

## **“The New Distribution of Roles in the United States”**

*Remarks by Dan G. Blair, Chairman, Postal Regulatory Commission  
UPU General Debate, 25 July 2008, Geneva, Switzerland*

Director General Dayan, Deputy Director General Huang, Congress Chairman Hussein, Congress Dean Felmer, distinguished delegates, it is my great honor today to share with you the United States' experience in postal reform as Chairman of the U.S. Postal Regulatory Commission, the postal regulatory body in the United States. Our mission is to ensure the transparency and accountability of the U.S. Postal Service and to foster a vital and efficient universal mail system. It is important to stress that the Commission regulates the Postal Service only, and does not regulate the entire express or delivery services industry. I am pleased to be here with Postmaster General Potter of the U.S. Postal Service, who will also share with you the operator's perspective on our most recent postal reform legislation.

On December 20, 2006, our President signed into law the Postal Accountability and Enhancement Act. The passing of this Act was the culmination of a ten-year journey and produced the most significant changes in the regulatory landscape for the U.S. Postal Service and the U.S. postal system since 1970. The Act is founded in the principles of flexibility, transparency, accountability and predictability. Its main goal is to ensure a robust, affordable and quality universal mail service in the United States. To accomplish this, it gives the Postal Service new tools to meet the challenges of the changing postal environment, including new authority to price its own products, while balancing these tools with new responsibilities for a more formal regulator. As my remarks today are limited to eight minutes, I will just touch on some of the highlights of this historic Act.

The U.S. Postal Service is currently an independent entity within the Executive Branch of the United States government. To provide some historical perspective, prior to 1970, it operated as a cabinet-level agency known as the Post Office Department. The President appointed the Postmaster General, who was also confirmed by our Senate. Postal rates and increases were granted by acts of Congress. Revenues generated through the sale of stamps and postal services were supplemented by taxpayer revenue to cover operating costs.

The 1970 Postal Reorganization Act radically changed that structure and created an independent Postal Service governed by nine Presidentially-appointed and Senate-confirmed Postal Governors, who in turn named the Postmaster and Deputy Postmaster General. The Postal Service was charged with a break-even requirement that revenues derived from the sale of its products and services should equal the costs of postal operations, and received government subsidies until 1983, when these subsidies were reduced to cover free matter for the blind and overseas voting ballots. The Postal Service only received government funding to supplement the operating costs for some non-profit and military mail. The Postal Rate Commission was also established and charged with recommending to the Governors changes in rates and classifications after the Postal Service proposed such changes. The Commission conducted on-the-record hearings where evidence was received

from the Postal Service and interested parties. Rate cases took 10 months to complete.

Our 2006 Postal Act recognized the need to give greater flexibility to the Postal Service to meet the changing demands of today's postal environment, particularly with regard to setting rates. Also, for the first time, the Postal Service can earn and retain profits. It continues to receive governing funding for free matter for the blind and overseas voting ballots. To ensure transparency and accountability, our Congress created a formal regulator. The former Postal Rate Commission became the Postal Regulatory Commission with enhanced authorities.

Under the new Act, all postal products and services are categorized as market dominant or competitive. Market dominant products generally reflect those postal services covered by the U.S. postal monopoly and include First-Class letters and cards, advertising mail, periodical and single-piece parcels. In contrast to previous rate cases, the Postal Service must now only give a minimum 45 days notice of its intent to adjust prices for market dominant products and 30 days for competitive products. Adjustments for market dominant products are governed by a price cap limiting increases for each class of mail – as a whole – at or below increases in consumer inflation. The Postal Service may “bank” unused rate authority for a period of up to five years. Competitive products are not subject to a rate cap, but must generate sufficient revenues to cover attributable costs. In addition, profit from competitive products as a whole must contribute to at least 5.5 % of the Postal Service's overhead costs. This is to ensure that competitive products are not cross-subsidized by market dominant products.

The provisions of the Act go well beyond rate-setting. They also require the Postal Service to consult with the Commission in the establishment of modern service standards for market dominant products. This is to ensure that quality is not compromised as a result of limits on rate increases.

The Commission is also conducting a comprehensive review and report examining universal postal service and the postal monopoly in all regions of the United States, including an assessment of likely future needs and recommended changes. This study is well under way and due to our Congress in December. We have been actively reaching out to all stakeholders through a solicitation for public comment and public field hearings across the country to ensure that all voices are heard on the important issue of universal service.

The Commission must also review all non-postal products and services offered by the Postal Service. We are required to make a determination whether each should continue, based on an assessment of public need for the service and the private sector's ability to meet any such need. Our Congress clearly believed that the Postal Service should focus on its core mission of mail delivery and should not divert that focus to traditionally non-postal areas.

Lastly, the Act specifically addresses international postal policy. The U.S. Department of State is responsible for the overall formulation of international postal policy and for concluding international postal treaties such as the UPU Acts. Both the Postal Service and the Postal Regulatory Commission work very closely and

collaboratively with the Department of State, other U.S. government agencies and the private sector on U.S. engagement in the UPU to promote unrestricted and undistorted competition in the provision of international postal and delivery services. By law, the Secretary of State must seek the Commission's view on whether any convention or treaty that establishes a rate or classification is consistent with our system of ratemaking.

In closing, I would simply like to reiterate the hallmarks of our most recent postal reform legislation in the United States: flexibility; transparency; accountability; and predictability. Again, our mission is to foster a vital and efficient universal mail system in the 21<sup>st</sup> century. To see first-hand our commitment to transparency and accountability, I would invite you to visit our website at [www.prc.gov](http://www.prc.gov). I would also welcome the opportunity to answer your questions after the panel or to speak with you more informally outside the meeting hall.