

GAO

Testimony

Before the Subcommittee on Post Office and Civil Service,
Senate Committee on Governmental Affairs; and the
Subcommittee on the Postal Service, House Committee on
Government Reform and Oversight

For Release
on Delivery
Expected at
9:30 a.m. EST
Thursday
January 25, 1996

U.S. POSTAL SERVICE

A Look at Other Countries' Postal Reform Efforts

Statement of Michael E. Motley
Associate Director, Government Business
Operations Issues
General Government Division



U.S. Postal Service: A Look at Other Countries' Postal Reform Efforts

Summary of Statement by
Michael E. Motley
Associate Director
Government Business
Operations Issues

Various parties have called for fundamental changes in the laws and regulations governing the U.S. Postal Service. GAO believes that three areas—universal service, the mail monopoly, and ratemaking—will be among the most challenging for the Congress to address in any future reform of the U.S. Postal Service.

In the past decade, a number of other countries have restructured postal administrations from entities subject to close governmental control to entities still owned by the government, but subject to less governmental control. GAO looked at postal reform efforts of eight other countries: Australia, Canada, France, Germany, the Netherlands, New Zealand, Sweden, and the United Kingdom. The U.S. Postal Service is much larger, having at least seven times the mail volume, than any of the eight. Even so, other countries' experiences in giving postal administrations greater commercial freedom are relevant to current reform issues in the United States.

After reforms of other postal administrations, many of them have reported significant improvements in financial performance. In all of the other eight countries, the postal administrations provided certain services widely to their citizens and at uniform rates before reform and continued to provide them following reform. In some countries, changes in universal service practices, such as access to post office services, have been controversial. For example, after its reform, the New Zealand Post increased a delivery fee for rural service; this decision proved unpopular and the fee was eliminated in 1995.

All but one (Sweden) of the eight countries have monopolies over some letter mail. In Sweden, full competition for all postal services has been allowed since January 1994. Some of the other countries narrowed the scope of the monopoly following postal reform. For example, in Australia, the monopoly price threshold was reduced in 1994 from 10 times the basic stamp price to 4 times the price. In contrast to the United States, none of the eight countries give postal administrations exclusive access to the mail box.

Postal administrations in the other eight countries have greater freedom than the U. S. Postal Service to set postal rates. For example, in New Zealand, the postal administration is free to set prices except for standard letters which are subject to a price cap of the country's Consumer Price index minus one percent. In Canada, only certain rates, mainly those for letter mail and some publications, must be approved by the Canadian government.

Statement

Chairman Stevens, Chairman McHugh, and Members of the Subcommittees:

We appreciate the opportunity to participate in this hearing on how the reform experiences of other countries' postal administrations may relate to ideas and proposals for reform of the U.S. Postal Service. We will discuss experiences of other postal administrations that are particularly relevant to any future decisions by Congress affecting (1) public service obligations, such as universal service and uniform rates; (2) the postal monopoly; and (3) regulation of postal prices.

My testimony is based primarily on our past and ongoing work relating to the responsibility of the U.S. Postal Service to provide uniform service to all communities in an increasingly competitive postal environment, as well as on issues involving the postal monopoly and postal rate setting in this country. We have also done limited work on other countries' postal administrations. To date, we have focused most of our attention on Canada Post. Canada's experience is especially relevant because of its proximity to the United States and its similarities in geographic size, business environment, and market-oriented economic systems. I will also refer to postal administrations in seven other countries on which we obtained data: Australia, France, Germany, the Netherlands, New Zealand, Sweden, and the United Kingdom. These countries, along with Canada, have been described by Price Waterhouse in a recent study¹ as among the most "progressive postal administrations," and most of them have undergone reforms that changed their structure and operations in the past decade. Our testimony relating to other countries' experiences is based primarily on that study as well as data readily available from the other countries' postal administrations.

While we believe that the overall experiences of other countries' postal administrations are relevant to the current discussions of postal reform in the United States, meaningful comparisons of the specific operational practices followed and performance results can be difficult. Compared to each of the eight other postal administrations, the U.S. Postal Service has at least seven times the mail volume, and at least twice the number of employees. All eight postal services combined have only one-half of the U.S. Postal Service mail volume, and just slightly more than the total number of its employees. The U.S. Postal Service handled about 180 billion pieces of mail in fiscal year 1995 and had over 850,000 employees in

¹"A Strategic Review of Progressive Postal Administrations: Competition, Commercialization, and Deregulation" (Price Waterhouse LLP, February 1995).

December 1995. By comparison, Canada Post has about 6 percent of the U.S. Postal Service's mail volume and about 6 percent of its number of employees. I have appended to my statement two graphics that illustrate the differences in mail volume and employment between the U.S. Postal Service and the other eight postal administrations.

Other Countries' Experiences Are Relevant to Postal Reform in the United States

Notwithstanding the differences in workforce size and mail volume, other countries' experiences with granting their postal administrations greater commercial freedom are relevant to current consideration for granting such freedom in the United States. For example, in 1992, we issued a report² describing how the competition from both private firms and electronic communication, particularly in the expedited-service mail and package-delivery markets, may create the need for statutory changes. Similarly, according to Price Waterhouse's February 1995 report, while many factors are driving postal reform in other countries, the increase in competition in the delivery and communications markets has, above all else, driven the changes.

Various parties, including some Members of Congress and the Postmaster General, have called for fundamental changes in the laws and regulations governing the U.S. Postal Service. The Postmaster General has said that the Postal Service needs greater freedom to set postage rates, manage the postal workforce, and introduce new products and services. Private delivery firms and U.S. mailers say they want more freedom to deliver letters now protected by the statutory monopoly. In recent hearings, Congress has been presented with many ideas and some specific proposals for reforming and privatizing the Postal Service.

The 1970 Postal Reorganization Act, which created the U.S. Postal Service, was the most recent major change to the laws governing the structure and operation of the postal administration in the United States. Major change has occurred more recently for some foreign postal administrations. In the past decade, a number of other countries have restructured postal administrations from entities subject to close governmental control to entities that are still owned by the government, but with less governmental control over day-to-day practices. For example, in 1981 Canada established the Canada Post Corporation, an entity owned by the Canadian government but freed from many government regulations. Reform of postal administrations also took place in New Zealand in 1987, in Australia

²U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

and the Netherlands in 1989, in France in 1991, in Sweden in 1994, and in Germany in 1995.

Following these reforms, postal administrations in many of these countries reported significant improvements in financial performance and service delivery. We will not discuss their performance or the effects of postal reform. However, I will highlight a key common feature—universal service—of the U.S. and other postal administrations after reform. I will also highlight variances in the characteristics of their monopolies and their ability to set postal prices. We believe that these three areas—universal service, the mail monopoly, and ratemaking—will be among the most challenging for Congress to address in any future reform of the U.S. Postal Service.

Universal Service Remains a Common Goal Among Other Postal Administrations

The primary mission of the U.S. Postal Service, as it now exists in law, is to provide mail delivery service to persons in all communities and access to the mail system through post offices and other means. The rate for First Class mail, i.e. letters “sealed against inspection,” must be uniform for delivery anywhere in the United States. The U.S. Postal Service generally offers delivery to both urban and rural addresses six days a week. Any consideration of reforming the U.S. Postal Service will require a careful review of, and no doubt much debate on, how the current universal service mandate will be affected.

In all of the other eight countries, the postal administrations provided certain services widely to their citizens and at uniform rates before reform and continued to provide them following reform. However, the definition of universal mail service varies somewhat from country to country. Some of the countries provided the same level of service for urban and rural customers, while some others had different service standards for urban and rural areas. For example, although Canada Post is required by law to maintain service that meets the needs of Canadian citizens, the service only needs to be similar for communities of the same size. Canadian citizens in very remote areas in the far north may receive mail delivery less frequently each week than those in some other areas of Canada.

In some countries, changes in universal service practices, involving such areas as the frequency of delivery and access to post office services, have been controversial. For example, in New Zealand, citizens in rural communities were upset when they learned New Zealand Post wanted to discontinue delivery services to rural addresses. The Post then increased a

long-standing rural delivery fee for service, paid by the addressee; this decision proved unpopular, and the fee was eliminated in 1995.³ There continues to be no rural delivery fee in New Zealand.

Accessibility to postal services, which includes maintenance of local post offices in the United States, is also part of the public service obligation of postal administrations in some other countries. The U.S. Postal Service must follow strict legal criteria in determining whether to close post offices. In New Zealand, the postal administration has negotiated a written agreement with the government that specifies the minimum number of postal retail outlets. In the Netherlands, Dutch law specifies minimum requirements regarding the density of post offices in urban and rural areas.

Five of the eight countries' postal administrations differ from the U.S. Postal Service in that a majority of their postal retail outlets are privately owned and operated, according to the February 1995 Price Waterhouse report. This group includes Australia, Canada, the Netherlands, New Zealand, and the United Kingdom. Except for the French postal administration, all of the eight foreign postal administrations have some form of franchising policy for postal retail services.

Like the U.S. Postal Service, other postal administrations have also continued to provide certain subsidized services. For example, in Canada, the government compensates Canada Post for providing subsidized rates for publications, parliamentary mail, and literature for the blind. In Sweden, the government subsidizes certain services, such as free delivery of literature to the blind, while the postal service subsidizes the distribution of certain newspapers and provides discounts on association letters.

We plan to issue a report shortly on the U.S. Postal Service's role in the international mail market, including issues that have been raised by both the U.S. Postal Service and its major competitors, such as Federal Express and DHL Airways. The Postal Service participates in the Universal Postal Union, a specialized agency of the United Nations that governs international postal services. Its basic purpose is to help postal administrations fulfill statutory universal service obligations on an international level. A total of 189 Universal Postal Union member countries have agreed to accept mail from each other and to deliver the international mail to its final destination.

³New Zealand Post estimated the 1-year cost of eliminating the rural delivery fee at between \$7 and \$8 million (NZ dollars).

The Scope of Postal Monopolies Varies

The Postal Service has said that current universal service obligations and related public service mandates can only be met if its markets continue to be statutorily protected by the Private Express Statutes that provide the Service with a monopoly over letter mail. We plan to issue a report in the coming months that discusses the Postal Service's monopoly in detail, including the growth since 1970 of private delivery firms that are competing and will likely compete more strongly in the future for some of the Service's First-Class, Priority, and Third-Class mail.

The postal monopoly is defined differently and varies widely in scope among the eight foreign postal administrations. In this country, the letter mail monopoly helps ensure that the Postal Service has sufficient revenues to carry out public service mandates, including universal service. The U.S. postal monopoly covers all letter mail, with some key regulatory exceptions being "extremely urgent" letters (generally next-day delivery) and outbound international letters. Postal Service data indicates that, in fiscal year 1995, at least 80 percent of the Postal Service's total mail volume was covered by the postal monopoly.

All but one (Sweden) of the eight countries' postal administrations have monopolies over some aspects of the letter mail. Generally, the letter monopolies in other countries are defined according to price, weight, urgency of delivery, or a combination of these factors.⁴ For example, in Canada, the postal monopoly covers letters, with a statutory exclusion for "urgent" letters transmitted by a messenger for a fee that is at least three times Canada's regular rate of postage. In Germany, the monopoly covers letters priced up to 10 times Germany's standard letter rate. The postal monopoly in France covers letters and those parcels weighing less than 1 kilogram (2.2 pounds). In the United Kingdom, the monopoly is defined by price, covering those letters and parcels with postage up to one British pound.

Australia and New Zealand narrowed the scope of their postal monopolies after reform. For example, in Australia, the monopoly price threshold was reduced in 1994 from 10 times the basic stamp price to 4 times the price. Other changes were also made, such as reducing the weight threshold from 500 grams to 250 grams and the excluding of outbound international mail. Australia Post reported in its 1994 annual report that these changes "will reduce the proportion of total business revenue from reserved services from around 60 percent to about 50 percent." It now receives a majority of its revenues from services open to competition. Australia plans

⁴There are various exclusions to the postal monopoly in each country.

a review of the remaining postal monopoly during 1996-1997. In New Zealand, the monopoly price threshold was reduced in phases over 3 years, and the government announced in November 1994 that it would introduce legislation to completely deregulate the postal market. While no final decision has been made, New Zealand Post officials said last year that they had shaped their business plans to expect an open, competitive environment.

Sweden has eliminated its postal monopoly. Full competition for all postal and courier services, including the delivery of letters and parcels, has been allowed in Sweden since January 1, 1994. Sweden Post officials told us that its monopoly offered little protection of postal revenue and enforcement was not cost-effective. The Swedish government, not the postal administration, has the obligation to provide universal mail service.⁵

The U.S. Postal Service and some other postal administrations have made efforts to enforce their postal monopoly. The U.S. postal monopoly has proved difficult to enforce for a number of reasons, including objections by both mailers and competitors to the Postal Service's audits and other enforcement actions. We were informed by Canada Post officials that Canada Post also finds its monopoly difficult to enforce. They said that, while Canada Post has taken legal action against major violators of its postal monopoly, it prefers to use other means of persuasion to get violators to comply with the law.

Enforcement problems can also be related to the way the postal monopoly is defined. For example, in France, an exclusion limits the letter mail postal monopoly to private correspondences. Since letters are sealed against inspection, thus making it impossible to determine whether they are private correspondences, enforcement is difficult.

Finally, a monopoly on mail box access in the United States is related to the Postal Service monopoly on delivery of letter mail. By law, mail box access is restricted to the Postal Service. In contrast, none of the eight countries we reviewed have laws that give their postal administrations exclusive access to the mail box.⁶

⁵The Swedish government currently contracts exclusively with Sweden Post to provide universal service but may extend this arrangement to other competitors if they achieve sufficient scope.

⁶There may be certain types of limited access to mail boxes in some countries. For example, in Canada, if Canada Post owns the mailbox, it is locked, and thus only Canada Post has access to it. This also applies to some centralized apartment mail boxes in secure buildings.

Postal Administrations in Some Countries Have Been Given Greater Freedom to Set Postal Rates

We issued a report late last year on postal ratemaking⁷ that updated our 1992 report, saying that, if the Postal Service is to be more competitive, it will need more flexibility in setting postal rates. In our opinion, legislative changes to the 1970 Act's ratemaking provisions may be necessary in order to give the Postal Service greater flexibility in setting rates. In our 1992 report, we said that Congress should reexamine the 1970 Act to (1) determine whether volume discounting by the Postal Service would be considered a discriminatory pricing policy and (2) clarify the extent to which demand pricing should be considered in postal ratemaking. In our latest report, we reiterated these points and also discussed alternatives which Congress could consider for improving the ratemaking process.

Postal administrations in the other eight countries appear to have greater freedom to establish and change postal rates than does the U.S. Postal Service. In Canada, only certain rates, mainly those for full-price letter mail and the mailing of publications at government-subsidized rates, must be approved by the Canadian government. In addition, rate proposals are not subject to an independent regulatory body as they are in the United States. In Canada, interested parties have an opportunity to provide information, but the rate-setting process is not public, and parties do not have access to costing data or other information underlying postal rates.

In Sweden, the postal administration is free to set all prices except for the standard domestic letter; the government and the postal administration have agreed to a price cap on the domestic letter rate equal to the standard consumer rate of inflation. Similarly, in New Zealand, the postal administration is free to set prices except for standard letters, which are subject to a price cap of the country's Consumer Price Index minus 1 percent.

The Australian postal administration sets its own prices. The government can "disapprove" of the basic postage rate proposed by Australia Post. In addition, Australia Post must notify an independent authority of proposed increases in the prices of monopoly services. The authority has only an advisory role and in the past has instituted inquiries into proposed increases lasting up to 3 months.

Finally, while we have focused on the three complex and interrelated issues of universal mail service, the postal monopoly, and postal rate setting, there are other issues that will also require reexamination in any

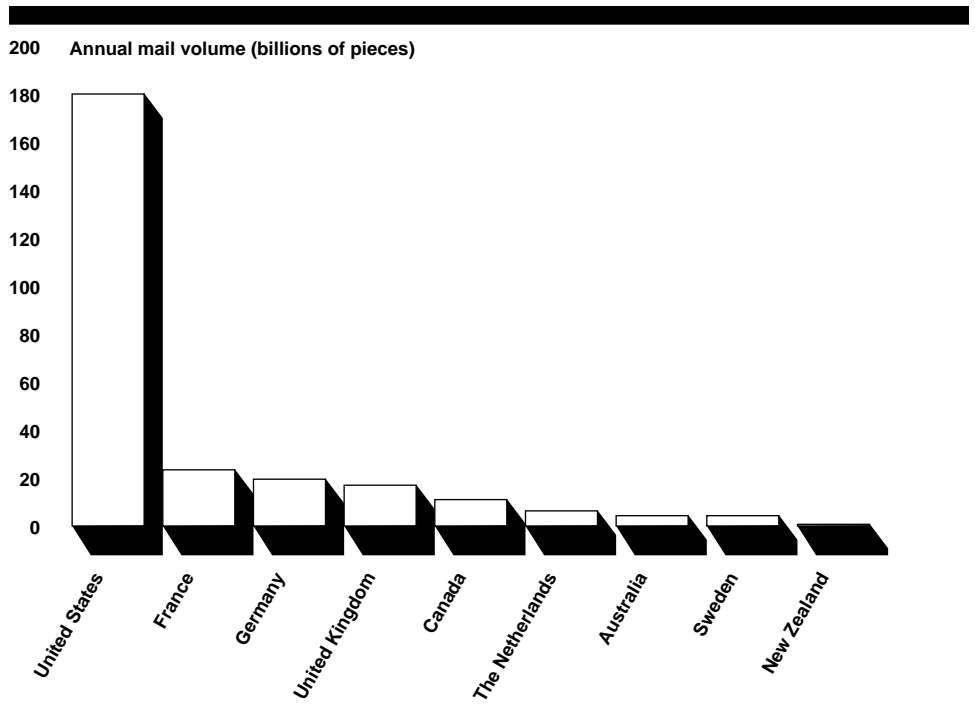
⁷U.S. Postal Service: Postal Ratemaking in Need of Change (GAO/GGD-96-8, Nov. 15, 1995).

future reform initiative. These include, but are not limited to, the quality of the Postal Service's labor relations. We previously reported⁸ that Congress may need to reconsider the collective bargaining provisions of the 1970 Act if the Postal Service and its major employee organizations are unable to resolve some long-standing problems. As the Congress continues its deliberations on postal reform, we believe that it is important to examine the interrelationships of these issues and how changes addressing them may affect postal operations and related services to the American public and business.

This concludes my prepared statement. I would be happy to respond to your questions.

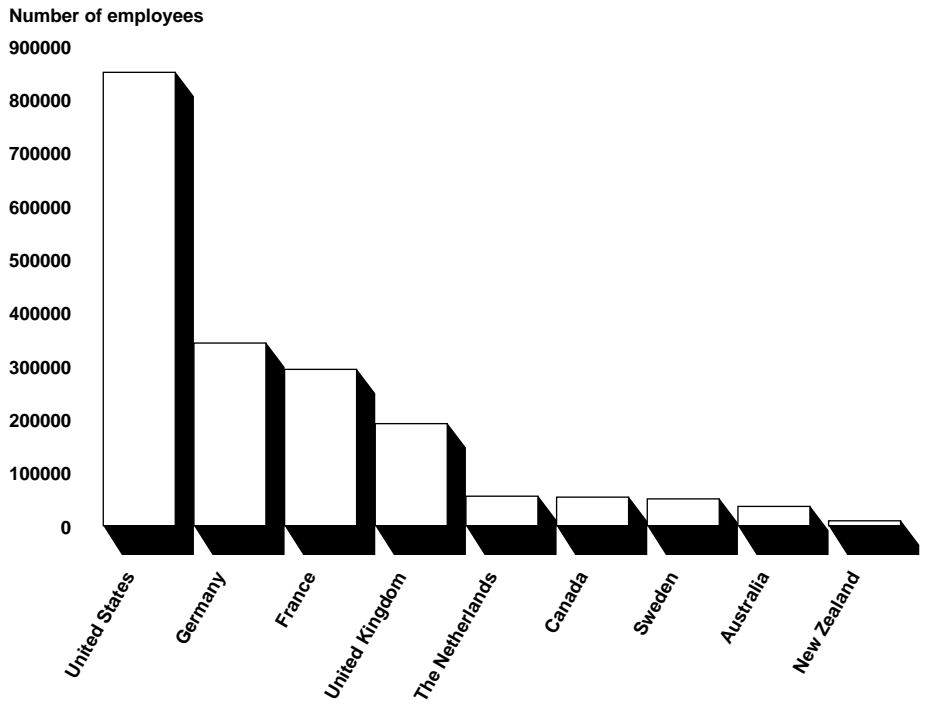
⁸U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201 A and B, Sept. 29, 1994).

Figure 1: Mail Volume for U.S. Postal Service and Postal Services in Eight Other Countries



Source: U.S. Postal Service, foreign postal administrations, February 1995 Price Waterhouse report: "A Strategic Review of Progressive Postal Administrations."

Figure 2: Employment of U.S. Postal Service and Postal Services in Eight Other Countries



Source: U.S. Postal Service, foreign postal administrations, February 1995 Price Waterhouse report: "A Strategic Review of Progressive Postal Administrations."

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
