

Executive Summary

The mission of the U.S. Postal Service is to provide the American public with trusted, affordable, universal service. Congress and the President set forth this mission by recognizing the Postal Service's critical role in commerce and in binding the nation together. While not explicitly defined, the Postal Service's universal service obligation (USO) is broadly outlined in multiple statutes and encompasses multiple dimensions: geographic scope, range of products, access to services and facilities, delivery frequency, affordable and uniform pricing, service quality, and security of the mail. While other carriers might offer *delivery* on a universal basis, the Postal Service is the only carrier *obligated to provide all aspects* of universal service at affordable prices. To ensure funding of the USO, Congress and the President established the Private Express Statutes (PES) and the mailbox access rule, which together comprise the postal monopoly. Since any obligation must be matched by the capability to meet that obligation, the USO, the PES, and the mailbox rule are inextricably linked.

Recent growth in the American population and the number of delivery points has led to a significant increase in the Postal Service's fixed costs, while over the last few years, volumes have taken a very visible downward turn. Recent economic trends certainly account for a good share of that downturn. So, too, does the acceleration of electronic diversion. Increasingly, personal correspondence is sent via the internet, financial statements arrive online, and bills are received and paid electronically. Online alternatives have become more prominent for news publications and advertising, and competition thrives in the package delivery arena. While the Postal Service may have a limited statutory monopoly, the reality is that there are alternatives to every piece of mail.

The Postal Service believes that the broad definition of USO should be maintained. First, there has been no impetus for change towards a more strictly defined USO. As discussed in Section XI, surveys and hearings indicate that the American public and the mailing industry do not want any changes at this time. Compared to other posts, the Postal Service is providing a high level of service and doing so at low, affordable prices.¹ Second, due to declining mail volumes and higher energy prices, the Postal Service and the mailing industry as a whole are under great financial stress. The Postal Service needs increased flexibility to examine how it can be increasingly responsive in serving Americans into the future as circumstances continue to change. A more rigidly defined USO would unduly restrict the Postal Service and ultimately harm the American public and businesses it serves.

¹ Appendix B. Accenture Report: International Postal Liberalization – Comparative Study of US and Key Countries, p 43.

The USO should apply to market dominant products only, with competitive products subject to the market. Competitive products do not need to be included within the USO because the market provides alternatives. Security for all products and services will continue to be paramount.

The PES and mailbox access rule should be preserved as is. As mentioned above, any *obligation* must be matched by the financial *capability* to meet that obligation and the Postal Service requires adequate funding for the USO even at its current levels. The purpose of the PES and the mailbox rule for over one hundred years has been to fund and support the various obligations. Eliminating or reducing the PES or mailbox rule would have a devastating impact on the ability of the Postal Service to provide the affordable universal service that the country values so highly. The impact of relaxing the mailbox rule is estimated to result in a loss in *profit* in the range of \$1.5 billion to \$2.6 billion per year. The estimated USO cost of the uniform price requirement, under the scenario of relaxing the PES for Standard Mail along with the relaxation of the mailbox rule, is \$1.4 billion to \$3.3 billion per year. Furthermore, the estimated delivery cost savings of allowing the Postal Service to reduce delivery days to five days a week is at a minimum \$3.5 billion per year. In addition, the estimated range of cost savings of closing the smallest Post Offices is \$500 million to \$1.4 billion per year.² These are just a few of the estimated revenue impacts and obligation costs to consider in order to preserve affordable universal service.

Likewise, potential changes to the mailbox access rule would have impacts far beyond losing a funding source to fulfill the USO. Relaxing access to the mailbox will also have adverse impacts on security. As discussed in Section XI, the Commission's public outreach has shown that Americans greatly value the security and sanctity of the mail. As explained in Section VI, opening access to the mailbox would hinder the ability of postal inspectors to keep the mail secure. Additionally, opening the mailbox will greatly impact customer service and increase delivery costs.

As a further word of caution against immediate change, liberalization is not necessarily beneficial for all parties. There has already been some evidence that liberalization efforts in the United Kingdom have been detrimental to households and small businesses. In addition, in a presentation to the Commission, Philippe de Donder, visiting assistant professor at Yale University and a research fellow at the National Centre for Scientific Research at the Toulouse

² These estimates are discussed briefly in Section VII and in more detail in Appendix C. IBM Report: Quantitative Analysis of the Universal Service Obligation.

School of Economics, stated that while large businesses may benefit from liberalization, “household senders always suffer from opening to competition.”

The U.S. Postal Service has some important differences compared to foreign posts. Liberalization in foreign posts originated from a larger political context such as EU unification or a need to improve efficiency and service. As discussed in Section X, there is little upside potential from postal liberalization in the United States. The Postal Service is already efficient and provides record levels of service. Unlike other posts, the Postal Service has greatly improved efficiency over the last 30 years through automation and workshare programs that encourage efficient access to the postal system by means of price incentives. Also, foreign posts often are able to rely on revenue from nonpostal services, such as logistics or financial services, while the Postal Service is currently limited to providing only postal and ancillary services.

In summary, no changes should be made to more strictly define the USO or alter the PES or mailbox rule until the full impact of any potential changes can be thoroughly studied. The USO, PES, and mailbox rule are inextricably linked. A change in one will most certainly impact the others. And these changes will impact not only the Postal Service, but also the entire American public and the trillion dollar mailing community. Therefore, before any changes are recommended, the potential effects of such changes on these interrelated matters should be carefully studied, fully analyzed, and thoroughly supported. As Murray Comarow, who served as executive director of President Johnson’s Commission on Postal Organization in 1967-68 and President Nixon’s Advisory Council on Executive Organization in 1970-71, eloquently stated, “extraordinary change requires extraordinary evidence.”³

In addition, the Postal Accountability and Enhancement Act of 2006, from hereon referred to as the Postal Act of 2006, has been in place for less than two years; and therefore it is premature to judge the full effect of the changes on the question of whether these basic and longstanding characteristics of postal service in the U.S. should be altered. Given the recent implementation of the Postal Act of 2006, the new presence of price caps, and the severity of the current broader economic challenges, a dialogue may need to begin sooner rather than later to ensure sufficient flexibility in order to continue affordable, universal service into the future.

³ Docket. No. PI2008-3, USO Field Hearings, TR. Washington D.C. p 96, line 18.