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WORLD MAIL & EXPRESS AMERICAS 2010
MIAMI, FLORIDA
FEBRUARY 23, 2010

Buenos Dias, everyone. This morning I am pleased to speak about postal reform in the United States and the U.S. postal system, which began in 1775 with the establishment of the first post office, and has undergone two major reforms in just the past 40 years. I hope my observations will provide useful lessons.

After 10 years of spirited debate in the U.S. Congress, the Postal Accountability and Enhancement Act became law at the end of 2006. The Act significantly changed the way the U.S. Postal Service operated. It transformed the Postal Rate Commission into the Postal Regulatory Commission, which was charged with formulating and implementing this new regulatory framework.

The Commission, like its predecessor and the U.S. Postal Service, remained an independent establishment of the executive branch of the U.S. Government. Our five Commissioners are nominated by the President and approved by our Senate for staggered six-year terms. No more than three of us may be of the same political party.

Unlike, in many countries, the Postal Regulatory Commission regulates only the U.S. Postal Service. We have no authority over private companies or the competitive express and delivery market. However, our rules, regulations and oversight promote a level playing field in competitive markets by making sure that the Postal Service does not cross-subsidize its competitive products with monopoly revenues.

Our mission is to ensure transparency and accountability of the U.S. Postal Service and to foster a vital and efficient universal mail system. I believe you will see by the end of this presentation why transparency and accountability are so important.

The history of the United States is interwoven with the history of its Postal Service. To understand the complexity of current policy decisions that affect modern postal regulation in the United States, it is important to understand this history.

The U.S. Mail was and continues to be an essential partner in the development of this country. As the United States expanded and changed, so did the American postal system. Today's Postal Service remains a binding force of the nation and a fulcrum for governance, infrastructure and the economy. Although the needs and expectations of the public are diverse, the Postal Service maintains its ubiquity throughout the country.

During its first 200 years, the Post Office Department was a part of the President's cabinet. Revenues were generated through stamps and services and augmented by government funds.

The fundamental charter of the Postal Service as a tax-supported pillar of government stayed the same until 1970 when the first era of modern postal reform began with the Postal Reorganization Act. This Act created the U.S. Postal Service, which was primarily funded through service revenue. The USPS – as it became known -- had a break-even mandate. Each class of mail was to cover its costs and pay a fair share of institutional or overhead costs. At that time, USPS was not to be a profit-driven entity.

While Congress continued its oversight of the Postal Service, the Postmaster General and the Postal Board of Governors were given greater authority to manage and invest for the future.

This Act also created the Postal Rate Commission, which was charged with making recommendations to the Governors on rate and classification proposals submitted by the Postal Service. The law required a 10-month review in which the Commission analyzed these proposals through on-the-record hearings to ensure that revenue goals would be met.

Despite rate cases that were lengthy – litigious – and costly, this first period of modern reform gave rise to new pricing initiatives and mailing technologies that fostered the development of a robust private-sector mail industry. A key development was worksharing, which gives discounts to mailers and companies that perform certain traditional postal functions such as presorting, barcoding and transportation at a lower cost than the Postal

Service.

According to a 2003 congressional study requested by two Members of Congress, workshared mail increased 365 percent between 1972 and 2002.

After 36 years under the Postal Reorganization Act, the business model of the U.S. Postal Service was weakening, in part by the electronic diversion of First Class Mail, which had the highest contribution to overhead.

The second era of reform began in 2006 with the passage of the Postal Accountability and Enhancement Act. The new law provided the U.S. Postal Service with tools to meet the challenges of a changing postal landscape.

The Service now had greater pricing autonomy and more flexibility to innovate. It can also retain profits from non-monopoly products and offer individualized contracts to mailers. Most importantly, in my view, the reform established the Postal Regulatory Commission as the window into postal finances, operations, and performance.

While there are significant differences in how the Postal Service functioned during these three periods, there is one common thread. The postal laws of the United States embodied the social compact that had evolved over two centuries. That is – the US Mail binds the nation together and should continue as a universal public service provided by the government.

The U.S. Congress, through the 2006 Act, recognized the need to provide the Postal Service with greater latitude to respond to market and economic conditions. To balance these new flexibilities, the law gave the Commission new regulatory authority including subpoena power – authority to compel the Postal Service to comply with the law – and a formal complaint process.

Our first order of business was to establish regulations and procedures to carry out the law and ensure that the American public continued to receive high quality universal mail service. We established a modern ratemaking system for market dominant and competitive products.

We implemented new reporting requirements to ensure financial transparency. The

Commission, through its open process – determines which financial and operational information the Postal Service is to make available on a public and nonpublic basis – and with what frequency. This includes information on quality of service, postal finances and consumer inquiries to the Commission.

In tandem to providing for a new ratemaking system, the law also required that the Postal Service – through consultation with the Commission – develop modern service standards and performance measurements. We also report annually to Congress and the President on the Postal Service's compliance with the law.

One of the most fundamental changes of the 2006 reform was the division of postal products into two distinct groupings. All postal products and services were categorized as either market dominant or competitive. Market dominant products account for about 99 percent of mail volume and 90 percent of revenue. They include First Class mail, periodicals and single-piece parcels.

The former 10-month rate process I mentioned earlier was replaced by a 45-day review after the Postal Service filed its notice of intent with the Commission. Price adjustments are capped at the rate of inflation, which offers mailers predictability in rate forecasting and business planning.

For competitive products that are offered in highly competitive markets – like Express Mail, bulk, commercial parcels and Priority Mail – there is no rate cap. Rather, there is a price floor to ensure that competitive products are not cross-subsidized by market dominant products. These products represent about one percent of volume, but about 10 percent of revenue. Commission rules require that competitive products cover their attributable costs as well as at least 5.5 percent of overhead. The Service may raise these prices with a minimum 30- day notice to the Commission.

These abbreviated rate reviews are good examples of the pricing flexibility given to the Postal Service through the Commission's regulatory rules. To date, the Commission has approved two market dominant rate increases and three competitive increases. For 2010, the

Postal Service chose not to increase market dominant rates because deflation in consumer prices left the Postal Service with minimal room under the rate cap. Please note that if the Postal Service filed a general price adjustment today, the rate cap would be negative 0.143 percent.

However, Congress foresaw the possible need to breach the cap in extraordinary circumstances and gave the Postal Service the option of seeking what is termed an exigency rate adjustment. To date, the Postal Service has not exercised that option and in fact chose to forgo an increase in market dominant products for 2010.

As Pranab Shah, Managing Director, Global Business, U.S. Postal Service, mentioned yesterday, last summer the Postal Service offered, following Commission approval, a first-time volume-based pricing incentive for Standard Mail. It is my understanding that the Postal Service may seek Commission approval for a similar sale this summer. The Commission also approved a pricing incentive for presorted First-Class letters, flats and cards last fall, and we approved the Service's first experimental product – a less-than-truckload service – designed to leverage empty space on postal trailers.

One area of particular interest to this audience is the Commission's approval of 104 Negotiated Service Agreements to date for competitive products, which include bilateral agreements with foreign posts and international mailers.

It bears repeating that the 2006 Act strengthened the role of the Commission to promote postal transparency and accountability. As we heard from industry yesterday, these two guiding principles can create trust among users of the mail and promote more effective decision making.

As I previously noted, the Commission is required to report annually to Congress and the President on the Postal Service's compliance with the law, particularly with respect to its finances, operations and service performance. The Postal Service must file an Annual Compliance Report with us 90 days after the close of its fiscal year.

Before we issue our Determination, we solicit input from interested parties and the

Postal Service through formal, on-the-record proceedings. Last week, we held a public forum to hear from interested parties. I am pleased to report that it was broadcast live over our website, which is an example of how the Commission is leveraging technology to promote a more transparent regulatory environment. I know that some of you listened in. For those of you who did not hear the forum, a searchable transcript is now available on our website.

I should also add that the Commission now holds monthly public meetings that are open to everyone, which are also webcast.

Yesterday we heard some discussion of the Postal Service's proposal to cut household delivery from six to five days a week. You may be interested to know that the Postal Service is required to seek an advisory opinion from the Commission before instituting nationwide changes in service such as frequency of delivery. In this regard, we expect the Postal Service to ask us to review this change shortly, which we will do through an open process.

Pranab discussed public policy issues related to the Postal Service. The U.S. Congress, since the 1980s, had mandated six day a week delivery. Although the authority to change delivery frequency rests with Congress, the Commission's public review, once requested and initiated, will offer a thorough and objective analysis of the underlying issues.

Another example of transparency is the issuance of our 2008 comprehensive review of the U.S. universal service obligation and postal monopoly. Mandated by the Postal Accountability and Enhancement Act, the report also estimates the value of the monopoly, which at the time was $3.5 billion. The cost of the universal service obligation was estimated at $4.4 billion. Today, the value of the monopoly has shrunk to $2.96 billion and the cost of the universal service obligation has increased to $4.8 billion.

When the Postal Accountability and Enhancement Act was passed in December of 2006, no one foresaw the impending recession, whose impact on the Postal Service has been devastating. In 2006 and 2007, mail volumes for First-Class and Standard Mail were growing, though at declining rates. In 2008, these growth rates quickly turned into revenue declines. The same trends hold true for mail volumes. Again, volumes were also growing, but like revenues, the volumes quickly deteriorated. Standard mail in particular, which is mostly advertising mail, suffered from volume declines of over 15 percent last year.

In addition to the severe economic recession, the Postal Service – through the 2006 law – is required to fund its future obligation for retiree health benefits at the rate of $5.5 billion for ten years, as Pranab also mentioned yesterday. Personally, I believe this was a very aggressive and optimistic approach for the future. Obviously our Congress did not contemplate the worst financial crisis in the U.S. in 75 years when imposing this requirement.

This severe economic downturn, plus the prefunding requirement, worsened postal deficits. The Postal Service faced a deficit of $2.8 billion in fiscal year 2008 and $3.8 billion in FY09. Given the impact of the prefunding requirement on the Postal Service's finances, Congress asked the Commission to review the funding requirements developed under the 2006 law. We determined that the payment level could be lowered, which, in turn, would reduce the Postal Service's payments by 38 percent from $5.5 billion to $3.4 billion. The FY09 deficit would have been higher but Congress altered the payment schedule, which in essence deferred $4 billion of the annual payment into the retiree health fund to later years.

The 2006 law gives the Commission much more of a direct role in international mail, and we are committed to international cooperation. We now have dedicated staff to support our international engagement both through our established roles within the federal government and at the Universal Postal Union. We also work through bilateral efforts and have expanded our interaction within the international postal regulatory community.

Last March, we initiated the Postal Regulatory Dialogue, the first-ever forum for postal regulators to share their experiences and best practices. Participants represented China, Japan, Portugal and the European Commission.

We were also pleased to include Ecuador as a representative of Latin America. Now only one and a half years old, the postal regulator of Ecuador demonstrates a growing recognition within the Americas region of the urgent need to strengthen regulation of postal markets in the interest of all stakeholders. We also share our regulatory experiences with postal operators and regulators in the Americas region through the Postal Union of the

Americas, Spain and Portugal, which will be holding a Forum on Postal Regulation in Uruguay next month.

Lastly, we have developed a page on international postal regulation on our website, with links to other postal regulators and events such as this one.

We are striving to improve the quality of the international postal network through outreach and understanding. I hope that I have helped to promote these objectives during my time today.

Despite the extreme financial challenges facing the Postal Service, there are clear successes resulting from the PAEA. Pricing flexibility and the ability to compete in the competitive marketplace have helped boost postal volume and revenue, which might have fallen further because of the recession and diversion of mail by new and existing platforms.

The Commission's goal of increasing transparency and accountability has resulted in a greater understanding of postal finances and performance. Moreover, we are providing the resources to address the current challenges facing the Postal Service. The Commission is using these tools and working with our Congress, the Postal Service and all postal stakeholders to understand root issues and to find sustainable solutions.

I know that even in countries where postal systems have been privatized and postal operators offer a variety of nontraditional postal services, regulation is an integral component of postal policy. Regulation can facilitate positive change, and it is a team sport.

Rather than adding costs, delays and constraints – as some fear – regulation can increase customer choice, protect historic social values, promote innovation, and ensure a level playing field that supports an efficient and flexible market. As regulators, we are responsive to changing environments and to the concerns of those who are affected by regulation.

This concludes my remarks. Thank you again for your interest and your attention. I look forward to hearing your comments and questions.