



August 2009

**What has Postal Liberalisation delivered ?**  
**The Case of Argentina - an executive summary**



# **What has Postal Liberalisation delivered?**

**The Case of Argentina**

**-an executive summary-**

**A report written for UNI Global Union**

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# Argentina

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The postal service was historically the oldest public service to be regulated in the country. Since its inception, its performance (and regulation) had always been exclusively in public hands. The first records of this can be traced down to the Constitution of 1853 and to the passing of the General Post Office Act in October 1876 (Law No. 816). The latter set forth the public nature of postal services and entrusted service provision and oversight to the then National Bureau of Postal and Telegraph Services within the purview of the Ministry of the Interior.

In the early '70s, two important events took place: on the one hand, the creation of Empresa Nacional de Correos y Telégrafos (ENCOTEL - National Postal and Telegraph Services Company) in 1972, as a state-owned *monopolistic* company responsible for postal services provision; and on the other, the passing in 1973 of Law No. 20,216 amending Law No. 816. Although this new law asserted the state monopoly, for the first time it introduced certain potential exceptions to the prohibition of private players' entry into the market.

In 1979, during the last military dictatorship, Law No. 22,005 was passed, introducing the possibility of delegation by the State of postal services provision to private agents. Although the effective scope of the law was limited, it was the first step in the sectoral demonopolization process (opening the door to some of the companies that would take a leading role in the structural shaping of the market, known as "permit-holders"), which was consolidated by another two regulatory elements. In the first place, Executive Order No. 1,842/87 provided for, as a general principle, the "free competition of the private sector" in public utility activities, along with the abolition of all regulations granting "privileges or exclusive rights" (...) that may exclude the "private sector." In the second place, Executive Order No. 1,187/93 established price deregulation, the creation of the National Registry of Postal Service Providers, and the Universal Basic Postal Service (hereinafter, UPS) requirements.

In light of the broad and accelerated privatization program (State Reform Law No. 23,696) and the deregulation of a large number of economic activities, at the beginning of 1997, after delayed and changing definitions regarding the form that privatization would take, by Executive Order No. 265/97 a public national and international bid was called for a 30-year period service concession of the official post office. In August that same year, the bid was awarded (by Executive Order No. 840/97) to a consortium (Correo Argentino S.A. - CASA) made up of Itron S.A. and Sideco Americana S.A. (both owned by the local group SOCMA - Sociedades Macri), with a 73.5% interest, and Banco de Galicia y Buenos Aires S.A. (with 12.5%), keeping the remaining 14.0% for the official post office employees, under the scheme imposed by the Employee Stock Ownership Plan—which was never actually implemented. The process was conducted with the technical assistance of the British Post Office.

The loss-making private management, the non-compliance with investment commitments and the company's unilateral decision not to pay the relevant fixed charges as from March 2000 prompted the termination of the concession contract.

Thus, with all the remaining sectoral regulations and the postal market operational and regulatory framework unchanged, in November 2003 the National Executive Branch decided, in the face of CASA's non-compliances, to terminate the concession contract "by fault attributable to the concessionaire" (Executive Order No. 1,075/03) and to set up, by means of Executive Order No. 721/04, a publicly-owned company called "Correo Oficial de la República Argentina S.A." (CORASA), which from then onwards became *temporarily* responsible for providing official postal services (the deadline set for a new call for tenders has been extended to the present through various executive orders).

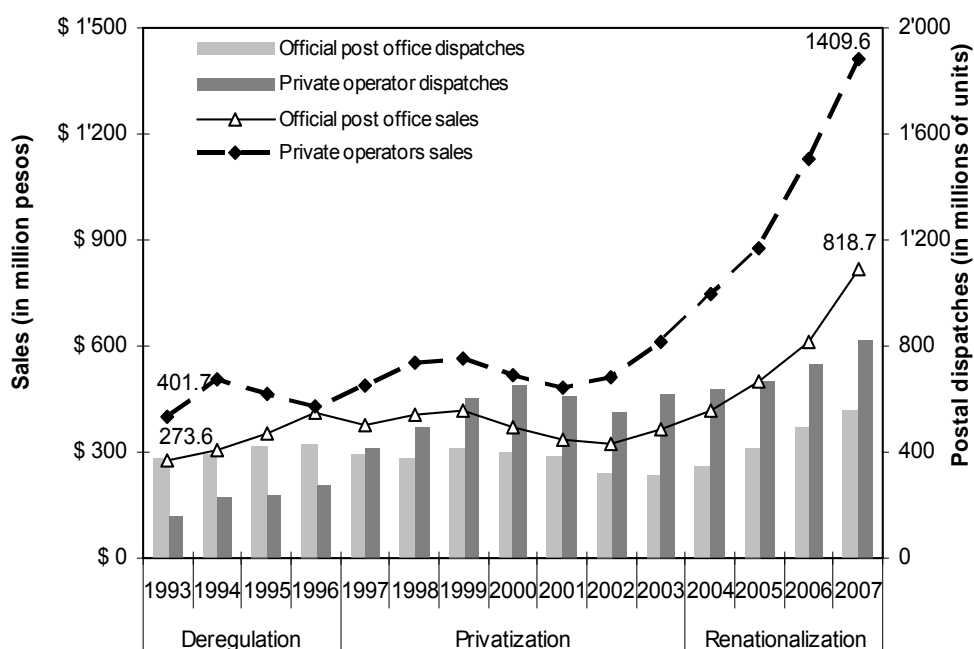
In this changing regulatory context characterized by sectoral demonopolization, nearly full liberalization of the postal sector (except for the official post office's obligation to provide the UPS) and the privatization of official post office administration for slightly over five years, the morphology of the postal market was notably changed.

The low entry cost favored the inrush of private players focused on the provision of specialized services, priced relatively high and geared towards serving the corporate segment, as the official post office economies of scale were significantly limited or diminished vis-à-vis the degree of specialization of large private operators (oligopolization by product differentiation and price deregulation, the UPS being the only regulated service).

Since the beginning of market deregulation, within the framework of the governmental decision to privatize the official post office (on concession), there has been a systematic shift towards private postal operators—a phenomenon that became especially intensive precisely in the years during which the post office was run by the CASA consortium.

It was not until the State regained control of the post office administration that the trend was changed, particularly in relation to the volume of dispatched postal pieces. Thus, when considering the extreme years, in 1993 the official post office handled more than twice the number of pieces than private operators, whereas from a monetary standpoint, the turnover of the historical operator accounted for 68.1% of that of private operators. In contrast, in 2007, following the sustained expansion of the latter during the term of the service concession, private postal operators processed 47.2% more postal pieces than the official post office, a rate rising to 72.2% when considering the respective annual turnover figures (Chart 1).

**Chart 1. Argentina. Evolution of sales and postal dispatches by operator type, 1993-2007**  
(in millions of pesos and units)



Source: Own creation based on CNC information, Annual Postal Market Report, 2007



Although the universe of private operators became increasingly heterogeneous in terms of size, scope, and geographic coverage as well as types of services rendered, major private postal operators (OCA, Andreani, Transportes Sideco, etc. and, in more specific segments, DHL, Federal Express) focused a large part of their strategy on potential customers who, given the type and size of postal pieces involved and/or the highest prices of services requested, would enable them to consolidate their market positioning.

The Argentine postal market liberalization process was comprehensive, with a pervasive presence of large private postal operators in all market segments (on an exclusive basis in some cases, such as newspapers and magazines, clearing pouches and proof-of-mail) and a strategic focus on corporate customers, with no public price regulation whatsoever (for instance, nearly 90% of credit cards are distributed by them). Thus, private postal operators consolidated as major key market players (in 2007, 8% of the companies accounted for 70% of total turnover). In turn, permissive regulations made it possible for large and, more importantly, medium-sized private postal operators to focus their business only on those areas with the highest population density and economic activity level.

It was precisely this regulatory and monitoring weakness and the asymmetries with the obligations the official post office was expected to fulfill—providing the non-profitable, regulated UPS, for instance—that paved the way for large private companies to direct their investments (in line with the strategic vision resulting from their market oligopolic consolidation) to high-profitability segments where fundamental oligopolic competition lies.

Along these lines, once the administration of the official post office reverted back to the State (November 2003), the regulatory scaffolding of the sector did not undergo any major changes, and the status quo that consolidated *pari passu* the ups and downs of the liberalization and privatization process remained unchanged.

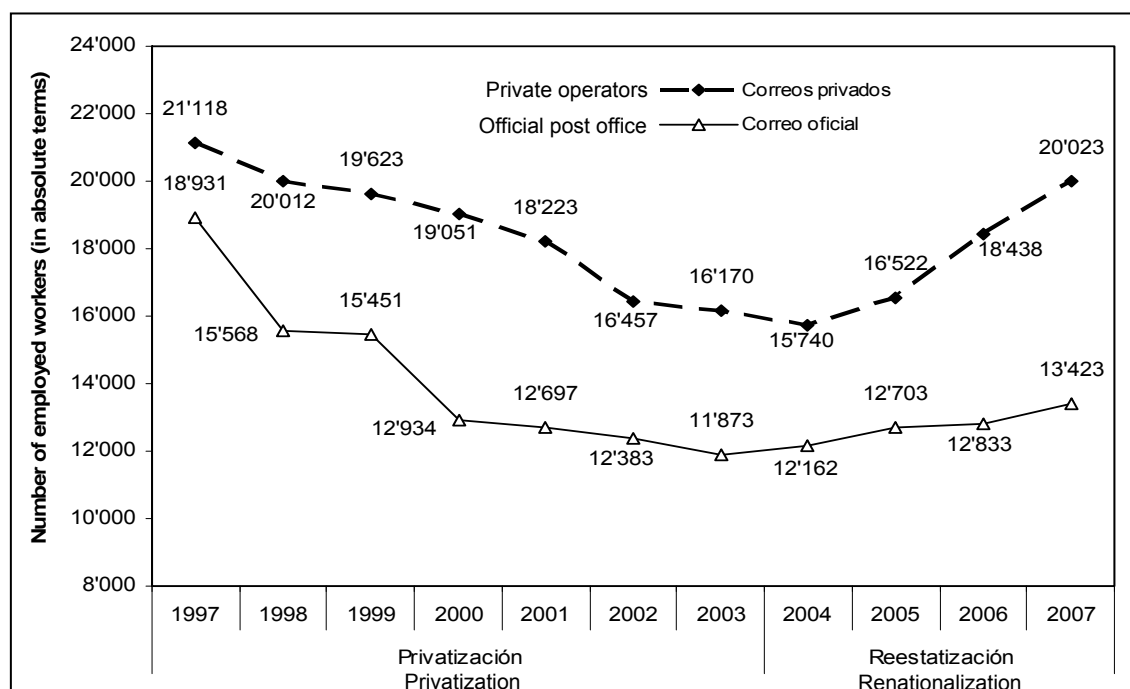
The excessively permissive regulations governing the operational framework within which private postal operators move are compounded with a remarkably low level of official control over business activities (both public and private). First, the existing regulatory agency (the National Communications Commission—CNC—created in 1996) lacks the regulatory powers enjoyed, at least formally, by its predecessor, the National Postal and Telegraph Services Commission (CNCT), which had been created in 1992. Second, the postal market regulation and oversight activity (a responsibility of the Postal Services Management Office reporting to the CNC) is extremely limited and fenced in, but, despite that, the monitoring operations carried out over the last few years indicate the presence of a very low service quality both on the official post office's side and the private operators' side, regardless of the indicator considered—"reliability," "swiftness," "irregularities."

In summary, in a context of postal liberalization, demonopolization and deregulation and, between late 1997 and 2003, also of privatization of the official post office administration, the public control and regulatory activity was residual and even favorable to the interests of private agents.

This is also reflected in the sector's labor market—an aspect of particular relevance for business people since the workforce is a substantial value component in this labor-intensive activity. Thus, for instance, between 1997 and 2003, the privately-run official post office got rid of more than 7,000 workers, while private operators laid off nearly 5,000 (despite their growing presence in the market). Along these lines, two points should be made. On the one hand, the decline of the official post office headcount began with market liberalization and deregulation and continued uninterruptedly in a context of gradual loss of share in dispatched postal pieces. Thus, between 1985 and 1997, over 22,000 jobs were cut in the historical operator. On the other, as an extreme example of regulation serving private interests, during the first two years of concession of the official post office (1997-1998), nearly 3,500 jobs were cut through voluntary redundancies and this was viewed by CNC as "an intangible goods investment" by the company (almost 100 million pesos/dollars) enshrined within the commitments originally made by CASA.

This rapid headcount decline in the official post office as well as in private operators lasted until 2004 and was then followed by a period of new staff hiring: between 2003 and 2007 over 1,500 workers joined in the renationalized official post office and nearly 4,000 got a job in private operators (Chart 2).

**Chart 2. Argentina. Evolution of employment in the postal market by operator type, 1997-2007**  
(in absolute values)



Source: Own creation based on CNC information, *Annual Postal Market Report, 2007*

Now, it is interesting to analyze the relationship between mean wage behavior in the postal market and workforce expulsion policies. In this regard, it is important to note that workers' wages are an essential factor within the cost structure of postal sector companies (the payroll of the overall postal sector exceeded 30% in the 1997-2007 period vis-à-vis the sector's total turnover).

During the above-mentioned period, postal sector wages behaved differently depending on the phases that postal companies and, in particular, the official post office, were going through.

Between 1997 and 1998, postal workers' wages increased nominally by \$147 (equivalent to \$138 in real wage terms). This wage improvement was, in part, driven by the high salaries paid to managerial staff since during the first few years of the official post office concession, management cadres grew significantly. As a result of labor flexibilization policies, such rises were not fully transferred to workers' basic wages.

In turn, during the last few years of the concession contract, postal workers saw their purchasing power deteriorate gradually and their nominal wages fall as a result of an agreement reached between the unions and the post office authorities. Furthermore, the 17.8% negative variation in mean real wages in 2002 must be interpreted against the backdrop of a messy devaluation of the local currency.



**Table 1 Argentina Evolution and percent variation of average wages (nominal and real) in the postal market 1997-2007** (in Argentine pesos, base index 1997 = 100 and percent variation)

Year	Average nominal wage	Average real wage (1)	Base (real wage) index 1997 = 100	Percent variation of real wage compared to the previous year
1997	619	613	100.00	-
1998	766	751	122.62	22.62
1999	792	786	128.28	4.61
2000	780	781	127.54	-0.58
2001	738	747	122.03	-4.32
2002	764	615	100.32	-17.79
2003	915	649	105.87	5.54
2004	1,164	790	129.00	21.85
2005	1,296	803	131.05	1.59
2006	1,489	832	135.75	3.59
2007	1,710	878	143.26	5.53

(1) The average real wage is calculated by deflating the average nominal wage according to the Consumer Price Index. Thus, the influence that price changes may have on wages is removed.

Source: Own creation based on information from the National Accounts Bureau (INDEC) and CNC, Annual Postal Market Report, 2007.

Lastly, an improvement in workers' purchasing power can be observed in 2004 (Table 1), which was up 21.9% from 2003. This increase was part of a long period of recovery in postal workers' wages that extended between 2003 and 2007 and coincided with the economic growth phase throughout the country, as well as with the re-nationalization of the official post office.

When analyzing wage differences within the postal market, wide wage gaps are found between the historical operator and private operators, with the wages of unskilled workers in the official postal service being higher than those of same-level employees in the private sector and management salaries being higher in private postal operators. This is due, in part, to the particular characteristics of union organizing of postal workers.

From a union standpoint, the introduction of the various laws and executive orders deregulating the postal market in Argentina resulted in the grouping of official post office workers separately from private postal service workers. The National Federation of Freight, Logistics and Services Road Transportation Workers and Truckers is the trade union organization representing nearly all private operator workers. In contrast, within the historical operator, there are approximately 80 trade union organizations affiliated, in turn, to three federations and one association, namely: the Federation of Senior Personnel of the Official Post Office (FEJEPROC), the Argentine Association of Communications Workers (AATRAC), the Post Office and Telecommunications Workers' Federation (FOECYT), and the Federation of Official and Private Postal Service Workers (FOECOP).

Therefore, labor relations in the postal industry are governed by different Collective Bargaining Agreements (hereinafter CBAs), depending on whether the private operators (CBA No. 40/89) or the historical operator (CBA No. 89/93) are involved.

In the first place, CBA No. 40/89 establishes the possibility of hiring temporary workers for household deliveries if required given the specific nature of the work. However, the ambiguity contained in "the nature of the work" makes it possible to at least formally hire workers for specific periods of time. Secondly, the heterogeneous

nature of the private postal market—made up of a few large companies, a large number of small businesses and a proliferation of clandestine postal concerns with almost no public control—suggests that a considerable proportion of workers in the postal market are deprived of any form of union representation.

The award of the concession to Correo Argentino S.A. (CASA) in 1997 marked the beginning of a period of strong employer pressure on workers and their representatives. In this context, a number of changes were made to CBA No. 89/93. On the one hand, the company unilaterally introduced modifications essentially aimed at abolishing the various committees whereby workers were involved in the running of the company and in internal conflict resolution. On the other, the most significant changes were introduced through various accords, which amended the collective agreement, signed between the unions and the company. These changes had an impact on, among other aspects, working hours (with an increase from 40 to 48 hours a week and an extension of the trial period on repeated occasions), the leaves of absence system, and the pension contributions made by the company (elimination of the 6% employer's contribution for complementary benefits and transfer of CAPRECOM — Complementary Retirement Fund for Communications Staff — contributions to ANSES, the National Social Security Bureau). Undoubtedly, the series of modifications made to CBA No. 89/93 substantially undermined the working conditions of the official post office staff, with a particularly strong impact on the employment situation of workers who joined the company during the concession period.

One way or another, the changes to this collective bargaining agreement ensured a transfer of millions of pesos in revenue to the concessionaire to the detriment of the State and the company's workers. Along these lines, it should be noted that these CASA-prompted labor reforms were part of a set of actions that included, among others, the refusal to pay the fixed charges laid down in the concession contract and the adoption of a compulsive outsourcing policy to contract out numerous services traditionally provided by the historical operator.

Although the official post office began outsourcing services in the late '70s through partial subcontracting of ground transportation services, under the Macri Group administration (1997-2003) a new stage of spinning-off of activities began to be implemented by the official service operator, giving rise to the creation of "satellite companies" responsible for various functions, such as IT system maintenance and hiring of temporary workers. Moreover, in 2000, the entire strategically important mail ground transportation service was outsourced to Logística de Avanzada (L.D.A) and has remained as such despite the subsequent renationalization of the service.

Finally, some digressions should be made regarding the role of trade unions in the face of the profound changes that took place in the Argentine postal market.

Both the National Federation of Freight, Logistics and Service Road Transportation Workers and Truckers and the various trade unions representing official post office workers clearly felt the effects of the changes that took place as from the passing of the first few laws on the demonopolization of the postal service. One has to go back to the '70s to find the seeds of the decadence of the state-owned postal service. However, as previously examined, the demonopolization of the postal market became intensified in the early '90s under the Carlos Menem administration.

Between November 1994 and April 1996 there was much debate in and outside Congress on the concession of the historical operator and the drafting of a regulatory framework for the postal market. On the one hand, FOE-CYT expressed its support for the concession project through its General Secretary, Ramón Baldassini. In the face of the "danger" posed by privatization, which meant the sale of the company in its entirety, this union considered that a concession was the only way to preserve the company.

On the other hand, FOECOP, FEJEPROC and ATTRAC formed a common front to work towards the cancellation of the various concession bills that had been submitted to Congress during this period. This front had to

deal with a society that sympathized with privatizing ideas and stigmatized those who questioned the neoliberal policies being implemented. For this reason, the room for manoeuvre of the federations that resisted the concession plans was basically limited to debate within the National Congress. As a result of both the actions carried out and the strong opposition led by FOECOP and FEJEPROC, the various bills on the concession of the post office put forward between 1994 and 1996 did not obtain the necessary quorum for adoption.

Further, more concerned about the characteristics and conditionalities of the new regulatory framework than about the success or failure of the official post office concession, the leader of the National Federation of Freight, Logistics and Services Road Transportation Workers and Truckers, Hugo Moyano, told the Senate in November 1994 that he was not an expert on regulatory frameworks and requested guarantees from the lawmakers that the new regulation would prevent the entry into the postal business of venture capitalists looking to make money but not willing to invest.

Despite the failed attempts of Congress to privatize the official Post, the National Executive Branch ordered the concession of the post office by executive order in November 2007. In light of this new situation, FEJEPROC claimed that the procedure for awarding the concession of the official post office was unconstitutional, asserted the need to keep the company's 20,000 workers employed (and in the same working conditions), and called on the full members of the Universal Postal Union to play a greater role in the concession process and in the subsequent administration of the post office.

The text of the concession executive order provided for, among other things, the award of 14% of the shares of the company granted on concession to its workers. Although this program was never actually implemented, at the time it came in useful for negotiating the concession terms with the unions. This proposal was welcomed by both FOECYT and FOECOP. The two federations unsuccessfully demanded job security for all post office workers, including the 3,000 contract workers that were working for the post office at that time.

During the period the official post office was on concession, on numerous occasions the second-tier trade union federations reported irregularities in company management. Both asset stripping and changes in the quality of service and employment were the topics repeatedly appearing in the complaints filed by the various unions. Along these lines, in 2003 the four federations filed a joint complaint with the Labor Ministry against the concessionaire. In their report the unions stated their opposition to the disciplinary measures introduced by the company, which in their opinion were mainly intended to accentuate worker vulnerability (making dismissals easier) and the closing of unprofitable post offices.

Finally, by way of summary, certain key milestones of the processes carried out in Argentina should be highlighted:

- the demonopolization and deregulation of the Argentine postal market and the subsequent privatization of the official post office structurally changed the morphology of the postal service, bringing about, among other aspects, the net destruction of jobs and the impairment of working conditions;
- the official post office's relative market share loss gave rise to a quasi-oligopolic market with differentiated and specialized competition. Large private companies focused on the more profitable market segments while the historical operator, which should guarantee the UPS, lost market power both quantitatively and qualitatively;
- the labor adjustment policy had an impact on the Collective Bargaining Agreement that was renewed in 1993 and that, among other things, meant the loss of job security for official post office employees; the casualization, polyvalence and functional flexibility of jobs; the extension of working hours; the elimination or reduction of leaves of absence, and the elimination of career development prospects;

- the outsourcing of activities, which started during liberalization but took off during the privatization of the official post office, paved the way for the creation of “satellite companies” responsible for various functions, such as the strategic transportation and logistics system, IT system maintenance, and hiring of temporary workers. This led, in turn, to the transfer of important high-profitability niche markets to its main competitors;
- the State’s initiative of the last quarter of the 20th century led to its loss of presence in the service during the time the official post office was privately managed due to the nearly absolute absence of the State in market regulation and control;
- in this context, the trade union tools available to postal workers failed to moderate (or try to moderate) these reforms. The dynamics of trade union organizations in the sector, where a vast number of trade unions and federations coexist and there are even different union representations for the historical operator and private operators, did not contribute to workers’ unity in action, thereby weakening their respective positions;
- the termination of the concession contract in 2003 marked the beginning of a new stage in which the historical operator regained, in part, market share, hired back staff and improved working conditions. This shows that State management of the official post office is a necessary step for restoring the central importance of the service rendered by the historical operator, both in terms of security and from a social standpoint;
- the shaky scenario of formal uncertainties resulting from the lack of regulatory definition and the systematic rescheduling of a call for tenders for an eventual reprivatization poses a threat to the hypothetical and much-needed reform of the strategic role of the official post office — the only player capable of guaranteeing universal services in a country like Argentina, which is exceedingly large and deeply diverse in terms of demographic concentrations.



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