



GLOBAL POSTAL REFORM FROM A U.S. PERSPECTIVE

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Commissioner Mark Acton of the United States Postal Regulatory Commission writes for Mail & Express Review on global postal reform

To the industries, organizations and movements that have become globalized over the past several decades, one more can now be added: postal regulation. While postal reform continues to take varied shapes around the world – from fully privatized to government owned, from profit oriented and market driven to government subsidized and policy focused – two constants appear everywhere: a commitment to define and protect some form of universal service, and a need for effective regulatory oversight within the postal industry.

Roots of U.S. postal reform

In December 2006, the Postal Accountability and Enhancement Act (PAEA) became law. After more than 10 years of study and discussion, and after carefully considering emerging postal models from around the world, the United States decided to retain government ownership of the post and to maintain the postal monopolies on access to the mailbox and for the delivery of First-Class letters. At the same time, the law provided the postal operator with new flexibility to compete, innovate and respond to the market.

To protect the public interest and to promote a level playing field with competitors, the law created a strengthened regulator with new oversight powers and the

mandate to instill transparency and accountability in postal finances, pricing and service.

Today, more than two years later, the revamped U.S. Postal Service (USPS) and the U.S. Postal Regulatory Commission (PRC) are fully engaged in implementing and operating the new postal model.

A government agency

It is understandable that some may ask why the United States, as the world's largest free market economy, decided not to follow a path towards privatization of the postal operator. The simple answer is that America's elected representatives decided that it was not the right model or the right time. Privatization, after all, only changes ownership. It does not change the underlying challenges facing the mail everywhere, from the rising input costs of paper, ink, fuel and labor to the continuing pressure on mail volumes from the Internet and electronic diversion.

It is important to emphasize, however, that the U.S. reform outcome was not a referendum on reform choices made by other nations. U.S. lawmakers recognize that postal reform is a work in progress that continues to evolve around the world in varying fashion and at differing pace. Indeed, Congress embedded that concept into the PAEA by requiring that the Commission and other government agencies conduct key studies and periodic evaluations of the U.S. model to determine if further changes to the structure, strategies or operation of the USPS are needed. For example, by no later than December 2011, the



Commission must submit to the President and Congress a report on the effectiveness of the U.S. reforms, with recommendations for any legislation or other measures that may be needed to improve the effectiveness or efficiency of the U.S. postal model.

In recognition of the evolutionary nature of postal reform and our responsibility to help direct that progression, the Commission is most attentive to postal developments in other countries. We have and will continue to share our expertise and experiences with the global community.

A new regulatory model

In the late 1990's, the postal model in the United States began to strain due to the growth of online communications and the increased acceptance of electronic billing and payment systems. Although the Postal Service was profitable, service was improving, and mail volume was growing, the Postmaster General pointed out that 30% of formerly reliable postal

revenue – from bills, payments and statements – was now at risk. At the same time, Internet sales and home shopping were driving growth in the competitive parcels market, but existing laws limited USPS' flexibility in responding to this changing market.

The solution chosen was not to weaken the monopoly further through liberalization but to empower the Postal Service to better innovate, compete and grow. Key to this strategy was the creation of a strengthened regulator to facilitate transition to a new postal model and to oversee its operation while protecting the public interest and ensuring fair competition.

The new operating model divided the USPS into two businesses, with separate accounting, operating, and pricing rules. On one hand were market dominant products, primarily mail accounting for 90% of total postal revenues, and on the other were competitive products, primarily priority parcels and Express Mail, accounting for 10%.

The Postal Regulatory Commission was central to the transformation process, creating two new price setting procedures, approving the new accounting and reporting rules, determining the disposition of products and ensuring that an effective firewall was created between the two aspects of the business. The Commission also set a price floor for competitive products, so they recover their attributable costs and at least 5.5% of postal overhead costs. By law, the market-dominant price cap is set by the U.S. Consumer Price Index for urban consumers (CPI-U).

In summary, the primary mission of the PRC is to ensure transparency and accountability of the Postal Service in promoting a vital and efficient universal mail system.

Results

John Lennon once said, "Life is what happens to you while you are making other plans." Today "life" includes one of the worst economic environments of the last century, which has resulted

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in historic declines in U.S. mail volume, including an expected loss of more than 20bn pieces this year on top of a 9.5bn decline in 2008. As a consequence, USPS faces serious financial difficulty despite determined efforts to reduce work hours equivalent to 50,000 jobs and \$6bn in costs this year alone.

It should be noted, however, that the PAEA also included a requirement for the Postal Service to prefund future retiree health benefits and to do so mandated yearly payments of roughly \$5.5bn a year for 10 years. At the time, no one foresaw that the global economy would deteriorate so rapidly and so sharply. There is

general price changes on two occasions for both competitive and market dominant products, in 2008 and 2009. The new procedures also allowed the Commission to quickly approve an unprecedented proposal for a “summer sale” on the mail, which allows eligible mailers to earn up to 30% discounts for mail volumes above a certain threshold. Similar innovations have also been implemented throughout the competitive side of the business, where prices are now set in greater accordance with market opportunities. The major elements of reform have been implemented on or ahead of schedule, and the new model is operational.

the PAEA to ensure the input of all stakeholders in helping to shape international postal policy. The PRC also works with the State Department, Postal Service and other federal agencies to ensure coordinated engagement in the Universal Postal Union (UPU). The Commission is also establishing a framework to link the global postal regulatory community. In March, it hosted its first Postal Regulatory Dialogue in Washington D.C., with postal regulators from Japan, China, Ecuador, Portugal and the European Commission in attendance. Of particular attention were ways in which each country was ensuring universal service, quality of service and a level playing field. There was also specific interest in the Commission’s findings on the broad scope and \$4.4bn cost of the Universal Service Obligation in the U.S., and the \$3.5bn value of the postal monopoly. (The full PRC Report on Universal Service and the Postal Monopoly is available on the Commission website at www.prc.gov.) The meeting confirmed that there is a keen interest among the international postal regulatory community to share information, experiences and best practices. The Commission has developed an international section on its website as a continuing forum and source of information on global postal regulation.



an ongoing debate whether this payment schedule is sustainable in the near term. USPS states that it could run out of cash this year unless an adjustment is made. Congress is presently considering this important funding issue.

Significant positive changes have occurred under the new postal operating model. Price reviews are now completed in approximately one month compared to almost a year under the old model. The Commission has already approved

International engagement and reform

The PAEA also strengthened the PRC’s role in international postal affairs. The Commission works in close coordination with the U.S. State Department, which is the lead U.S. agency for international postal policy. The Commission serves on its Federal Advisory Committee for International Postal and Delivery Services, which were created under

The future

Despite the current economic difficulties, there is wide agreement that mail remains a highly effective communications medium with unique physical qualities that customers appreciate and other communications technologies cannot match. The international postal system continues to be the world’s first and most egalitarian information superhighway, with an extraordinarily low cost of participation for the individual consumer. It is essential, however, that these historic strengths are supported by modern advances in structure, administration, technology and regulation. That is certainly the goal of postal reform in the United States.