

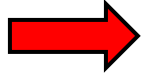
Advanced Workshop in Regulation and Competition 2010-2011  
Conflicting Technological and Competitive Forces in Regulated Industries  
"Viable Modern Postal System?"  
April 1, 2011, Washington, D.C.

# Postal Reform in the United States: A Global Perspective

James I. Campbell Jr

# Topics

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- **Facts and Figures**
- **Postal Reform: the Big Picture**
- **Foreign Solutions to Specific Issues**
- **Final Observations**

# USPS accounts for about half of world domestic letter post

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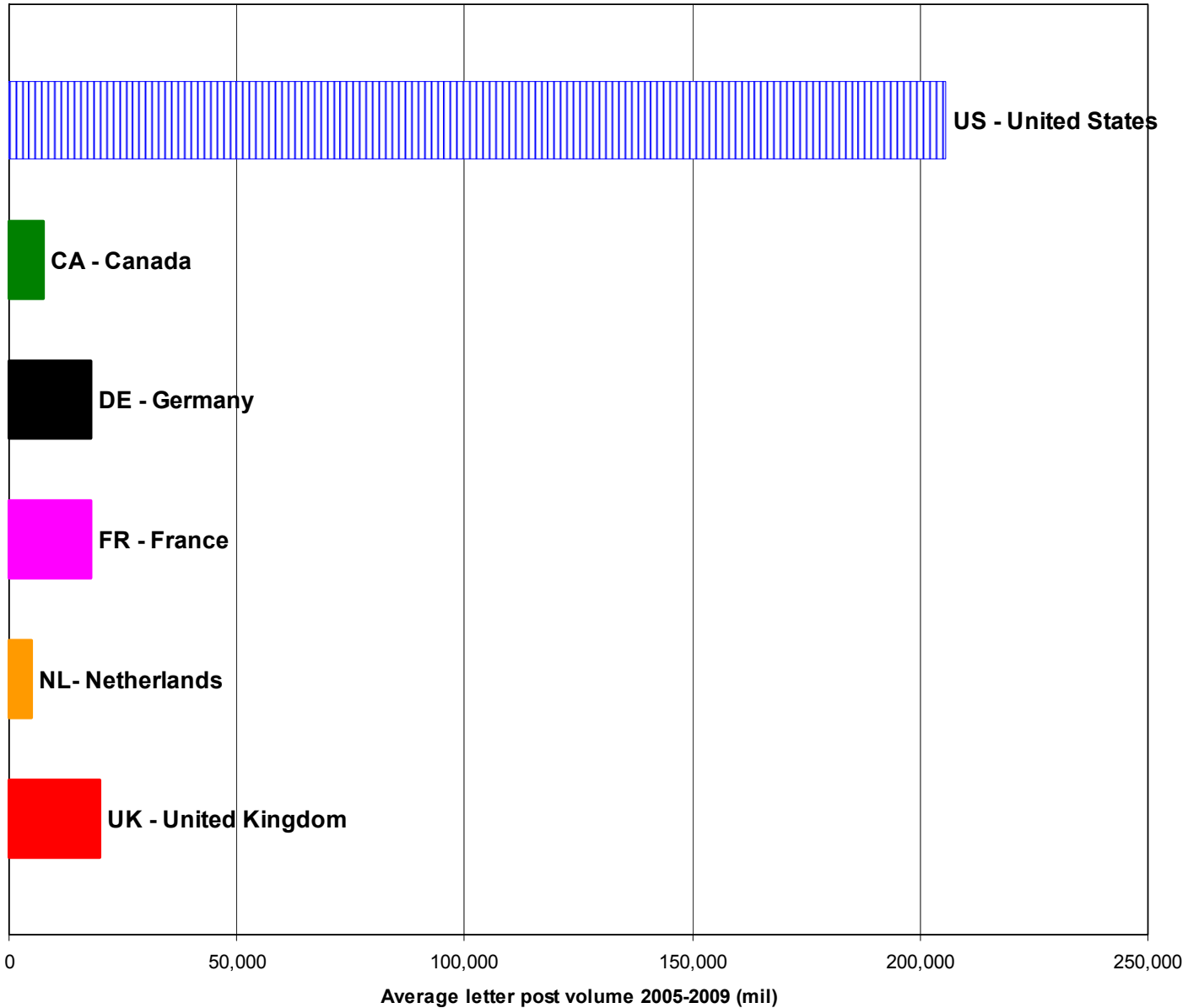
		<u>% World</u>	<u>Cum</u>
<b>1</b>	<b>United States</b>	<b>51.7%</b>	<b>52%</b>
2	Japan	6.4%	58%
<b>3</b>	<b>United Kingdom</b>	<b>5.0%</b>	<b>63%</b>
<b>4</b>	<b>France</b>	<b>4.7%</b>	<b>68%</b>
<b>5</b>	<b>Germany</b>	<b>4.7%</b>	<b>73%</b>
<b>6</b>	<b>Canada</b>	<b>2.3%</b>	<b>75%</b>
7	Brazil	2.3%	77%
8	China	1.8%	79%
9	India	1.7%	81%
10	Italy	1.5%	82%
11	Spain	1.4%	84%
12	Switzerland	1.3%	85%
13	Australia	1.3%	86%
14	Korea, Republic Of	1.2%	87%
<b>15</b>	<b>Netherlands</b>	<b>1.2%</b>	<b>89%</b>
16	Russian Federation	1.0%	90%
17	Sweden	0.7%	90%
18	Belgium	0.7%	91%
19	Austria	0.7%	92%
20	Finland	0.5%	92%

- **Notes**

- Source: UPU statistics data for 2007 with revisions for EU countries by WIK.
- Based on world total of 387 billion domestic letter post items
- Excludes unaddressed mail in EU countries.
- Excludes Chinese newspapers
- UPU countries do not necessarily define "letter post" in the same way; statistics in many countries are unreliable.

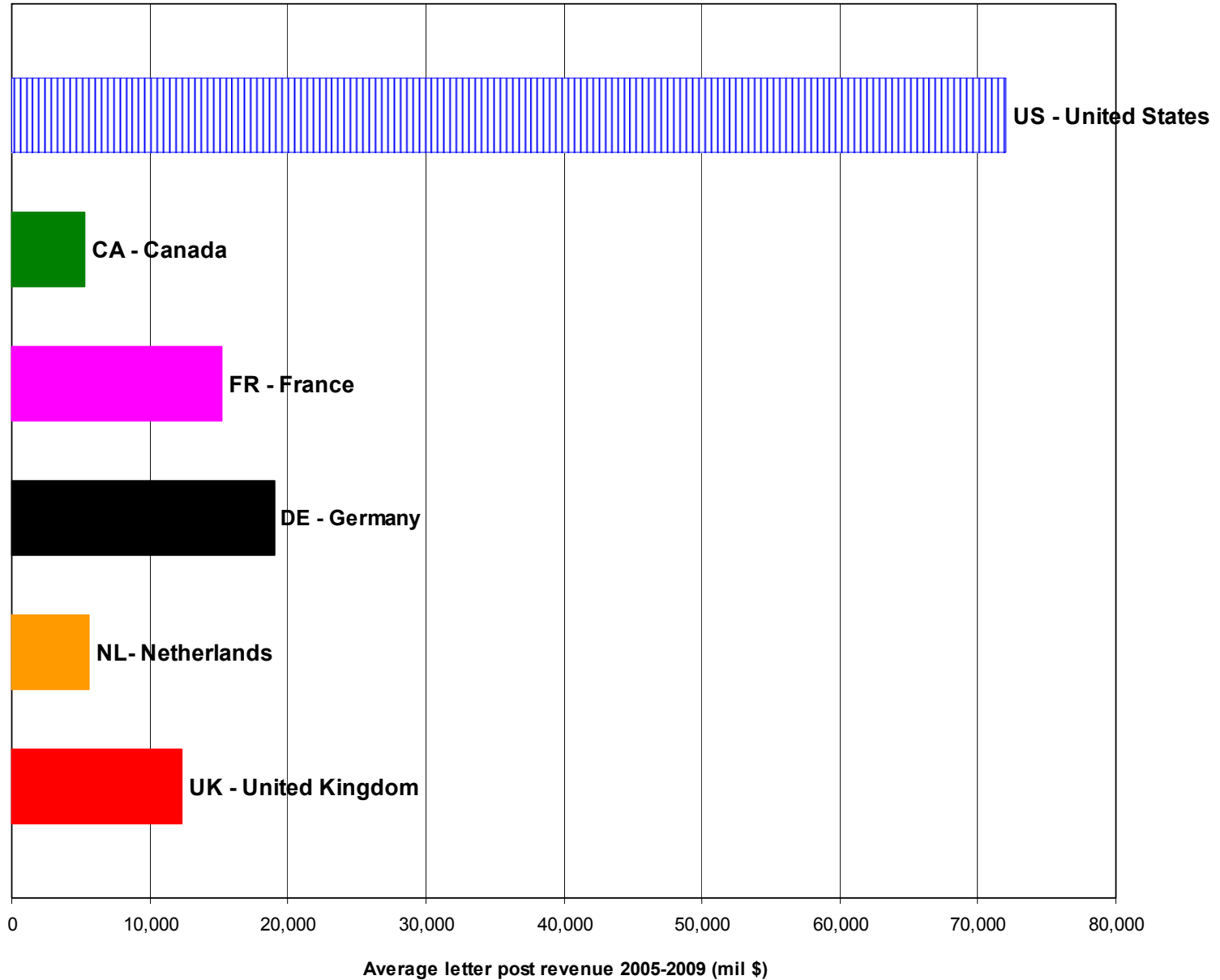
# Average domestic letter post volume, 2005-2009

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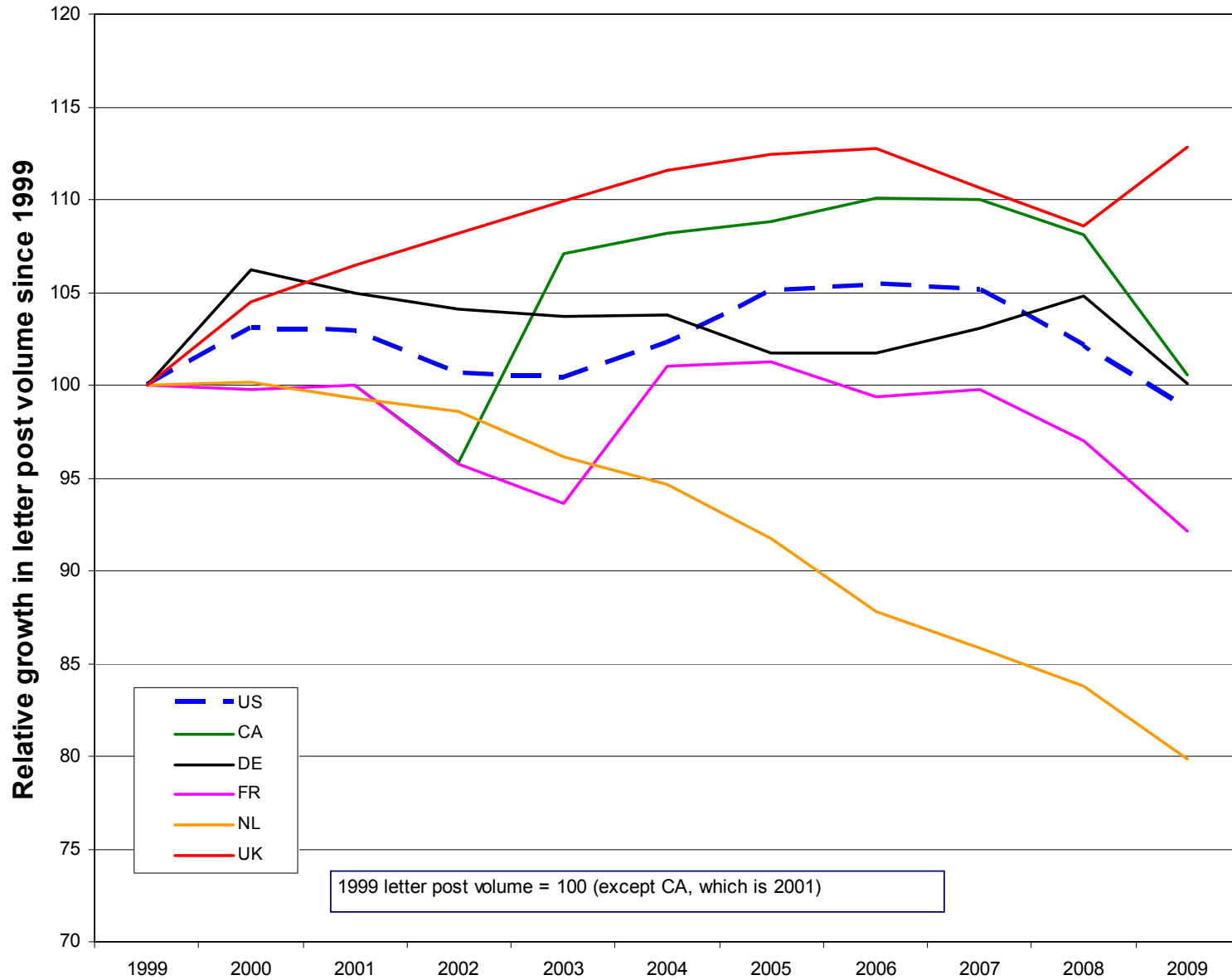


# Average letter post revenue, 2005-2009

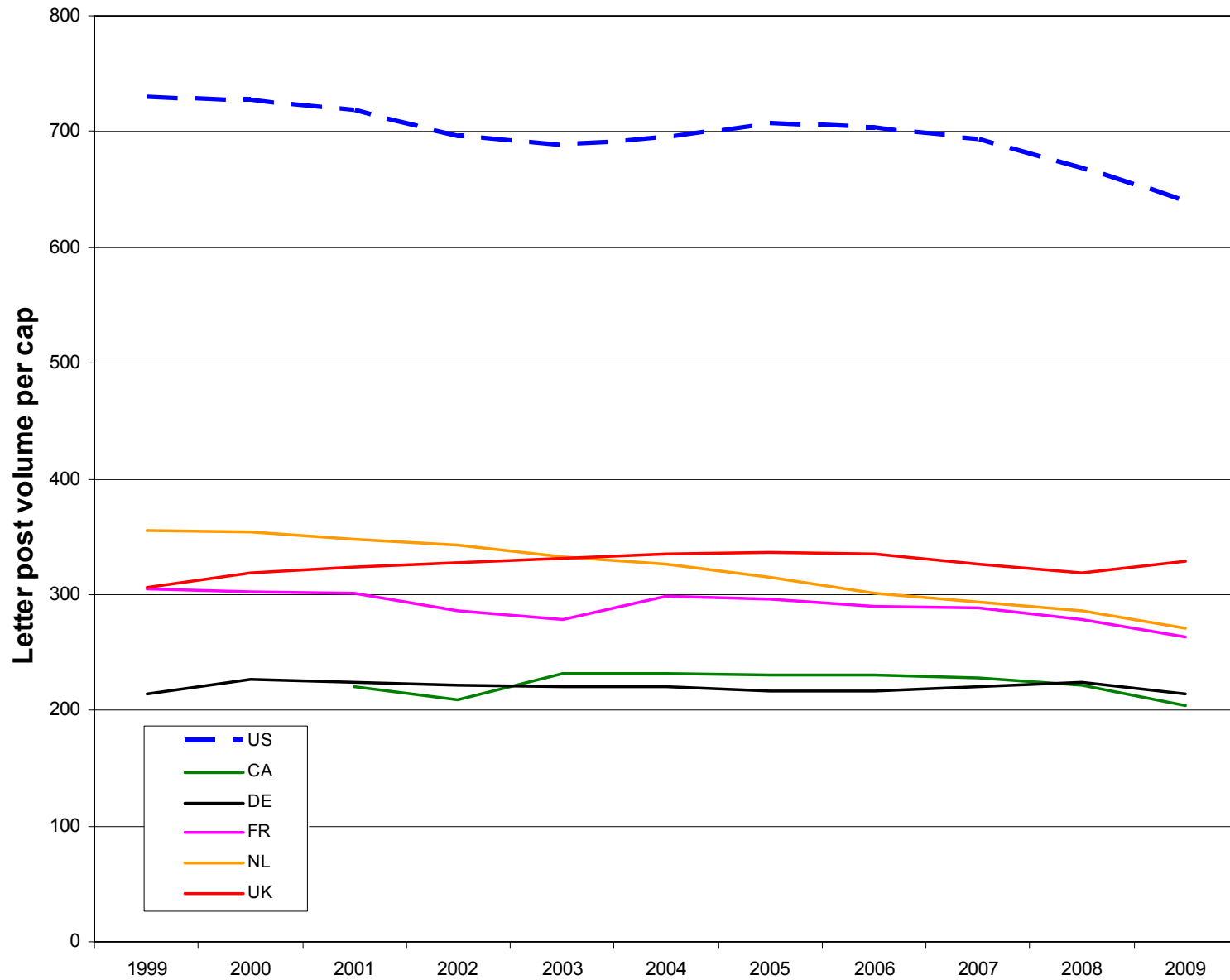
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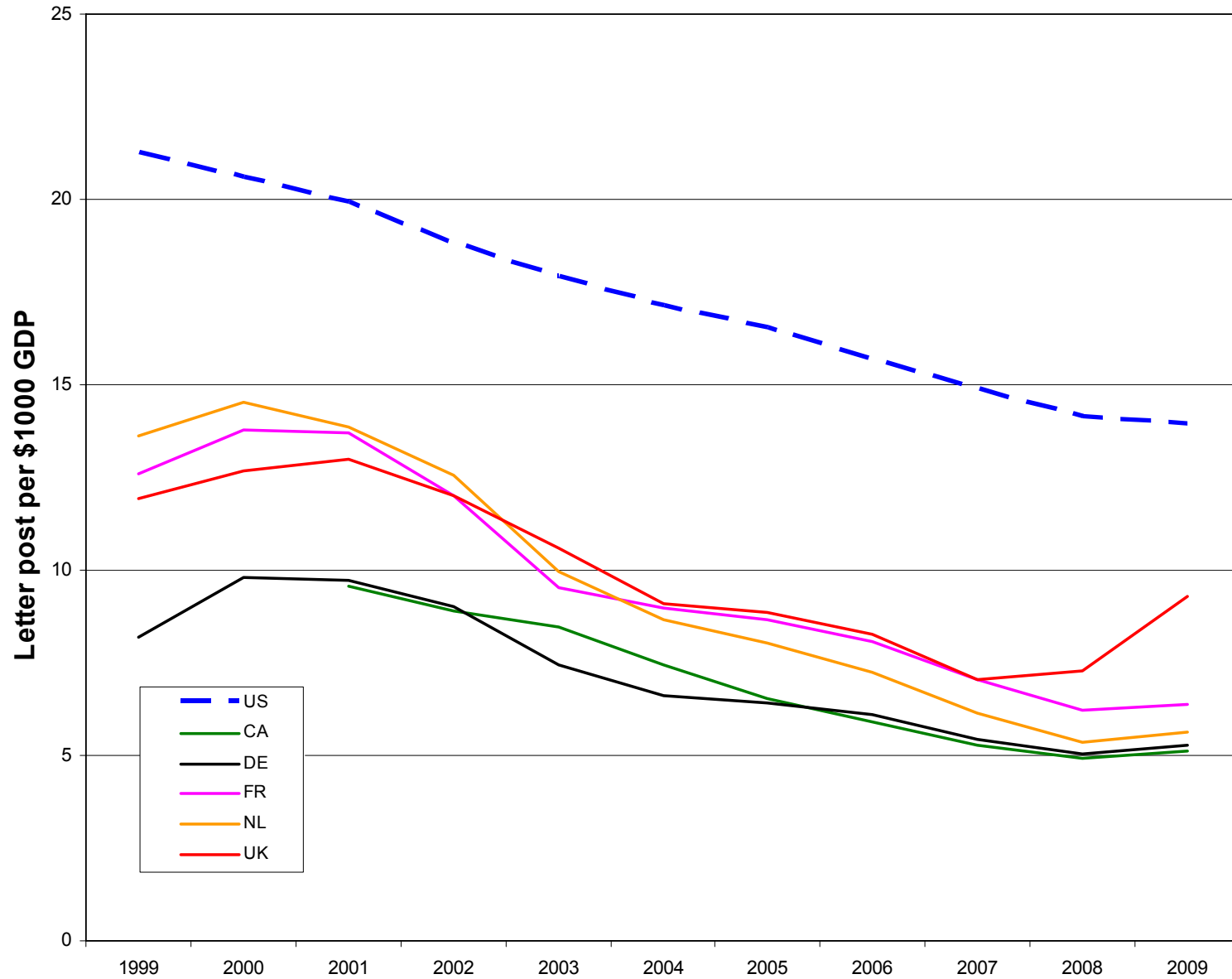
# Growth of letter post since 1999



# Letter post volume per capita

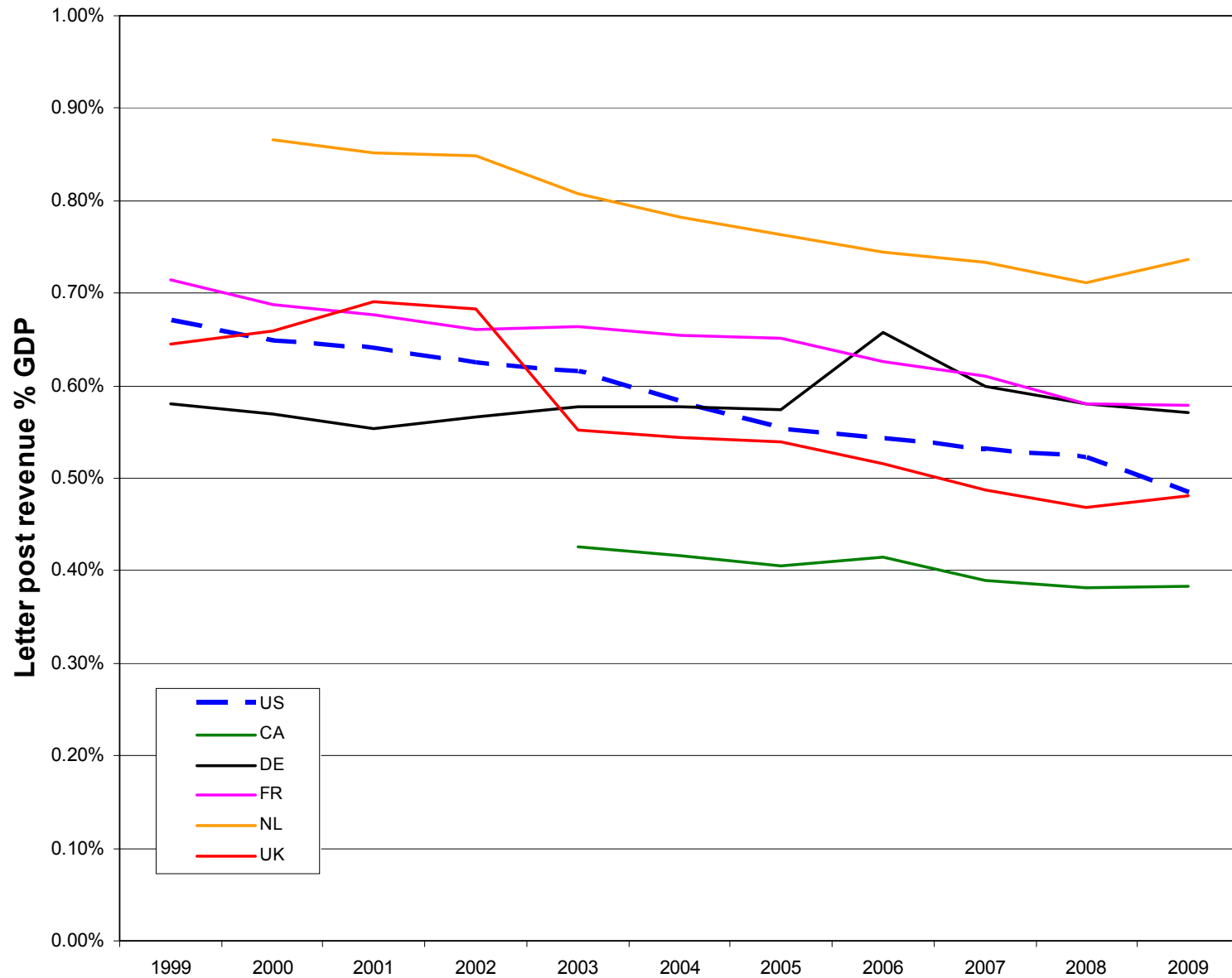


# Letter post per \$1000 GDP

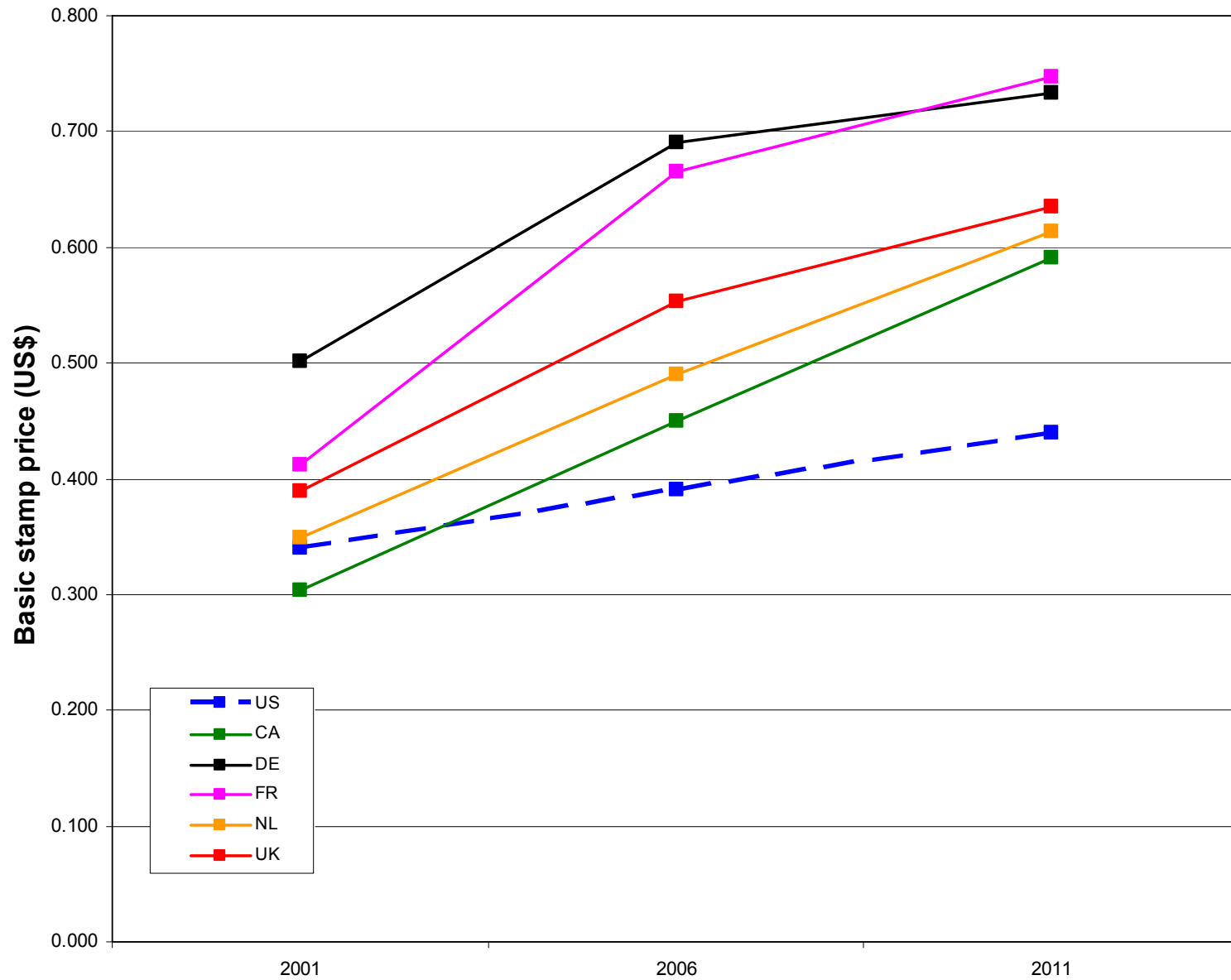




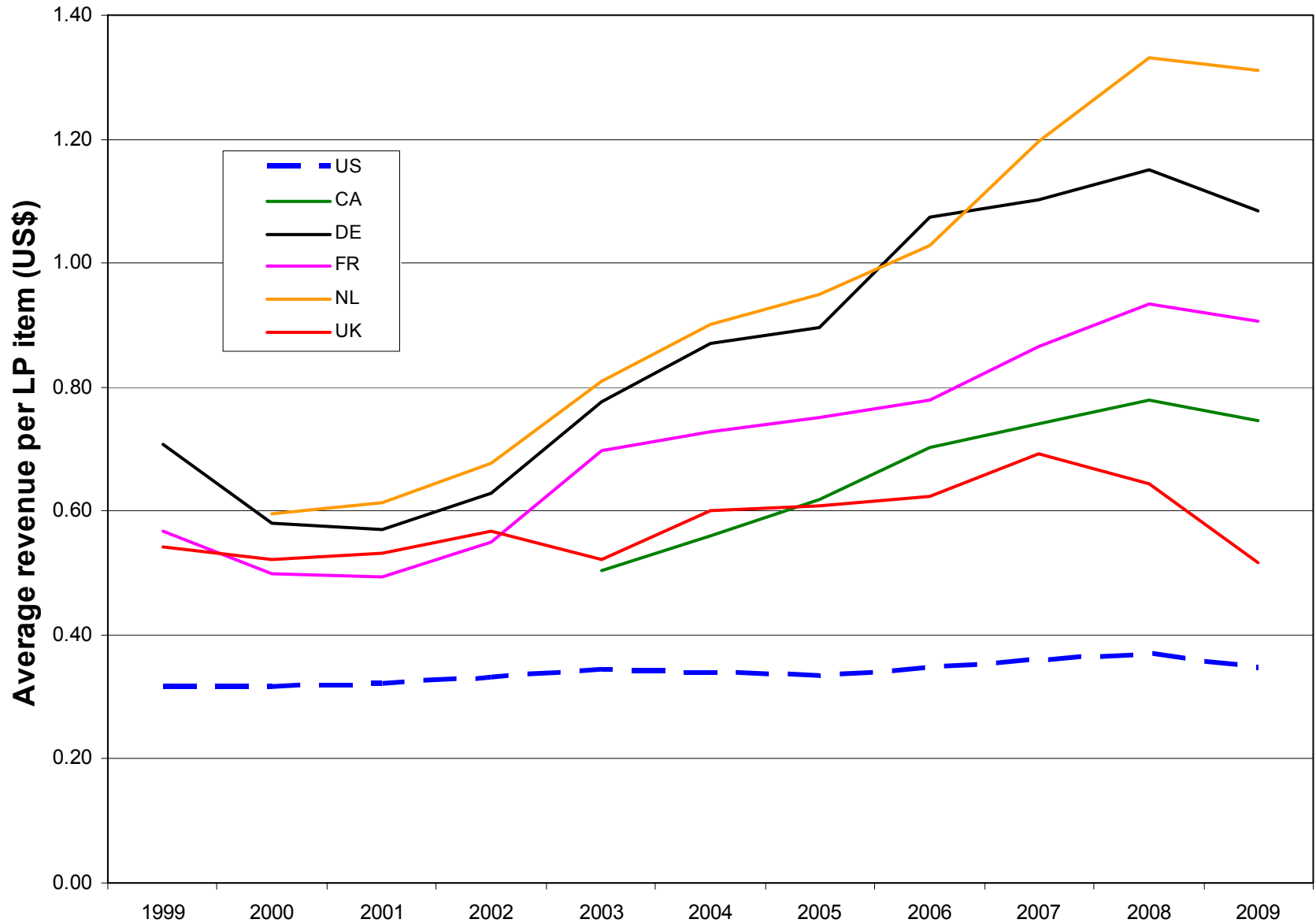
# Letter post revenue as percent of GDP



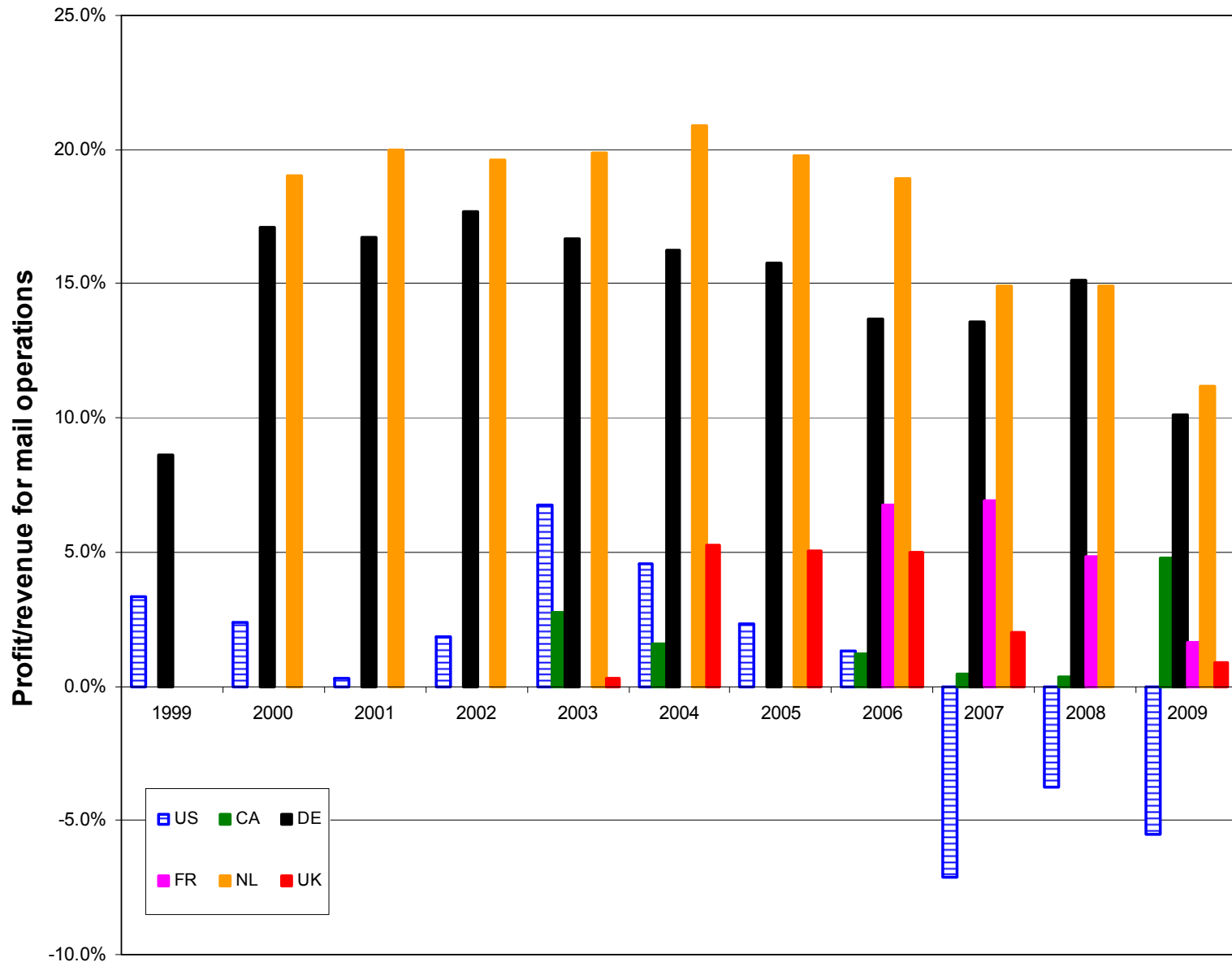
# Basic stamp price



# Average revenue per letter post item



# Profits on mail business (percent of revenue)



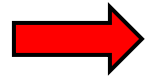
# Market comparisons

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- **US has been very successful compared other posts**
  - 2 to 3 times as much mail per capita
  - 2 to 2.5 times as much letter post per unit of economic activity
- **US mail volume trends are broadly in line with other countries**
  - UK has had better volume growth – up 13% since 1999
  - NL has had worse volume decline – down 20% since 1999
- **Percent of total US economy spend on postal service is average**
- **Postage rates in US are unusually low**
  - About 1/3 to 2/3 of foreign posts
- **Profitability of US mail since 2006 is relatively poor**
  - USPS is only post to lose money consistently
  - CA, FR, UK earn 2 to 5% on revenues; DE and NL earn 14 to 16% on revenues

# Topics

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- Facts and Figures
- The Big Picture
- Foreign Solutions to Specific Issues
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# Global Postal Reform So Far

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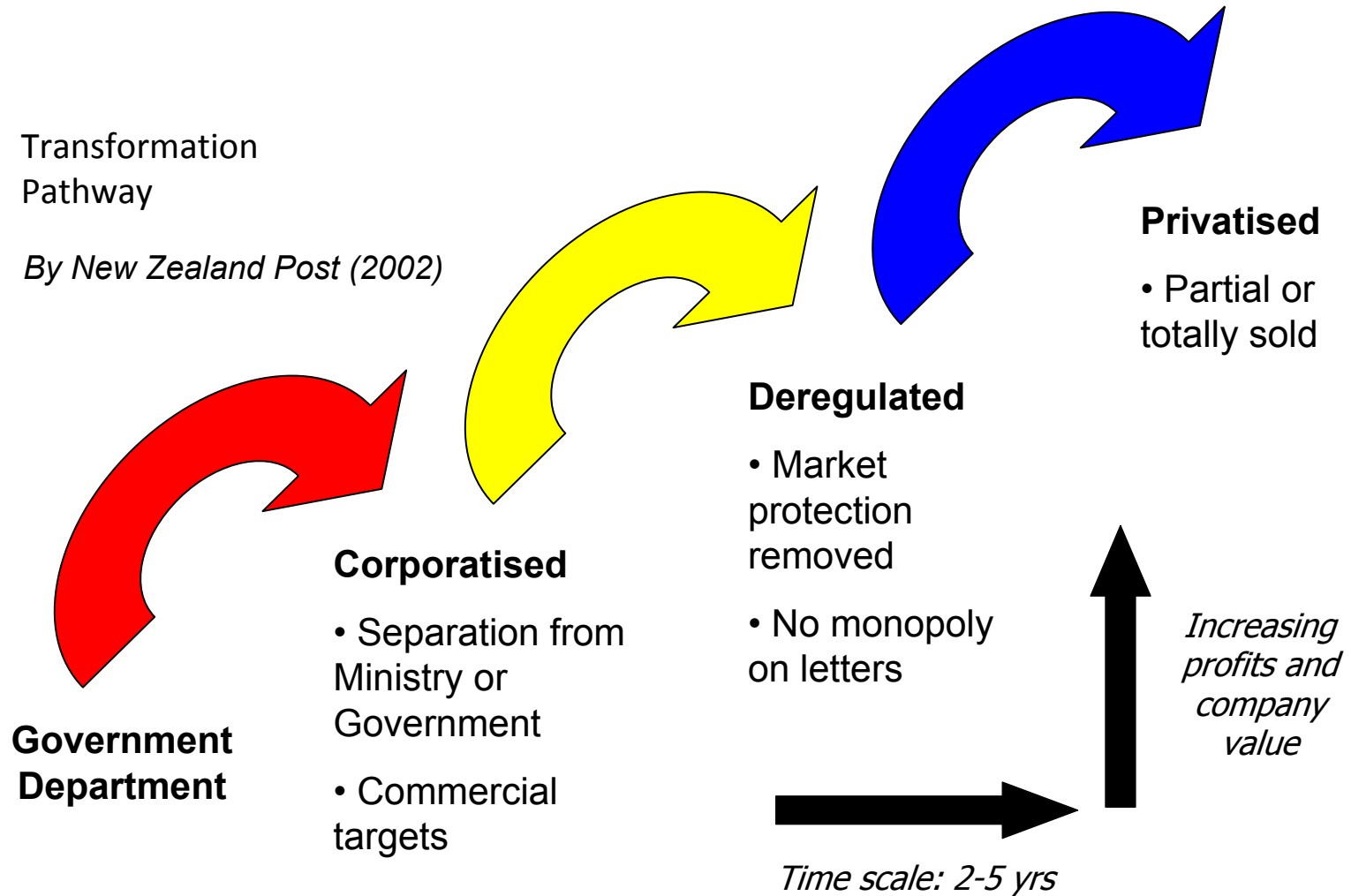
- **Global developments**

- 1988: NZ govt proposes end of monopoly  
EU begins Postal Green Paper
- 1992: Major reform proposals (EU, Australia)  
5 posts/TNT joint venture
- 1993: Sweden ends monopoly
- 1996: Dutch Post buys TNT
- 1997: EU Postal Directive, German Post Law
- 1998: NZ ends monopoly
- 2000: UK Postal Service Act  
Deutsche Post begins privatization
- 2002: Deutsche Post buys DHL
- 2006: UK ends monopoly  
NL post fully privatized
- 2008: EU Third Postal Directive  
DE and NL end monopoly
- 2011: EU ends monopoly in most countries
- 2011: EU ends monopoly in all countries

- **US developments**

- 1995: McHugh hearings begin
- 1998: Dept State responsible for UPU
- 2006: PAEA imposes prices caps on most products and limits USPS to postal services

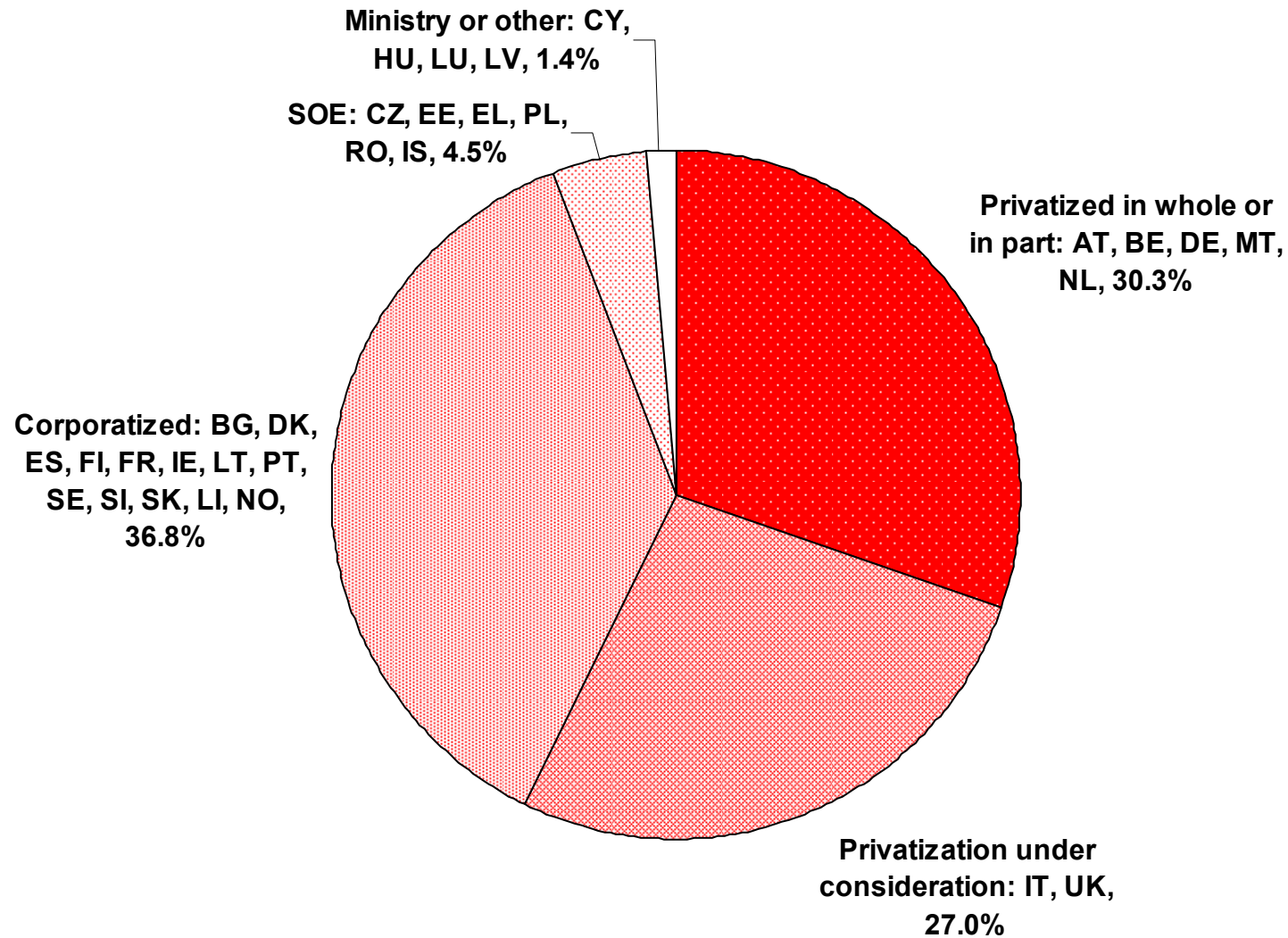
# “Main Sequence” of Postal Reform





# EU: corporatization and privatization of posts

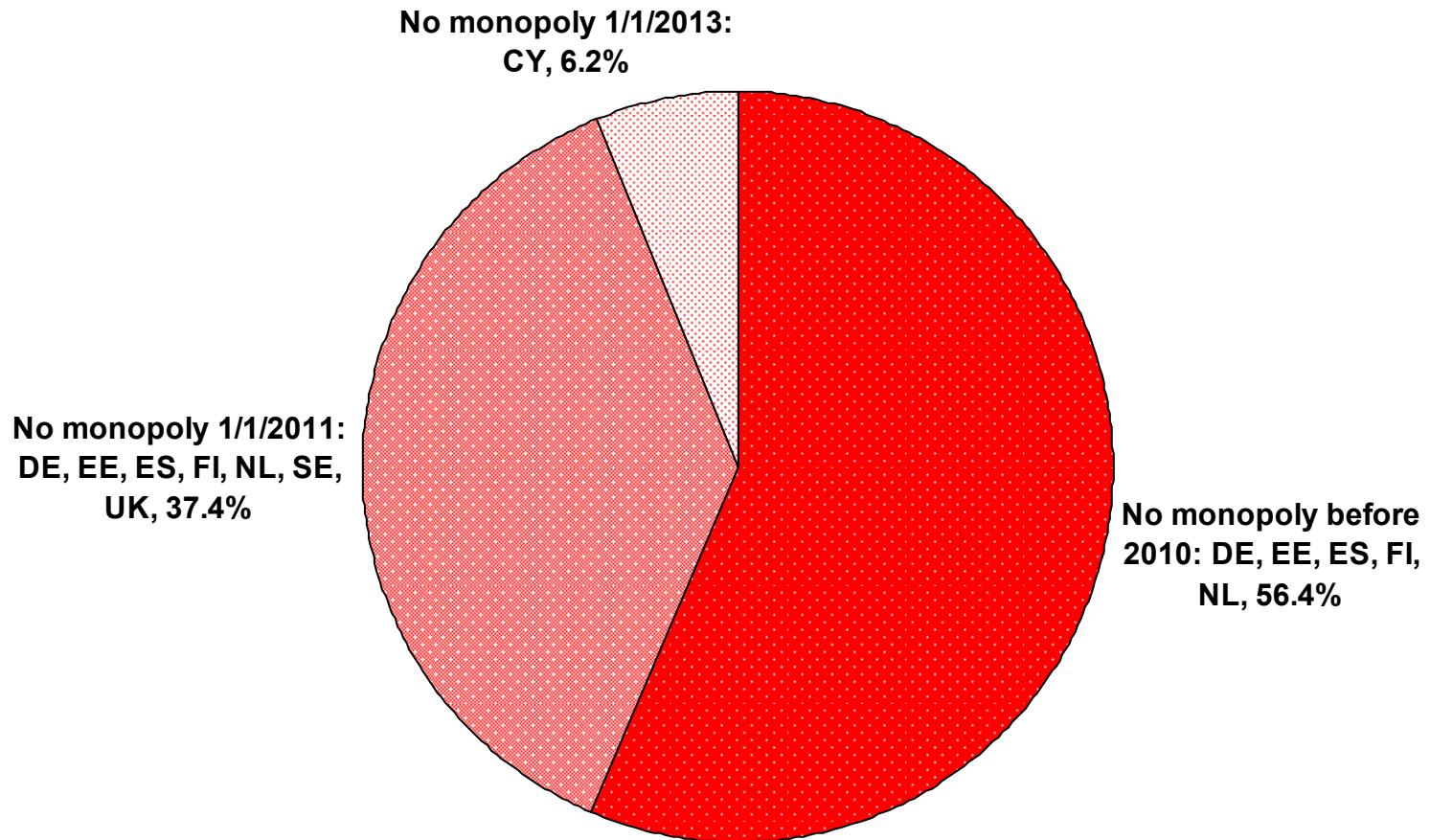
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Source: WIK (2009) (updated) Note: Countries are weighted by the estimated volume of domestic letter post in 2007.

# EU: repeal of the postal monopoly

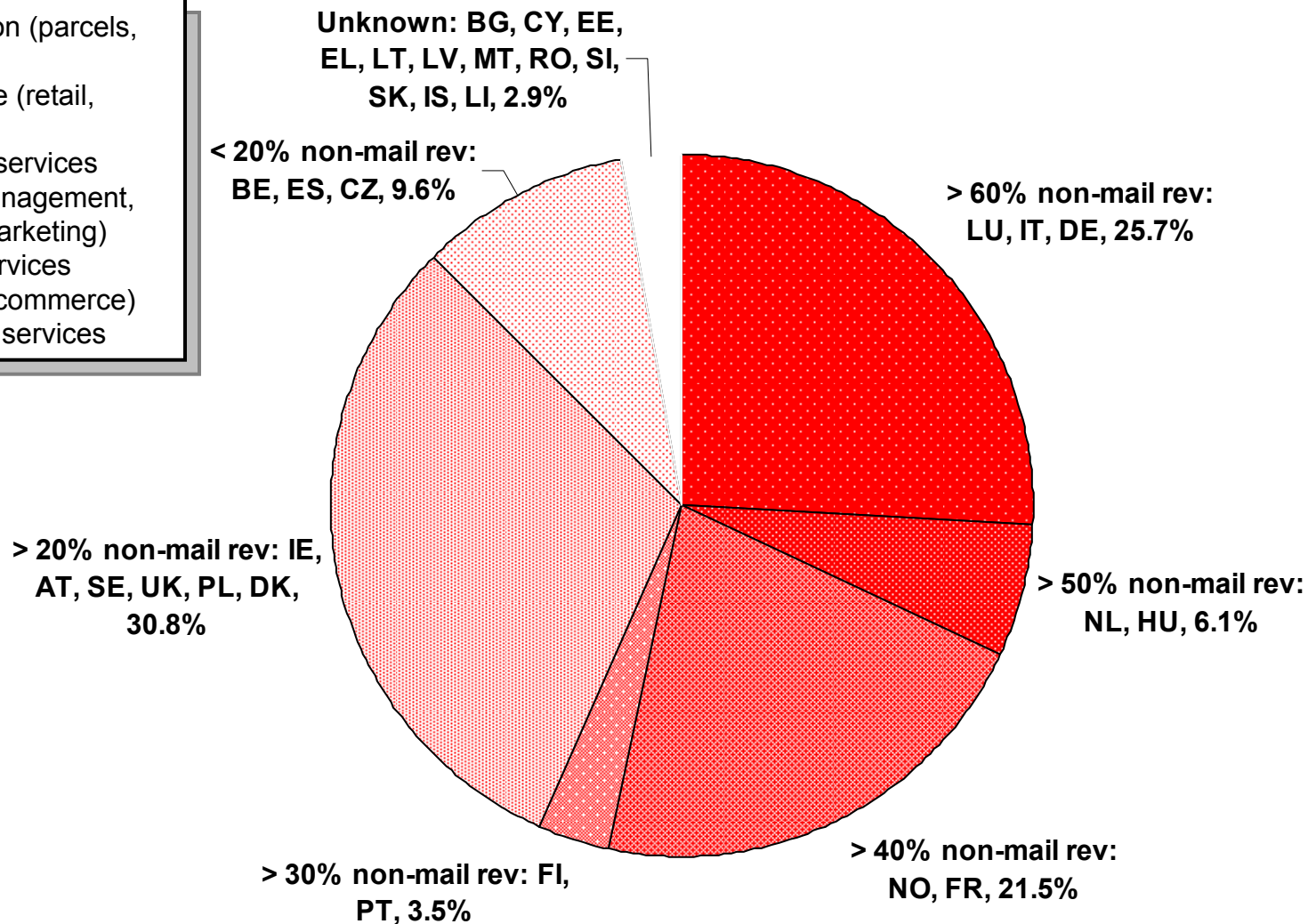
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Note: Countries are weighted by the estimated volume of domestic letter post in 2007. Spain (ES) is classified as "no monopoly" because, although there was a postal monopoly law on the books, it did not prohibit competition in intra-city delivery services and therefore provided little monopoly protection for the Spanish post office.

# EU: diversification of posts into other businesses

- Transportation (parcels, logistics)
- Retail service (retail, banking)
- Mail-related services (document management, hybrid mail, marketing)
- Emerging services (telecomm, e-commerce)
- Government services



# US: retreat from the "business-like" USPS of 1970

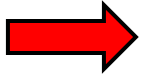
*"All the shortcomings of the Post Office Department are bound up in the fact that responsibility for managing the system is shared by a number of executive agencies and by several congressional committees. . . . Top management must be given authority, consistent with its responsibilities, to provide an efficient and economical postal system [and] administer the Department in a businesslike way." H.R. Rept. 1104 (1970)*

1970 Act	Current Law
<p><b>Prices</b></p> <ul style="list-style-type: none"> <li>• Prices set by PRC to cover costs</li> <li>• Total revenue covers total cost</li> <li>• Price of each subclass covers attrib. costs</li> <li>• Preferential rates set by Cong. and compensated</li> </ul>	<p><b>Prices</b></p> <ul style="list-style-type: none"> <li>• Prices set by statutory price cap (mkt dom prod)</li> <li>• Total revenue unrelated to total cost</li> <li>• Subclass not req'd to cover attrib. costs</li> <li>• Preferential rates set by Cong. <u>not</u> compensated</li> </ul>
<p><b>Wages</b></p> <ul style="list-style-type: none"> <li>• USPS, unions set wages; Cong. sets benefits</li> </ul>	<p><b>Wages</b></p> <ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>Facilities</b></p> <ul style="list-style-type: none"> <li>• USPS to manage facilities within policy guidelines of § 101</li> </ul>	<p><b>Facilities</b></p> <ul style="list-style-type: none"> <li>• USPS forbidden to close rural post offices</li> <li>• Managing other facilities subject to politics</li> </ul>
<p><b>Services</b></p> <ul style="list-style-type: none"> <li>• USPS to manage services with policies set in § 101</li> <li>• USPS roughly compensated for public services with phase out implied</li> </ul>	<p><b>Services</b></p> <ul style="list-style-type: none"> <li>• Approps rider requires 1983 delivery levels</li> <li>• Alaska air services effectively required</li> <li>• No compensation for public services</li> </ul>

# Topics

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## Common issues in reform of industrialized postal system

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- How do you define and/or phase out the monopoly?
- How do you define the minimum public service guarantee ("universal services") that government will guarantee?
- How do you organize the national post office for the future?
- How and to what extent do you regulate prices?
- How do you ensure provision of minimum public services?

# Scope of universal service obligation

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- **France**
  - Single letters / bulk letters / direct mail / periodicals / single parcels
- **Germany**
  - Single letters / periodicals / single parcels
- **Netherlands**
  - Single letters/ single parcels.
- **United Kingdom**
  - Single letters / bulk letters / direct mail / single parcels.
  - But most categories of bulk services are outside USO.
- **United States**
  - No comparable definition of scope of universal service

# Access to universal service

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- **France**

- Offices: minimum 17,000; approval required for agencies. Density rule.
- Public collection boxes: no rule

- **Germany**

- Offices: minimum 12,000; no approval for agencies. No density rule.
- Public collection boxes: 1,000 m in residential areas.

- **Netherlands**

- Offices: minimum 2,000 (902 full service); no approval for agencies. Density rule.
- Public collection boxes: 500 m in residential areas.

- **United Kingdom**

- Offices and collection boxes: density rule only.

- **United States**

- Offices: no closure of "rural or other small post offices"; procedures for closing offices.
- Public collection boxes: no rule.



# Quality and frequency of universal service

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- **France**

- Letters: D+1: 84%, D+3: 95.5%. Parcels: D+2: 86%; D+3: 95%. Monitored by Regulator.
- Delivery 6 days per week (home and business).

- **Germany**

- Letters: D+1: 80%, D+2: 95%. Parcels: D+2: 80%. Monitored by Regulator.
- Delivery 6 days per week (home and business).

- **Netherlands**

- Letters: D+1: 95%. Parcels: None. Monitored by Regulator.
- Delivery 6 days per week (home).

- **United Kingdom**

- Letters: D+1: 93% (91.5% for each post code), D+3: 98.5%. Parcels: D+3: 90%. Monitored quarterly by Regulator.
- Delivery 6 days per week (home).

- **United States**

- No comparable quality of service requirements. Performance must be monitored by USPS.
- Delivery 6 days per week to extent provided in 1983 (unknown).

# Control of universal service prices

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- **France**

- Price caps and baskets for universal services set by Regulator (~ 91% of mail); ex ante review of changes in prices for single letters and parcels
- Ex ante control of periodicals rates set by Ministry (~ 9% of mail)

- **Germany**

- Price cap for single letters up to 1 kg set by Regulator (~ 8% of mail)
- Ex post review of other products based on competition law criteria

- **Netherlands**

- Price cap for single letters and parcels set by Ministry (~ 8% of mail)

- **United Kingdom**

- Price cap and baskets set by Regulator for all products of Royal Mail, including non-universal; more flexibility for services provided "non-captured" users
- Competitive products to be liberalized

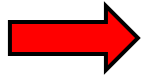
- **United States**

- Price cap for all single piece and bulk market dominant products set by statute

# Topics

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# Conclusions

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- **The postal system in the US is different from those other industrialized countries —**
  - US postal system is far larger than any other country
  - US has been uniquely successful as a postal system
    - Volume per capita
    - Volume per unit of economic activity
  - US postal rates are much lower than other industrialized countries
- **The postal system in the US is similar to those other industrialized countries —**
  - US investment in postal "pipelines" is similar to other industrialized countries as percent to economic activity.
    - Higher volumes/lower rates may reflect cultural factors not better "pipelines"
  - Declines in postal volume are similar due to similar technological advances
  - Fundamental policy issues presented by Information Revolution are similar ("scalable")

# Conclusions

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- **The US has failed to address policy issues posed by the Information Revolution as seriously as (most) other industrialized countries**
  - Postal reform in other industrialized countries follows the logic of "business-like" postal systems adopted by US in the 1970 Postal Reorganization Act.
    - While other countries have advanced further towards this goal, the US has retreated to a more "governmentalized" postal system
  - In policy development, the US is approximately in the same position as other industrialized countries in the 1990s.
    - The US can accelerate reform by consideration of postal reform process in other industrialized countries.

# Conclusions

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- **From a US perspective there are both lessons and cautions to be derived from a study of foreign postal reforms.**
- **Major lessons include —**
  - Necessary steps if the Postal Service is survive as a commercial entity
    - Corporatization – at a minimum – and probably privatization over the long term
    - Greater price flexibility – especially for bulk products
    - Diversification into other activities
    - Repeal of the monopoly
  - Necessary concomitants to a truly "business-like" Postal Service
    - A clear definition of the Universal Service Obligation
    - Independent regulation of USO prices and services
    - Public services should be explicitly funded.
  - An orderly winding up may be feasible but no other country has adopted this solution

# Conclusions

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- **Major cautions include —**

- Striking the right balance between giving the Post Office a fair chance and being fair to other parties is not easy —
  - One can argue that Germany and the Netherlands have succumb to the temptation of "national champions" – to the detriment of mailers and competitors
  - One can argue that the UK has succumb to the temptation of "excess control" – protecting all users against all lapses – to the detriment of Royal Mail and users
- Universal service must be defined as narrowly as possible to avoid waste. It is too easy for politicians to promise too much at the expense of mailers.
- Limits of regulation: transparency and competition – where possible – are likely to be more effective than regulatory controls in protecting the public interest.
- There can be no guarantee that the national post office will survive as a commercial entity.
- Reform takes a long time, so it is necessary to think ahead.

# Appendix

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The European Postal Directive applies to the 27 countries of the European Union (EU) and the 3 countries of the European Economic Area (EEA). Abbreviations for these 30 countries are as follows:

AT	Austria	LT	Lithuania
BE	Belgium	LU	Luxembourg
BG	Bulgaria	LV	Latvia
CY	Cyprus	MT	Malta
CZ	Czech Rep.	NL	Netherlands
DE	Germany	PL	Poland
DK	Denmark	PT	Portugal
EE	Estonia	RO	Romania
EL	Greece	SE	Sweden
ES	Spain	SI	Slovenia
FI	Finland	SK	Slovakia
FR	France	UK	United Kingdom
HU	Hungary	IS	Iceland (EEA)
IE	Ireland	LI	Liechtenstein (EEA)
IT	Italy	NO	Norway (EEA)



# Appendix

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- **Data sources**

- Data for slide 3 came from UPU statistics as revised by WIK-Consult and Jim Campbell based primarily on additional sources for European postal volumes.
- Data for slides 4 to 12 was developed by WIK-Consult and Jim Campbell based on (1) estimates prepared by WIK-Consult for European posts and (2) annual reports and other public data for USPS and Canada Post as selected and edited by Jim Campbell. The graphs were prepared by Jim Campbell.

- **References**

- Accenture, “Is Diversification the Answer to Mail Woes? The Experience of International Posts” (2010). A report for the U.S. Postal Service
- Transend Worldwide, Ltd., “Postal Business Transformation” (2002). A presentation by Bruce Heesterman, Regional Director, to Arabcom. Transend was the consulting subsidiary of New Zealand Post. (Slide 16 was slightly modified from the original by Jim Campbell for clarity).
- WIK-Consult, “The Role of Regulators in a More Competitive Postal Market” (2009). A study for DG Internal Market of the European Commission. Jim Campbell was responsible for most of the regulatory analysis in this report.