retailers, or banks, or anyone who posts a letter? The express industry is in a completely different industry to the Post Office, with its own specialized infrastructure and the two are simply not comparable.

Milton Friedman once said that if you want less of something, tax it. If you want more of something, subsidize it. While it may not be its intent, the effect of the draft proposal is that the government will tax the vibrant and growing express industry to subsidize the annual losses of the Post Office.

The express industry serves all the industries that India wants to develop. High-value producers, the financial sector, life sciences and the health sector all provide well paid, skilled jobs for Indians and high value exports. These industries require time-definite, secure, high quality delivery across India and the world.

The infrastructure that the express industry depends upon – like cargo planes, sorting hubs, and computer on-line tracking – is hugely expensive and has to be paid for by revenue. If the annual revenue is reduced by 10%, the investment that must be financed by several years of revenue will be reduced by a multiple of 10%. Less investment means less provision of express services and fewer high quality businesses that depend upon those express services.

Equally, there is no incentive for the Post Office to be more efficient or productive if its annual loss is subsidized. On the contrary, there is every reason for the Post Office to become more inefficient and resistant to change because the Post Office does not have to bear the cost of its own poor management.

The real answer to the loss made by the Post Office is for it to look at a wider range of products and services. It also needs to look at other models for servicing remote areas, like agencies, franchises or competitive tendering. Some transparent accounting would also help the Post Office to find out what its real costs are and how to manage them.

The draft reform bill extends the Post Office's monopoly by imposing a minimum weight for delivery. This is a means of protecting its revenue from competition so that it can fund the USO. So why does it need the 10% charge on the express industry as well? It would be better to argue for a minimum price multiple that would more effectively protect its revenue.