

IMAG INSIGHTS

December 2018 Volume 5, Issue No. 8

REPORT OF WHITE HOUSE TASK FORCE ON THE U.S. POSTAL SERVICE

TASK FORCE CALLS FOR OVERHAUL OF USPS BUSINESS MODEL

The much-anticipated [report](#) from the White House’s Task Force on the U.S. Postal Service does not call for outright privatization – as some had expected – but it does recommend a new business model to replace the Postal Service’s “outdated” and “unsustainable” current model.

This reformed business model “must embody a new public policy goal, recognizing that private products and competitive markets increasingly meet the country’s communications and commerce needs,” the task force states. “The new policy goal should have the more targeted function of correcting the failures and inefficiencies of these private markets.”

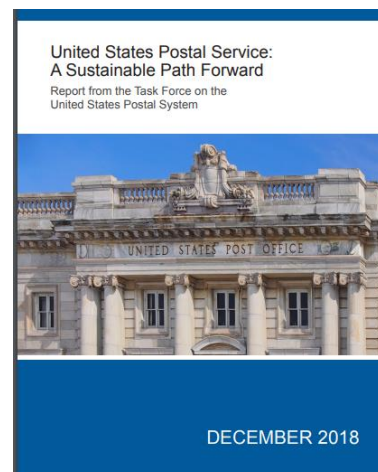
The task force says maintaining the Postal Service’s critical infrastructure as a national resource should be considered the primary business objective of the USPS under its new business model, “even as it adopts a narrower public policy goal and a more targeted value proposition.”

Just what is this value proposition? The task force defines it “as providing a safety net of necessary postal services,” and says USPS’s current primary value proposition of being the provider of least-cost communication services to the nation no longer makes sense. It should instead focus on the needs not met by the private sector. The Postal Service’s key customers under this new model “will be the citizens and businesses underserved by the market, or for whom there is a strong rationale for government support or subsidies,” the report says.

The place to start this reformation would be to define the universal service obligation (USO) for the current era of communications and commerce, the report notes. In the United States, the USO is not clearly defined but is generally understood to mean a minimum level of services at a reasonable price to which all citizens and businesses have access. The attributes for defining the USO include specifying the geographic coverage for postal delivery, frequency of delivery, processing standards, mode of delivery, range of required postal products, level of access to post offices, and rules for affordable postal rates.

The task force argues the USO must be defined with greater specificity:

“The USO must distinguish between the types of mail and packages for which a strong social or macroeconomic rationale exists for government protection in the form of price caps and mandated delivery standards (‘essential services’), versus those types of mail and packages that are commercial in



nature, and therefore would not have a basis for government protection. This definition will provide the USPS and the PRC [Postal Regulatory Commission] with a framework to sustainably manage pricing, costs, and products.”

Traditionally, postal monopolies have funded the USO. The Postal Service has both a letter delivery monopoly and a mailbox monopoly, but declining mail volume and caps on pricing threaten the ability of the monopoly mail products to provide sufficient funding for the USO, the task force says. Other countries have addressed declining revenues by introducing greater pricing flexibilities, the task force says. It suggests moderate price increases on letter mail products.

But clearly defining the USO is key to long-term sustainability of a new postal business model, the task force says. Without that clear definition, the USPS is hamstrung from making sound business decisions in a timely manner. The USO should include the following:

- The USO should continue to include all addresses in the United States.
- A clearly defined standard for delivery.
- Give USPS greater flexibility for determining frequency of delivery.
- USPS should determine the best mode of delivery, i.e., door-to-door, curbside, or cluster box.
- USPS should have discretion on determining mail processing speed.
- The Postal Service should determine ways to optimize activities to cover the costs of the USO. For example, USPS should “optimize revenue and costs on products and activities not deemed essential services, in order to provide a funding mechanism for the USO.” (However, the task force rules out banking services as one such non-essential service the Postal Service should explore.)

Governance is another focus area of the report. The task force recommends improving the governance model – bringing the Board of Governors to full strength and endowed with expanded Board controls and increased accountability.

WHEREFORE AMAZON?

For all of President Trump’s tweeting about Amazon and the Postal Service in advance of the task force’s formation in April, the report does not mention the company by name (except in an appendix that lists the companies and organizations that met with the task force).

Some news reports have even argued Trump’s own administration is countering his accusations that Amazon’s contract is costing the Postal Service money. (Treasury Secretary Mnuchin headed the task force, which also included the directors of the Office of Management and Budget and the Office of Personnel Management.)

Indeed, the report confirms that commercial package delivery is profitable – although it argues those days could be numbered as the Postal Service’s cost advantage from shared mail and package delivery infrastructure continue to decline. The report also encourages the Postal Service to further expand its third-party relationships, such as with mail service and logistics providers, to offer services in the most cost-efficient manner possible.

And, the task force calls for monetizing the mailbox. Mail service providers and package delivery companies continue to expand offerings to multiple parts of the value chain, and it's reasonable to expect a willingness to pay for access to USPS mailboxes. "By franchising the mailbox, the USPS could expand its revenue and income opportunities without necessitating any change to its current mail products," the report notes.

However, some of the recommendations, if enacted, would lead to increased package prices, which would hit not just major online retailers but small businesses and consumers as well. The report's recommendation that USPS create separate balance sheets for letter/flats and for packages would likely result in lost efficiencies in package delivery, driving up costs and prices. Indeed, the task force's whole value proposition of the Postal Service focusing primarily on underserved citizens and businesses makes it hard to envision how USPS would remain profitable in the package delivery market. These groups are underserved for a reason: they cost a lot to serve.

The report also suggests the Postal Service raise prices on competitive products where it has a market-dominant position and can take advantage of lower delivery costs and mailbox access, such as in the business-to-consumer ecommerce segment. That is, USPS should not price its competitive products to maximize volume, but instead price toward generating income that can be used to fund its capital expenditures and long-term liabilities. "Alternatively, the task force recommends that in any of its pricing decisions, USPS consider the potential market distortions that could drive industry participants out of the market."

The report also calls on modernizing the Postal Service's cost standards and allocation methodology – something the private express industry has pushed for many years. The report says: "The USPS's current cost methodology does not take into account that market dominant and competitive products operate under different regulatory and market rules, nor does it capture the cost implications that the rapid decline in mail volume and the rapid rise of package volume have had on the USPS's cost structure."

SOMETHING FOR EVERYONE TO CHEW ON

Given the varied group of stakeholders in the Postal Service, no report could ever please everyone. Here are a few stakeholders and the ideas likely to cause concern.

- **Major domestic mailers:** The task force calls for eliminating or relaxing the price cap on Marketing Mail and moderately increasing prices on First-Class Mail, given that mail is "largely price-inelastic," the report says. The task force says "there is little public policy justification for the federal government to retain price caps on commercial marketing solicitations." Commercial mailers of market-dominant products have long argued that the price cap is needed to force the Postal Service to control costs.
- **Labor unions:** Remove USPS compensation from the collective bargaining process. "USPS employees should not be afforded protections and rights not enjoyed by other federal employees," the report says.
- **Members of Congress:** It's not so much what is in the report as the way it was done. Senator Tom Carper (D-DE), a leading lawmaker on postal issues, has complained

about a lack of transparency, saying the task force has crafted recommendations in secret when it could have built off scrutinized legislation.

- **International mailers and shippers:** No review of international products and services and no discussion of the Postal Service's role in the international market, except to state the task force's approval of the administration's decision to begin the process of withdrawing from the Universal Postal Union. IMAG had hoped the task force would give greater consideration to the growing importance of cross-border ecommerce.

NEXT STEPS

What happens next? A cynic might say "nothing much," if recent efforts at reforming the Postal Service are any indication. Bipartisan legislation to reform the Postal Service stalled in this current Congress despite having buy-in from a number of stakeholder groups. And, it's not clear how invested the administration is in this task force report. Rumor has it the Treasury Department only released the report because the incoming Democratic majority on the House Committee on Government Reform and Oversight planned to issue a subpoena for it in January. Thus, the quiet release in the afternoon before a federal day of mourning.

You can find all of IMAG's written correspondence with the task force on our website:

- IMAG [core issues](#)
- Follow up [letter](#) and [data](#).

But, sometimes, all it takes is a fresh look at an old problem to goose some action. Observers will recall that President Bush's 2003 Commission on the Postal Service helped focus attention on postal issues, which eventually led to the Postal Accountability and Enhancement Act of 2006. And with Democrats taking control of the House, perhaps postal reform will get some renewed attention on the Hill.

And it's evident the two new governors of the Postal Service Board of Governors are engaged and interested. At recent speaking events, Governor David Williams has expressed his interest in revisiting the USO and better defining it for the 21st century; if that can be done, it's likely that solutions can be found to match those needs.

The task force report includes an appendix with a chart listing each of its recommendations and the policy action needed to make them happen. Fifteen of the 25 recommendations could be enacted with administrative action, and the remaining 10 would need legislation.

About IMAG:

The International Mailers' Advisory Group is the premier representative of the U.S. international mailing sector. Its core mission is to address barriers to the efficient flow of goods and information across borders for companies utilizing postal services.

For more information on IMAG, visit our website www.internationalmailers.net or www.imag.world. Or contact IMAG Executive Director Kate Muth at katemuth@comcast.net

