



Moving towards a financially sustainable mail service

Discussion document – Proposed changes to the Deed of Understanding between New Zealand Post and the Government of New Zealand – 2024 Review

OCTOBER 2024



MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Te Kāwanatanga o Aotearoa
New Zealand Government

Ministry of Business, Innovation and Employment (MBIE) **Hīkina Whakatutuki – Lifting to make successful**

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Making a submission

The Ministry of Business, Innovation and Employment (MBIE) seeks written submissions on the issues raised in this document by 5pm on 10 December. We are interested in hearing from any interested persons, including individuals, businesses, and community organisations. Your submission may respond to any or all of the questions posed to submitters.

You can find a template for submissions on our website, alongside this discussion document, at <https://www.mbie.govt.nz/have-your-say>. Where possible, please include evidence to support your views, such as examples or references to independent research or facts and figures. Please include your contact details in the template form when providing your submission.

You can make your submission:

- via email as a Microsoft Word document to CommunicationsPolicy@mbie.govt.nz; or
- via mail to: Communications Policy, Building, Resources and Markets, Ministry of Business, Innovation & Employment, PO Box 1473, Wellington 6140.

Please direct any questions that you have in relation to the submissions process to CommunicationsPolicy@mbie.govt.nz.

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Summary

Mail is important to New Zealanders but the use of the mail service is steadily declining

New Zealand Post (NZ Post) has a long history in New Zealand. Since the 19th century, it has connected Kiwis both to the world and to each other. Today, NZ Post employs over 4,500 people, has over 880 postal outlets, and continues to play a valuable role in the way we communicate.

Addressed mail (such as letters and postcards) continues to be important to New Zealand society, but the amount of mail New Zealanders are sending and receiving is decreasing every year. In 2002, approximately a billion mail items went through NZ Post's service. Last financial year this dropped to 187 million and is forecast to decrease to 107 million items by 2028.



Changes are proposed to obligations on NZ Post following a 2024 Review

NZ Post's minimum mail service obligations are outlined in the Postal Deed of Understanding (the Deed). The Deed is an agreement between the Government and NZ Post which covers, among other things, the minimum number of postal delivery days, delivery points and retail stores. The Deed was last reviewed in 2013. It was scheduled for review in 2018, but subsequently extended to 2024.

Given ongoing decline in the use of the mail service and the years since the last Deed Review, it is time to consider whether changes should be made to the Deed to reflect New Zealanders' declining use of the mail network. Changes also need to be considered to allow the mail service to continue in a commercially sustainable way.

As part of this Review the Ministry of Business, Innovation & Employment (MBIE), on behalf of the Minister for Media and Communications, has developed proposals in discussion with NZ Post for changes to some of the obligations in the Deed. Key proposals for change include reductions in the minimum number of urban and rural delivery days and the number of mandated postal retail outlets.

If changes to the Deed are progressed following this consultation process, this does not mean that changes to NZ Post services would necessarily, or immediately, follow. The Deed outlines the *minimum* obligations for NZ Post. However, NZ Post will still make operational decisions regarding its service offering, which may include continuing to offer current service levels where this remains commercially viable.

We are seeking your feedback on the proposals in this document

The purpose of this discussion document is to seek your feedback on your use of the mail service and on the proposed Deed changes as part of the 2024 Review. The document gives a brief overview of NZ Post's mail service, statistics on mail usage and the proposals we are seeking feedback on. It also sets out next steps following the consultation period.

Before providing advice to the Government about progressing changes to the Deed, MBIE would like to hear from you on how the changes may impact you, your business and/or community. Your feedback will play a crucial part in the Government's decision-making process. Thank you for taking the time to read this discussion document and to provide your feedback.

Introduction to this discussion document

Purpose

1. This discussion document seeks feedback on proposed changes to NZ Post's minimum obligations under the Deed.
2. The Deed only covers the delivery of addressed mail (such as letters and postcards). NZ Post's courier parcel business and its other services are not in scope of the Deed or this discussion document.

Structure

3. This discussion document:
 - a. explains the context for the consultation and background on the Deed
 - b. outlines proposals for changes to the Deed as part of the 2024 Review
 - c. seeks feedback on your use of the mail service and the proposed changes to the Deed.

Scope of consultation

4. The proposals in scope of this consultation take into account New Zealand's declining mail volumes, decreasing reliance on mail, and the increasing cost per mail item for NZ Post to deliver the mail service under the Deed. The objective of this consultation is to enable NZ Post to provide a commercially sustainable mail service in a way that meets the changing needs of New Zealanders.
5. We understand there are matters adjacent to mail delivery that may be top of mind for some people. One such issue is the Saturday delivery of newspapers and parcel items in rural areas. NZ Post stopped delivering on Saturdays in June this year as the service was not commercially viable to maintain. Mail has not been delivered on Saturdays in rural areas for over eight years due to very low volumes.
6. Newspapers and courier items (and their delivery) are not in scope of the Deed and so we are not seeking feedback on this matter. Further, we are not considering bringing in additional requirements to the Deed that it does not currently cover. The focus of this consultation is a reduction in proposed minimum requirements under the Deed, given declining mail volumes and reliance on mail, to allow for NZ Post to provide a commercially sustainable mail service.

Next steps

7. Consultation on the proposals in this discussion document closes on 10 December. MBIE will review feedback from submissions, have further discussions with NZ Post and provide advice to the Government on final proposals to conclude the Review of the Deed. Shareholding Ministers with an interest in the Deed Review, including the Minister of Finance, will also be consulted.
8. Following this, any changes to the Deed will be drafted and signed by the parties to the Deed – the Minister for Media and Communications and NZ Post. The revised Deed will be published on MBIE's website and changes will also be communicated to key stakeholders.

Background on mail in New Zealand

This section outlines our current understanding of how New Zealanders use the mail service and how that has changed over time. The section concludes with questions for you on how you use the mail service now and how you intend to use it in the future.

NZ Post

9. NZ Post is currently New Zealand's sole designated postal operator under the Postal Services Act 1998. It supplies postal services both within New Zealand and between New Zealand and other countries. NZ Post became a State-Owned Enterprise in 1987. As a State-Owned Enterprise, NZ Post's principal objective is to operate as a successful business. This includes being as profitable and efficient as comparable businesses that are not owned by the Crown, being a good employer and exhibiting a sense of social responsibility.

Overview of the Deed of Understanding

10. The obligations for a nationwide mail network are set out in the Deed, which is an agreement between NZ Post and the Crown. The Deed governs mail delivery frequency, delivery points and NZ Post's retail presence. It does not set mail prices, as these are set commercially by NZ Post. The Deed of Understanding was first established in 1989. The last substantive changes were made to it in 2013.
11. In summary, the current Deed mandates that NZ Post has at least 880 retail points of presence, with at least 240 of those being staffed. It sets urban delivery at not less than three days per week and most rural delivery at five days per week. It requires that NZ Post extend its mail delivery network to the extent there is demand, unless it is operationally impracticable or not commercially sustainable to do so. The Deed also prevents the introduction of a rural delivery fee for mail receivers (noting this does not include rural charges on parcel senders).

Universal Postal Service Obligation

12. New Zealand is a member of the Universal Postal Union, where NZ Post is our representative. As a member of the Universal Postal Union, New Zealand has obligations to have a universal postal service. We have discretion about how we meet those obligations.
13. The Deed is how we meet our Universal Postal Union obligations for a Universal Service. The Deed sets the requirements of the Universal Service Obligation as they apply to mail carried by NZ Post in New Zealand.

Who is using the mail service

14. NZ Post data from FY2024 revealed that from the around 182 million mail items carried in New Zealand that year, the majority (approximately 64%) were sent by private businesses or organisations. The public sector sent around 35% of mail, with individuals accounting for less than 1%. This indicates that New Zealanders are generally receivers rather than senders of mail.
15. We understand that mail is still an important service to many New Zealanders. We also understand that it may be of particular importance to New Zealanders who do not have reliable access to broadband, are at risk of digital exclusion, rural communities and older people.

16. Despite significant investment in telecommunications infrastructure, rural internet is generally more likely to face capacity constraints and come at a higher cost than urban internet. Therefore, rural communities may be more likely to depend on mail. Although the availability of low earth orbit satellite services has greatly improved rural communities' broadband options.
17. We are aware that some people, notably older New Zealanders, are more likely to value and use the mail service. For some the physical delivery of mail creates an important sense of community and security or is easier to use than digital alternatives.
18. However, data from NZ Post consumer research showed that while 60% of those living rurally said that the mail service had an essential personal connection to them or their family in 2018, this dropped to 44% in 2024. The same 2024 data showed those aged 55+ did not see mail as being much more important than other services such as television, email and mobile phones.
19. Māori are identified by the Department of Internal Affairs as possibly being more likely to be digitally excluded, and thus possibly more affected by changes to the mail service than non-Māori. We are interested in understanding the importance that receiving or sending mail holds for Māori.

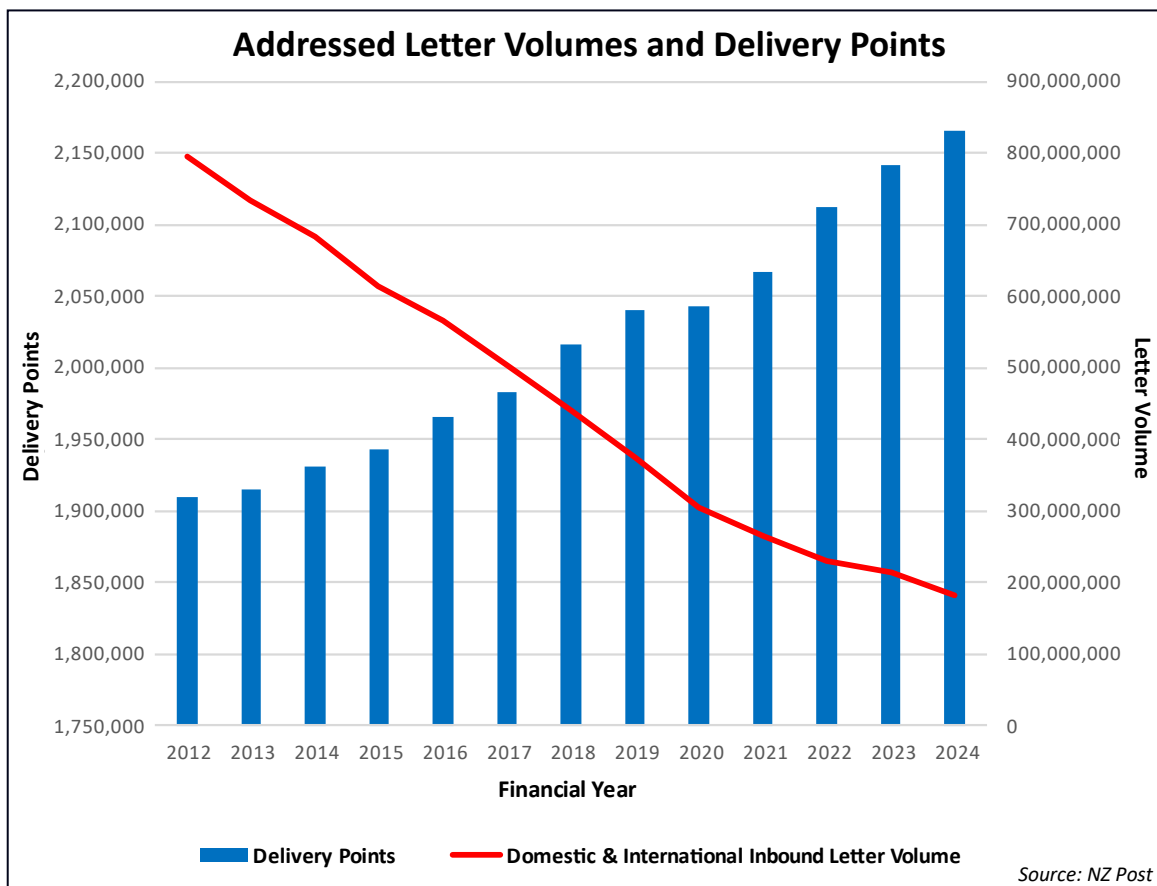
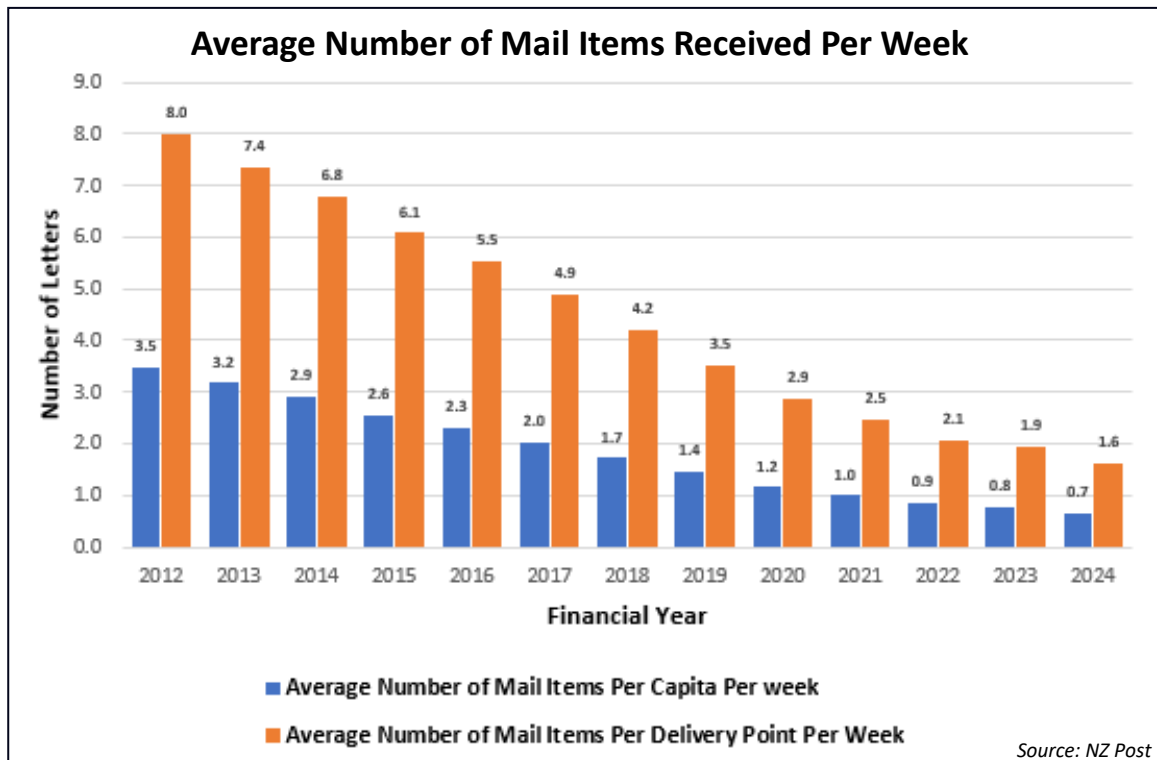
Reasons public and private organisations currently send mail

20. We understand the main reasons businesses and organisations currently send mail are:
 - a. Demand from customers: businesses may continue to use mail if their customers want to receive information by mail. For instance, customers may want to receive credit or debit cards in the mail as opposed to picking them up physically.
 - b. Ability to contact a broad customer base: organisations that need to contact a broad customer base may determine mail is the best method of communication.
 - c. Availability of address information: a business may send letters to an address without knowing who lives there. Digital communication relies on obtaining access to personal contact details.
 - d. Digital transformation is still underway: organisations may rely on mail while developing a digital alternative, for example, building a bespoke IT system, or a website and app with the necessary capabilities.
 - e. Some public sector organisations currently have a legislative requirement to post information to addresses.

Declining mail volumes and how use of mail has changed

21. Like many countries overseas, mail use in New Zealand is declining due to social and technological change. Many people are increasingly communicating in other ways, including via phones and online.
22. Since the last time the Deed was substantially reviewed in 2013 there have been significant improvements to New Zealanders' access to digital connectivity. Both the Government and the telecommunications sector have invested in the transformation of New Zealand's telecommunications networks. By the completion of the current Government programmes, more than 99.8% of New Zealanders will have access to improved broadband connectivity.

23. In New Zealand, the uptake of digital technologies has led to substantial decline in mail. At current volumes, urban areas receive two letters a week on average, and rural areas receive three. The first graph below shows the decreasing number of letters received per person (per capita) and the decreasing amount received over time per delivery point (a letterbox or PO box).



24. Letter volumes delivered domestically have declined from approximately 733 million since 2013 to 182 million in 2024. Notably, there has been growth in the number of delivery points during that time. The graph on page 7 shows how delivery points (physical locations, like a letterbox, where you can receive mail) have increased over the past twelve years, while letter volumes (shown by the red line) have decreased. This means that while NZ Post is delivering to more locations than ever, mail volumes continue to decline.
25. While the country's population is growing, the letters sent by volume have decreased every year. This shows that even as New Zealand grows, we are using the mail service less and less.
26. Similar trends are occurring in other countries, with some examples of how those countries are responding set out below.

Responses in other countries experiencing mail decline

- **Australia:** Australia has reviewed Community Service Obligations (CSO) – the Australian Government's equivalent to the Deed of Understanding. Changes include reducing number of delivery days, developing new pricing pathways and updating the geographic classification for post office outlets.
- **Denmark:** The Danish Government released its national post carrier PostNord from its delivery obligations in early 2024. The country will have no national postal provider but has plans to contract out provision of mail services for blind people and those in remote island communities.
- **United Kingdom:** Royal Mail has repeatedly sought to reduce its six-day service obligation citing rising costs. Royal Mail's regulator, Ofcom, released a Discussion Document in January 2024 outlining options for reforming the mail service.

Measures undertaken previously to respond to mail decline

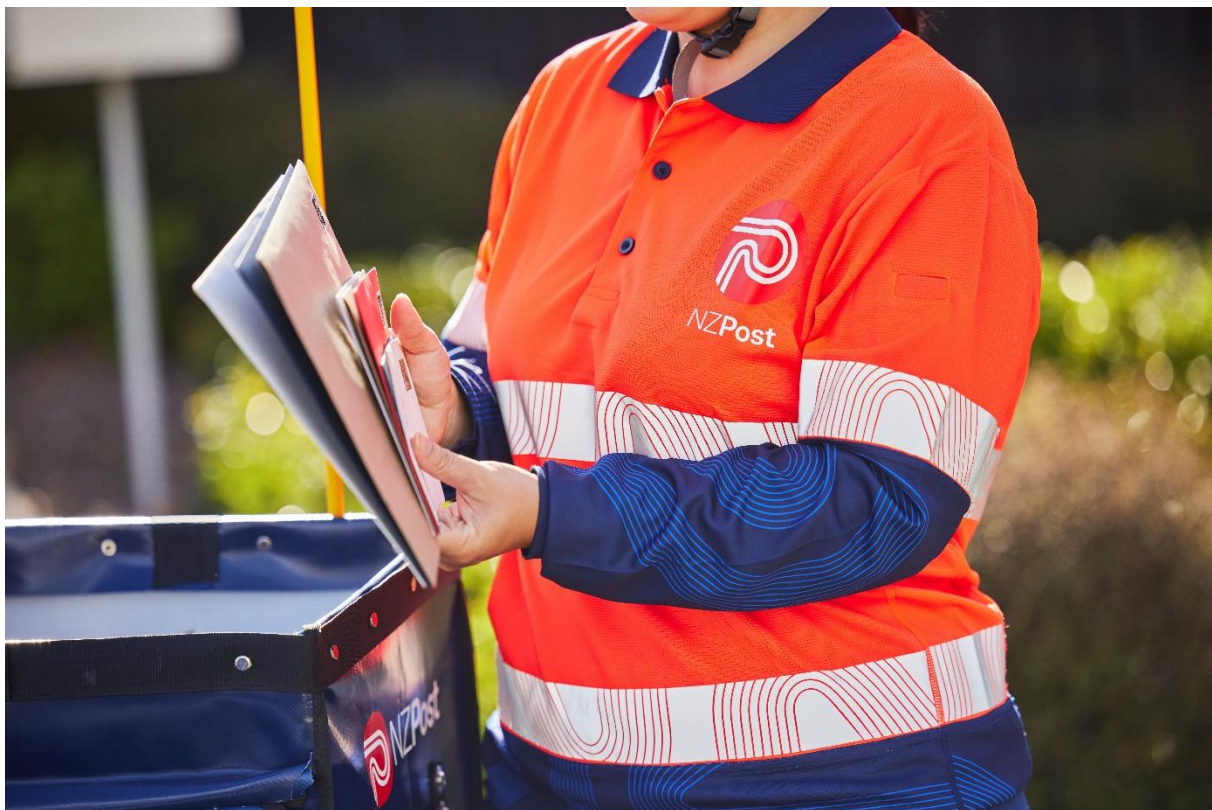
27. There have already been a number of previous changes and interventions made to respond to ongoing mail decline in New Zealand, namely:
 - From 2015, following the 2013 Deed Review, delivery days in urban areas were gradually reduced from six to three days a week. Then in 2016, delivery days in rural areas were reduced from six to five days a week.
 - In 2020, NZ Post was provided with \$130 million (over three years) in government funding so it could continue to meet its mail network obligations in the face of mail decline.
28. Given that no changes have been made to the Deed since 2013 and that mail volumes continue to drop, the cost to deliver each letter is increasing. The Deed obligations drive a fixed level of cost that then needs to be spread over a declining number of mail items and an increasing number of delivery points. NZ Post cannot recover the costs of maintaining its network through mail price increases alone.
29. Therefore, there is a need to consider changes to the Deed to ensure it remains fit for purpose. It is our goal to strike the right balance to ensure the mail service is commercially sustainable and reasonably meets the communication needs of New Zealanders.

Questions for organisations and businesses

1	What sector of the economy does your business or organisation operate in?
2	Roughly how many letters does your business or organisation send in a month? And how many do you receive?
3	Are you planning to undertake any programmes to reduce your business' or organisation's reliance on mail e.g. transitioning toward digital alternatives. Why/why not?
4	Is there some amount of mail you still need or expect to send even if your business uses alternative communication channels?

Questions for individuals

5	Roughly how many letters do you send in a week?
6	What is your main reason for using the mail service, versus other means of communication e.g. face-to-face, email, online etc.?
7	What types of communications do you regularly receive by mail? For example, bank statements, utility (telephone, electricity) bills, rates bills and hospital notifications.



Proposed changes to Deed of Understanding

This section provides an overview of some of NZ Post’s primary service obligations as outlined in the Deed, and proposed changes to these as part of the 2024 Review, for your feedback.

Review of current obligations under the Deed

30. MBIE and NZ Post have been in discussion about providing greater flexibility in the Deed as part of the 2024 Review. The funding that NZ Post received in 2020 has now been exhausted. NZ Post now needs to operate a commercially sustainable mail service, i.e. without operating at a financial loss or seeking funding from the Government (e.g. funded by the taxpayer).
31. The proposed changes in this section are intended to allow NZ Post sufficient flexibility to achieve commercial sustainability while still responding to New Zealanders’ ongoing need for mail.
32. The Deed obligations are minimum standards. These minimums do not prohibit NZ Post from providing a higher level of service based on demand, or continuing current service levels where it is viable to do so. Any significant changes would be subject to customer communications by NZ Post ahead of the planned change, in addition to NZ Post’s internal processes.
33. The following sections outline key service obligations in the current Deed, and proposed Deed changes. We are interested in hearing your feedback on the proposals outlined below.

Changes to minimum delivery frequency

Area of Deed	Current obligations	Proposed future obligations
<p>Mail delivery frequency</p> <p>The minimum number of times per week NZ Post must deliver mail to delivery points on its network.</p> <p><i>Note: A rural address has a rural delivery number, which you can confirm by checking your address on the address and postcode finder tool on the NZ Post website.</i></p>	<p>Minimum three days per week in urban areas.</p> <p>Minimum five days per week in rural areas.</p> <p>Minimum five days per week to PO boxes and Private Bags.</p> <p>Urban delivery days must be non-consecutive (i.e. there is a space between days on which mail is delivered).</p>	<p>Minimum two days per week in urban areas.</p> <p>Minimum three days per week rural areas.</p> <p>Minimum two days per week to PO Boxes and Private Bags.</p> <p>Language around non-consecutive days will be removed to provide operational flexibility, noting that NZ Post has commercially set, published targets on mail delivery timeframes.</p>

34. Looking at actual mail volumes, addresses in urban areas currently receive around two letters per week and addresses in rural areas receive three. The proposed changes bring the minimum requirements on NZ Post in line with how New Zealanders are currently using the service.
35. We are also proposing to provide a mechanism for NZ Post to update its classification of rural and urban areas based on objective demographic change (for instance, zoning or Statistics NZ data). Currently the Deed defines rural areas as places to which NZ Post’s rural delivery service delivered to as of 30 June 2013. Changing this would reflect the growth of urban areas and provides flexibility for NZ Post to redesignate areas as appropriate.

Questions for stakeholders

8	How would the proposed delivery frequency changes impact how you send and receive mail, if NZ Post were to operate at the proposed minimum levels?
9	Do you believe your area is correctly classified as either urban or rural (i.e. you have a Rural Delivery number in your address). If not, why not?



Changes to where NZ Post would be required to deliver mail

Area of Deed	Current obligations	Proposed future obligations
<p>Commitment to add new delivery points</p> <p>For example, when there is a need to extend the mail network for new addresses to be able to receive mail.</p>	NZ Post must add new delivery points to the extent there is demand for it, unless operationally impracticable, or if to do so would jeopardise the commercial sustainability of the postal services it provides pursuant to the Deed.	Retain this requirement, but explicitly clarify that new delivery points can include a range of collective forms, such as communal delivery points including nests (at the developer or another's cost), counters, community mailboxes and other communal delivery points.
<p>Conversion of pre-existing delivery points</p> <p>This concerns the number of existing individual delivery points NZ Post may be permitted to turn into communal delivery points.</p>	No more than 3% of total delivery points may be comprised of counter services or community mailboxes.	NZ Post will not switch more than 5% per year of its pre-existing delivery points to communal delivery points. Reasonable notice of these changes must be provided.
<p>Overall limit on communal delivery points</p>	No more than 3% of total delivery points may be comprised of counter services or community mailboxes.	To facilitate the changes above, this limit will be removed. As detailed above in this table, any new delivery points can be communal delivery points, but NZ Post is not allowed to switch more than 5% of its pre-existing delivery points to communal delivery points per year.

36. Delivery points are physical locations at which you can receive mail. These could include letterboxes, PO Boxes, localised communal hubs or collection points. Mail is currently typically delivered to letterboxes.

37. In the current Deed, NZ Post must maintain delivery to at least 1,910,010 delivery points. Since 2013, NZ Post has already extended its delivery footprint beyond this minimum number, so it has been outdated for some time. For clarity, under the proposed change to the Deed, NZ Post would retain its obligation to extend its network while allowing for it to convert some existing delivery points to communal points as outlined above.

Question for stakeholders

10 If you were moving to a location that was not currently within NZ Post’s mail network footprint (e.g. not receiving mail delivery), how would you feel about receiving mail at a community collection point, or other means than through a letterbox at your property?



Changes to requirements regarding NZ Post’s retail presence

Area of Deed	Current obligations	Proposed future obligations
<p>Total number of postal outlets</p> <p>For example, NZ Post branded post shops or other stores that offer postal services on behalf of NZ Post.</p>	<p>At least 880 points of presence, comprised of physical outlets and self-service kiosks.</p> <p>At least 240 ‘manned’ points of presence where customers can receive personal assistance from an NZ Post employee or agent and can access a wider range of products and services over and above basic postal services.</p>	<p>Minimum of 500 points of presence, with a possible step down to a minimum of 400 over time.</p> <p>NZ Post has indicated that rural areas would not be disproportionately affected by this proposed change in comparison to urban areas, given certain urban areas are currently overserved.</p> <p>NZ Post has noted that over half of its retail service points are in a location where another store is also serving that neighbourhood.</p>

38. In the current Deed, there must be a minimum of 880 points of presence (which can include self-service kiosks) around the country, and at least 240 of these must offer personal customer

assistance. Most of these 880 service counters are inside other retail shops. This means practically that many people have access to postal outlets where they can go to buy stamps, send letters, or make an enquiry about the mail services that are available.

39. Under the proposed changes for a revised Deed, NZ Post would be required to maintain at least 500 points of presence initially, possibly allowing it to decrease to a minimum of 400 over time. This reduced requirement reflects the cost to NZ Post to maintain its network of postal outlets, as we understand that it currently overserves certain urban areas to reach this requirement. The 880 minimum was set in, and has remained unchanged, since 1989.
40. While the proposed change would be a reduction in the minimum required number of points of presence, NZ Post has commercial incentives to retain its retail network to meet customers' needs given the rise in parcel items being sent through its network. Its retail stores are also used for people to drop-off parcel items.
41. NZ Post has said that any change, if made as a result of a new minimum number, will not disproportionately impact rural areas compared to urban areas. We note rural customers can also access mail services directly from the rural delivery driver in their area. Changes would also not be implemented immediately following Deed changes or without appropriate notice.
42. In addition to the proposed reduction in the minimum number of points of presence, we are interested in hearing the public's views on whether the existing requirement that NZ Post must maintain at least 240 'manned' points of presence should be carried over into the revised Deed.

Questions for stakeholders

11	Do you typically require assistance when sending mail items (not parcels) at a postal outlet and what type of assistance do you require and/or receive?
12	Do you believe the existing requirement of at least 240 manned points of presence should be maintained in the revised Deed?

Future Review date for a revised Deed of Understanding

43. The Deed has been required to be reviewed every five years. Given the rapidly changing environment that NZ Post is operating in with regards to increasing costs and declining mail volumes, we propose that a shorter term would be more appropriate for the next Review of the Deed, following any changes from this 2024 Review. The proposal would be to include the requirement for a review to be conducted three years after the date a revised Deed is signed.
44. We are also considering including the option of an earlier review if mail volumes were to decline more rapidly than anticipated, such as if they were to fall below 120 million mail items per year, there may be an additional reduction in minimum requirements. This additional provision would recognise that at substantially lower volumes, the changes proposed in this discussion document may not be sufficient for the Deed requirements to be commercially sustainable.

Questions for stakeholders

13	Do you have any feedback on the proposal for the next Review of the Deed to take place by three years from the date of any revised Deed following the 2024 Review?
14	Do you have any thoughts about the trigger point for an earlier review in the case of steeper mail decline?

Other matters

Access to the postal network

45. The Deed requires NZ Post to provide other postal operators with access to its mail delivery network. These postal operators include DX Mail and New Zealand Mail, among others. The requirement is intended to support competition within postal services. This requirement means that other postal operators can rely on NZ Post's network to deliver their letters 'the last mile' to areas where it is not commercially viable for them to do so.
46. NZ Post has multiple private access agreements with postal operators that allow access to its network. It is also notable that other pieces of competition legislation, including the Commerce Act 1986, apply regardless of any Deed obligation. Therefore, there is a question as to whether it is necessary to include the access obligation in the Deed.
47. We are seeking views on whether this provision should remain in the Deed. We are interested to hear, notably from registered postal operators, whether they have concerns about removing this provision from the Deed.

Question for stakeholders

15

What is your view on the need to retain the current obligation in the Deed for NZ Post to provide other postal operators with access to its delivery network?

Potential proposals to recover Customs and MPI costs from NZ Post

48. New Zealand Customs Service and the Ministry for Primary Industries (MPI) released a joint consultation document on 4 September titled *Recovering the Costs of Goods Management Activities at the Border*.
49. This paper discusses options that include recovering the costs of screening international mail from NZ Post. We note that that these proposals may impact costs for NZ Post and may require consideration of further changes to the Deed beyond the 2024 Review.
50. We are not seeking feedback on this matter. However, we note that depending on the outcome of the Customs and MPI consultation and final proposals there may be further implications for the Deed. If you have any feedback on the Customs and MPI consultation, please submit that directly to those agencies (noting their consultation period closes on 31 October).