

14th Königswinter Seminar on Postal Economics
Postal Regulation and Volumes under Pressure
25-27 November 2013. Hirschburg, Königswinter, Germany



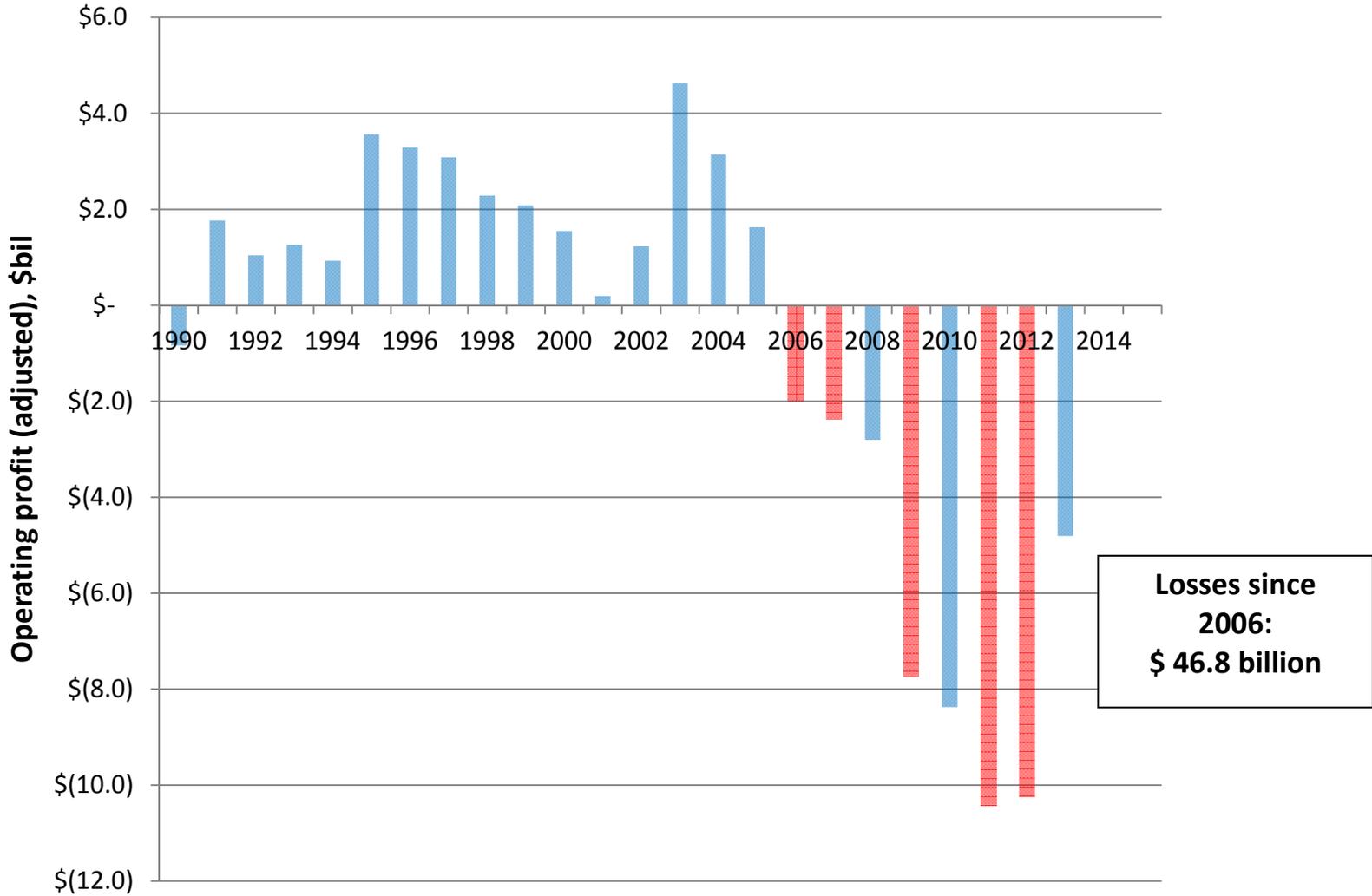
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Topics

1. Current state of the Postal Service
2. Broader perspectives
3. U.S. regulatory framework
4. Current reform proposals
5. Conclusions

1. Current state of the Postal Service

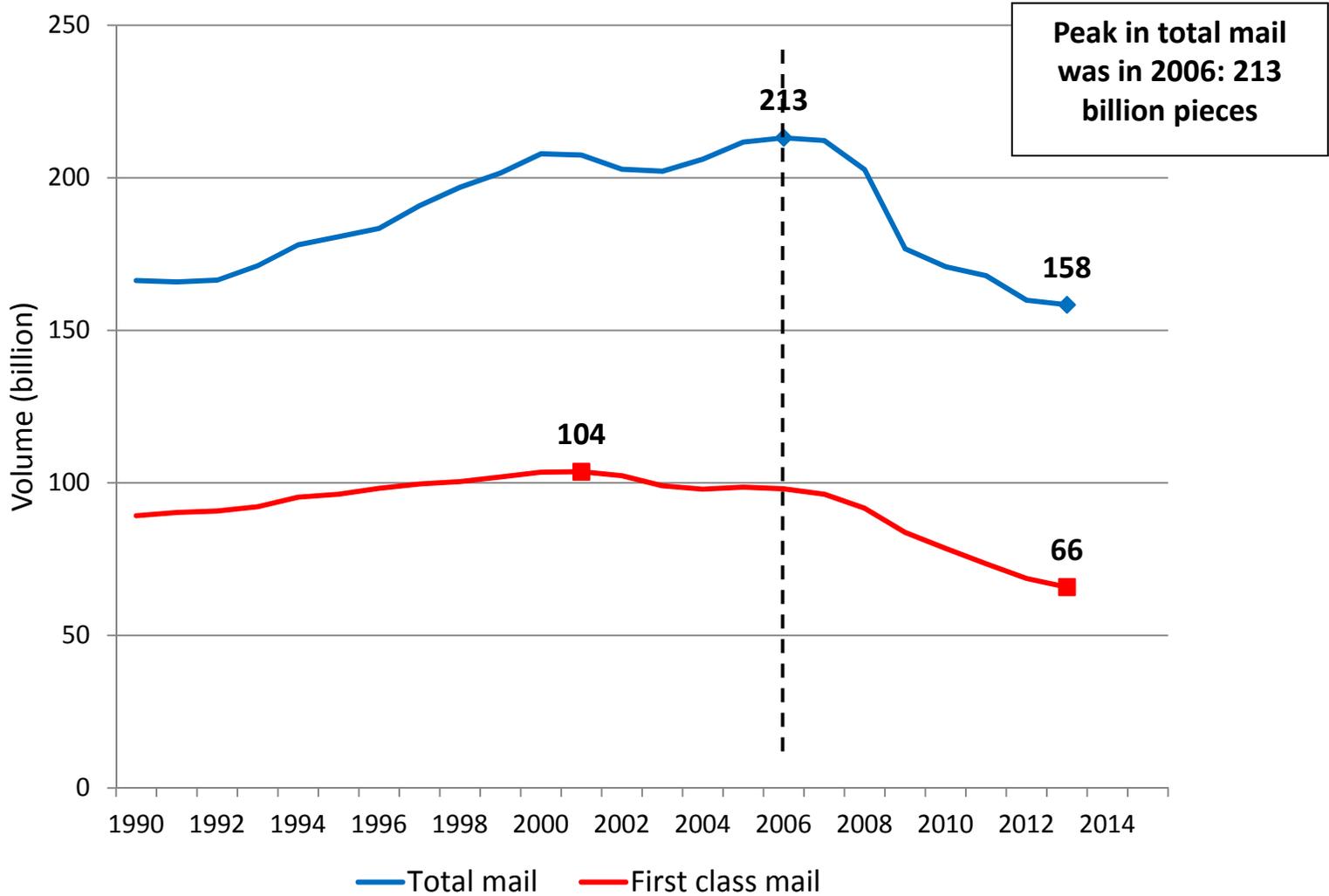
USPS is incurring unacceptable losses



Note: Columns in red indicate adjustment of expenses to eliminate effects of shifting Retiree Health Benefit Fund payments to alternate years by post-PAEA legislation.

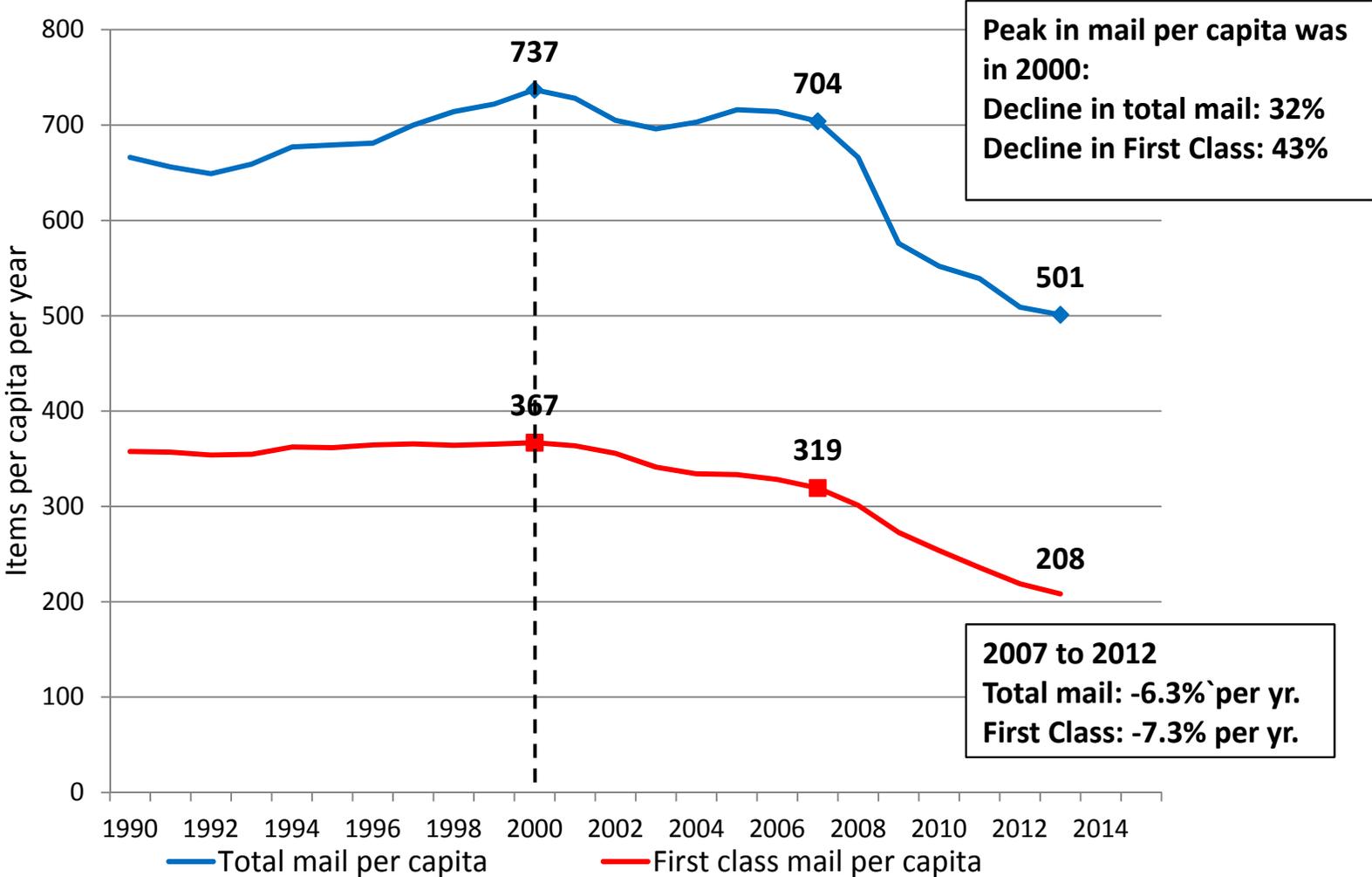
Source: USPS, website, 10-K Reports (2009, 2013), and Annual Reports (2007, 2005)

USPS mail volume, 1990 to 2013



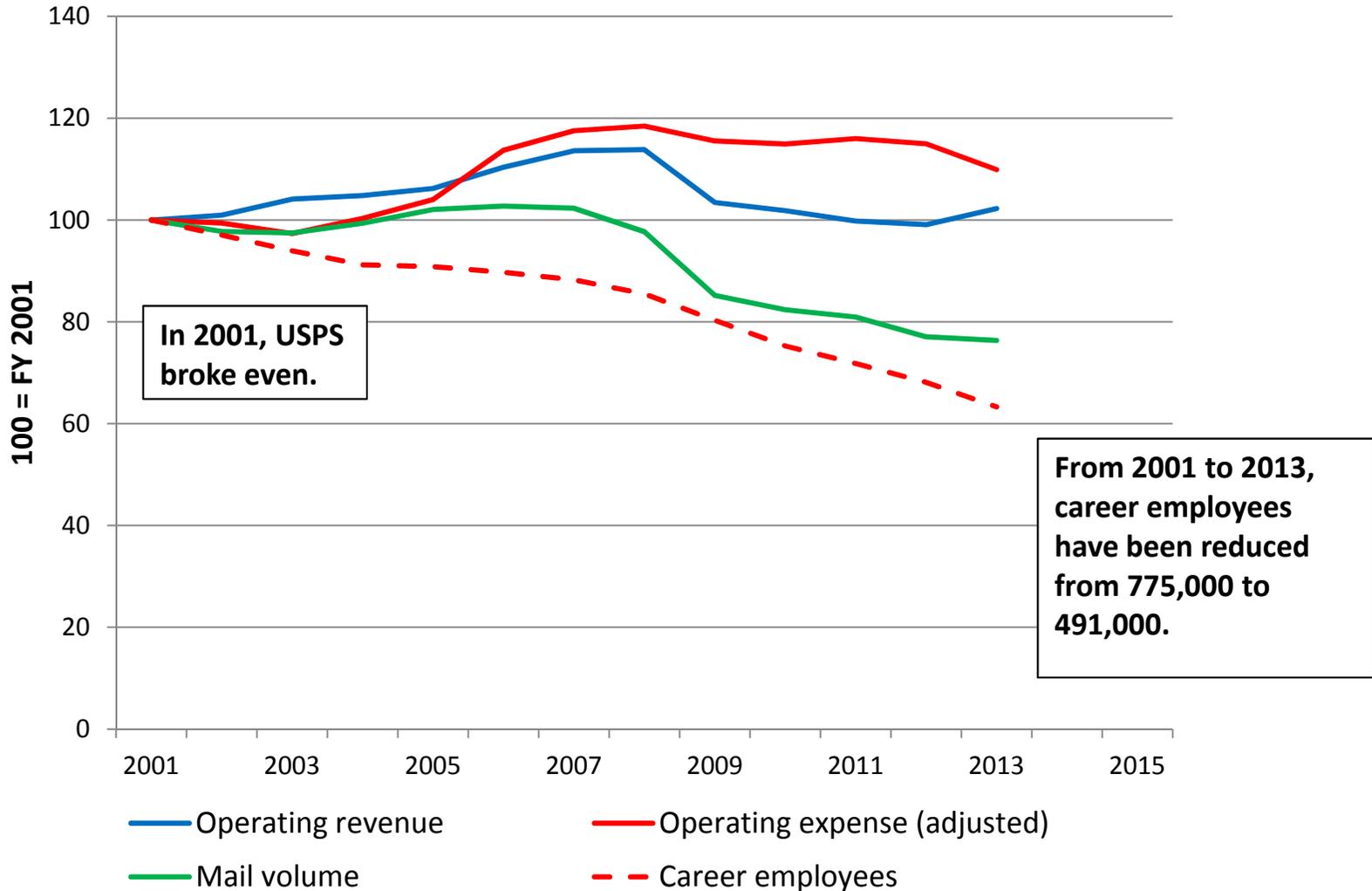
Source: USPS, website and 10K Reports.

USPS mail volume per capita, 1990 to 2013



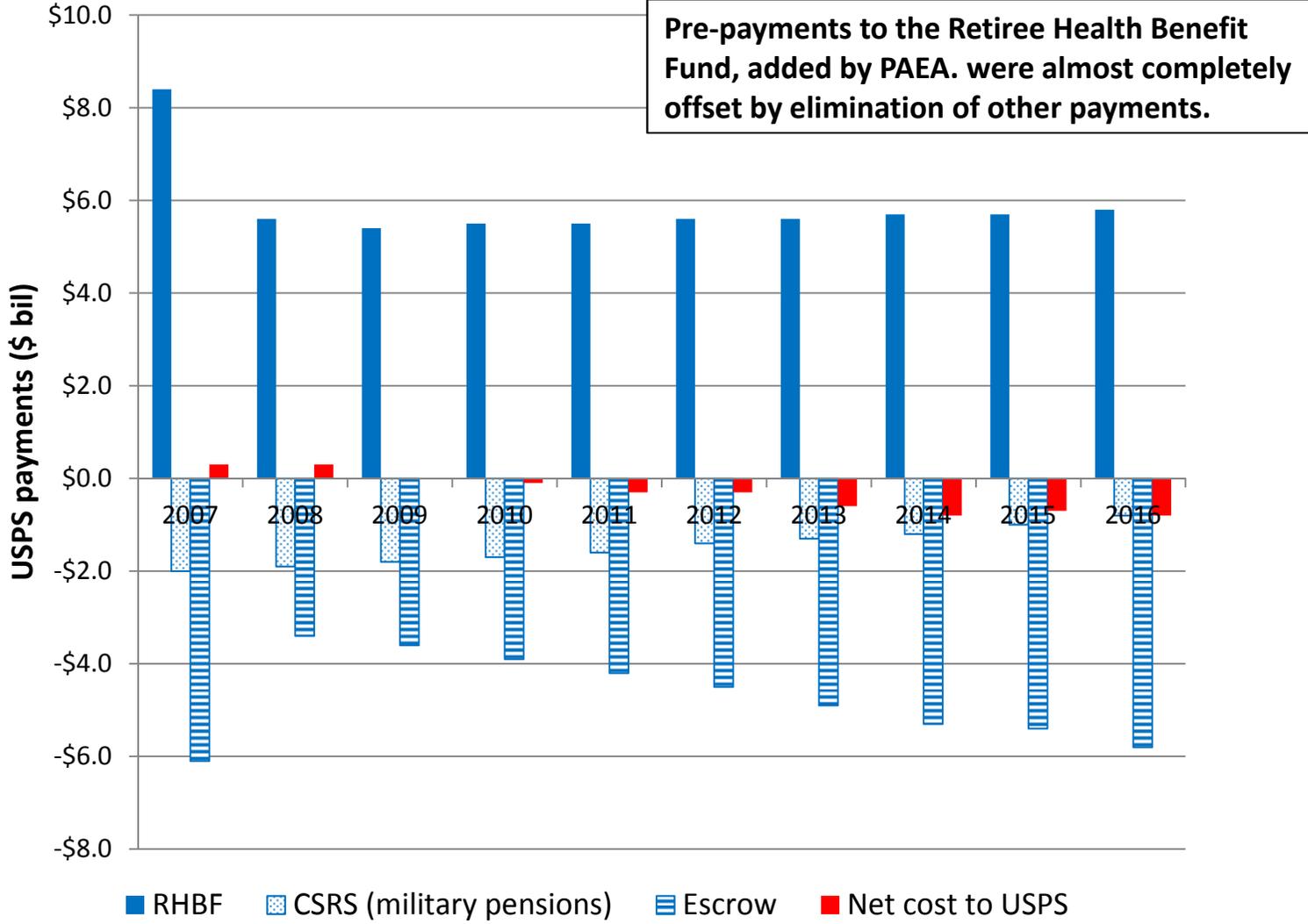
Source: USPS, website and 10K Reports; U.S. Census Bureau (resident population).

Key cost and revenue trends since 2001



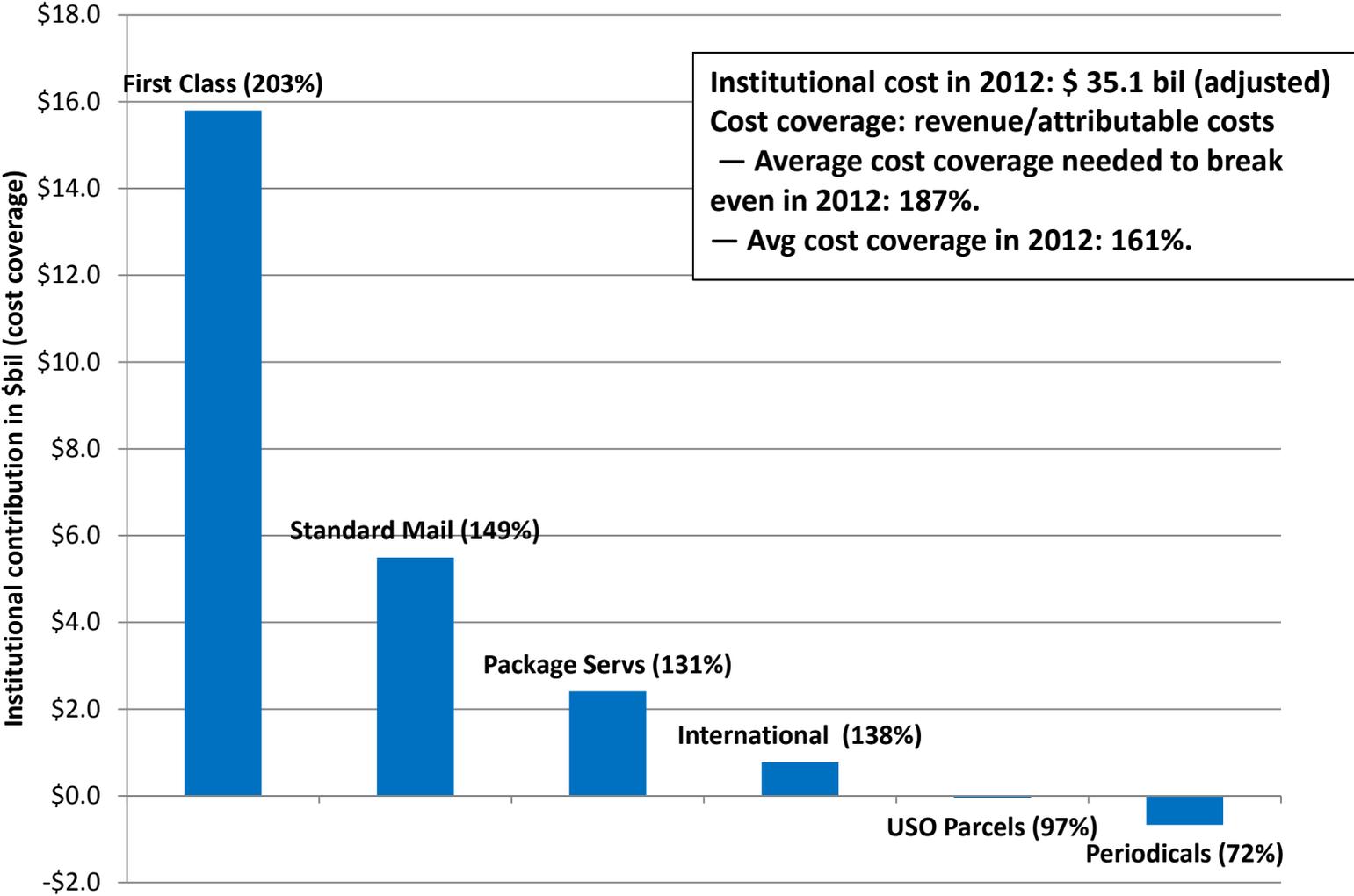
Note: Expenses adjusted to eliminate effects of shifting Retiree Health Benefit Fund payments to alternate years by post-PAEA legislation.
Source: USPS, website and 10K Reports

RHBF payments did not cause the losses



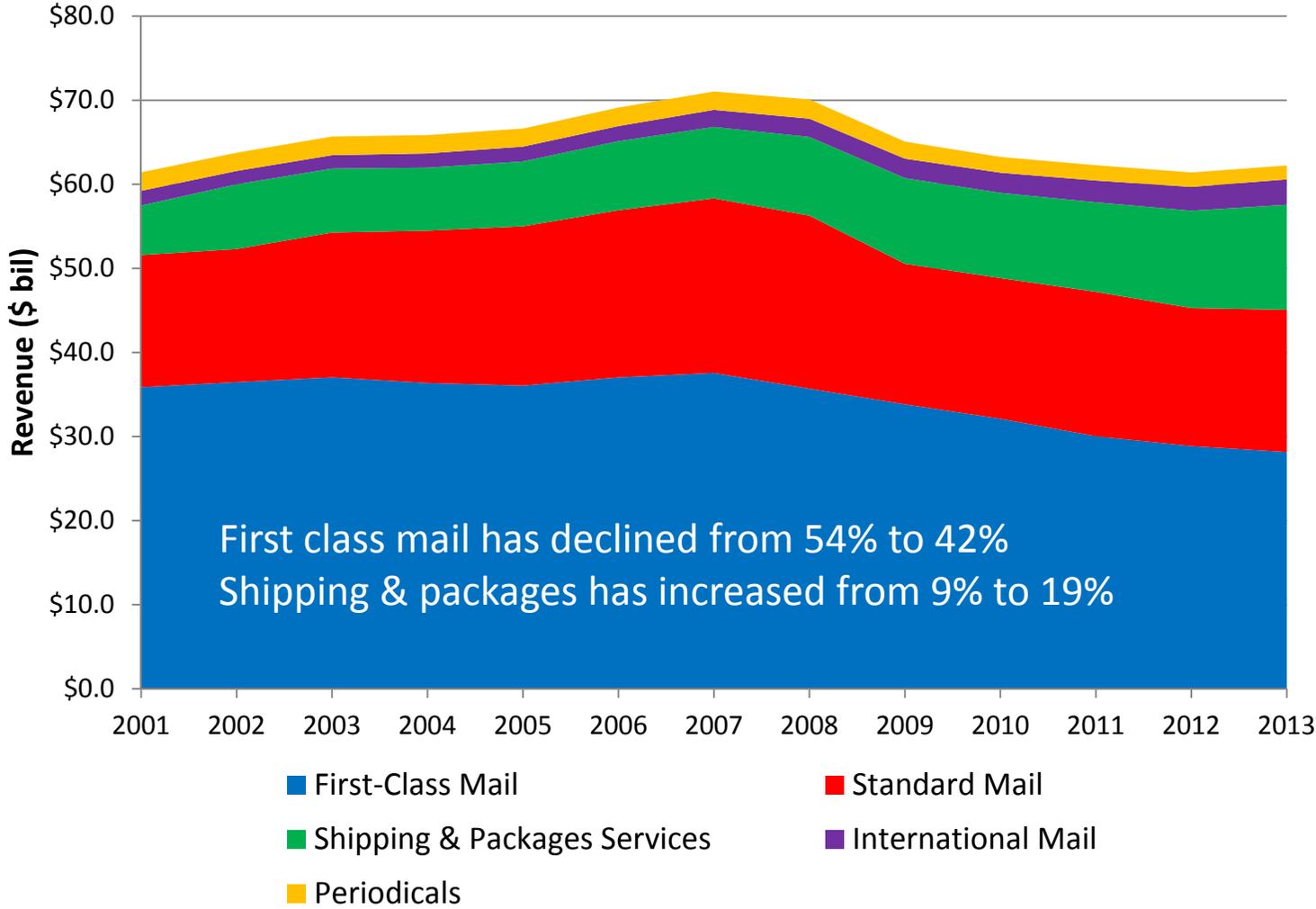
Source: Congressional Budget Office, "H.R. 6407: Postal Accountability and Enhancement Act" (Dec 27, 2006).

USPS depends financially on first class mail (2012)



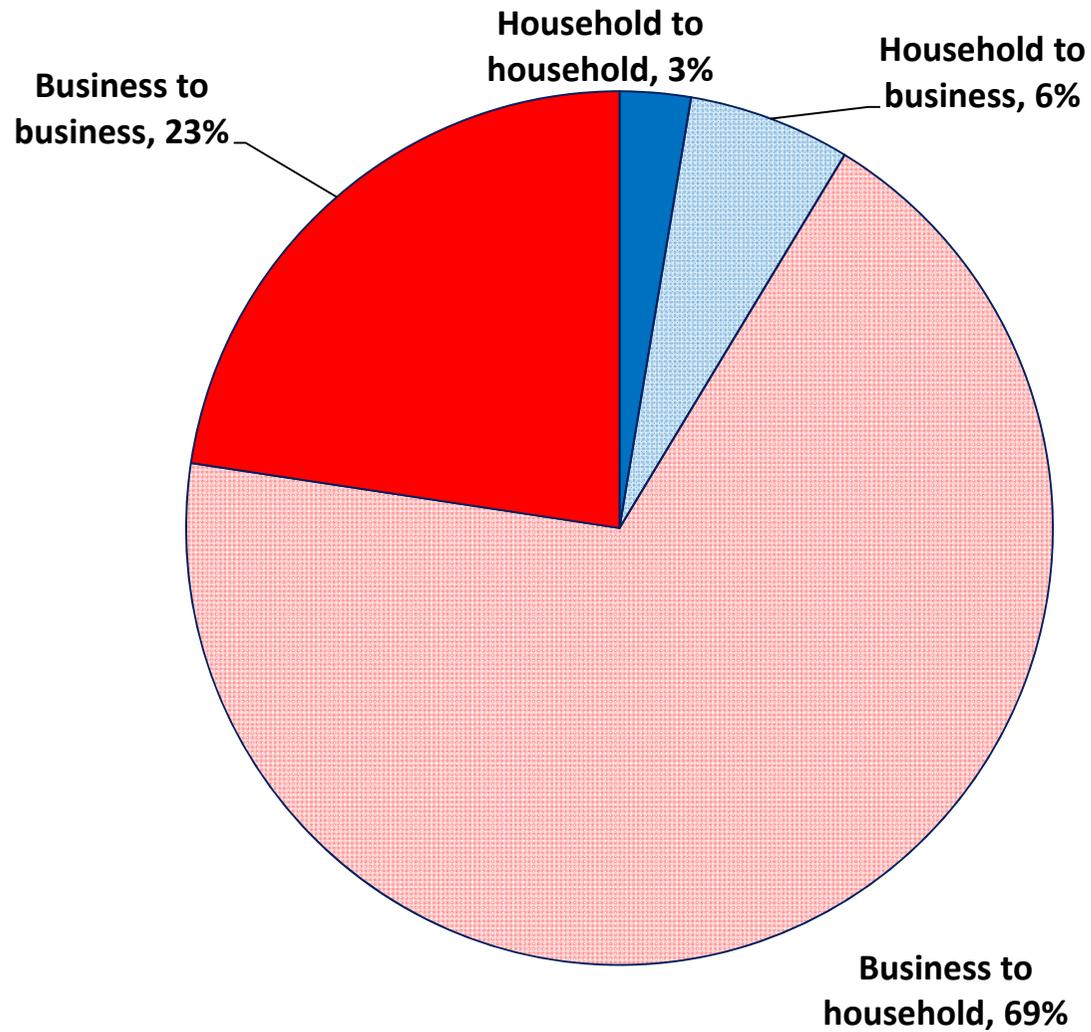
Note: Institutional cost has been adjusted to eliminate effects of shifting Retiree Health Benefit Fund payments to alternate years by post-PAEA legislation. Product categories may not coincide with USPS.
Source: PRC, Annual Compliance Report (2012).

Product focus is shifting from first class to packages



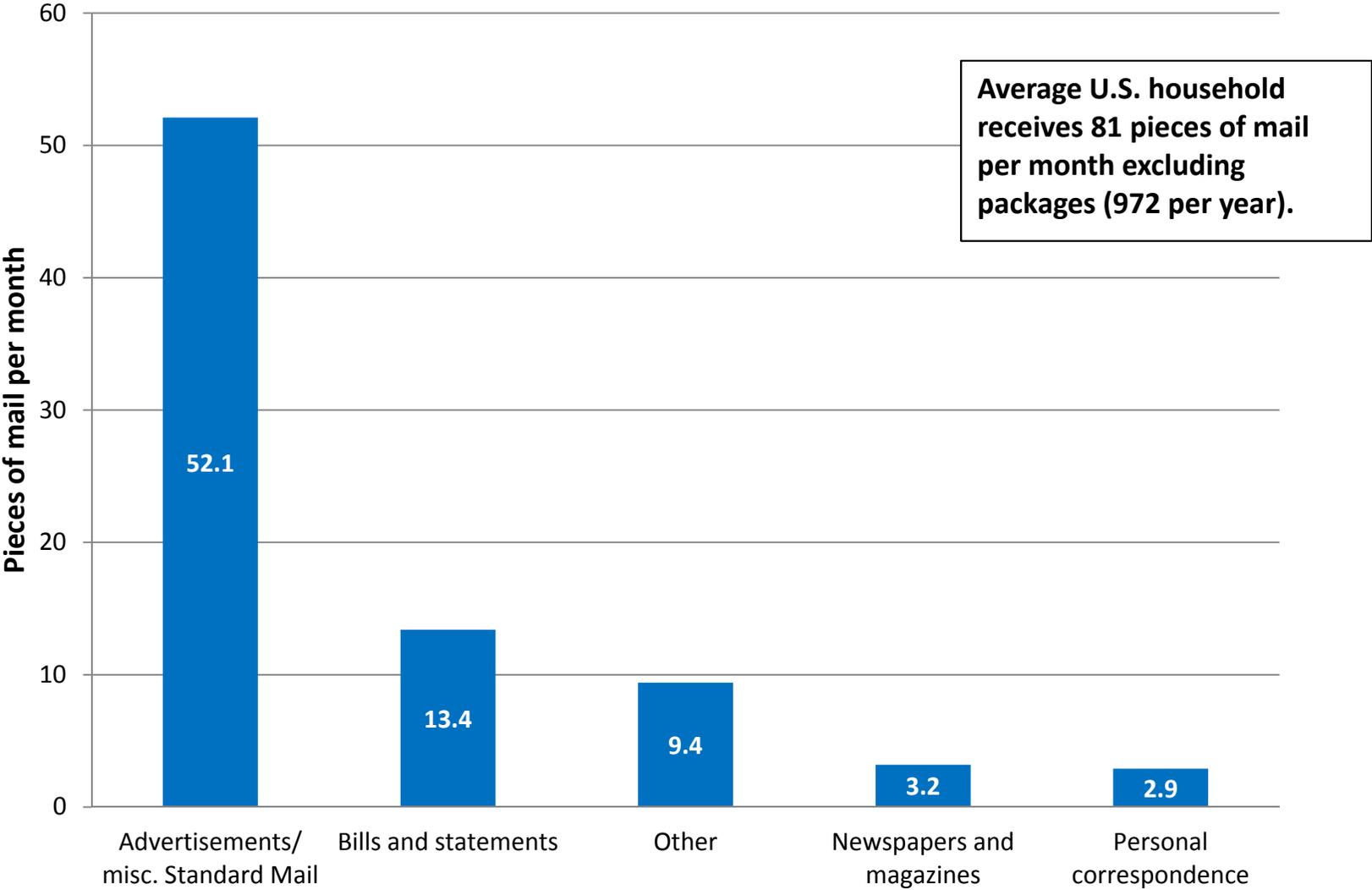
Note: Some of the shift is due to transfer a first class parcels from first class to packages.
Source: USPS, 10-K Reports and Annual Reports, 2005, 2007, 2009, 2013. Some data for 2008 data is derived from interpolation.

91% of mail is sent by businesses and organizations



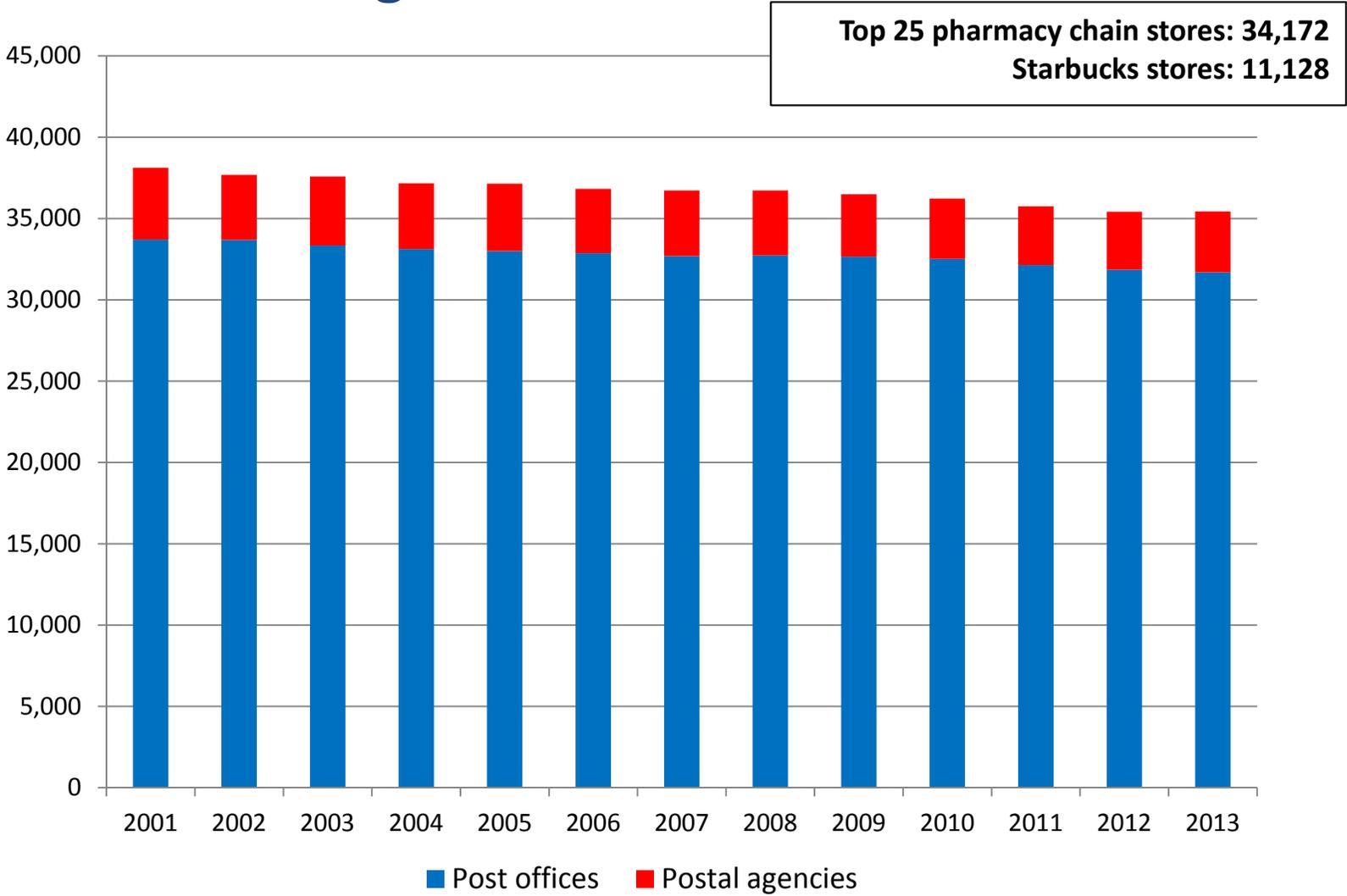
Source: USPS, Household Diary Survey, 2013, p. 10.

72% of mail is sent to households



Source: USPS, Household Diary Survey, 2013, p. 11.

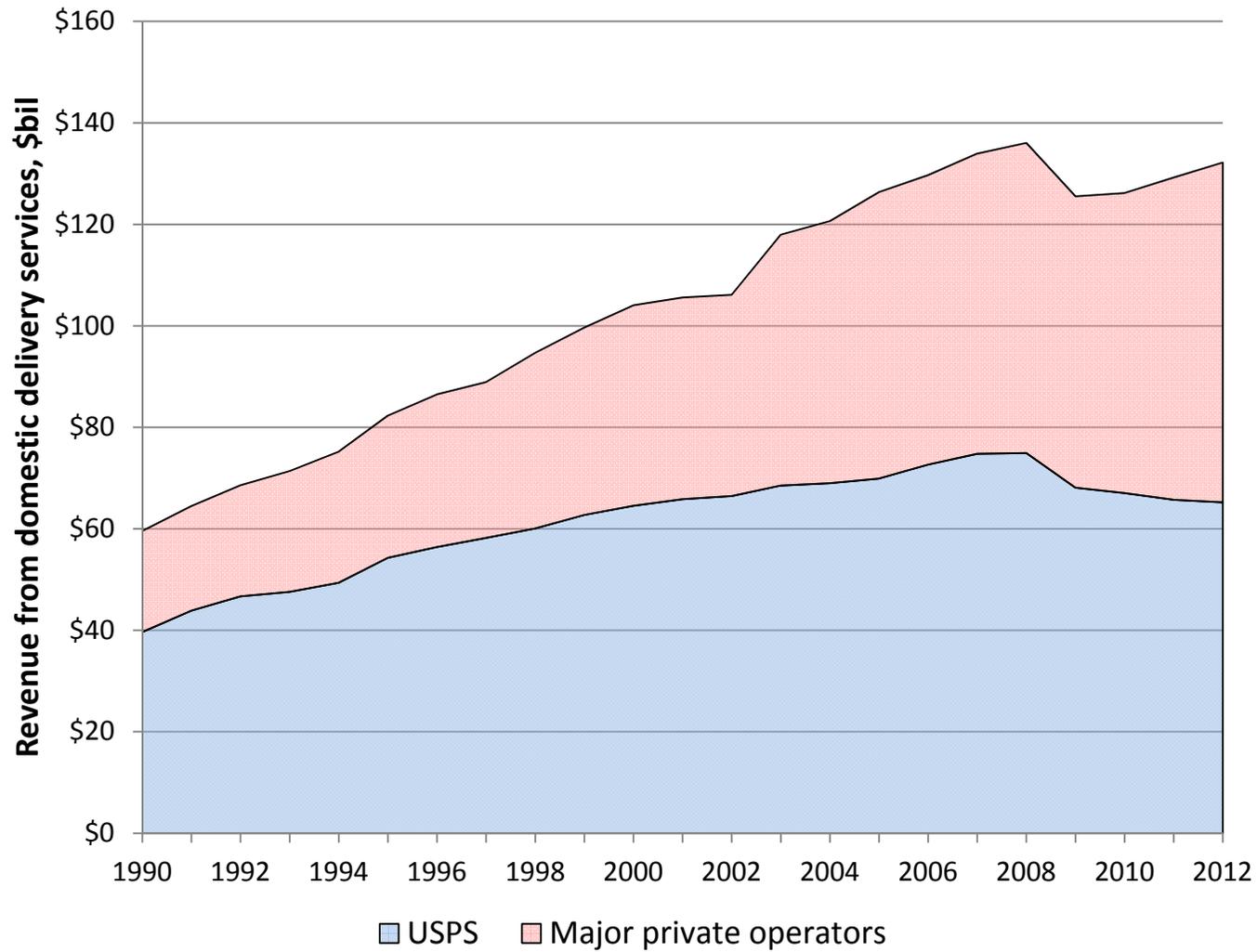
Post offices and agencies



Source: USPS, Annual Report 2005; 10K 2010, 10K 2013.

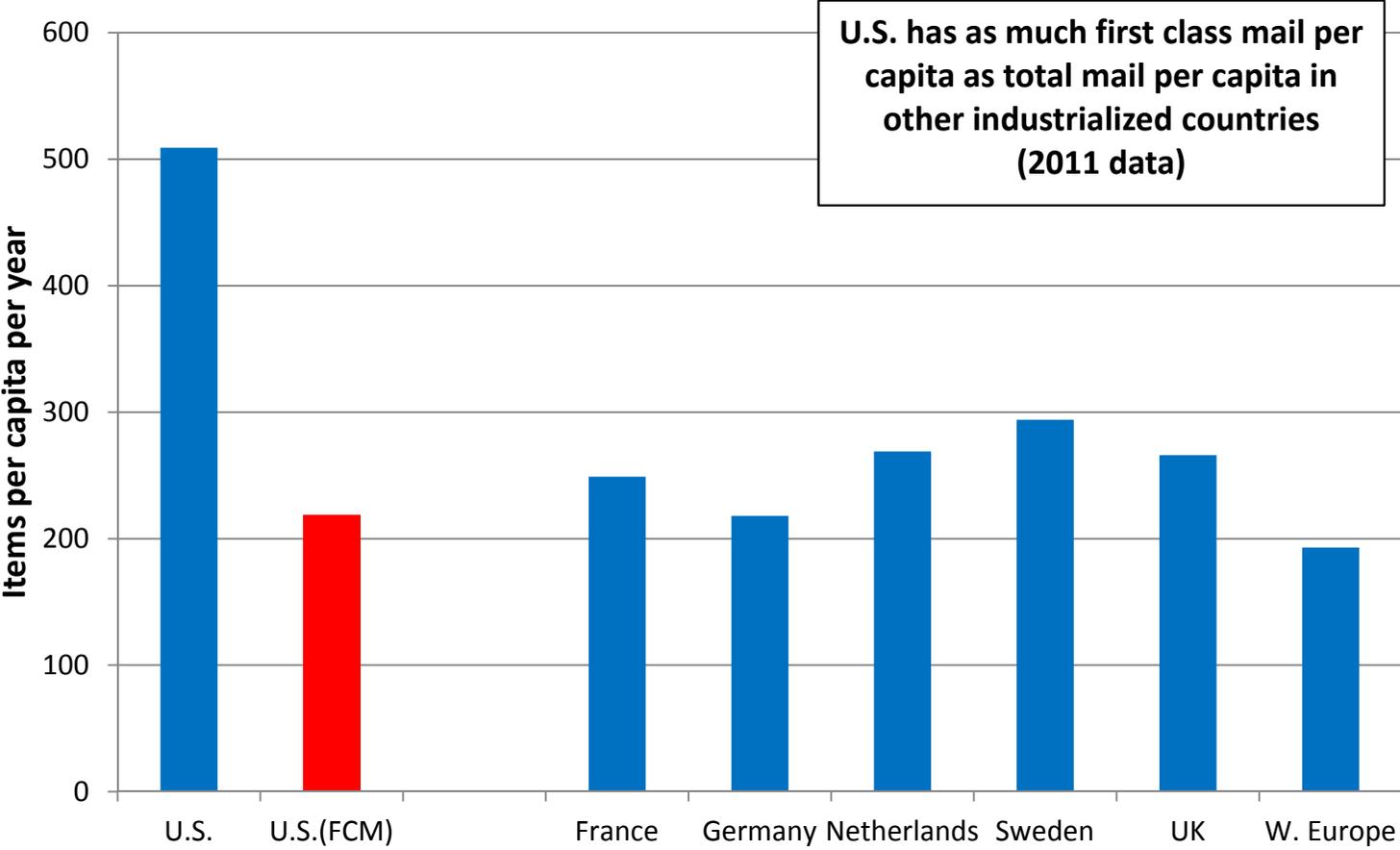
2. Some broader perspectives

U.S. delivery services market is booming.



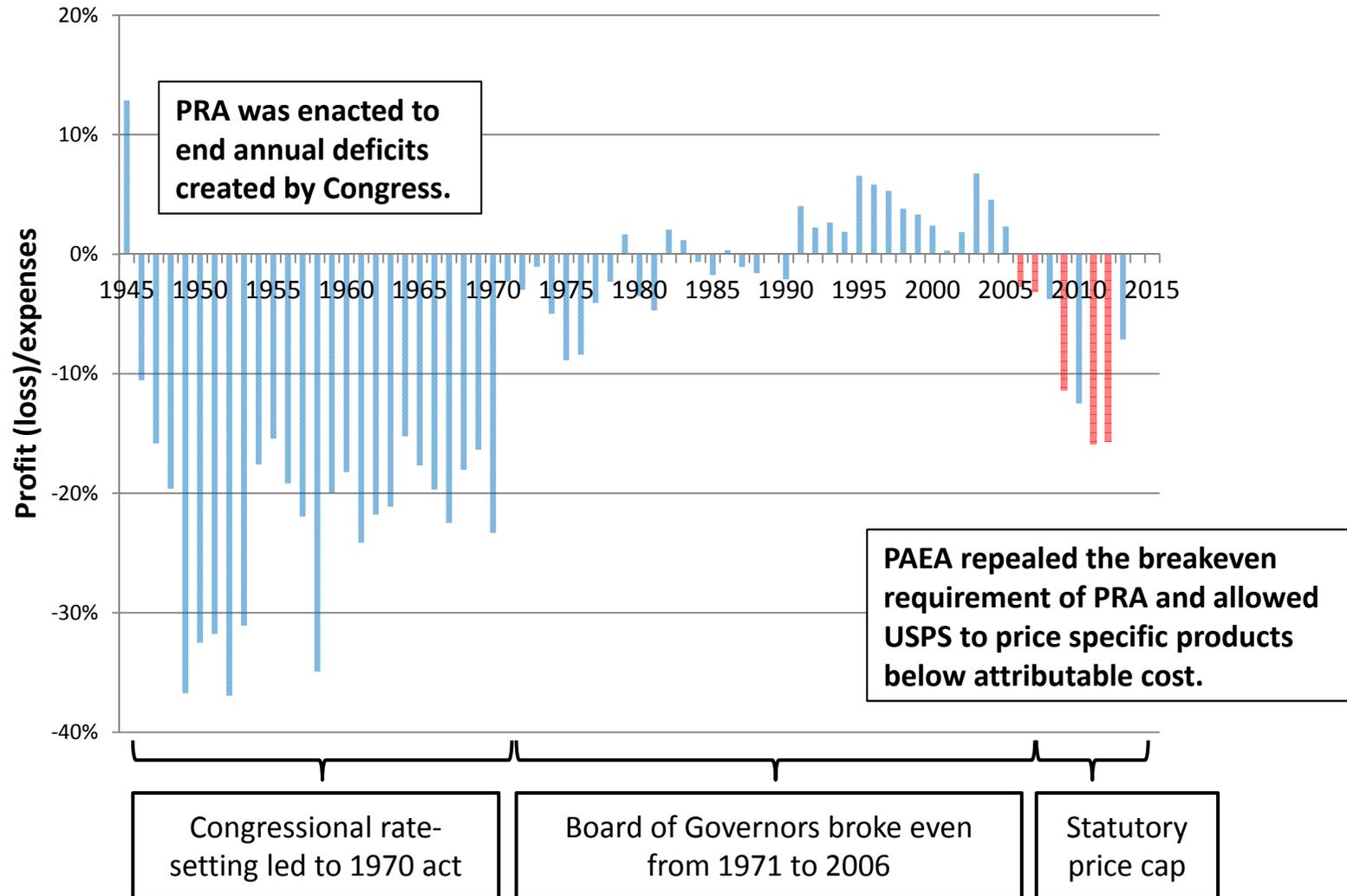
Source: Eno Transportation Foundation, Transportation in America (20th ed., 2007), p. 52. FedEx Corporation, 10K Reports and Statistical Books; UPS, 10K Reports.

U.S. has lots of mail compared to other countries.



Note: W. Europe refers to the “EU-15” countries of the European Union.
Source: USPS and WIK.

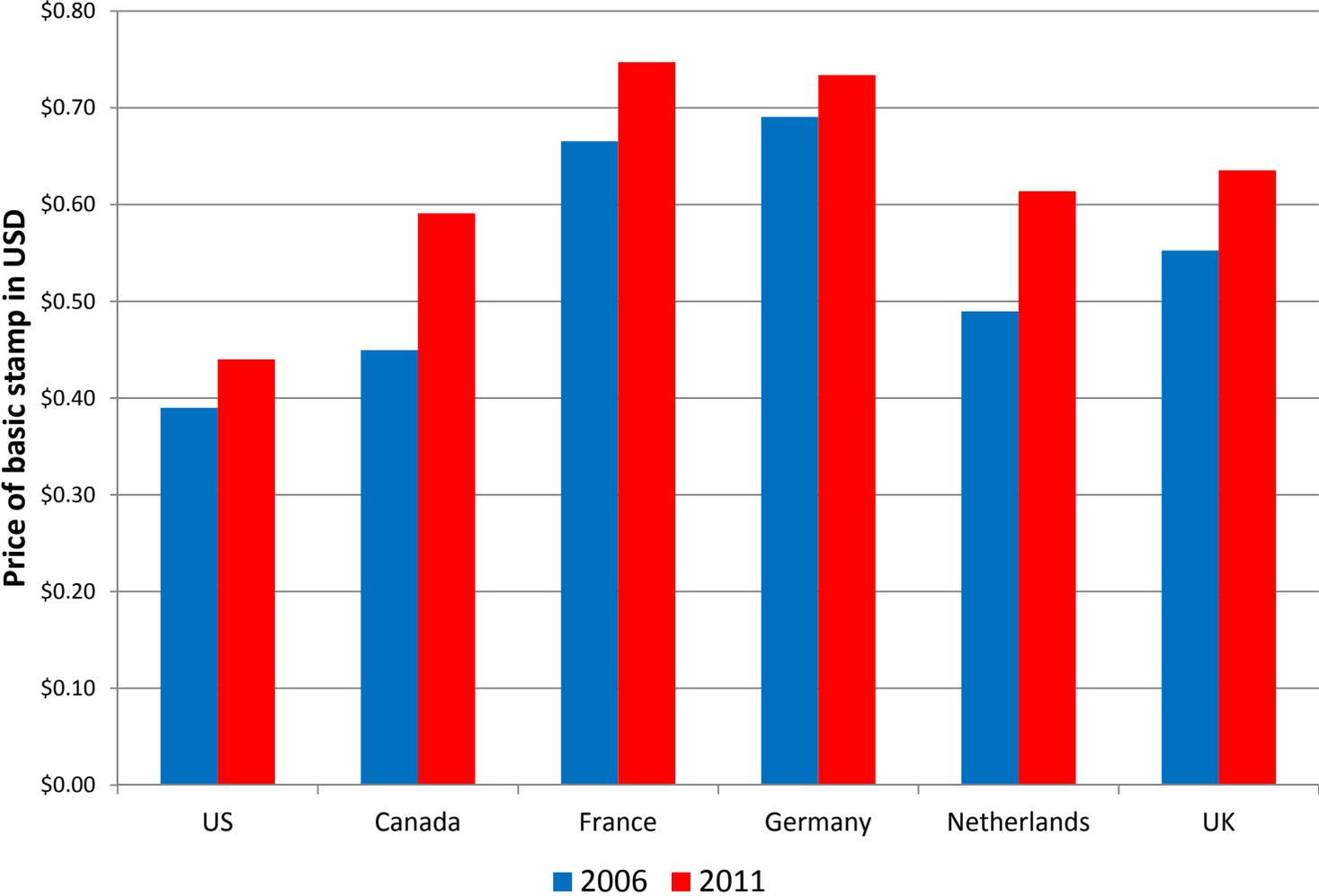
Congressional control over rates could end (again).



Note: Columns in red indicate adjustment of expenses to eliminate effects of shifting Retiree Health Benefit Fund payments to alternate years by post-PAEA legislation.

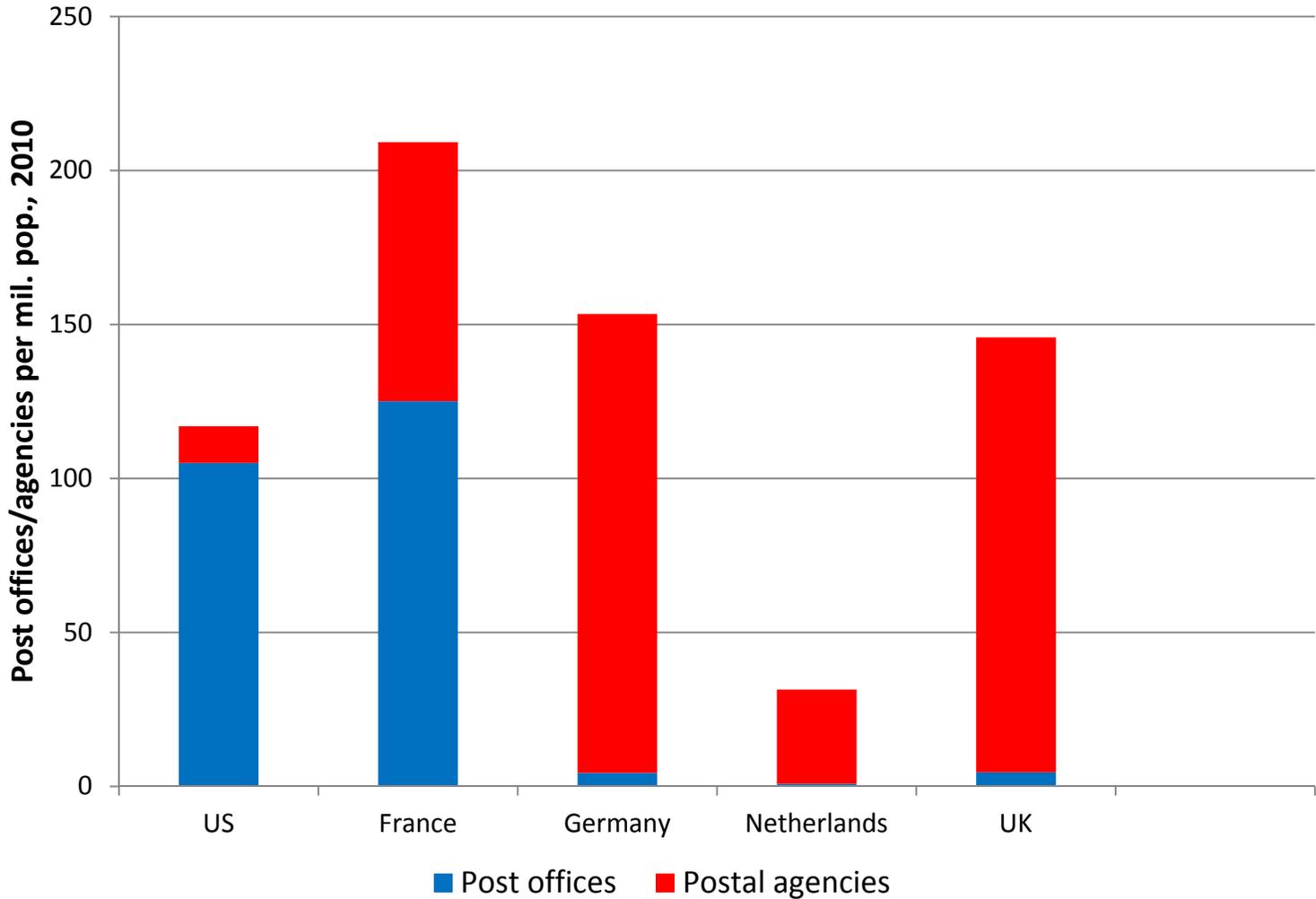
Source: USPS, website, 10-K Reports (2009, 2013), and Annual Reports (2007, 2005)

U.S. stamp prices could likely be increased.



Source: USPS and WIK.

U.S. post offices could be converted to agencies.



Source: USPS and WIK.

Delivery frequency could be reduced.

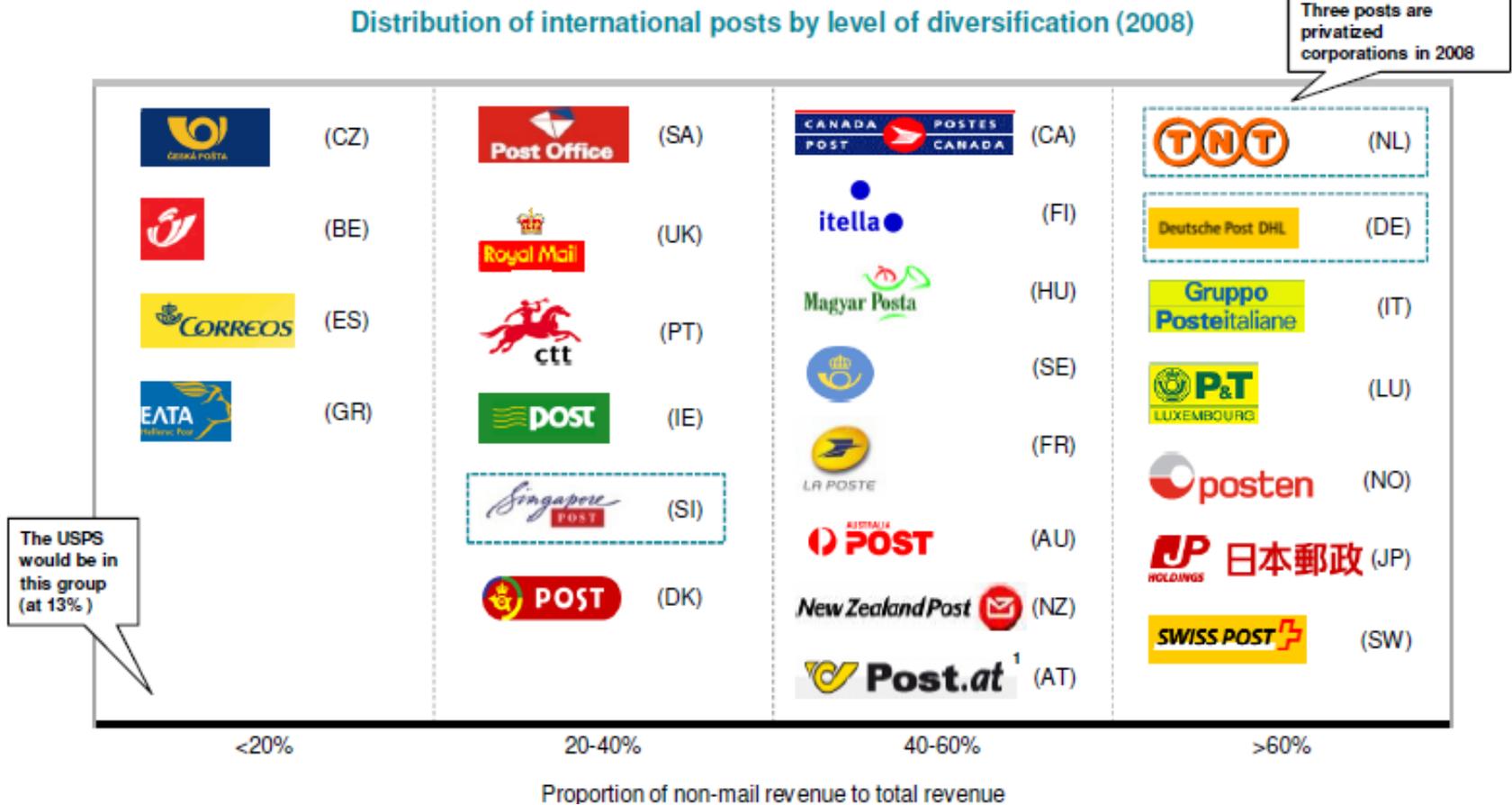
End Saturday delivery?	CBS poll Feb 2013
Support – all Americans	71 %
Oppose – all Americans	24 %
Support by income group	
— Earn more \$100,000 per year	87 %
— Earn less than \$100,000 per year	64 %
Support by political party	
— Democrat	67 %
— Republican	75 %

Source: <http://www.cbsnews.com/news/poll-71-support-ending-saturday-postal-delivery>. Nov 23, 2013.

Other major countries have reformed with success.

- Australia, New Zealand, and all European countries (except Cyprus) have corporatized the post office
 - 11 European countries have wholly or partly privatized the post or are planning to do so.
- N.Z. and all European countries have repealed the postal monopoly.
- All countries maintain satisfactory universal postal services at least five days per week.
 - NZ will reduce delivery frequency to 3 days in urban areas.
 - Some EU countries are beginning to consider less than 5 day service in the future.
- All countries have dealt with legacy labor issues.
 - Government may pay extraordinary legacy costs of civil servants.
- Many posts have substantially diversified from purely mail business (next slide).

Diversification of major foreign posts (2010)



Source: Accenture, “Is Diversification the Answer to Mail Woes? The Experience of International Posts” (Feb 2010), p. 18 (study for USPS).

3. U.S. regulatory framework

Major Postal Laws (Title 39 U.S.C.)

- Postal Reorganization Act of 1970 (PRA)
 - Abolished Post Office Department
 - Established U.S. Postal Service and Postal Rate Commission
 - Ended Congressional control over postage rates (except for preferential rates) and postal wages (not benefits).
 - Required Postal Service to match revenues and expenses over time.
- Postal Accountability and Enhancement Act of 2006 (PAEA)
 - Divided postal services in market-dominant and competitive products.
 - Postage rates:
 - Ended “break even” requirement.
 - Market dominant products: frozen at 2006 levels plus inflation.
 - Competitive products: broad flexibility for USPS.

Organization of the U.S. Postal Service

- Independent agency of U.S. government
- Board of Governors – 11 members
 - 9 Governors serve 7-year terms
 - Appointed by the President with the approval of the Senate.
 - Postmaster General and Deputy PMG.
- Postmaster General and Deputy appointed by 9 Governors
 - Postmaster General is the Chief Executive Officer.
 - Executive salaries capped at civil service levels.
- Employment
 - Wages set by collective bargaining with required mediation.
 - Pension and health care benefits set by Congress.
 - Postal employees cannot strike.
 - Special rules include due process rights; veterans' preferences.
- Diversification from postal services prohibited by law.

Universal service and other public services

- Term “universal service” never used in U.S. postal law.
- National postal policy (§§ 101, 403) sets broad but vague goals:
 - “Bind the National together”.
 - Provide “a maximum degree of effective and regular postal services to rural areas”.
 - Serve “as nearly as practicable the entire population”.
 - Maintain post offices “consistent with reasonable economies”.
- Specific requirements for preferential postage rates
 - Small town newspapers, non-profit publications, library mail, etc.
 - Free mail for blind.
- Annual appropriations bills require “6-day delivery and rural delivery of mail shall continue at not less than the 1983 level”.
- Uniform rates for letters? Unclear.

Postal monopoly and other legal privileges

- Postal monopoly is unclear
 - Monopoly was enacted in 1872 and applies to carriage of “letters”
 - USPS (and mailers) claim the postal monopoly covers almost all textual physical communications including business records, advertisements, and text in electronic form *based on* USPS monopoly regulations.
 - PAEA repealed statutory bases for USPS monopoly regulations and transferred future administration to the PRC.
 - PRC defers to pre-PAEA USPS monopoly regulations.
- Mailbox monopoly
 - USPS has exclusive right to deposit mail in private mailboxes.
 - Applies to competitive and market dominant products.
 - Adopted during the Depression to protect Post Office.
- USPS exempt from many State regulatory laws.

Postal Regulatory Commission (PRC)

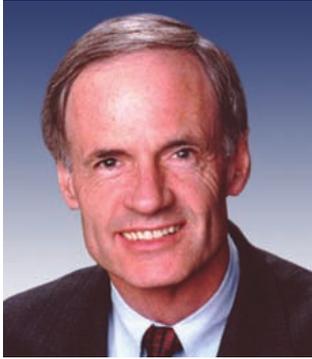
- Composition of the PRC
 - 5 members serve 6-year terms.
 - Appointed by President with approval of the Senate.
 - Chairman, designated by President, controls the staff.
- Rate regulation
 - Enforce price cap for market dominant products based on definition of mail “classes” in 2006.
 - Ensure competitive products pay appropriate share of overhead.
 - Prevent discrimination; review complaints against selected practices.
- Service regulation
 - Non-binding opinion on changes in national nature of service.
 - No authority to define or enforce universal service obligations.
- Evaluates USPS compliance with law annually.

International postal services

- National policy for international postal and private services (§ 407):
 - Promote “unrestricted and undistorted competition” (outside the U.S. monopoly).
 - Promote “a clear distinction between governmental and operational responsibilities” in U.S. government and international authorities.
 - Apply same import/export controls for all competitive products.
- Major responsibilities:
 - Dept. of State (DoS) leads negotiations at Universal Postal Union.
 - PRC ensures UPU rates for market dominant products are consistent with U.S. standards.
- In practice, U.S. leads anti-competitive forces at the UPU
 - Dept. of State and PRC ignore goals and requirements of U.S. law.
 - Depts. of Justice and Commerce have power but have not intervened.

4. Current reform proposals

Goals of Postal Reform



Sen. Tom Carper: *“[To] prevent collapse, protect millions of mailing industry jobs, and enable this critical institution to serve the American public for years to come.”*



Sen. Tom Coburn: *“[To] protect taxpayers and ensure the Postal Service can remain economically viable while providing vital services for the American people.”*



Rep. Darryl Issa: *“This legislation will restore the United States Postal Service to long-term financial solvency while maintaining high-quality universal service for all Americans.”*

View from 30,000 feet

- S. 1486. “Carper-Coburn bill”
 - Eliminates price cap and delivery frequency requirements after 1 to 2 year standstill period.
 - Substantially reduces authority of the PRC.
 - No change in monopoly or other legal privileges.
 - Creates a government agency with broad commercial powers in delivery and freight sectors but it lacks discipline either by regulator or competitive market.
- H.R. 2748. “Issa bill”
 - Replaces politically-appointed Board of Governors with politically-appointed Control Board.
 - 5-day service, no change in price cap or monopoly/legal privileges .
 - Requires USPS to balance its budget by reducing services & wages.
 - Labor provisions could provoke strong reaction from unions.

Overview of Bills: Postal Services

Topic	S. 1486 (Carper-Coburn)	H.R. 2748 (Issa)
Standstill provisions	<ul style="list-style-type: none"> No change in service standards for first-class mail or periodicals for 2 yrs. No closure or consolidation of network facility for 2 yrs. 	—
Rates for market dominant products	<ul style="list-style-type: none"> BOG sets new rates without PRC review. Price cap applies to all products, not classes. Price cap ends Dec 2016. 	—
Delivery frequency	<ul style="list-style-type: none"> USPS may adopt 5 or fewer day national delivery after 1 yr. 6-day delivery for packages req'd for 2 yrs. 7-day delivery encouraged where profitable. 	<ul style="list-style-type: none"> USPS may adopt 5 day national delivery. Domestic competitive products must have 6-day service until Dec 31, 2018.
Delivery mode	<ul style="list-style-type: none"> Require clusterboxes for new addresses. Convert door delivery to clusterbox or curbside on voluntary basis. 	<ul style="list-style-type: none"> Require curbside boxes or clusterboxes for new addresses. Convert 30 mil door deliveries to cluster or curbside by 2022; fees for cont'd door del.
Post offices	<ul style="list-style-type: none"> USPS must follow statutory procedures before closing post offices; no PRC review. No procedures for closing contract offices. 	<ul style="list-style-type: none"> Standards for PO closure relaxed (§ 101(b)). PRC to review of closures of post offices, but not if a PO is within 2 mi of another PO. No PRC review for contract offices.
Change in nature of national services	BOG, not PRC, to conduct public review of change in nature of market dominant services	—
Beer/wine/spirits	USPS allowed in compliance with State laws.	—

Overview of Bills: Institutional Reforms (1)

Topic	S. 1486 (Carper-Coburn)	H.R. 2748 (Issa)
Special committee to guide or control USPS	Strategic Advisory Committee on Postal Service Solvency and Innovation <ul style="list-style-type: none"> • 7 members: 3 apptd by Pres and 4 by Congress leaders. • Blueprint for long term solvency (20 yr) • Plan for interagency agreements for post offices (e.g., Census, motor vehicles) • Both reports due to PMG in 9 months from enactment; USPS to comment in 2 months (6 months for interagency plan). 	Financial Responsibility and Management Assistance Authority <ul style="list-style-type: none"> • 5 member apptd by Pres from nominees by 4 Congress leaders and GAO. • Authority replaces BOG • Control period until USPS makes operating profit for 2 yrs and projects profit for 3 yrs. • Authority to take any action necessary to breakeven on operating budget.
USPS long-term solvency plan	USPS plan for "long term solvency" (breakeven operations only) due in 150 days and annually thereafter for 5 yrs.	Annual plan for each of control period. Must achieve breakeven by 2016; annual progress towards long term solvency; pay debts.
USPS board	Governors reduced from 9 to 7 members. BOG consists of 7 Governors, PMG, and Sec Treasury (replaces Dep PMG).	Current BOG dismissed. New BOG consisting of 5 members appt'd by Pres in consultation with Senate and HR
USPS officers	Chief Innovation Officer created Plan for innovation required 9 mo. after enactment.	Chief Innovation Officer created. Plan for innovation to Congress 12 mo. after appointment.
USPS offices	USPS to submit in 1 yr a plan to Congress to reduce number of area/ district offices.	USPS to plan and implement 30% reduction in area/district offices by Oct 1, 2015.
Inspector General	Appointed by President (instead of BOG).	Appointed by President (instead of BOG).

Overview of Bills: Institutional Reforms (2)

Topic	S. 1486 (Carper-Coburn)	H.R. 2748 (Issa)
Non-postal products	USPS may enter business that uses "processing, transportation, delivery, or retail network or technology" of USPS and not create "unfair competition"; classified as competitive prods.	USPS authorized to sell advertising space at post offices; must cover 200% attrib cost.
Services for State govts & Fed agencies	USPS may provide property or services to State and local govts; must cover attrib cost.	USPS may provide property or services to State and local govts, fed agencies; must make reasonable contrib to institutional costs.

Overview of Bills: Employment

Topic	S. 1486 (Carper-Coburn)	H.R. 2748 (Issa)
Pension funds (CSRS and FERS)	<ul style="list-style-type: none"> • Use USPS-specific data to calculate contributions to pension funds. • Up to \$6 bil of surplus may be returned to USPS to pay off accumulated debts to US. • USPS and employee may agree to limit participation in FERS for new employees. 	<ul style="list-style-type: none"> • Use USPS-specific data to calculate contributions to pension funds. • Provides for transfer of any annual surplus to be transferred to RHBF.
Retiree health benefit fund (RHBF)	<ul style="list-style-type: none"> • Cancel prefunding payments in default (about \$11 bil) and 2013-16 payments. • Begin 40 amortization payments in 2016 and reduce goal to 80% of unfunded liability. • USPS employees may access Medicare. • USPS and employees may agree to set up retiree health plans. 	<ul style="list-style-type: none"> • Cancel prefunding payments in default (about \$11 bil) and 2013-16 payments. • Begin 40 amortization payments in 2015.
Other programs	<ul style="list-style-type: none"> • Reform Federal workers comp. • Reform Federal property management. 	<ul style="list-style-type: none"> • Similar concept but USPS only. • —

Overview of Bills: Additional House Provisions

Topic	S. 1486 (Carper-Coburn)	H.R. 2748 (Issa)
USPS contracting	—	Reform of USPS contracting to promote more competition in contracting
Alaskan bypass mail	—	Require 50 percent cost coverage by 2018.
NSAs for competitive products	[No PRC review of rates]	Streamline PRC review
Employee contracts	—	Prohibit no-layoff labor contracts.
USPS life insurance and health care (FEHBP and FEGLI)	—	Require USPS employees to make health and life insurance payments like other Federal workers.
Fringe benefits	—	Eliminate restrictions on fringe benefits less than 1971.
Pay comparability	—	Change 'comparable pay' standard to entire private sector.
Labor disputes: mediation procedures	—	Mandate last-best-offer mediation of labor disputes.

Current prospects for the bills

- H.R. 2748 was approved by House committee and awaits consideration by the full House of Representatives
 - In Committee, all Republicans supported and all Democrats opposed.
 - Approval by the House is uncertain.
 - Approval by the Senate is very unlikely.
- S. 1486 is presently stuck in the Senate Committee
 - All Democrats except Chairman Carper oppose the proposed revision to the statutory price cap.
 - Many Democrats oppose elimination of minimum delivery frequency requirement.
 - Approval of a modified version in 2013 appears unlikely.
- Enactment of new law in 2013 is very unlikely.

5. Conclusions

Conclusions

- The commercial prospects for the U.S. Postal Service are not as bleak as large losses and declines in letter volume may suggest.
 - Main obstacle to reform is the legislative framework.
- Congress has not addressed the basic issues which could allow the Postal Service to become “*economically viable while providing vital services for the American people*”.
 - Organization of USPS so it can adapt to rapid market changes.
 - Definition and financing of an acceptable universal service.
 - Revision of regulatory framework to allow USPS commercial flexibility while protecting against abuse of dominant position.
 - Elimination of the postal monopoly and other privileges.
 - A vision of postal reform acceptable to a majority of Congress.
- Congress is rapidly losing the institutional capacity to draft fundamentally new postal legislation.