



Government Use of the Postal System: A Valuable Universal Service Obligation Component

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It reflects the views of the authors only.

Government Mailers are Key Postal Stakeholders

- Why do governments use the mail?
- How is government use of the mail different?
- Can the government mail more effectively?
- How dependent is the government on the mail?
- How dependent is the government on the Universal Service Obligation (USO)?
- How would liberalization and a change to the USO affect a government mailer?

Why do governments use the mail?

- Government needs to communicate with citizens and businesses
- Litany of official communications
 - Legal notifications, benefits, claims materials
 - Voting by mail, political information
 - Recalls, warning letters
 - Licensing, tax assessments
 - Surveys, census forms, educational materials

Why do governments use the mail?

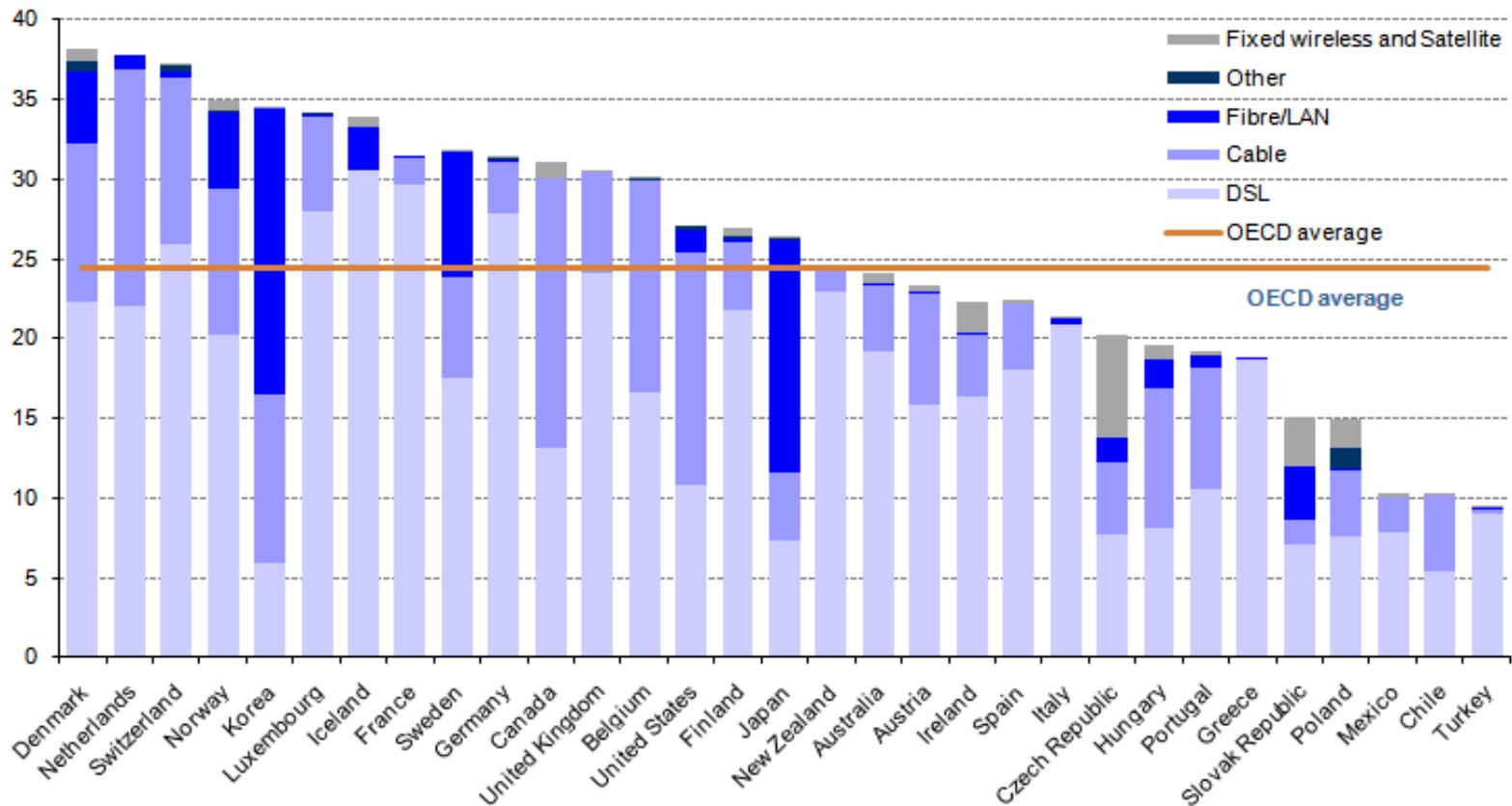
- Mailbox links physical address with identity
- The mail provides forwarding and return services, and the channel is owned throughout
- The mail is the only communications channel that delivers to the specific recipient
- In the U.S., the legal system obliges use of postal service for many government communications
- The gravity of government letter communications

How is government use of the mail different from commercial uses?

- In many nations, citizens expect their communications with government to be by mail
- Government-citizen relationships tend to be mandatory, not discretionary
- Government agencies are subject to legal or regulatory obligations requiring use of mail
- Government face lessened competitive pressures compared with commercial mailers

OECD Countries Average 25% Broadband Internet Access

OECD Fixed (incl. fixed wireless and satellite) broadband subscriptions per 100 inhabitants, by technology, June 2010

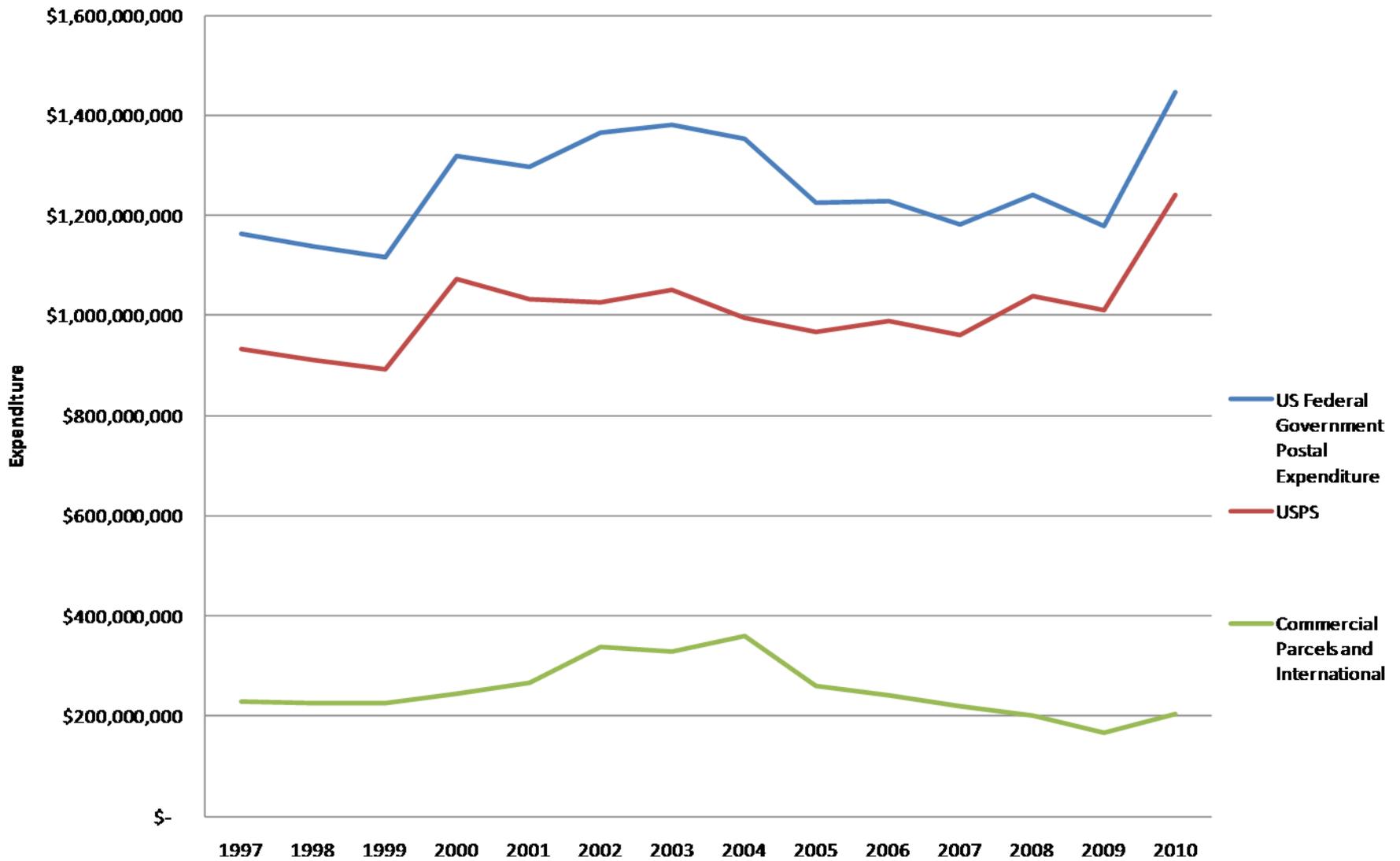


Source: OECD

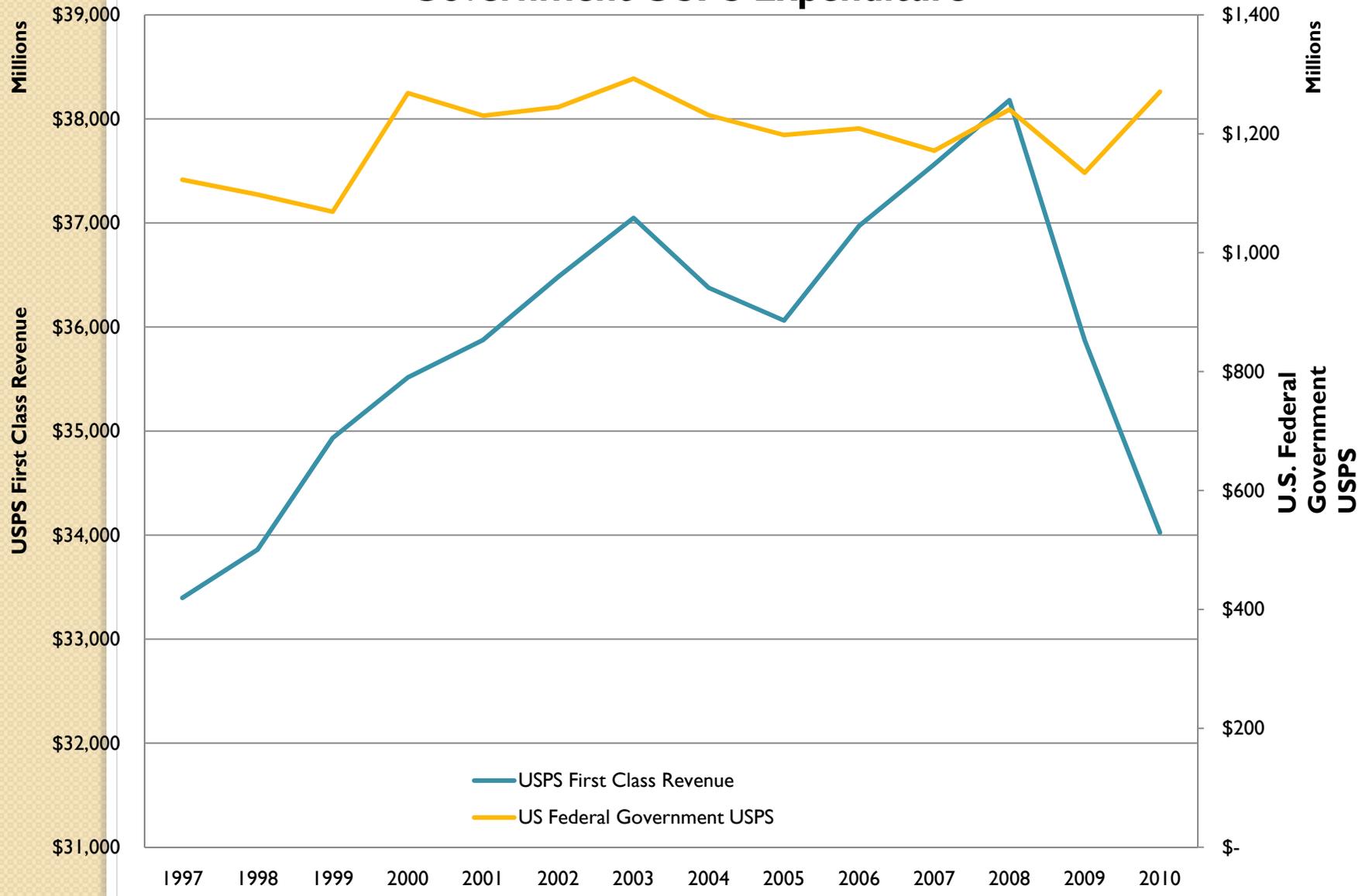
Influence of Federalism

- Federalism is a national structure where independent states coexist with the national government
- Federalism creates layers of government -
- each needs to communicate
- The degree of federalism in a country may affect the quantity of mail sent and the reliance on the postal system

US Federal Government Postal Expenditure 1997 to 2010



Comparison of Total USPS First Class Revenue and U.S. Federal Government USPS Expenditure



Can the government mail more effectively?

- U.S. Federal government : > \$1 billion customer
 - Federal agencies continue to send single-piece mail
 - Opportunity for presort savings: > \$100 million
 - Potential for Negotiated Service Agreements
- State mail usage data is not readily available
 - Some states have centralized operations
 - Based on four-state sample, states could be \$1 billion customer
 - States could realize \$250 million in savings by centralizing mail operations

How dependent is the government on the Universal Service Obligation?

- What is the USO?
 - Geographic scope
 - Product range
 - Access
 - Delivery
 - Pricing
 - Service quality
 - Enforcement mechanism

How dependent is the government on the Universal Service Obligation?

- Government mailers value these postal characteristics:
 - An accurate central mail address system with a timely address correction mechanism
 - The ability to mail everywhere in the nation
 - Geographically uniform rates for letter mail
 - Predictable and consistent delivery performance
 - Security and sanctity of the mail
 - Security screening of inbound mail
 - The existence of a common carrier of last resort

How would liberalization and a change to the USO affect a government mailer?

- If the USO cost is not shared by all mailers, government may bear a larger burden for services it requires
- Liberalization can lead to increased prices for single-piece mailers
 - The U.S. government acts as a single-piece mailers
- The market power of the government will play a role in the ultimate impact of postal liberalization

Conclusions- General

- Governments are major mail users
- The link between address and identity drives use of mail
- Government cannot select their “customers”
- Due to an obligation to communicate with citizens, government mail demand is structurally different than commercial mail
 - U.S. Federal Government mail expenditures are increasing
- Governments will require a carrier of last resort for hardcopy communications for the foreseeable future

Further Questions

- What is the current market power for various government mailers?
 - Can they realize cost savings through presorting / price negotiations / liberalization?
 - Is mailing more expensive to meet unique USO requirements?
- How does government's reliance on the mail influence postal liberalization policies?
 - How does potential change in government postal expenditure from liberalization compare to stakeholder effects from such a change?