

China - U.S. Symposium on Postal Reform
and the Express Delivery Services
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Regulatory Standards, Business Practices, and the Marketplace

James I. Campbell Jr.

Topics

1. How does the U.S. regulate air freight forwarders to ensure that they are competent and serve the public?
2. How does the U.S. regulate the Postal Service and express companies to ensure fair competition (after new law)?
3. How does the U.S. ensure the quality and customer satisfaction of express services?

1. How does the U.S. regulate air freight forwarders to ensure that they are competent and serve the public?

Background: Aviation Deregulation

- In 1977 and 1978, U.S. laws required less regulation of the aviation industry by the Civil Aeronautics Board (CAB)
- In 1979 and 1981, CAB simplified regulations for freight forwarders

Registration and Authorization

Before 1979

- Authorization by CAB
- Detailed application
 - Proposed operations
 - Relations with carriers
 - Financial stability
- Division in categories
 - Forwarder: domestic, int'l
 - Shipper cooperative
- Annual reports on operations

After 1981

- No authorization required
- No registration
- No categories
- No reports

Business Operations

Before 1979

- Bills of lading required
- Tariffs must be filed with CAB and observed
- Rates must be “just and reasonable”
- Forwarders prohibited from unjust commercial discrimination
- Insurance at specified minimum amounts

After 1981

- Bills of lading not required
- No tariffs required
- Rates set by market only
- No prohibition on commercial discrimination
- Forwarder must disclose if it has no insurance

Ownership and Sale

Before 1979

- Ownership details must be report to CAB
- Common ownership of air carriers and forwarders prohibited
- Sales, mergers, cross-management of forwarders controlled by CAB

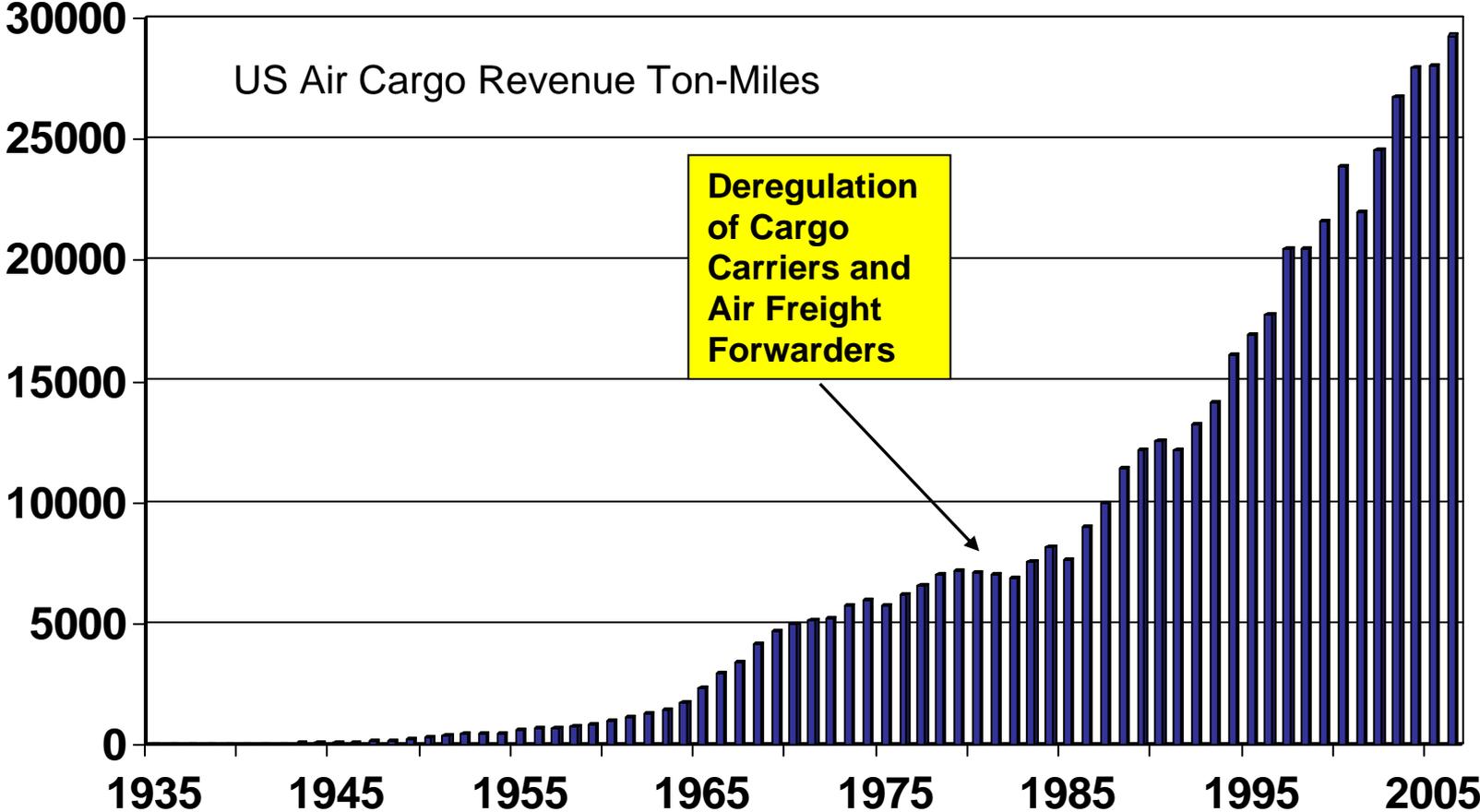
After 1981

- No details of ownership required
- No restrictions on common ownership (vertical integration)
- Normal antitrust laws only

Reasons for Changes

- Rules stifled competition, innovation, and responsiveness to customers
- Customers will control most bad behavior
- Unnecessary to require forwarders to do what they will do in their own self interest
- Special investigations are sufficient to support specific enforcement actions

Effect of Simplified Regulation



2. How does the U.S. regulate the Postal Service and express companies to ensure fair competition (after new law)?

Pre-2006: Postal Monopoly

- 1872 postal monopoly law: “letters and packets”
 - Derived from 1660 English law
- Postal Service monopoly regulations (1974)
 - Interpreted “letter” broadly
 - Suspended monopoly for express letters and remail
- Postage tax on monopoly letters out of mail
 - Equal to postage that would have been charged
 - Never a significant source of postal revenue
- Enforced by public prosecutor in courts
 - Rarely enforced: uncertain legal status

Pre-2006: Controls on Postal Service

- 1970 - Postal Rate Commission created
 - Independent of Postal Service and Ministries
 - 5 Members appointed by President for 5-year terms
- Prohibit USPS using monopoly revenue to subsidize competitive services
 - Protect overcharge to monopoly mailers
 - Prevent distortion of competitive markets
- Postal Rate Commission: no authority over USPS monopoly regulations

2006 Law: Postal Monopoly Limited

- Limited scope postal monopoly
 - Letters reserved for USPS if the letter both
 - weighs less than 350 grams and
 - is priced less than 6 times the basic stamp (\$2.46)
- Administration transferred to Postal Commission
 - USPS loses authority to define monopoly
- Postage tax on monopoly letters out of mail
- Enforced by public prosecutor in courts

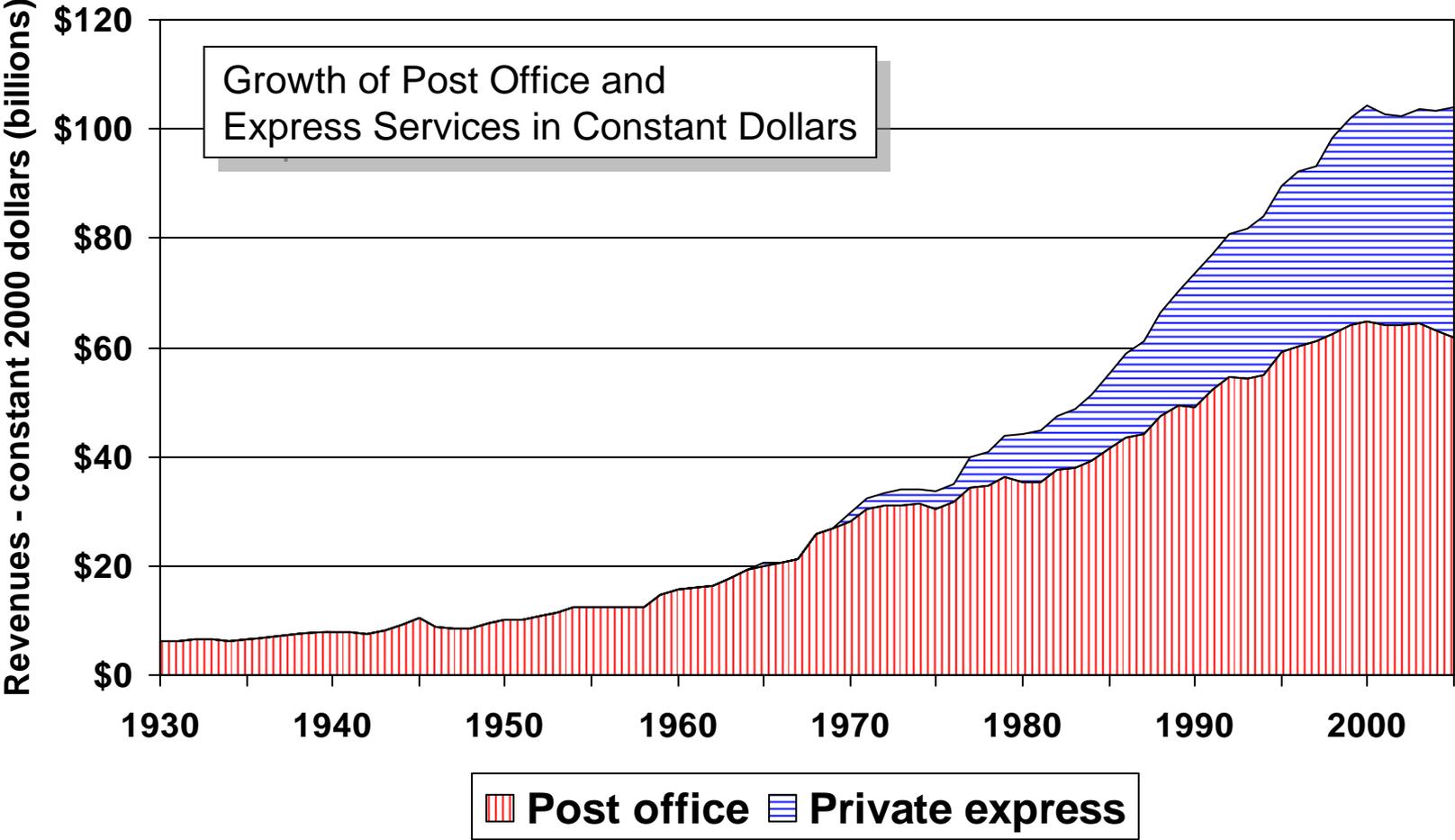
2006 Law: Controls on USPS Clarified

- Monopoly product revenues cannot subsidize competitive products
 - Each competitive product must charge a rate that covers its “attributable” cost.
 - All competitive products collectively must contribute an “appropriate” share to common overhead costs
- Commission has more authority to get data from USPS
- USPS has more commercial freedom in competitive markets

2006 Law: More Equal Application of Laws

- Some laws apply equally to similar USPS competitive products and private express:
 - Antitrust law
 - Unfair competition law
 - Customs law

Long term results U.S.-Style Coexistence



Future review

- In December 2007, the Federal Trade Commission will report on how to apply the laws more equally to USPS's competitive products
- In December 2008, the Postal Regulatory Commission will report to Congress on
 - History of postal monopoly and universal service;
 - Economics of the postal monopoly and universal service;
 - Future needs of the U.S.

3. How does the U.S. ensure the quality and customer satisfaction of express services?

Quality of Operations (I)

- USPS and each company determine operations
 - Customer information: website, service guides, etc.
 - Collection and delivery procedures
 - Rates and transit times
 - Availability of insurance for shipments
 - Procedures in case of queries, non-delivery, address or data error, poor packaging, damages, etc.
 - Training of personnel
 - Complaint procedures

Quality of Operations (II)

- Continuous quality improvements required by:
 - Rejection of poor service by customers
 - Distribution of business by forwarders and logistics companies
 - Comparison of services via Internet, business publications, trade publications
 - Demands of shareholder and financial markets

Obligations to Customer

- U.S. Postal Service
 - Domestic Mail Manual and International Mail Manual regulate types of services, customer rights, etc.
 - DMM and IMM regulations enforced by court
- Private companies
 - Airwaybill defines contract with individual customer
 - Large customer contract may have specific provisions
 - No government regulation of contract terms
 - Contracts enforced by court and customer rejection

Safety and Environment

- Transportation laws regulate transportation of hazardous material
- Employment laws regulate safety of employees
- Environmental law regulates activities affecting environment
- No safety and environmental regulation specific to USPS or private express companies

James I. Campbell Jr.
Partner

Brown Rudnick Berlack Israels LLP
1201 Pennsylvania Avenue N.W.
Washington, D.C. 20004
United States

Telephone: 1/202/536 1709
Email: jcampbell@brownrudnick.com

Firm Internet: www.brownrudnick.com
Personal internet: www.jcampbell.com