

Variations and Trends in Postal Regulatory Oversight

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Executive Summary

Postal markets around the world are transforming. Letter mail volume is declining while the parcel sector becomes increasingly competitive. These trends are placing significant financial pressure on national posts and their ability to sustain the provision of universal postal services. These trends have inspired discussions in many countries about how postal regulatory frameworks might adapt to a new market reality. In this paper, the U.S. Postal Service Office of Inspector General (OIG) examines the main oversight activities of the Postal Regulatory Commission (PRC) in the U.S. and other postal regulators in selected countries with developed postal markets. The paper also explores challenges and trends affecting postal regulation and regulatory oversight.

The purposes of the PRC and other postal regulators include ensuring continued delivery of universal, affordable postal services and sanctioning violations of laws and regulations. Each regulator's role and responsibilities are shaped by the national regulatory and policy contexts of their respective countries.

The structure, staffing, and scope of oversight of these regulators vary considerably from country to country. The OIG identified three broad categories of regulatory frameworks: regulators that oversee the postal sector along with other sectors, dedicated postal regulators, and countries with no independent postal regulator (where oversight functions are performed by a government ministry or department). The U.S. is unique among countries we researched in that the standalone postal regulator, the PRC, oversees only one entity—the U.S. Postal Service. In other countries, postal regulators generally have some oversight role over delivery companies in addition to the national post.

A major task for all postal regulators is overseeing implementation of the universal service obligation (USO), the collection of requirements ensuring that the universal service provider – normally the national post – provides all users a minimum level of service at an affordable price. There are notable differences in postal regulators' oversight of the USO, including:

- *How the USO is defined.* In other countries, the USO may be fully defined in national law or the regulator may have the authority to determine the parameters of at least one aspect of the USO. The U.S. postal regulatory framework is different in that the national post itself can set most USO parameters. An exception is the PRC's authority – rare among postal regulators – to define the price setting mechanism for Market Dominant products.
- *The scope of postal products covered by the USO.* Unlike most countries, U.S. law does not include a detailed definition of USO products. Both the PRC and the Postal Service have comparatively broad interpretations of the scope of the USO, considering it to include both Market Dominant and Competitive products.
- *Reviewing or setting the price of postal products.* There is variation in the scope of price controls and how they are applied. In the U.S., price controls consist of ex ante (before the fact) review, including a price cap for Market Dominant products. The PRC's price cap applies to a larger percentage of postal volume than is the case for the seven largest European countries in our comparison set that implement price caps.
- *Monitoring compliance with requirements regarding access to the postal network.* The U.S. regulatory framework does not include specific targets regarding access to the postal network, as is the case in many other countries. The PRC cannot reverse a Postal Service decision to close or consolidate a post office but can return that decision to USPS if it finds the agency has not followed applicable laws.
- *Collecting user complaints.* Like some other regulators, the PRC hears complaints about USPS compliance with rules governing rates, service, and competition.
- *Enforcing rules and regulations.* The PRC has comparatively limited enforcement powers and has never fined the Postal Service.

Postal regulators, including the PRC, are involved in oversight activities related to market access and competition. Significant areas of variation include:

- *Granting authorizations and licenses to national posts and delivery companies.* Unlike other postal regulators in our comparison set, the PRC does not have such a role.
- *Preventing cross-subsidization of competitive products with profits earned from a less competitive market segment.* In the U.S., postal law prohibits cross-subsidization from Market Dominant products to Competitive products and the PRC reviews Postal Service accounts to verify compliance with that rule. This is similar to other countries that bar cross-subsidization of non-USO products from USO revenue.
- *Reviewing and approving negotiated service agreements.* The PRC is unique among postal regulators in approving contracts between the national post and a mailer setting customer-specific rates, fees, or terms of service.

In light of the dramatic changes occurring in postal markets, countries face several significant challenges related to postal regulation going forward:

- *Revisiting their USO parameters and engaging in political discussions about the future of postal services.* Given the close relationship between the USO and the work of a postal regulator, changes to a country's USO are likely to impact the scope of oversight and regulatory activities of regulators.
- *Uncertainty over the role of postal regulators.* Several countries in our comparison set are considering fundamental changes to their postal regulatory framework and the role of the postal regulator. The letter mail market has traditionally been the focus of postal regulation; as it shrinks, regulators may have a smaller role to play in this area. As new actors compete with national posts and traditional delivery companies, their structure and business models may not align with a country's existing definition of postal services under the purview of regulators.
- *Efforts to improve data analytics capacity.* Some regulators reported that the data sets they work

with have become larger and more complex and expressed a desire to enhance their data collection and analysis processes going forward. The PRC made this one of the key goals in its 2023-2028 strategic plan.

- *Regulators' uncertain role in making postal and parcel delivery more environmentally sustainable.* There is an open question about whether postal regulators have a role to play in promoting sustainability.

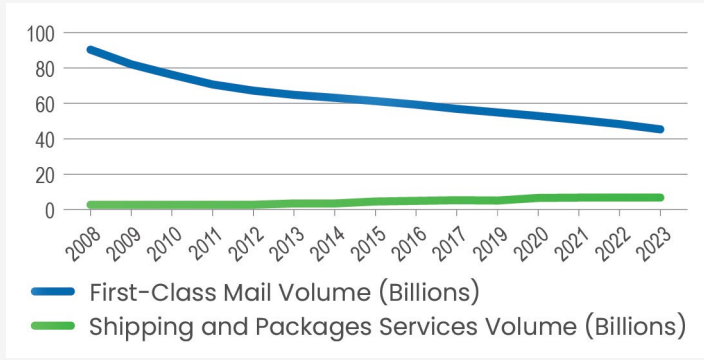
Observations

Introduction

Postal markets in the United States and worldwide are rapidly changing as letter volumes steadily decrease and parcel volumes increase. In the U.S., the number of first-class letters handled by the Postal Service peaked at an all-time high of more than 103 billion pieces in 2001 but fell 56 percent by 2023. Other countries have seen similar trends, as means of communication shift away from paper-based correspondence toward digital technology. The result is a significant decline in letter revenues for national posts.

Total U.S. parcel market volumes (for USPS and private delivery companies) are estimated to have more than doubled from around 10 billion pieces in 2015 to more than 21 billion in 2022 (the latest year for which this estimate was available).¹ During that same seven-year period, the Postal Service's package and shipping volume rose 60 percent, from 4.5 billion to 7.2 billion. (See Figure 1 for USPS First-Class Mail and package volumes.) Other countries have experienced similar parcel volume increases. Growth in e-commerce contributed to a proliferation of new ventures in the parcel market to challenge the positions of national posts and traditional delivery companies.

Figure 1: USPS First-Class Mail and Shipping/Package Volumes



Source: USPS Data from Annual Reports to Congress.

¹ Parcel volume estimates from Pitney Bowes, see: Pitney Bowes Parcel Shipping Index US Edition 2020, https://www.pitneybowes.com/content/dam/pitneybowes/us/en/newsroom/final_infographic_sept_10.pdf, and Pitney Bowes Parcel Shipping Index 2023, https://www.pitneybowes.com/content/dam/pitneybowes/us/en/shipping-index/23-mktc-03596-2023_global_parcel_shipping_index_ebook-web.pdf.

² 117th Congress, Public Law 117-108, An Act to Provide Stability to and Enhance the Services of the United States Postal Service, and for Other Purposes (Postal Service Reform Act of 2022), April 6, 2022, <https://www.congress.gov/117/plaws/publ108/PLAW-117-publ108.pdf>.

These trends pose growing financial challenges for national posts around the world, making it more difficult to sustain their existing mail service. While parcel revenues are on the rise, the increase may not be sufficient to compensate for losses in letter revenues. The parcel market is more competitive than the mail market, as posts contend for market share against multiple delivery companies. The difficulties faced by posts create challenges for national governments striving to uphold the provision of universal postal services and for postal regulators, whose roles may become more uncertain in changing postal markets.

Postal stakeholders around the world are discussing how postal regulatory frameworks might adapt to this new reality. For example, the European Union (EU) is studying the evolution of the postal sector and how changes to postal regulation could impact the future. The government of Australia recently launched a public consultation on how to reform postal services. The U.S. has not made significant changes to its postal regulatory framework since 2006, but passage of the Postal Service Reform Act of 2022 showed that Congress recognized a need to help the Postal Service endure financial pressures.²

The first objective of this paper is to provide an overview of the main oversight activities of the Postal Regulatory Commission (PRC) in the U.S. and postal regulators in selected countries with developed postal markets. The second objective is to examine current and future trends and challenges in postal regulation and regulatory oversight. In pursuit of these objectives, the project team conducted comparative analysis of postal regulatory frameworks. We focused our research on countries with postal markets most comparable to the U.S. and selected 27 of the most developed postal markets (including the U.S), according to the Universal

Postal Union's (UPU) Integrated Index for Postal Development.³

The Purpose of Postal Regulators in Developed Postal Markets

Regulation of postal markets is common throughout the world. Countries establish postal regulators for a variety of reasons, to include: separating regulatory and oversight functions from the provision of postal services, ensuring the continuity of universal service, and sanctioning violations of postal laws and regulations. In addition, regulation can help prevent market failures — such as excessively high prices or anticompetitive behavior — and ensure access to basic postal services. A major task for all postal regulators is overseeing implementation of the universal service obligation (USO), the collection of requirements which ensure that the universal service provider — normally the national post — provides all users a minimum level of service at an affordable price.⁴

The national policy contexts in which regulators operate may vary significantly, affecting the scope of their functions. In most of the countries researched for this report, a country's postal law establishes a postal regulator with specific powers and functions. Postal law may be influenced by international laws or agreements, such as the EU's postal directives and provisions of the UPU Convention. The role of the postal regulator may also be defined by government decrees, executive orders, or rulings (by other agencies or by the regulator).

Exercising Independent Regulatory Oversight

Prior to the 1990s, in most countries researched for this report, the national post was controlled by a government ministry or other office responsible for both postal operations and postal regulation. In both Germany and France, for example, the predecessors to the current national posts were units controlled by government ministries responsible for postal services and telecommunications. In some other countries, the post was not part of a ministry or department but was still under government control. For example,

The Postal Regulatory Commission (PRC)

The PRC is an independent federal agency of the executive branch that exercises regulatory oversight over USPS.

The PRC is comprised of five commissioners, appointed by the president and serving six-year terms, with a staff of around 70.

The primary activities of PRC include:

- Developing and implementing the system regulating prices of Market Dominant products;
- Reviewing and determining classifications for new Market Dominant and Competitive products;
- Consulting with the Postal Service on delivery service standards and performance measures;
- Consulting with the Department of State on international postal policies;
- Preventing cross-subsidization or other anti-competitive postal practices;
- Promoting transparency and accountability;
- Adjudicating complaints filed by postal consumers who believe USPS is not operating in conformance with the law; and
- Undertaking reporting and performance studies.

Royal Mail in the United Kingdom was a corporation entirely owned and controlled by the government.

³ See [Appendix A](#) for details on our methodology for choosing the country comparison set.

⁴ Universal service providers are sometimes called designated postal operators (DPO), in particular by the UPU.

In 1970, the U.S. adopted legislation that transformed its national post from a government department (the Post Office Department) into an independent federal agency, the U.S. Postal Service. The same law created the Postal Rate Commission (PRC), another independent federal agency, to serve as the postal regulator. Subsequent legislation changed the PRC's name to the Postal Regulatory Commission. (For more information on the PRC, see "The Postal Regulatory Commission (PRC)".)

Notably, the postal reforms of the early 1970s did not task a specific cabinet department with responsibility for postal affairs or developing postal policy – the high-level goals and guidelines for the postal sector and its regulation. An exception in the U.S. is international postal policy, for which the Secretary of State is responsible.⁵ Other countries in our comparison set generally assign a specific ministry or department with broad postal policy responsibility; the U.S. stands out for not having done so.⁶ The U.S. is similar to other countries, however, in that the national legislature engages in postal legislation and oversight; two Congressional committees (one in the Senate and one in the House) include the Postal Service under their respective purviews.⁷

In Europe, independent postal regulators emerged in the 1990s – two decades after the U.S. had undertaken similar reforms – as countries opened their postal markets to competition. Although some EU members had already instituted postal regulators prior to its adoption, the 1997 EU Postal Services Directive required that all member states create such authorities.⁸ Entrusting regulatory functions to a regulator independent from the national post was intended to:

- Allow for more consistent market regulation;
- Facilitate the enforcement of established ground rules; and
- Reduce the potential for conflict of interest.

Insulating regulators from the interests of the national post allowed for more impartial decisions based on the best interests of the market and consumers. Regulators could also promote transparency by publishing independent decisions and reports that provided stakeholders with useful information about the postal sector.

Ensuring Continued Delivery of Universal and Affordable Postal Services

A common role for postal regulators, including the PRC, is to ensure customers receive the level of service stipulated by relevant laws and regulations. This involves monitoring the post's service quality and performance, overseeing the fulfillment of the USO, and regulating prices to verify affordability for customers and that national posts cover their costs. To promote compliance, postal regulators often have the power to enforce postal laws and regulations by implementing corrective actions. These actions may include meeting with the post to discuss steps to improve performance metrics or issuing penalties if a national post or delivery company fails to comply with established regulations or service standards. Postal regulators may also review and address customer complaints against national posts or delivery companies.

Structures and Regulatory Models

While there may be some common reasons for adopting postal regulators, the structure, staffing, and scope of oversight of these regulators vary considerably from country to country.

Three Structural Models

The OIG identified three broad categories of regulatory frameworks:

- Multi-sectoral regulators, which regulate the postal sector and other adjacent industries;
- Dedicated postal regulators, which regulate the postal sector only; and

5 The PAEA entrusted the Secretary of State with "the formulation, coordination, and oversight of foreign policy related to international postal services and other international delivery services and [...] the power to conclude postal treaties, conventions, and amendments related to international postal services and other international delivery services." See: 39 U.S.C. § 407(b)(1).

6 For example, the Department for Business and Trade handles postal policy in the U.K. and the Federal Ministry for Economic Affairs and Climate Action does so in Germany.

7 In the Senate, the Committee on Homeland Security and Governmental Affairs oversees the Postal Service. In the House, the Committee on Oversight and Accountability has that role.

8 There are only two non-EU countries in our comparison set that have single-sector postal regulators: Switzerland and the United States. See Table 1 in the following section for more information on postal regulatory models across countries.

- No independent regulator, wherein a government ministry or department is responsible for regulation and oversight of the postal sector.

Table 1 shows where countries in the OIG’s comparison set fit into each of the three model types. Independent regulators – both multi-sector and single-sector – are generally led by a board, council, or individual leader appointed by the executive branch of the government.

Table 1: Postal Regulatory Models by Country

| Independent Postal Regulator | | Postal Only | No Independent Regulator |
|------------------------------|----------------|----------------------|--------------------------|
| Multi-Sectoral | | | |
| Australia | Hungary | | |
| Austria | Ireland | | |
| Belgium | Italy | | |
| Croatia | Netherlands | | Canada |
| Czech Republic | Portugal | Switzerland | Israel |
| Denmark | Slovakia | United States | Japan |
| Estonia | Slovenia | | New Zealand |
| Finland | Spain | | South Korea |
| France | Sweden | | |
| Germany | United Kingdom | | |

Source: USPS OIG

Multi-Sectoral Regulators

Most postal regulators in our comparison set – 20 out of 27 – also oversee other sectors. In these countries, postal regulation is most commonly included in the same regulator that oversees the telecommunications sector. Eight countries (Croatia, Denmark, Estonia, Finland, Germany, the Netherlands, Slovenia, and Spain) group postal regulation with transportation regulation, while four of those countries’ postal regulators (Germany, Estonia, the Netherlands, and Spain) also oversee the energy sector. Australia, Estonia, the Netherlands, and Spain include postal regulation in the purview of their national competition regulator, responsible for overseeing competition in all markets. (Appendix B provides more detailed information

about the regulatory obligations of multi-sector regulators.)

Postal regulatory teams in several multi-sector regulators told the OIG there were advantages to this model, including:

- Taking advantage of economies of scale, as the team working on postal regulation can benefit from the core staff supporting all sectors at a multi-sector regulator;
- Sharing knowledge, experience, and work products among employees working on similar activities across different sectors;
- Creating a consistent approach to regulation across sectors and eliminating the risk of conflicting decisions among multiple regulators;
- Reducing risk of regulatory capture, which occurs when regulatory bodies become sympathetic to the industries they are supposed to regulate; and
- Giving more weight to a postal regulator’s actions and decisions, as they are associated with a more expansive and impactful multi-sector regulator.

Single-Sector Regulators

In the 27 countries we researched, only two – the U.S. and Switzerland – have a single-sector regulator focused exclusively on the postal market.⁹ The U.S. is unique in that the standalone regulator, the PRC, oversees only one entity, the Postal Service. (It should be noted, however, that USPS is significantly larger than other national posts in our comparison set in total mail volume and population served.) The Swiss regulator oversees both Swiss Post and a variety of delivery companies, including food delivery businesses.

Interviewees told the OIG that an advantage of the single-sector model is an assured focus on the postal market. Disadvantages include the lack of opportunities to share knowledge, skills, and experience with regulators in other sectors and the inability to share administrative staff among the regulatory teams overseeing different sectors.

⁹ In Switzerland, the postal regulator oversees the universal service obligation, quality of service, and access, while a separate regulator has price oversight authority.

No Independent Regulator

There are five countries in our set of 27 that have no independent regulator overseeing the postal sector. Instead, a government ministry or department is responsible for postal policy and postal regulation. In these countries, the ministry or department that exercises regulatory functions may also have control functions over the national post.

Canada is an example of a country without a standalone regulator. Public Services and Procurement Canada (PSPC), a department within the Canadian government, provides general postal oversight functions and acts as a conduit between the national post and the minister responsible for postal affairs to ensure that Canada Post meets its responsibilities and obligations.¹⁰

Staffing

There is significant variation in the number of staff working on the postal sector at different regulators. This variation may be influenced by factors such as the activities carried out by a postal regulator and the size and complexity of postal services in a country. For multi-sector regulators, only a minority of staff will work on postal regulation, and staff may share their time between the postal sector and other sectors.

The number of staff working on postal regulation across the countries researched varies considerably, from a few people working part-time on postal issues to dozens of employees fully dedicated to postal sector regulation. Denmark's Civil Aviation and Railway Authority, which includes postal regulation in its purview, is an example of a regulator with limited staffing for postal regulation. Four employees work on postal issues along with other tasks, resulting in the equivalent of 2.5 full-time employees out of the regulator's entire staff of around 450 people. Germany's Federal Network Agency, in contrast, has a relatively large team of 50 employees dedicated to postal regulation.¹¹

The PRC has around 70 employees, which is large compared to other regulators in our comparison set. The PRC, however, must maintain administrative and support staff essential to the operation of the

organization, while the postal team within a multi-sector regulator benefits from the support of staff not strictly assigned to postal regulation. Switzerland's PostCom, the other single-sector regulator identified, has fewer than ten full-time equivalent employees. This regulator differs from the PRC, however, in that it has no role in price oversight and outsources many support functions to a government ministry.

Scope of Oversight

Another source of differentiation among postal regulators is the extent of the postal, parcel, and delivery markets in their purview. The PRC is unique in our comparison set because it only oversees one entity, the Postal Service, and does not regulate other delivery companies. Other regulators generally have some oversight role over delivery companies in addition to the national post. For example, the European Union requires that all delivery companies providing universal services notify the regulator when they enter the market or that they obtain a license to operate in that market. The exact scope of oversight, however, varies significantly. Spain's regulator, for example, ruled in 2020 that Amazon had to abide by the same rules on labor, tax, privacy, and immigration as other parcel delivery companies in Spain. In Switzerland, the legal definition of "postal" is relatively broad and the regulator considers food delivery to be a Postal Service within its regulatory purview; all companies defined as Postal Service providers are subject to minimum wage requirements set by the Swiss regulator.

Areas of Oversight

In this section, the OIG selected major areas of regulatory oversight in which we compared the PRC's authority and activities with those of other postal regulators. For each of the topics discussed below, the extent to which regulators are involved varies across countries, from simply monitoring compliance to actively influencing the decisions and behavior of national posts and delivery companies. A regulator's exact role depends in large part on national postal legislation. We broadly group the following areas of oversight into two categories:

¹⁰ Canada briefly instituted a standalone postal regulator in the 1980s, but the structure was abandoned due to conflicts with the national post.

¹¹ For more on the staffing of postal regulators, see: European Regulators Group for Postal Services, "Report on the Powers of the NRAs," December 7, 2023, <https://ec.europa.eu/docsroom/documents/57179>, pp.50-52.

- Aspects of regulation related to oversight of the universal service obligation, and
- Aspects related to market access and competition.

For an overview of the variations in areas of oversight, see Table 2. The PRC’s position in each area is represented by the blue highlighted cells.

Table 2: Summary of Variation in Regulators’ Areas of Oversight

Blue highlighted cells indicate the roles of the Postal Regulatory Commission in the U.S.

| | Monitoring Compliance ←————→ Shaping Regulations | | | |
|----------------------------|--|-------------------------------------|--|---|
| Scope of Oversight | Oversees only the national post | | Oversees national posts and delivery companies | |
| Defining the USO | Cannot set or change USO parameters | | Can set or change USO parameters | |
| | Monitors fulfillment of network access requirements | | Hears appeals to post office closures | Approves new locations and closures |
| Oversight of Price Setting | Cannot set or update pricing regulations | | Can set or update some or all pricing regulations | |
| | Mostly ex post review of USO prices | Mostly ex ante review of USO prices | Conducts both ex ante and ex post reviews | |
| | Does not review commercial contracts with mailers | | Reviews and approves commercial contracts with mailers | |
| Responding to Complaints | Provides guidance and monitors statistics | | Hears complaints | Postal ombudsman makes decisions |
| Fines | Cannot fine the post | | May fine the post but rarely or never does | Regularly fines the post for non-compliance |
| Influencing Postal Policy | Advises policymakers (no statutory role in policy process) | | Formal statutory role in developing postal policy | |

Source: USPS OIG

Oversight of the Universal Service Obligation

One of the most important tasks for all postal regulators is overseeing the implementation of the universal service obligation. The USO covers attributes including: range of products, geographic scope of mail service, access to services and facilities, delivery modes and frequency, pricing principles, and service standards. A postal regulator has specific authorities and responsibilities related to that country’s USO. For example, many regulators in our sample set monitor compliance with mail standards codified in national postal law, verify compliance with those standards, and determine whether corrective action is warranted. Regulatory oversight of the USO is

essential to ensuring that customers receive the postal services to which they are legally entitled.

Defining the USO

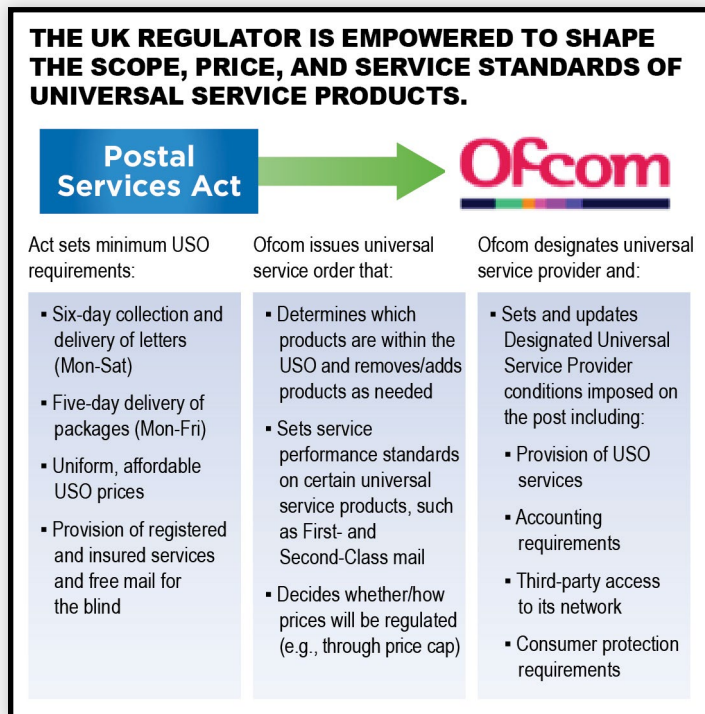
The USO may be defined by a variety of sources including national legislation, international agreements (primarily the UPU Convention), and the national post itself. In most countries, postal law, often complemented by government regulations and management contracts between the government and the post, sets the minimum service levels the national post must achieve for each attribute of the USO.¹² For example, the law may define service standards for standard letter mail, such as the minimum number of delivery days, or set a minimum number of postal access points.

¹² The UPU Convention broadly defines the USO for international mail and parcels.

The regulator itself may have either an advisory role in influencing decisions about the USO or the direct authority to define some aspects of the USO:

- Advisory role:** For some countries, including Germany, Switzerland, and the Netherlands, the USO is fully defined in national law. However, the regulator can influence decisions about the USO through a role in advising policymakers. For example, the German regulator issues a report to parliament every two years that includes suggestions about how the USO could evolve and advises lawmakers – through both formal communication and informal meetings – on any new regulation affecting the USO. The ultimate decision, however, belongs to the government, not the regulator.
- Authority to define some aspects of the USO:** Other regulators have the authority to determine at least one aspect of the USO, although legislation might place limits on that decision-making ability. The U.K. is a notable example; its national postal law defines general USO principles and sets out broad minimum USO requirements, but Ofcom, the postal regulator, determines and updates the scope of products covered by the USO and the price regulation system for these products. (See Figure 2 for more on the U.K.’s postal regulatory framework.) Ofcom is also empowered to define service standards for first-class and second-class mail.¹³

Figure 2: Pillars of the U.K. Postal Regulatory Framework



Source: OIG analysis.

The way the USO is defined in the U.S. stands out for two reasons. First, the U.S. is the only country other than the U.K. identified in our comparison set where the postal regulator has the authority to define and change key elements of price oversight—a key aspect of the USO. Specifically, the PRC determines the ratemaking system for Market Dominant products. The 2006 Postal Accountability and Enhancement Act (PAEA) required the PRC to review the system 10 years after that law’s enactment; the Commission accordingly issued revised rules in 2020 and decided to conduct a subsequent review after five years. This is a notable authority; in most other countries with a price cap, the regulator enforces a cap determined by postal law or regulations and has limited or no authority to change the price cap formula. (See “Oversight of Price Setting” below for more on price regulation.)

¹³ For example, Ofcom’s delivery standard for first-class letter mail is next business day, including Saturdays, and for second-class letter mail, three business days, including Saturdays.

Second, the U.S. is unique in that its postal law, while establishing general USO principles, gives the national post the freedom to set specific targets to fulfill those principles. The Postal Service can determine many aspects of its delivery standards, including service standards for Market Dominant products and the number and locations of post offices. It does not, however, have authority over delivery frequency, as Congress included an obligation to deliver six days per week in the Postal Service Reform Act (PSRA) of 2022.¹⁴ In our comparison set, we did not identify

any other countries where the national post itself is authorized to establish specific USO parameters. The PRC provides advisory opinions on the Postal Service's decisions about the USO but cannot set the parameters. In 2021, for example, it released an advisory opinion expressing concerns about the Postal Service's plans to slow service standards for First-Class Mail and periodicals. (For more on how regulators influence postal policy, see "How Regulators Influence Postal Policy.")

How Regulators Influence Postal Policy

Many postal regulators serve in a formal advisory role, providing their knowledge and expertise to assist policymakers in the development of postal policy and legislation. In France, for example, the law requires that the ministry consult the regulator on decisions that affect the postal regulatory framework. In the U.S. and Germany, among other countries, the regulator may be asked to send a representative to a legislative hearing on postal affairs.

Regulators may also provide informal assistance. Authors of postal legislation in the U.S. at times ask the PRC for input. The German and Dutch regulators participated in informal meetings to inform policymakers.

There are differences in the extent to which regulators may publicly advocate for specific policies. The PRC includes recommendations for legislative reform in its Section 701 reports analyzing implementation of the 2006 PAEA. The German regulator may include suggestions for changes to postal law or regulations in its biennial activity report to parliament. In 2023, the U.K.'s Ofcom was preparing a report including potential options for changes to the USO. Other regulators, however, may refrain from making public statements on policy proposals.

In countries without a standalone regulator, oversight may be more formally intertwined with the political process, as the postal team directly reports to a government minister. In Canada, for example, postal oversight is the domain of a government department. The postal experts in that department directly support the minister in preparing policy advice for discussion in the cabinet.

Regulators may also influence international policy. In the EU, for example, regulators participate in discussions and studies of the European Regulators Group for Postal Services, which assists the European Commission by providing inputs into a European postal reform process.

¹⁴ In the U.S., the requirement that the Postal Service deliver mail six days a week was only recently introduced in postal legislation through the PSRA. Previously, Congress would stipulate this requirement annually in appropriations laws. For PSRA obligation, see: 117th Congress, Public Law 117-108, An Act to Provide Stability to and Enhance the Services of the United States Postal Service, and for Other Purposes (Postal Service Reform Act of 2022), April 6, 2022, <https://www.congress.gov/117/plaws/publ108/PLAW-117-publ108.pdf>, Section 202.

Range of USO Products Subject to Oversight

The scope of the USO directly impacts the scope of the regulator’s work. At a minimum, the USO will cover basic domestic single-piece letter mail. It usually includes registered mail, insured mail, and cross-border letter mail, along with basic domestic parcel post and cross-border parcels. However, there is variation in the extent that countries include mail classes such as bulk mail (in particular, marketing mail), newspapers and periodicals, and bulk parcels in their USOs. Australia is an example of a country that does not include parcels in the USO at all, and some countries exclude parcels above specific weight thresholds.¹⁵

In the United States, the distinction between USO and non-USO products is not as relevant for postal regulation as it is in other countries. While U.S. law does not codify a detailed list of USO products, both the PRC and the Postal Service interpret the USO broadly and have determined that it covers both Market Dominant and Competitive products – in other words, all of the Postal Service’s mail and parcel business.¹⁶ In the U.S. regulatory framework, “Market Dominant” products are those in which USPS is considered to have a monopoly over the service, such as First-Class and Marketing Mail. “Competitive” products, such as shipping and packages services, are those in which the Postal Service competes with private companies. (See Table 3 for a list of USPS Market Dominant and Competitive products.)

Table 3: USPS Market Dominant and Competitive Products

| Market Dominant | Competitive |
|--|--|
| First-Class Mail | Priority Mail |
| USPS Marketing Mail | Priority Mail Express |
| Periodicals Mail | First-Class Package Service |
| Package Services Mail | Retail Ground Mail |
| <ul style="list-style-type: none"> Includes Alaska Bypass, Bound Printed Matter, and Media and Library Mail | Parcel Select and Parcel Return Service Mail |
| Free Mail | International Expedited Services, Packets, and Parcel |
| International Letters and Flats | Ancillary Services |
| Ancillary Services | <ul style="list-style-type: none"> Includes International Ancillary Services |
| <ul style="list-style-type: none"> Includes Certified Mail, Collect on Delivery, and Registered Mail | Special Services |
| Special Services | <ul style="list-style-type: none"> Includes Premium Forwarding Service and International Money Orders and Money Transfers |
| <ul style="list-style-type: none"> Includes Money Orders and P.O. Box Service | |

Source: OIG analysis.

Oversight of Price Setting

It is common for regulators to play some role in reviewing or setting the price of postal products, but there is significant variation in the scope of these price controls and how they are applied.

Type of Price Control

Postal laws generally mandate that universal service prices be uniform, affordable, and based on actual costs. Control over universal service prices can be executed *ex ante* (before the fact) or *ex post* (after the fact). (See Table 4 for a breakdown of which countries use which types of price control.)

- *Ex ante review*: The regulator reviews proposed price changes before they take effect to ensure compliance with the law and guiding principles, such as affordability or cost orientation.

¹⁵ For more on the USO, see: USPS OIG, “Reevaluating the Universal Service Obligation,” RISC-WP-20-004, May 6, 2020, <https://www.uspsoig.gov/sites/default/files/reports/2023-01/RISC-WP-20-004.pdf>.

¹⁶ The 2022 PSRA mandates that USPS provide service six days per week over an integrated mail and package delivery network. See: 117th Congress, Public Law 117-108, An Act to Provide Stability to and Enhance the Services of the United States Postal Service, and for Other Purposes (Postal Service Reform Act of 2022), April 6, 2022, <https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf>, Section 202(a).

- *Ex ante with price cap*: Ex ante regulation can be done through a price cap, with the regulator verifying that proposed new prices fall within the rate authority provided under the cap. The cap formula can be set by law or regulations or established by the regulator.

In some countries, the postal regulator does not oversee prices. Another government entity may have that responsibility. In Switzerland, for example, a separate price setting body that oversees multiple sectors sets postal prices.

In the U.S., the postal regulator reviews and approves prices before their implementation.¹⁷ Although statutory requirements differ for Market Dominant and Competitive products, the PRC approves both types of prices before they take effect. The PRC has ex ante price cap controls for Market Dominant products and verifies that prices for Competitive products cover costs.¹⁸

Scope of Price Control

Price controls focus on ensuring that products are affordable or that the price reflects the post's cost of providing that service. However, a regulator's pricing authority may not apply to all USO products. For example, in Denmark, until the end of 2023, the only USO product subject to price oversight was single-piece letters, while the postal regulator had no price oversight over other USO products. In the United Kingdom, the regulator applies a "safeguard" price cap to products which, absent price regulation, may not be affordable to consumers: letters with a 3-day delivery standard and single-piece packages from consumers up to 2 kilograms (approximately 4.4 pounds). For other major products, such as parcels, the U.K. postal regulator determined that price oversight is not needed because market pressures will keep prices affordable.¹⁹

The PRC has a comparatively large scope of price oversight, with ex ante oversight for Market Dominant and Competitive products. This includes categories such as periodicals, bulk mail, and direct mail, which some other countries do not subject to any price regulation. The price cap applies to 95 percent of USPS volume, a larger percentage than in the seven largest European countries in our comparison set that implement price caps (see Table 5).

Table 4: Types of Price Control

| Single-Piece Letter | | | |
|----------------------|------------------------|----------------|--|
| Ex Ante | Ex Ante with Price Cap | Ex Post | No Price Oversight Role for Postal Regulator |
| Australia | Estonia | | |
| Belgium | France | | |
| Canada | Germany | | |
| Croatia | Hungary | Austria | |
| Denmark | Israel | Czech Republic | New Zealand |
| Italy | Japan | Finland | Switzerland |
| South Korea | Netherlands | Ireland | |
| Slovakia | Portugal | Spain | |
| Slovenia | Sweden | | |
| | United Kingdom | | |
| | United States | | |
| Parcels | | | |
| Ex Ante | Ex Ante with Price Cap | Ex Post | No Price Oversight Role for Postal Regulator |
| Belgium | | Austria | Australia |
| Croatia | Estonia | Czech Republic | Canada |
| Italy | France | Finland | Denmark |
| Slovakia | Netherlands | Germany | Hungary |
| Slovenia | Portugal | Ireland | Japan |
| United States | United Kingdom | Israel | New Zealand |
| | | Spain | South Korea |
| | | Sweden | Switzerland |

Source: OIG analysis.

Ex post review: In some countries, a regulator only reviews price changes after implementation by the national post. The regulator may then order corrective action if the pricing is found to be noncompliant with laws and regulations.

¹⁷ The PRC also assesses Postal Service USPS rates through its Annual Compliance Determination Report, which is a review of the USPS Annual Compliance Report.

¹⁸ As defined by PAEA and PRC regulations, the PRC's ex ante price controls for Market Dominant products prescribe compliance with the CPI-U price cap, a verification of the alignment of discount rates with cost avoided, and alignment at class and product level of revenue to attributable costs. For Competitive products, less stringent requirements involve ensuring each product covers its attributable costs and that, as a whole, Competitive products exceed their incremental costs and contribute an appropriate share of institutional costs.

¹⁹ For more on regulatory price setting, see: USPS OIG, "Examining Alternative Inflation Indices for Regulating Market Dominant Price Increases," November 6, 2023, <https://www.uspsoidg.gov/sites/default/files/reports/2023-11/risc-wp-24-001.pdf>.

Table 5: Share of Postal Volume Subject to a Price Cap in Selected Countries

| Countries | Products Included in the Price Cap | Share of Postal Volume Subject to the Price Cap |
|----------------|--|--|
| Belgium | Single piece domestic standard letters up to 2 kg and parcels up to 10 kg; outgoing international standard mail up to 2 kg; registered and insured items | 20-25 percent of total volume |
| France | All postal items weighing up to 2 kg, parcels weighing up to 20 kg, excluding international inbound | About 75 percent of letter mail and one-third of parcel volume |
| Germany | Letters up to 1 kg | About 63 percent of total volume |
| Netherlands | Single piece letters up to 2 kg; domestic parcels up to 10 kg; outbound international parcels up to 20 kg, mail for the visually impaired; registered and insured mail | About 14 percent of total volume |
| Portugal | Correspondence up to 2 kg, excluding marketing mail; parcels up to 10 kg; catalogs, books, and newspapers; registered and insured items | 30-40 percent of total volume |
| Sweden | Stamped letters up to 250 grams | 4-5 percent of total volume |
| United Kingdom | Second-class standard letters; second-class large letters and packets, including parcels up to 2 kg | < 5 percent (letter mail only)* |
| United States | Market Dominant products (First-Class Mail, USPS Marketing Mail, Periodicals Mail, Package Services Mail) | 95 percent |

*Estimate based on share of total revenue.
Source: OIG analysis.

Ensuring Universal Access to the Postal Network

Ensuring that all users have access to a postal location is a main attribute of universal service. Most regulators monitor posts’ compliance with access requirements; some are empowered to go beyond monitoring and can make decisions regarding the location of postal access points, such as post offices or collection boxes.

Access requirements are generally set in law or regulations. Depending on the country, they may be expressed in terms of minimum density of postal locations, the number of locations nationwide or in rural areas, or distance or traveling time to the nearest post office. In countries such as France or Italy, the management contract between government and the national post sets out stricter specific requirements.²⁰ The U.S. does not have quantitative targets; USPS determines how to structure its network in line with the general USO principles described in national postal law.

Monitoring Compliance with Access Requirements

Typically, postal regulators conduct an annual ex post review of whether access targets are met. Regulators may monitor compliance by, for example, tallying the number of post offices or calculating the distance between customers and their nearest postal locations. Ireland is an exception in that its postal regulator has no oversight role over post offices; there, decisions regarding the post office network, including closures, are the sole responsibility of the national post.

Unlike many other countries, there are no specific postal access targets in the U.S. However, each year, the Postal Service is legally required to report to the PRC information pertaining to post offices (including closings, emergency suspensions, and customer wait times), residential and business delivery points, and collection boxes. In its Annual Compliance Determination Report, the PRC presents data on the Postal Service’s progress in resolving situations where service at a post office is suspended.

²⁰ For examples of such targets, see: USPS OIG, “Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service,” RISC-WP-20-003, March 25, 2020, <https://www.uspsoidg.gov/sites/default/files/reports/2023-01/RISC-WP-20-003.pdf>, pp.4-5.

Deciding on Post Office Closures and Relocations

A postal regulator may also have a consultative or decision-making role in overseeing decisions about closing or relocating post offices. In Slovenia and Austria, the regulator must approve any closure or changes to the location of post offices. For example, before closing a post office, the Austrian national post must provide evidence that the location is permanently unprofitable and that an alternative solution, such as an agreement with a local retailer, has been found. In Italy in 2014, the postal regulator introduced a ban on the closure of post offices in some rural and remote areas, while authorizing a reduction of their opening hours.

In the U.S., if the Postal Service decides to close or consolidate a post office, any person served by that post office can appeal to the PRC for review. The PRC cannot reverse a Postal Service decision to close or consolidate a post office but can return that decision to USPS if it finds the agency has not followed applicable laws.

Calculating the Cost of the USO

Postal regulators commonly calculate the cost of the USO or verify the national post's calculations of that cost. This cost calculation may be used in different ways. In countries where the government compensates the post for providing universal service, the calculation may be used to determine the amount of that subsidy. Countries that provide such subsidies include Spain, Italy, Poland, and Belgium. Calculating the cost of the USO is also useful for countries that have put in place a universal service compensation fund — a mechanism where competitors to the post are required to contribute to the funding of the USO. Spain, Estonia, Poland, and Slovakia are examples of countries that have activated such funds.

In the U.S., the Postal Service does not receive such a subsidy, but the 2006 PAEA requires that the PRC annually calculate the cost of the USO (estimated at \$6.2 billion in FY 2021).²¹ In 2020, the PRC started considering potential updates to the costing

methodology it developed in 2008 to ensure the methodology reflects changes to the postal market.

Responding to Consumer Complaints

Regulators may also vary in the extent to which they collect and respond to complaints from users of postal services. There are two main roles:

- *Advising and reporting:* A widespread practice is for postal regulators to put in place guidelines for how posts handle customer complaints. For example, the U.K.'s regulator expects the national post to ensure clear and easily accessible complaint channels for consumers and to resolve complaints through fair, transparent, and effective processes. Many regulators also collect, analyze, and publish complaint statistics provided by national posts.
- *Directly handling complaints:* Most European countries have appointed a national authority to review user complaints that have not been satisfactorily resolved by the post. That entity is frequently the postal regulator but may also be an ombudsman or other dedicated entity. These agencies may mediate disputes, provide assistance and information to users, investigate complaints, or make recommendations to the national post. For example, the Belgian postal ombudsman's mission is "to reach an amicable agreement in admissible disputes" between the post and business customers or individuals.²² However, these complaint resolution entities cannot force decisions on posts, and their recommendations can be appealed in court.

The PRC does not have an ombudsman. However, like some other countries, the PRC hears complaints about USPS compliance with statutes and regulations governing rates, service, and competition. If the PRC finds a complaint to be within its jurisdiction and justified, it can order USPS to comply with those requirements and remedy the effects of noncompliance. The PRC adjudicates only a few complaints each year and has on occasion issued

²¹ See 39 U.S.C. § 3651(b)(1). In addition to USO costs, the PRC estimates annually a value for the Postal Service's combined letter and mailbox monopolies, which it refers to together as "the postal monopoly", and a separate value for the mailbox monopoly alone. While 39 U.S.C. §2401(b) allows the Postal Service to request appropriations of up to \$460,000,000 for "public service costs", USPS has operated without this appropriation since FY 1982, see: Postal Service, "Fiscal Year 2024 Budget Congressional Submission," https://www.prc.gov/docs/124/124671/FY2024_USPS%20Budget_Congressional%20Submission.pdf, p. 1-1.

²² Ombudsmanposte, "Annual report 2022," https://www.ombudsmanposte.be/media/cbrbcbsv/ombudsmanposte_jaarverslag2022_eng_interactief_compressed-compressed.pdf.

such an order.²³ For rate or service inquiries that do not involve allegations that the Postal Service has failed to comply with a law or regulation, the PRC has a separate process by which it forwards customer inquiries to USPS for response.

Enforcement and Fines

There is significant variation in the authority of postal regulators to enforce rules and regulations, such as their ability to demand corrective actions or levy fines on posts and delivery companies. Some regulators, like Austria's, have no authority to do so, but most regulators can levy fines if a post or delivery company fails to comply with an order or regulation. The details of enforcement authority vary across countries. The examples below illustrate different areas of enforcement authority:

- *Competition:* In 2018, U.K.'s Ofcom fined Royal Mail \$61 million for breaching competition law. The regulator found that the national post had abused its dominant position by discriminating against its only major competitor delivering letters.
- *Licenses and authorization:* In 2018, Italy's AGCOM fined Amazon around \$350,000 for offering postal services without proper authorization.
- *Service performance:* In 2022, the Netherlands' ACM fined PostNL around \$2.1 million for not meeting the service performance target for single-piece letter mail. U.K.'s Ofcom has fined Royal Mail several times for similar reasons, most recently in 2023.

There is also variation in the extent that postal regulators use these enforcement powers when permitted to do so. Two regulators told the OIG that fining the post for not meeting service targets could be counterproductive as it would put additional financial pressure on financially struggling national posts.

Some regulators have more extensive enforcement powers, such as the authority to impose or prohibit certain practices, void contracts, or impose

administrative sanctions. For example, in 2022, Italian regulator AGCOM imposed new data requirements on Amazon after investigating its e-commerce delivery practices. The company must now provide AGCOM detailed data on how much it charges third-party customers for delivery and how much they pay delivery sub-contractors.

The PRC, in comparison, has limited enforcement powers. It can subpoena USPS employees or contractors to provide testimony, direct USPS to adjust rates and take other remedial actions, and levy fines in cases of "deliberate noncompliance" by USPS with applicable postal laws.²⁴ To date, the PRC has not fined USPS.

Regulating Market Access and Competition

In addition to overseeing the USO, postal regulators are commonly involved in oversight activities related to market access and competition.

Authorization and Licensing

Most regulators oversee the postal sector, not only the national post, and often grant authorizations and licenses to companies operating in the letter and parcel markets. The PRC, however, has no authorization or licensing role.

The most basic form of authorization requires companies providing "postal services" – meaning the end-to-end delivery of letters or parcels – to notify the regulator before starting their operations and receive a "general authorization." In some cases, legislation may require companies to request a license from the postal regulator; this is common for companies providing mail or parcel products that fall within the scope of a country's USO. To receive a license, a company must provide the postal regulator with specific information about its business. Licensed companies may be subject to obligations such as requirements related to service quality and performance and may also be required to make financial contributions to fund the postal regulator or to help cover the net cost of the USO.

²³ For example, in 2011, the PRC found that USPS discriminated against a video game rental company that sent discs to customers by mail. USPS had unfairly waived non-machinable surcharges applied to the manually processed DVDs shipped by two of its competitors.

²⁴ 39 U.S.C. § 3662(c) and (d) outlines the areas of noncompliance (such as "ordering unlawful rates to be adjusted to lawful levels, ordering the cancellation of market tests, ordering the Postal Service to discontinue providing loss-making products, or requiring the Postal Service to make up for revenue shortfalls in competitive products") and states that "in cases of deliberate noncompliance" the PRC "may order a fine."

Other areas of oversight of the wider postal market include:

- *The regulation of non-traditional postal operators:* For example, the Swiss regulator includes express couriers and food delivery companies among the companies that need to register as providers of postal services. The Spanish and Italian regulators have established that Amazon carries out “postal activities” and therefore requires an authorization.²⁵
- *Licensed operators’ compliance with other postal market regulations:* The Swiss regulator mandates all providers of postal services to set a minimum hourly wage and maximum 44-hour work week. Both the Swiss and Italian regulators request information from licensees about working conditions.

Designation of the Universal Service Provider

In many countries, the postal laws initially designated the national post as the universal service provider for a specific number of years, after which that designation could be renewed or conferred on another entity.²⁶ Countries have different methods to designate their universal service provider, including public procurement processes and competitive bidding. In practice, these processes generally result in renewal of the national post’s universal service license.

In the telecom sector, regulator-led competitive bidding for USO provider designation is widespread. In the postal sector, there have so far been only a few examples.²⁷ In Ireland, the law empowers the postal regulator to oversee the bidding process. In 2022, the regulator invited submissions from companies interested in becoming universal service providers starting in 2023. In the end, however, the Irish national post was the only bidder.

Competitive bidding can also serve as a method for selecting a provider to complement universal services or provide a specific part of universal service that the primary universal service provider would struggle to fulfill. This is most common in countries that have reduced the frequency of delivery for letter mail. In Finland, where letter mail delivery was reduced from five to three days a week in October 2023, the regulator is using a bidding process to guarantee daily nationwide newspaper delivery. Similarly, in 2020, the Norwegian regulator used a bidding process to select a company to provide newspaper delivery in rural areas.²⁸

The U.S. was the only country in our comparison set where an independent postal regulator oversees only the national post. The PRC does not grant any licenses to delivery companies or impose any obligations on them.

Overseeing Potential Product Cross-Subsidization

Postal regulators often play a role in preventing improper or unlawful product cross-subsidization, a business practice where the profits earned from one product in a less competitive market segment are used to offset the costs or losses associated with a product in a more competitive market segment. In Europe, this is defined as restricting cross-subsidization from USO to non-USO services, while in the U.S. (where most Postal Service products are considered part of the USO) it is defined as restricting cross-subsidization from Market Dominant products to Competitive products. Assessing cross-subsidization in the postal market can be challenging, as posts use the same network to provide a variety of products and services.

Although EU law does not explicitly prohibit cross-subsidization between USO products and non-USO products, the EU requires posts in member states to provide regulators with separate, detailed accounts of the costs and revenue associated with these two categories of services. Postal regulators verify and

25 This determination was made because Amazon handles end-to-end processing and delivery of ecommerce goods. Even where they do not have their own delivery networks, they coordinate the work of their delivery contractors.

26 A notable exception is Germany, which has not had a designated USO provider since 2008. Instead, the regulator monitors the market to ensure the provision of universal service and can, if needed, impose a USO on the dominant operator or initiate a tendering procedure. Although it is not designated as the universal service provider, the national post (Deutsche Post DHL) has committed to provide the USO. See: Annegret Groebel, “Evolution of postal service and its regulatory framework,” Presentation to the Copenhagen Economics Postal & Delivery Conference, May 3, 2019, https://www.copenhageneconomics.com/dyn/resources/FileLibrary/file/9/199/1557400567/copenhagen-economics-postal-and-delivery-conference_groebel_final.pdf, slide 48.

27 In Europe, countries using a competitive bidding mechanism to designate the universal postal service provider include Czechia, Estonia, Lithuania, Poland, and Romania.

28 Norway is not in our country comparison set but is included here as an example.

monitor the post's costing methodologies and data to identify potentially improper cross-subsidies. When identified, regulators are empowered to impose modifications and penalties on the national post or impose price changes on USO products.

In the U.S., postal law prohibits cross-subsidization from Market Dominant products to Competitive products and the PRC reviews Postal Service accounts to verify compliance.²⁹ If USPS total revenue from Competitive products exceeds those products' incremental costs – meaning the cost of providing an additional unit of a product is less than the revenue taken in by offering that unit – the PRC can conclude that no cross-subsidization has occurred.³⁰

Regulation of Commercial Agreements

The PRC is unique in its role of reviewing and approving negotiated service agreements (NSAs). An NSA is a contract between the Postal Service and a mailer setting customer-specific rates, fees, or terms of service. Postal regulators in other countries in our comparison set may approve bulk rates but do not specifically review such commercial agreements. The PAEA authorized the Postal Service to enter into such contractual agreements with mailers, but that law also set specific approval requirements for NSAs on Market Dominant products.³¹ In 2007, to implement PAEA principles, the PRC determined that each NSA should be classified as a separate product, because each has different costs and characteristics, and thus must be approved individually.³² From FY 2008 until December 2022, the PRC approved 2,339 Competitive NSAs and 39 Market Dominant NSAs.

The PRC's role in approving individual NSAs has been a source of some controversy due to the time and administrative burden involved, including the preparation of workpapers that the Postal Service must submit to the PRC with each agreement.³³ In 2007, USPS and companies in the mail industry contended that NSAs should not be classified as

separate products because they typically involved the provision of existing products. In 2023, recognizing the complexity and workload involved in handling competitive NSAs, the PRC proposed new rules intended to streamline procedures.³⁴

While EU legislation allows national posts to negotiate individual contracts like NSAs, such contracts receive much lighter regulatory oversight in Europe. The main reason is that, in the EU, these contracts are legally outside the scope of the USO. As a result, they are not overseen by regulators unless national regulation requires it or a regulator receives a specific complaint.

Challenges and Future Trends for Postal Regulation in the U.S. and Other Developed Postal Markets

Interviews with postal regulators and OIG research into postal regulatory frameworks revealed several areas that present countries with potential challenges related to postal regulation.

Revising the USO for the Future

The financial pressure placed on national posts by mail volume decline, an increasingly competitive parcel market, and changing customer preferences has made it more difficult for national posts, including the Postal Service, to financially sustain current USO services. In response to market changes, countries are recognizing a need to revisit their USOs and engage in political discussions about the future of postal services. These discussions may involve changes such as reducing delivery days, changing service standards, altering the minimum requirements for postal access points, and subsidization of national posts for the fulfillment of the USO. Given the close relationship between the USO and the work of a postal regulator, changes to a country's USO are likely to impact the scope of oversight and regulatory activities of regulators.

²⁹ See: 39 U.S.C. § 3633(a)(1).

³⁰ "Incremental cost" refers to how costs change in response to a change in the levels of the services provided. See: USPS OIG, *Costs for Better Management Decisions: CRA Versus Fully Distributed Costs*, RARC-WP-12-016, September 17, 2012, https://www.uspsoig.gov/sites/default/files/reports/2023-01/rarc-wp-12-016_0.pdf.

³¹ The PRC ensures that Market Dominant NSAs "improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; enhance the performance of mail preparation, processing, transportation, or other functions; and do not cause unreasonable harm to the marketplace." See 39 U.S.C. § 3622(c)(10).

³² However, the PRC also stated that "functionally equivalent" NSAs could be considered as one product.

³³ For each review of an NSA, the PRC assigns an analyst and a public representative who review all workpapers for content and accuracy and ensure that the agreement covers all costs.

³⁴ "Advance Notice of Proposed Rulemaking on Regulations Pertaining to Competitive Negotiated Service Agreements," Order No. 6446, PRC Docket No. RM2023-5, February 24, 2023, <https://prc.arkcase.com/portal/docket-search/advanced/filing-details/84722>.

As an example of the stark reforms countries are considering, several countries in our comparison set have reduced delivery frequency, with Denmark notably adopting just one day a week of home delivery for standard letters. Other countries have considered changes to the service standards, for example Sweden and Finland, which have both slowed their letter mail delivery standards. (See Table 6 for recent examples of countries changing their USOs.) The Postal Service has previously explored reducing delivery frequency from the current six day per week standard, but postal workers' unions have been among the stakeholders in opposition. In 2022, Congress reaffirmed a commitment to six-day delivery by including that policy in the PSRA.³⁵ The Postal Service has reduced some service standards, most recently as part of the implementation of its 2021 Delivering for America ten-year plan.

Table 6: Examples of Countries That Have Implemented USO Changes since 2013

| | Changes to USO Delivery Days | Changes to USO Service Standards |
|-------------|--|---|
| Australia | Planned for 2024: Reducing regular letter delivery frequency from every business day to every second business day. | Planned for 2024: One extra delivery day added to delivery standards for regular letters. |
| Belgium | 2020: Alternate day delivery implemented for non-priority mail. | 2019: Management contract allowed for a D+3 (instead of D+1) standard. |
| Denmark | 2018: Delivery frequency for standard letters reduced to one day per week. | |
| Finland | 2023: Law reduced frequency of collection and delivery of letters from five to three days per week. | 2017: Standard letters moved from D+2 to D+4 standard. |
| Italy | 2015: Postal regulator authorized alternate-day delivery in rural areas that represent 25% of the population. | |
| New Zealand | 2013: Government authorized alternate day delivery outside rural areas (fully implemented in 2015). | |
| Sweden | | 2018: Standard letters moved from D+1 to D+2 standard. |

Note: Delivery standards are expressed as “D” (meaning the day of collection) plus a number indicating the number of days after collection that an item is to be delivered. For example, “D+1” refers to a next day delivery standard.
Source: OIG analysis.

Changes to the USO often encounter resistance from the affected stakeholders, which may have different views and interests. While national posts are concerned about their financial viability and tend to favor more flexibility in the USO, changes aimed at reducing service may encounter opposition from other stakeholders. For example, financially challenged Royal Mail in the U.K. has called for eliminating Saturday delivery, but the main union representing postal workers has opposed such a move. While postal regulators may make recommendations to governments on USO reform

³⁵ PL 117-108, Postal Service Reform Act of 2022, §202, April 6, 2022, <https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf>.

or other options for placing the national post on a financially sustainable path, policymakers must ultimately decide on the level of postal services that people need and in which areas the provision of postal services may be reduced or fundamentally changed.

Uncertainty Over the Role of Regulators in Evolving Postal Markets

There are several trends affecting the U.S. and other postal markets that have important implications for postal regulatory frameworks. The letter mail market has traditionally been the focus of postal regulation; as it shrinks, regulators may have a smaller role to play in this area, calling into question the continued relevance of their oversight. Parcel volumes are increasing, but in most countries the majority of that increase has been in product categories outside the USO over which postal regulators have limited oversight authority. (This observation does not apply to the U.S., where all parcels are within the scope of the USO.) New business models have emerged in the delivery space, including e-commerce and retail companies developing their own delivery services and a variety of more localized courier and food delivery companies. While these new actors compete with national posts and traditional delivery companies, their structure and business models may not align with a country's existing definition of postal services under the purview of regulators.

Countries are assessing the extent to which market forces alone can deliver the services customers need and where regulatory intervention is necessary to ensure universal and affordable postal service provision. One regulator interviewed by the OIG voiced the need to shift away from regulation centered on letter mail and universal service delivery toward a regulatory framework that prioritizes fostering fair competition in the package delivery market. This shift, however, poses the challenge of deciding what kinds of businesses should be subject to regulatory oversight and what role regulators should play in overseeing new kinds of delivery ventures. Some regulators, for example, have a role in

overseeing working conditions at delivery companies or collecting consumer complaints related to e-commerce operators. In some countries, there is a question of whether competition in the delivery market should be regulated by the postal regulator or another competition regulator.

Several countries in our comparison set are considering fundamental changes to their postal regulatory framework and the role of the postal regulator. Denmark, for example, passed legislation in 2023 that significantly alters its postal regulation by eliminating the designation of a universal service provider; service to remote areas and the visually impaired, and international mail will be procured through bidding processes. Also in 2023, Belgium adopted legislation giving the postal regulator oversight over the application of new labor laws in the delivery sector, including rules on working hours and minimum pay. Australia, Germany, Finland, and the U.K. are other examples of countries working to update their postal regulatory frameworks.³⁶

In contrast to these examples, the U.S. has not significantly updated its regulatory framework since 2006. Like other postal markets, it has experienced mail volume declines and parcel volume increases, but mail volume per capita is still much higher than any other country in our comparison set. As mail volume continues to decline, however, Congress and other stakeholders may find a greater need to discuss the role of the postal regulator and potential reforms to the postal regulatory framework.

Improving Data Analytics Capacity

Regulators depend on data from national posts and other delivery companies to perform functions such as price regulation, market monitoring, and oversight of service quality. The amount and type of data collected and analyzed by a regulator depends on the authorities and activities with which that regulator is tasked. While some regulators told the OIG that their data analysis needs had not increased significantly, others reported that the data sets they work with have become larger and more complex in recent years; reasons for this include demands

³⁶ An example of regulators considering major questions around the postal regulatory framework is the European Regulators Group for Postal Services 2024 draft work program, which calls for a report on the future postal regulatory framework, work on environmental sustainability in the postal sector, work on affordability and protection of vulnerable customers, and exploring the need to regulate new forms of delivery. See: "Draft ERGP Work Programme 2024," European Regulators Group for Postal Services, <https://ec.europa.eu/docsroom/documents/55074/attachments/1/translations/en/renditions/native>.

for more granular data and the increased number of delivery companies entering the parcel market. A few regulators expressed a desire to expand their capacity and improve their data collection processes going forward.

The PRC made expanding its data analysis capabilities one of the key goals in its 2023–2028 strategic plan. The regulator said it is trying to make its data more accessible to the public and, to this end, a data analytics division created in 2022 intends to launch several dashboards to better inform stakeholders and provide up-to-date data; in May 2023 it launched one such dashboard with data from its annual financial analysis of the Postal Service. The Chairman of the PRC co-authored a public document in 2023 that outlined gaps in its data management infrastructure and staffing capacity that diminish its effectiveness in handling data, including the lack of both a centralized information management system and an inventory of existing data. The document emphasized that limited staffing and resource constraints made it difficult to address these issues and improve the PRC’s data capabilities and capacity.³⁷

Role in Promoting Environmental Sustainability

Worldwide, there is a strong commitment from governments, carriers, and consumers to making mail and parcel delivery more environmentally sustainable. Initiatives to this end may include the adoption of zero-emission delivery vehicles, making delivery networks more efficient, powering facilities with renewable energy, investing in more efficient processing equipment, and using recyclable packing materials. There is an open question, however, about whether postal regulators should play a part in promoting sustainability. Regulators interviewed by the OIG tended to see their potential role as sharing information that will help consumers make informed choices, for instance by collecting and publishing emissions data from national posts and delivery companies. Regulators tended not to envision a role in implementing rules or targets. Other parts of government, including other national regulators and local and state authorities, may play a greater

role in promoting sustainability and may already have relevant rules and regulations in place, such as prohibiting carbon-emitting vehicles from entering city centers or creating nationwide rules or incentives for reducing carbon emissions.

Conclusion

Postal regulators in the 27 developed postal markets we researched have some common purposes, including separating regulatory functions from operational functions and ensuring continued delivery of universal and affordable postal services. There is considerable variation, however, in the structure, authority, and activities of these regulators in different countries. The PRC is nearly unique in being a single-sector and single-entity regulator, while most countries include the postal sector as one responsibility of a multi-sector regulator and task their postal regulator with some level of oversight over delivery companies.

Regulatory approaches to different areas of oversight – including overseeing the USO and regulating market access and competition – range from more passive oversight (such as simply monitoring and reporting) to more active regulation and enforcement. The PRC plays an active role in price oversight, including a price cap covering a comparatively large share of Postal Service volume. It also reviews cross-subsidization between products and – unique among regulators in our comparison set – the Postal Service’s contractual agreements with mailers. The PRC has a comparatively limited and more passive role in other areas, such as overseeing service standards and enforcing rules about the number and locations of post offices.

While some regulators only have the authority to implement postal regulations, others have meaningful roles in modifying aspects of the USO or contributing to the shaping of postal regulatory frameworks. The PRC is notable for its authority to make decisions about the system for regulating postal rates; however, it cannot modify other aspects of the USO and serves in only an advisory role on decisions about postal regulation and policy.

³⁷ Michael Kubayanda, Tom Davis, and David Williams, “A Next-Generation, Proactive Postal Regulatory System,” May 22, 2023, <https://www.postalconsumers.org/wp-content/uploads/2023/05/Kubayanda-Davis-Williams-Op-Ed-CPC-Final.pdf>.

Two of the major challenges facing postal regulators now and in the future are preserving universal service in the face of financial pressure on postal operators and determining the proper role of postal regulators in rapidly changing postal markets. As letter mail volumes steadily decrease and the boundaries blur between traditional postal services and adjacent parcel and delivery services, existing models of postal regulation may become less effective or less relevant. These developments are impacting postal markets worldwide, including in the United States. Postal stakeholders in many markets are actively engaging in discussions on how to reform their postal policy and regulatory frameworks. In the U.S., the postal regulatory framework has remained largely unchanged since PAEA was passed in 2006; it may become increasingly important for policymakers to consider potential reforms to address these challenges.

Summary of PRC Management's Comments

The PRC's comments state that this white paper fails to consider the disparity between the size of the U.S. and other postal markets. The PRC asserts that this disparity impacts the relevance of any comparison between the U.S. postal regulator and a regulator in any single European country.

According to the PRC's comments, the report fails to recognize that the Postal Service is a wholly government-owned entity that enjoys two monopolies and operates in a uniquely different market structure. The PRC's comments also state that the Postal Service has relatively advanced public-private partnerships that are arguably unique in their scope and complexity.

The PRC states that the Postal Service's unique structure raises critical issues that require regulatory oversight in ensuring proper cost attribution, prevention of cross-subsidies, guardrails against any improper negotiated service agreements and customized contracts, and assurance of fair share of contribution to common costs, along with other legal mandates such as ensuring compliance with a price cap regime and service standards.

The PRC's comments state that this white paper implies that as letter mail volume declines, the scope

of regulation should shrink. The PRC writes that this implication is harmful to the public interest and the proper functioning of adjacent markets, and also arguably contrary to the intent of Congress.

While the paper states that the Commission does not hear many official complaints, the PRC's comments state that it has a "rate and service inquiry" process to handle the thousands of consumer inquiries or informal complaints they receive each year.

The PRC states that the paper cites the disadvantages of a single-sector regulator, including the lack of opportunities to share knowledge, skills, and experience with regulators in other sectors. The PRC writes that it has engaged with experts in other sectors in the past, including the Federal Communications Commission, the National Regulatory Research Institute, and the Federal Trade Commission.

The OIG paper states that the U.S. is unique among countries that it has one entity (postal regulator) overseeing another single entity (postal operator). The PRC feels that this does not account for the importance and scope of worksharing, and the PRC's role in protecting fair competition in the parcel and express markets.

Finally, the PRC states that it was surprised that the OIG received formal written comments from the Postal Service for this paper.

Evaluation of PRC Management's Comments

The objectives of this white paper were to provide an overview of the main oversight activities of the PRC and postal regulators in selected countries with developed postal markets and examine current and future trends and challenges in postal regulation and regulatory oversight. The paper presents factual observations and does not advocate for any specific change to postal regulatory oversight in the U.S. or any other country, nor does it make any value judgements about different regulatory frameworks.

The paper does not evaluate the performance of the PRC or its role. Further, the paper does not assess the value of the PRC or other regulators in the U.S. or internationally. The paper describes different regulatory environments – including that of the U.S.

– in which national posts and delivery companies operate. As the PRC acknowledges in its letter, there is value in comparative analysis. The PRC has also previously recognized the benefits of such analysis in its own research work. It has commissioned reports from consultants that included comprehensive international benchmarking analysis, and the PRC has used such analysis to support its decisions.

The paper acknowledges (page 6) that the Postal Service serves a larger postal market than any other in our comparison set and holds certain authorities and responsibilities that may be unique among the countries analyzed in this paper. Even though postal markets may differ in size and scope, the OIG sees merit in studying the structure and activities of other postal regulators and recent examples of postal regulatory reforms in postal markets experiencing trends and challenges similar to those affecting the U.S. postal market.

The PRC highlighted its ‘rate and service inquiry’ process designed to address consumer inquiries and informal complaints. The OIG acknowledges the significance of this function and has incorporated a reference to this process on page 15 of the paper.

Finally, the OIG informed PRC staff at the beginning of the project and throughout the research process that it was engaging both the PRC and the Postal Service for this paper. The OIG considered this paper’s analysis of postal regulatory oversight to be relevant to both agencies; therefore, the paper was addressed to the PRC and USPS.

Summary of USPS Management’s Comments

USPS management noted that postal regulation in the United States is unique because of the Congressionally mandated business model. They note that the OIG correctly recognizes that the Postal Service’s universal service mission is largely defined in qualitative terms. Management says that this reflects the will of Congress to give USPS the flexibility necessary to achieve their mission.

Management stated that regulation should support, and not impede, achievement of USPS’ self-financed mission. They say that the OIG correctly recognizes there might be a need to evaluate “the role of the

postal regulator and potential reforms to the postal regulatory framework.” However, management claims that OIG places this responsibility with Congress and other stakeholders, failing to recognize that the PRC has the authority to implement reforms that would help the Postal Service achieve its Congressionally mandated goals.

Finally, management notes that both the Postal Service and the PRC must evolve to ensure long term survival and relevance. They say that in order to be able to provide high quality service in a cost-effective manner, the Postal Service must have the ability to exercise their statutory and regulatory authority without unnecessary bureaucratic restraint.

Evaluation of USPS Management’s Comments

The objectives of this white paper were to provide an overview of the main oversight activities of the PRC and postal regulators in selected countries with developed postal markets and examine current and future trends and challenges in postal regulation and regulatory oversight. This paper describes the authority of the PRC in defining postal regulation within the existing legal framework. The paper acknowledges that as the postal market continues to evolve, changes in postal regulation are taking place in other countries. However, the paper does not advocate for any specific regulatory reform or take any position on whether postal regulatory reform is necessary in the U.S. or other countries.

Appendices

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Appendix A: Additional Information

Objective(s), Scope, and Methodology

The first objective of this paper was to provide an overview of the main oversight activities of the Postal Regulatory Commission (PRC) and postal regulators in selected countries with developed postal markets. The second objective was to examine current and future trends and challenges in postal regulation and regulatory oversight.

The scope of this paper was the authority and regulatory activities of the PRC and other international postal regulators. To focus our research on countries most comparable to the U.S., we began with a set of the countries ranked as most developed (levels six through ten) in the Universal Postal Union’s Integrated Index for Postal Development and removed from this list countries with populations less than one million and those with geographic areas smaller than 10,000 square kilometers (3,861 square miles). We also removed countries with per capita annual domestic letter mail volume less than 30. This resulted in a set of 27 developed postal markets

(including the U.S.) on which the project team focused its analysis.

To accomplish our objectives, the project team conducted desk research on major areas of postal regulatory oversight and activity for the PRC and the 26 other regulators chosen through the process described above. We also researched current and future trends and challenges in postal regulation and regulatory oversight.

The OIG also interviewed representatives of eight foreign postal regulators, the PRC, and USPS. The team also spoke with several subject matter experts on postal regulation.

The inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency’s Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management of the PRC and with management of the Postal Service in separate meetings on January 9, 2024, and included their comments where appropriate.

Prior Coverage

| Report Title | Objective | Report Number | Final Report Date | Monetary Impact |
|--|--|----------------|-------------------|-----------------|
| <i>Primer on Postal Reform</i> | To review the key provisions of the Postal Service Reform Act of 2022 (PSRA) and identify potential opportunities and challenges they present for the Postal Service. | RISC-WP-23-002 | December 20, 2022 | \$0 |
| <i>Reevaluating the Universal Service Obligation</i> | <ol style="list-style-type: none"> 1. Provide an overview of the Postal Service’s current universal service obligation (USO) and the challenges faced in continuing to provide services that meet its USO. 2. Identify recent changes in foreign posts’ USOs that may provide valuable insight for the U.S. Postal Service. 3. Assess the importance of gathering information on stakeholder needs prior to redefining the USO. | RISC-WP-20-004 | May 6, 2020, | \$0 |
| <i>Maintaining Rural Retail Networks: Best Practices Abroad and their Implications for the U.S. Postal Service</i> | Looking outside the U.S. to understand how other postal operators are preserving their networks of rural post offices amid mounting financial pressures. | RISC-WP-20-003 | March 25, 2020 | \$0 |

Appendix B: Sectors Overseen by the Postal Regulator

| Country | Postal Only | Competition | Energy | Telecom | Transportation |
|----------------|-------------|-------------|--------|---------|----------------|
| Australia | | X | | | |
| Austria | | | | X | |
| Belgium | | | | X | |
| Croatia | | | | X | X |
| Czech Rep. | | | | X | |
| Denmark | | | | | X |
| Estonia | | X | X | | X |
| Finland | | | | X | X |
| France | | | | X | |
| Germany | | | X | X | X |
| Hungary | | | | X | |
| Ireland | | | | X | |
| Italy | | | | X | |
| Netherlands | | X | X | X | X |
| Portugal | | | | X | |
| Slovakia | | | | X | |
| Slovenia | | | | X | X |
| Spain | | X | X | X | X |
| Sweden | | | | X | |
| Switzerland | X | | | | |
| United Kingdom | | | | X | |
| United States | X | | | | |

Note: For countries in which the competition regulator is the primary postal regulator, we only mark in this table other sectors for which that regulator is a primary regulatory authority.
Source: OIG analysis.

Appendix C: Management's Comments



POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Chairman

February 26, 2024

Mr. Mark Tasky
Deputy Assistant Inspector General
Research and Insights Solution Center
U.S. Postal Service Office of Inspector General
1735 N Lynn St.
Arlington, VA 22209

***Postal Regulatory Commission Comments on OIG White Paper Titled
"Variations and Trends in Postal Regulatory Oversight"
Final Review Draft, January 18, 2024***

Dear Mr. Tasky,

Thank you for providing the Postal Regulatory Commission with the opportunity to review and comment on the final review draft of the U.S. Postal Service Office of Inspector General (OIG) white paper titled "Variations and Trends in Postal Regulatory Oversight."

The Commission finds the OIG paper to have arrived at erroneous conclusions based on a fundamentally flawed analysis. Specifically, the Commission disagrees with the OIG's failure to recognize the unique size, structure, and powers of the U.S. Postal Service as a 100 percent government agency with two statutory monopolies, special governmental legal privileges, and a large contingent of captive customers, all while operating and competing in commercial markets. No other nation's postal administration, many of which are privatized or commercialized, can compare with the needs for unique regulatory responsibility required to protect the public interest in the U.S.

No single nation's postal market can be fairly compared with the U.S., as the white paper attempts to do, in part because the U.S. has nearly half of the world's mail

volume. However, it might be possible to gain insights on modern postal regulation by examining the continent of Europe as a whole. The draft white paper examines some European postal policies and discusses the decline in mail volume in certain nations, but it fails to address how Europe strengthened the role of national regulators in light of these changes. The 2008 European Union (EU) directive amending the EU's foundational postal legislation states that, with mail volume in decline, "[t]he role of national regulatory authorities is likely to remain crucial."¹ The 2008 directive also states that "[i]n accordance with the principle of separation of regulatory and operational functions, Member States should guarantee the independence of the national regulatory authorities" and that "[n]ational regulatory authorities should be provided with all necessary resources, in terms of staffing, expertise and financial means, for the performance of their tasks." This EU directive is relevant to any serious comparison of international approaches to postal regulation.

In addition, the OIG's draft white paper mentions that the Postal Service has a mailbox monopoly, but does not explain that this monopoly is rare and may be especially important in the age of e-commerce. As a report prepared for the EU noted, "[i]n contrast to the United States, comprehensive mailbox monopolies do not exist in Europe."² Such oversights leave a gap in understanding if the OIG seeks to learn from Europe and limit the utility of a comparative study.

The bullets below provide more details.

- This is an opportune time to discuss the role of postal regulation, given the declining service quality that is reflected in the Postal Service's reported statistics and complaints by consumers, businesses, and Members of Congress; the maximalist pricing strategy of the Postal Service for its monopoly and Market Dominant products; and its stated intent to gain a larger market share in competitive markets. These issues are more acute because the Postal Service is a government-run operator.
- As noted in the paper, OIG examined the oversight activities of the Commission in the U.S. and of other selected international postal regulators. OIG focused their research on countries with postal markets that the OIG deemed to be most comparable to the U.S.
- It is certainly informative to learn about the oversight activities of other postal regulatory agencies and learn, when applicable, from their experiences. But one should be cautious about accepting the validity of direct comparability to the

¹ Directive 2008/6/EC of the European Parliament and of the [European] Council, amending Directive 97/67/EC with regard to the full accomplishments of the internal market of [European] Community postal services, paragraph (47). February 20, 2008.

² *The Evolution of the European Postal Market Since 1997*, Study for the European Union, DG Internal Market and Services, p.40. August 2009. Conducted by IPA Consulting and Wik-Consult.

Commission, especially when it gets to drawing conclusions from such a comparison.

- The agency that the Commission is mandated by law to regulate—the Postal Service—is fundamentally different from the other selected posts. The ownership is different. The market structure is different. The size is different.
 - A basic fact hinted at but not addressed directly in the OIG paper is the disparity between the size of the U.S. and the benchmarked postal markets. While apples to apples comparisons are not easy, by every publicly available source, the U.S. postal sector has more reported mail volume (letters and parcels) than the entire European market. The EU consists of 27 countries. Mail volume has long been higher in the U.S. than in Europe. Reported EU mail volume was 113 billion pieces in 2006,³ just over half of the U.S. peak of 213 billion in 2006.⁴ Reported European mail volume for 2022 was less than 60 billion pieces,⁵ while the Postal Service reported 127 billion pieces the same year. (For FY 2023, USPS has reported 116 billion pieces of mail). Ofcom, the regulator for the United Kingdom, which left the EU in 2020, reported overall letter and parcel volume of 11 billion pieces in the UK for the one-year reporting period from 2022 to 2023.⁶
 - Therefore, a comparison between the U.S. postal regulator and a regulator in a single European country is not particularly relevant. The mail market in any European country is a fraction of the size of the U.S. market. A more obvious comparison when benchmarking the size and scope of regulators might be to compare the Commission and all European postal regulators combined.
 - There are *more than 30* national regulators (both full participants and observers) in the European Regulators Group for Postal Services, which

³ Universal Postal Union, Postal Statistics, <https://www.upu.int/en/Universal-Postal-Union/Activities/Research-Publications/Postal-Statistics>. The statistics reflect volume moved by Designated Operators, the Postal Service's counterparts in other countries.

⁴ See USPS OIG, *Declines in U.S. Postal Service Mail Volume Vary Widely Across the United States*, RARC-WP-15-010, April 27, 2015, <https://www.uspsoidg.gov/reports/white-papers/declines-us-postal-service-mail-volume-vary-widely-across-united-states>, p. 4.

⁵ *Id.*

⁶ Ofcom, Post Monitoring Report, Financial Year 2022-2013, https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring_reports/interactive

includes EU nations and European nations that are currently not part of the EU.

- The Postal Service is a 100 percent government-owned entity that enjoys two monopolies, letter and mailbox, with the latter one being particularly unique for its implications on competition. A 2018 report from a U.S. federal task force chaired by the Secretary of the Treasury explained that the “monopolies give the USPS exclusive rights to most letter deliveries and provide it with an advantage in the small package delivery market.”⁷ The Postal Service is neither privatized nor commercialized, unlike many of the foreign posts selected for the study.
- The Postal Service operates in a uniquely different market structure. It enjoys a market dominant position in the mail market, secured largely by these two legally mandated monopolies and is governed by a price cap regime. In the parcel market, it operates in a “coopetition” market structure. It competes in certain sub-markets with private sector competitors and cooperates with them in others (for example, the Postal Service delivers parcels in the last mile for some of its competitors).
- The unique market structure in the U.S., in particular the mailbox monopoly, is critical to understanding the U.S. approach to regulation in a way that was overlooked in the white paper. In market economies, market structure is understood to drive operator behavior and determines the need for regulation. Regulators protect consumers where there is insufficient competition, and prevent the monopolist from abusing its market power to compete unfairly in other markets. The unusual nature of the Postal Service’s mailbox monopoly among the nations studied therefore should have been a key element of the white paper which attempted to compare national approaches to regulation.
- The Postal Service also has relatively advanced public-private partnerships that are arguably unique in their scope and complexity. For example, the private sector handles significant postal volume in various components of the Postal Service value chain (first and middle mile) through a robust worksharing program. The Postal Service historically outsourced to the private sector almost all its air and ground

⁷ United States Postal Service: *A Sustainable Path Forward, Report from the Task Force on the United States Postal System*, December 4, 2018, p. 10.

transportation.

- The OIG weighed in on the worksharing market and its importance in the larger mailing ecosystem in the 2018 report, [Postal Partnerships: The Complex Role of Middlemen and Discounts in the USPS Package Business](#). The paper highlights the different players in the worksharing market who combine with the Postal Service to collect, process, and deliver mail. As the paper notes, “Mail Service Providers such as print shops and mail houses have long served as *de facto* USPS agents, helping businesses use the mail more efficiently. By doing tasks such as presorting and pre-barcoding, these partners can get workshare discounts on postage.” In the package market, USPS partners include PC Postage providers, resellers, software companies, logistics firms, and fulfillment providers according to the OIG paper. The paper also notes “the links between these partners are extraordinarily complex” and notes that one channel partner claimed to ship “42 percent of all Priority Mail, USPS’ flagship parcel product.”
- The Commission’s role in the worksharing market reflects the market’s underlying complexity, and the Commission’s statutory mandate to develop and administer a system of price regulation that includes 9 objectives and 14 factors, many of them conflicting.⁸ At least one factor directly implicates worksharing, requiring the rate system to reflect “the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service.”⁹ Many of the statutory goals for rate regulation, moreover, impact workshare pricing and its regulation, including efficiency, flexibility, and fairness.
- The Commission is therefore the *de facto* regulator for access to the postal network, a critical infrastructure that facilitates commerce and communication for the whole economy. This network reaches 165 million addresses almost every day. The pricing regulations for workshare discounts (which the Commission has generally based on efficient component pricing, a model used in other network industries) affect public-private cooperation, the efficiency and service quality of the postal network, and access to mailing services. Moreover, as in other markets with a monopolist or oligopolists, both small and large businesses in the workshare market are potentially vulnerable to predatory behavior by USPS,

⁸ 39 U.S.C. sec 3622(c) and (d)

⁹ 39 U.S.C. sec. 3622(c)(5)

which acts in conflicting roles as a provider and consumer of services. The Commission's pricing regulations must balance considerations of fairness and efficiency. These unique characteristics arguably call for a certain regulatory oversight that may not be needed in other posts. The Postal Service unique structure raises critical issues that require regulatory oversight in ensuring proper cost attribution, prevention of cross-subsidies, guardrails against any improper negotiated service agreements and customized contracts, and assurance of fair share of contribution to common costs (institutional costs)—not to mention myriad other legal mandates such as ensuring compliance with a price cap regime and service standards.

- Thus, the implication in the paper that as letter mail volume declines, the scope of regulation should shrink, is not only flawed, but harmful to the public interest and the proper functioning of adjacent markets. It is also arguably contrary to the intent of Congress, which wanted a regulator to play an active role in ensuring the operator is using its granted privileges and monopolies as intended, to fulfill its USO and other public mandates, and not misuse them for unfair competition with the private sector. Simply put, the scope of regulation cannot be a function of letter volume alone. It's about ensuring the government-owned operator fulfills all its obligations without misusing any of its privileges. A decline in mail volume and revenue puts fulfilling the Postal Service's public service mission in greater tension with its finances, making regulatory oversight even more important.
- Recent developments in the mail and package markets have an important relationship to the role of regulation. As density of the postal network declines, issues of funding the network and apportioning the cost of network among participants become more acute and require deeper analysis by the regulator. The OIG itself recognized this in a 2013 paper, in which it explored the possibility of developing a new pricing regulation approach to address these issues. The Commission responded to changes in the market by, among other actions, reshaping price regulations following the ten-year review of pricing regulations required by the [Postal Accountability and Enhancement Act \(PAEA\)](#). The changes allowed the Postal Service to raise an additional \$17 billion since they were adopted in 2020 and are projected to raise \$52 billion over ten years for the Postal Service.¹⁰
- The Commission's role in keeping a very large government-run monopoly from harming private sector competition also becomes more important as mail volume

¹⁰ Postal Regulatory Commission estimate.

dwindles. The Postal Service's leadership has been open about their approach to maximizing near term revenues from captive customers of its monopoly and Market Dominant products while pursuing greater market share in the package market. This is the classic economic and business scenario for which policymakers created sector-specific regulators, including the Commission. It may also conflict with the desire among many policymakers for the Postal Service to serve as a provider of last resort, for Americans in rural areas, while also "staying in its lane" rather than leveraging its governmental assets to compete unfairly against the private sector. As the package market has shown some signs of softening, this issue is only becoming more important.

- The paper notes that the Commission does not hear many official complaints. It does, however, have a "rate and service inquiry" process to handle the thousands of consumer inquiries or informal complaints we receive each year. This is an important avenue for hearing consumer complaints that grows more important as service declines.
- The paper cites disadvantages of a single-sector regulator, including the lack of opportunities to share knowledge, skills, and experience with regulators in other sectors. The Commission has in fact engaged with experts in other sectors in the past, including consulting with the Federal Communications Commission and participating in the National Regulatory Research Institute's (now part of the National Association of Regulatory Utility Commissioners) seminars and [research](#) on economic regulation. Following passage of the PAEA, the Commission engaged with the Federal Trade Commission, at the direction of Congress, to better understand the federal and state laws that apply differently to the Postal Service than to private sector competitors. The Commission's adoption of a density factor in rate regulation to address declining mail volumes borrows from incentive regulation in electricity. The OIG is aware of this, as the approach was suggested in an OIG white paper before being proposed later by the Postal Service and economic experts. The Commission has also leveraged the assistance of other expert entities to augment its small staff. Notably, the Commission has had detailees from the OIG, and hopes to use this approach in the future. Finally, the Commission's commitment to data and information management leverages best practices in other regulated sectors and other governmental entities, including the OIG. By automating many data management functions, the Commission will be able to save money and increase the productivity of its small staff. The Commission has focused on improving its technology and information management after absorbing lessons learned from other regulators, as well as to comply with legislation authorized by the House

Oversight and Reform Committee and the Senate Homeland Security and Governmental Affairs Committee, which have jurisdiction over the Commission as well as the Postal Service and the OIG. These laws include the Evidence Act, FISMA, and the Privacy Act.

- The paper makes another assertion that is worth commenting on. The paper states that the U.S. is unique among countries that it has one entity (postal regulator) overseeing another one entity (postal operator). That is not correct and does not consider the importance and scope of worksharing, and the Commission's role in protecting fair competition in the parcel and express markets. The fact that the Postal Service has a regulator speaks to the fact that the Postal Service is unique in its size and scope. The paper, to its credit, acknowledges this fact. The Postal Service handles 44 percent of the world's mail volume, as the U.S. has the highest mail piece per capita in the world. The Postal Service is the lynchpin of a U.S. mailing industry that generates close to 8 million industry jobs and contributes close to \$2 trillion in sales revenue to the U.S. economy. Such a size, scope and economic impact is unparalleled. In that light, the Commission is relatively small (.03%, of USPS expenses) and efficient compared with the size of the agency it regulates, and the scope and the complexity of the issues it must address within its mandated regulatory scope.
- The same way that the Postal Service size, scope, government ownership status, and market structure make it unique and hence calls for a focused regulator, those same features call for an independent Office of Inspector General, which does not exist in such form for other foreign posts, and certainly not at the size and budget of that exists in the U.S. Thus, a comparison of the USPS-OIG to other foreign posts' watchdogs would be equally unhelpful.

The Commission appreciates the OIG conducting this comparative study. The Commission cautions, however, against drawing direct parallels from other non-comparable regulators. The Commission urges the OIG to consider the impact of the flawed comparisons and conclusions identified above on the accuracy and soundness of this report's findings.

The Commission thanks the OIG for explaining the study and the white paper process. We were surprised, however, to hear that for a study on the "oversight activities of the Postal Regulatory Commission,"¹¹ the OIG received formal written comments from Postal Service. Unlike the Commission, the Postal Service was not, to our knowledge, named as a subject of the white paper. The Commission was also surprised to learn that the OIG plans to attach the Postal Service comments to the published study. The Commission's understanding is that the normal process for an OIG is to attach formal

¹¹ Final Review Draft, "Variations and Trends in Postal Regulatory Oversight", January 18, 2024, pp. i, 2, and 26.

written comments solely from the main subject of an audit or study. We do appreciate being informed about this step and look forward to working with you for additional clarification of the audit and white paper processes.

Thank you again for the opportunity to comment on the study.

Sincerely yours,

A handwritten signature in black ink that reads "Michael Kubayanda". The signature is written in a cursive, flowing style.

Michael M. Kubayanda
Chairman
Postal Regulatory Commission

901 New York Avenue • Suite 200 • (202) 789-6840 • www.prc.gov

THOMAS J. MARSHALL
GENERAL COUNSEL
AND EXECUTIVE VICE PRESIDENT



February 2, 2024

Mark Tasky
Deputy Assistant Inspector General
Research and Insights Solution Center
USPS Office of Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Management Response: Variations and Trends in Postal Regulatory Oversight (Project Number 2023RISC004)

Thank you for providing the Postal Service with an opportunity to review and comment on the Office of Inspector General's (OIG's) white paper, Variations and Trends in Postal Regulatory Oversight. We appreciate the OIG's attention to the regulatory environment in both the United States and internationally, as postal markets transform.

As the OIG accurately describes the changing marketplace, it is undeniable that "letter mail volume is declining while the parcel sector becomes increasingly competitive." This market reality underpins the Postal Service's Delivering for America Plan (DFA Plan) to achieve financial sustainability and service excellence. Redesigning our operating model to enable growth in our package delivery business will improve the value, reliability, and sustainability of the service that we provide to all of our customers across our integrated mail and package network.

The Postal Service is making transformational change to meet the universal service mission mandated by Congress – providing mail and package delivery in an integrated fashion throughout the Nation, at least 6 days a week – in a financially self-sufficient manner. It is critical that the regulatory environment in the United States enable, rather than impede, this change.

Postal Regulation in the United States is Unique Because of our Congressionally-Mandated Business Model

The OIG accurately observes that postal regulation in the United States is unique in many ways when compared to other countries. In most instances, these unique attributes flow from the specific business model that Congress established in the Postal Reorganization Act of 1970 and continued through subsequent postal reform legislation (the Postal Accountability and Enhancement Act of 2006, and the Postal Service Reform Act of 2022). Congress's mandate is that the Postal Service balance high quality service and financial self-sufficiency.

As an example, the OIG identifies that our universal service mission is unique in that it is defined largely in qualitative terms, giving the Postal Service flexibility to evolve and adjust how we provide service as circumstances change. This autonomy reflects Congress's policy decision to create an independent Postal Service with the authority and flexibility to balance the statutory considerations and to make the specific judgments necessary to ensure that we provide high-quality service in an efficient, cost-effective, and financially viable manner.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-1100
PHONE: [REDACTED]
FAX: 202-268-6981
[REDACTED]
WWW.USPS.COM

Regulation Should Support—Not Impede—Achievement of Our Self-Financed Mission

Congress's fundamental policy choice not only shapes the Postal Service's exercise of its authority, but also should inform the Postal Regulatory Commission's approach to its own role. In particular, the Commission has a demonstrated tendency to resist change or to move only incrementally, which inhibits our competitiveness and the ability to make the changes needed to succeed. The Commission's regulatory approach must recognize the critical importance of innovation, speed to market, cost-consciousness, pricing flexibility, negotiated service agreements (NSAs), and reform of long-standing practices that have proven not to work.

The OIG identifies that the Commission determines the ratemaking system for Market Dominant products in the United States. Whereas in other countries with a price cap, the regulator enforces a cap determined by postal law or regulations and has limited or no authority to change the price cap formula. The OIG also identifies that the Commission's role in rate oversight is relatively broad compared to other countries: The Commission's rate regulation covers 95 percent of the Postal Service's volume and a wide swath of product categories (such as periodicals, bulk mail, and direct mail, which some other countries do not subject to any price regulation). And the OIG identified that the Commission is the only postal regulator that reviews and approves NSAs.

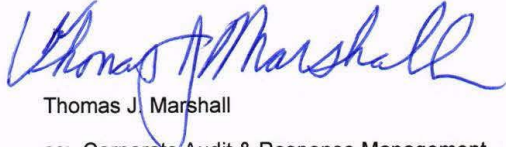
Yet, when recognizing that there may be a need to evaluate "the role of the postal regulator and potential reforms to the postal regulatory framework," the OIG places this responsibility with Congress and other stakeholders, rather than on the Commission itself. This fails to acknowledge that the Commission already has the authority to implement several reforms that would advance the Postal Service's ability to achieve the goals that Congress has laid out.

For instance, the Commission has the power to reevaluate its own rules regarding NSAs and is not statutorily required to treat them as individual products, or to conduct the pre-implementation review procedures that currently exist. In this regard, while the Commission has an important statutory role in ensuring fair competition and prohibiting cross-subsidization from Market Dominant products to Competitive products, there is considerable flexibility in how it conducts this role – and the Commission must be guided by the fact that Congress has plainly intended to enable the Postal Service to compete fully and fairly in the marketplace. Rather than serve any legitimate regulatory interest, these pre-implementation review procedures place the Postal Service at a competitive disadvantage and ignore the fact that the Postal Service has no incentive to enter into NSAs that fail to cover their costs. Rather than requiring statutory change, these are reforms that the Commission can address under its current authority.

Both the Postal Service and the Regulator Must Evolve to Ensure Long Term Survival and Relevance

To achieve the goals of the DFA Plan, which are essential to achieving Congress's mandate to provide high-quality service while also being financially self-sufficient, the Postal Service must have the ability to exercise our statutory and regulatory authority without unnecessary bureaucratic restraint. Overreaching oversight which reflects ossified thinking or emphasizes bureaucratic procedure over substantive results puts the ability of the Postal Service to achieve our primary goals at significant risk. Further, given the market trends identified by the OIG, it is more important than ever for the Postal Service to evolve and adjust, and for the Commission to likewise evolve and adjust, consistent with the business model dictated by Congress and the statutory flexibilities that already exist.

Sincerely,

A handwritten signature in blue ink that reads "Thomas J. Marshall". The signature is fluid and cursive, with the first name "Thomas" and last name "Marshall" clearly legible.

Thomas J. Marshall

cc: Corporate Audit & Response Management

OFFICE OF INSPECTOR GENERAL

UNITED STATES



Tristan Dreisbach, Rick Schadelbauer, Jean-Philippe Ducasse, and Paola Piscioneri contributed to this report.

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1735 North Lynn Street, Arlington, VA 22209-2020
(703) 248-2100

For media inquiries, please email press@uspsig.gov or call (703) 248-2100