

CHAIRMAN RUTH Y. GOLDWAY, POSTAL REGULATORY COMMISSION
INTERNATIONAL ASPECTS OF POSTAL REGULATION
EUROPEAN COMMISSION SECOND HIGH LEVEL CONFERENCE, VALENCIA, SPAIN
11: 40 A.M., APRIL 30, 2010

Other panelists:

- 1 ***Jim Campbell***, Consultant: *Panel Moderator*
- 2 ***Ilse Wilczek***, Group Director, Public Affairs, TNT
- 3 ***Jean-Francois Brakeland***, Head of Unit DG TRADE, European Commission

Opening

- Good morning. Buenos días a todos.
- I thank the European Commission and the government of Spain for inviting me to participate in this important and timely conference. I am honored to be here and pleased to be joined by my old friend Jim Campbell and my distinguished fellow panelists. I've appreciated and learned a great deal from each of the presentations in the last 2 days. I hope you will find my remarks useful.
- For the record, I could not help but notice that the United States was the only non-European country invited to speak here. So let me start by saying that however much our postal communities feel strong ties to one another, I can say unequivocally that the United States will not be joining the European Union any time soon.
- Nevertheless, the PRC is pleased to have this opportunity join with the EU in advancing postal reform and regulation. January 1, 2011, will mark an historic milestone in Europe with the full liberalization of postal markets. Outside Europe as well, the world faces imminent changes in postal markets and how they are regulated.
- In the United States, the Postal Regulatory Commission is often referred to as "the Commission". In deference to the other "Commission" that is hosting this conference; I will use our other informal name, the PRC.
- I think I was invited today for two reasons.

First, the PRC is a leader in technical and legal postal matters, particularly in cost allocation, rate setting and accounting. We have long-standing relationships based on sharing our expertise with posts and regulators.

Second, and of particular relevance to our topic today, the Commission knows that

the PRC has, since 1998, been a staunch advocate for greater communication and information sharing among postal regulators.

- I'll begin by briefly updating you on our experience with postal reform and the U.S. regulatory model.

U.S. Postal Regulatory Model

- In December 2006, a new law transformed the PRC from a rate-setting mechanism into a more robust regulator with expanded powers to oversee a more flexible and competitive Postal Service.
- We still regulate only the Postal Service. However, we help promote a level playing field between the Postal Service and the private sector.
- For today's discussion, I would emphasize four aspects of U.S. postal reform:
 - 1) Privatization was rejected. The Postal Service remains a government agency. Post offices and post roads are enshrined in our Constitution. And the mail system has been an integral part of our Nation and our social and economic development.

I believe the EU move toward postal liberalization is meant to help promote similar binding forces for the European Union.

- 2) The Postal Service retains its two distinct monopolies on letter mail and the mailbox.
- 3) The law directed that the mailstream be divided into two separate businesses, with separate regulatory requirements.

Market-Dominant Monopoly products – today account for 98 percent of volume and 88 percent of revenue. They are subject to a price cap based on the inflation rate for consumer prices.

The PRC has 45 days to review market dominant price proposals to ensure that they comply with the cap. Under the old model, cost-based rate setting generally took 10 months.

No one involved in drafting the new law expected 2 years of deflation. The Postal Service has virtually no room under the cap and did not request an increase for market-dominant products for 2010. The law allows the Postal Service to request an increase above inflation in extraordinary circumstances and the Postal Service said it will do so in July to be effective on Jan. 2, 2011. This would be the first such request under the new law.

But competitive products, like Express Mail and Priority Mail packages, have no price cap. Instead, they have a price floor, established by the PRC. These products must recover their attributable costs and as a whole pay for at least 5.5 percent of postal overhead costs. Otherwise, the Postal Service can price these products according to the market and keep the profit.

In addition, accounting rules have been devised to create a virtual firewall between the market dominant and competitive products so that there will be no unfair cross-subsidy between them.

- 4) The fourth aspect of the PAEA reform is strengthened regulation. For example:

With regard to quality of service: The PRC has collaborated with the Postal Service to create new service standards, measurement systems and goals for market-dominant products.

Only 20 percent of the mail is independently measured now. A new system – based on the intelligent mail barcode – will measure virtually all market-dominant mail. Until it is fully implemented, interim systems have been adopted.

For Enforcement: Each year, the PRC conducts an Annual Compliance Determination of how well the Postal Service met its obligations under the law. The PRC now has authority to hear complaints against the Postal Service and order fines or remedial action. And we can subpoena information if the Postal Service is not forthcoming.

The Future of the mail: The PRC also has responsibility to submit to our Congress and the Postal Service numerous studies and reports to help direct future modifications to the postal laws and other changes affecting universal service, the monopolies, and payments for pensions and retiree benefits.

Currently, we are examining the Postal Service's proposal to end Saturday mail delivery. This would be a dramatic change in service. We will hold hearings in

Washington, DC and in seven cities across the United States to ensure a thorough public review of the proposal's costs, benefits and risks. We will provide our findings to the Postal Service and to our Congress, which ultimately has the final say.

Regulatory Reform and the Postal Service Financial Crisis

- The call for reductions in service comes as a response to declines in volume and revenue, but the 2006 law did not anticipate the 2008 financial crises.
- Reform provided the Postal Service with more flexibility to reduce its costs and to earn higher income in the growing competitive package markets. It was thought that this would offset the decreasing revenue caused by gradual electronic substitution of First-Class mail.
- When the reform law was signed, the Postal Service had just concluded the best four-year performance in its history, marked by record mail volumes and cumulative net income of nearly \$10 billion.
- Congress decided to use that surplus to create a fund that would pay for future retiree health benefits. The 2006 law directed the Postal Service to fully fund that liability by making 10 annual payments averaging \$5.6 billion a year.
- The Postal Service quickly became one of the worst hit industries in the recession. It managed to maintain its profitability in 2007, and would have been profitable in 2008 without the required payments for future retiree health benefits. In 2009, it was unable to make the payment and faces a similar shortfall this year. To solve the problem, the Postal Service has produced a rather dramatic plan which includes dire predictions through 2020. It is asking for relief from legacy pension payments, the change to 5 day service and reductions in regulatory oversight.
- The PRC provided Congress with a detailed analysis that offers a financially sound basis for reducing the Postal Service's liability and future retiree health benefit payments and is recommending that they be adjusted.

We are now studying the issue of Postal Service overfunding of its general pension fund and will provide our analysis to U.S. policy makers to help them decide whether to grant additional relief.

- Nevertheless, there is clear evidence that the 2006 reforms - which promoted flexibility, transparency, accountability and competitiveness - have been beneficial. It is the combination of the effects of recession, the large annual future retiree health benefit payments, and faster-than-anticipated Internet substitution that have put the Postal Service's future at risk. I'll be happy to discuss this further in the Q&A should there be time.

International Postal Regulatory Cooperation

- Certainly, the U.S. regulatory model is unique.
- But while our postal laws may differ from yours, all of us here today face common issues involving:

Efficient regulation, including cost allocation, universal service requirements and costs, and separation of accounts, and consistency of service, such as service quality, complaint handling, and access.

- Postal regulators around the world have much to learn from each other.
- The European Commission recently issued a report by WIK Consulting titled "Role of Regulators in a More Competitive Postal Market." Mr. Barnier reiterated its findings yesterday. It said, "Member States and National Regulatory Authorities must periodically evaluate and adapt the best postal regulatory practices developed by other industrialized countries." Further:

"Few Member States and regulators have developed a process for regularly evaluating and adapting the best practices of other countries" and it recommended that "such a process should be incorporated into the regulatory approaches of all Member States".

- The efficacy of a more structured approach to facilitating cooperation among postal regulators in the European Union seems obvious.
- I would go a step further and advocate for a more structured approach to facilitating cooperation among postal regulators around the globe.

Postal Regulatory Dialogue

- Last March, the PRC, with strong support from colleagues at the European Commission's Postal Unit, launched an experiment called the Postal Regulatory Dialogue. We invited a group of postal regulators to spend two days with us in active dialogue ... and I may say lively debate ... on price regulation, universal service, quality of service, diversification, internet substitution and international roles.
- Joining the PRC were postal regulators from China, Ecuador, Japan, and Portugal, and representatives of the European Commission.
- Each regulator had 15 minutes to present the status of postal reform in its country and role of the regulator. The rest of the time was set aside for informal discussion.
- We not only learned from each other, we strengthened working relationships and channels of communication, which continue to bear fruit as each month goes by.
- Last October, for example, a PRC technical expert met with the European Postal Directive Committee to explain U.S. postal costing methodologies, and sparked a lively exchange of views.

She also met with the Committee of European Postal Regulators' (CERP) Quality of Service Committee to explain how the PRC works with the Postal Service to improve service quality for U.S. and international customers accessing the U.S. postal network.

- And now we are ready for our second Dialogue. The regulators from China's State Post Bureau have graciously offered to host the next Dialogue, which will take place in Hangzhou, China on May 25 in advance of a special UPU Forum on Postal Regulation and will bring together a new mix of regulators, but still will include the U.S. and EU.
- I want to thank Kamil Kiljanski, Head of the Postal Unit within the Commission, and his predecessor Jorg Reinbothe, for their strong support for the initial Dialogue concept. European Commission staff Robert Pochmarski and Hughes De La Motte also provided vital assistance.

Other PRC activities

- The PRC has been involved in international postal activities since 1998 when the U.S. State Department assumed responsibility for managing our country's participation at the Universal Postal Union. I was there from the beginning, representing the Commission at the 1999 UPU Congress in Beijing, China.

Under the 2006 law, the PRC provides our view to the State Department regarding the consistency between our postal laws and international treaties as they affect rates and classifications for monopoly products. The PRC therefore takes a keen interest in terminal dues, a subject my co-panelist will soon address.

- The State Department continues to head the U.S. delegation to the Universal Postal Union (UPU). The PRC, the Postal Service, the Commerce Department and other government agencies coordinate with it to ensure effective representation.
- Over the last 12 years, I have witnessed that as the nature of national posts has changed, postal regulators have joined their governments and ministries at the UPU. However, even the Council of Administration, the UPU's "regulatory" body, continues to, consists mainly of postal operators, a balance that affects policy outcomes.
- PRC staff are involved in informal efforts to facilitate greater communication among postal regulators at the UPU. We now have held two meetings of postal regulators, informally called the "Bern Group", after the home of the UPU. The Group last met in Bern on April 12, with participation from the European Commission and several EU members.
- Because the PRC has developed close ties with Latin American regulators and Asian regulators as well as with those of you here today, we have created a resource for the international postal regulatory community on our website. It contains links to postal regulators, information on upcoming events related to postal regulation, and reports and studies of interest issued by postal regulators, including several reports by the European Commission. I encourage you to visit our web site – www.prc.gov – and we welcome submissions from Member States that we can share on the website.

- *Closing*

- In closing, let me offer personal regards from my colleague and invaluable assistant Allison Levy. She was not able to attend because of a death in her family.
- She and I hope this conference will further efforts to build greater awareness and coordinated sharing of information and best practices among postal regulators here in Europe and around the world. Working together, we can build a brighter future for the mail and strong regulatory models for the future.
- The European Commission's support for such initiatives to date has been invaluable and I have no doubt our cooperation will only strengthen and prosper to the benefit of the quality of the universal postal network.

#####