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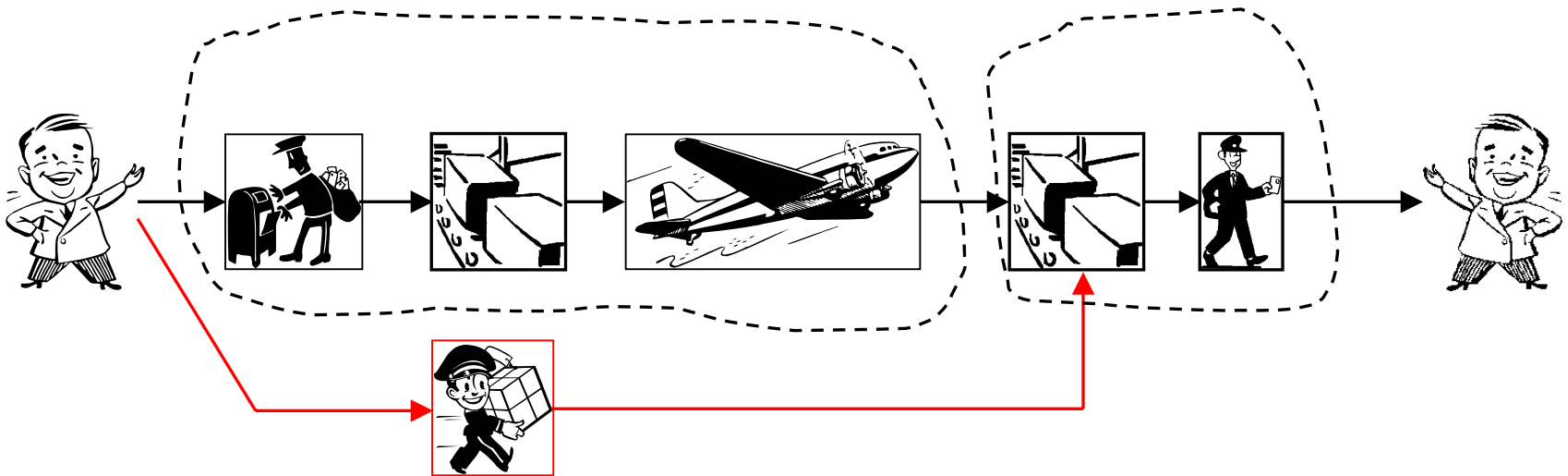
Downstream Access, the Last Mile, and the Future of the Postal Service

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“Downstream Access”

“Upstream” activities: collection
outward sorting, and transport

“Downstream” activities:
inward sorting and delivery



(Third party consolidator, transport
firm, or logistics company)

Summary

- In three decades, the Postal Service has come to rely upon diverse third party consolidators to provide “downstream access” to a variety of postal services.
- The principles guiding downstream postal access were developed in a wholly different environment from that which the Postal Service will likely face in the future.
- This presentation suggests that future discussions of downstream access should take more account of the possible implications of downstream access for the long term competitiveness of the Postal Service.

I. Possible Regulatory Approaches Towards Downstream Access

A survey of alternative approaches towards downstream access regulation is useful to clarify existing policy.

Option 1: Prohibit Downstream Access

- Rule adopted by Congress

“Whoever establishes any private express for the conveyance of letters or packets . . . over any post route . . . or from any city, town, or place to any other city, town, or place, between which the mail is regularly carried, shall be fined not more than \$500 or imprisoned not more than six months, or both. This section shall not prohibit any person from receiving and delivering to the nearest post office, postal car, or other authorized depository for mail matter any mail matter properly stamped.” 18 U.S.C. 1696(a)

- Effectively waived by USPS since 1970

Option 2: Full Regulation

- Rule for regulated common carriers
 - Carrier must accept all reasonable requests for service.
 - Regulator can require downstream access at reasonable rates.
- PRC could require new classes of access, e.g.
 - Presort/dropship discount for first class mail.
 - Post office box rate.
- Access regulation emphasized in some foreign postal reform laws (e.g., Australia, Germany)

Option 3: Partial Regulation (Prices Only)

- Rule followed by USPS and PRC de facto
- But why does USPS accept downstream access?
 - Rapid evolution of upstream functions has left USPS behind.
 - Downstream access prices extraordinarily favorable to USPS (USPS keeps entire institutional contribution).
- Encourages “*Last Mile*” *Post Office*.

Option 4: No Regulation

- Rule for companies generally
 - Company determines conditions of offer. Why? Market is more efficient than the courts.
- Private express services have developed well without downstream access regulation.

Current Policy Summarized

- Functional deregulation: upstream not downstream
- Access terms and prices terms favorable to USPS
- Absence of traditional regulatory controls

II. Fundamental Questions Relating to the Future of the Postal Service

Evaluating current policy towards downstream access inevitably depends on one's views towards basic but unresolved long term commercial and policy issues.

1. Will Postal Markets Become More Competitive?

- Yes. Increasing direct and indirect competition has been the trend and will likely continue.
 - 1968 – Kappel Commission did not mention competition.
 - 1996 – “We have intense competition in every area of our business” (PMG Marvin Runyon).
 - Many reasons for new competition, e.g. new technologies, more varied demand.
- No. It is unlikely that anyone will ever compete with USPS effectively due to economies of scale and the monopoly law.

2. Is the “Natural” Scope of the Postal Business End-to-End or Last Mile?

- Yes. Network carriers resist over dependence on “forwarders” for sound business reasons.
 - Maintain contact with major customers
 - Maintain quality control over end to end service
 - Prevent rise of competitors who may use downstream entry to get a “free ride” in some respects
 - E.g. private express, advanced foreign posts.
- No. Specialization on “core competencies” implies the desirability of USPS’s concentration on the delivery function.

3. Should the Postal Service Should Be Given a Chance to Survive and Prosper in a Competitive Market?

- Yes. Giving USPS a fair opportunity to evolve into a competitive company is good public policy.
 - Fair to postal employees
 - Maintains motivation of management and employees
 - Best use of existing resources
- No. The Postal Service is a public service that cannot be transformed in a manner that is fair to private competitors, and so it should be closed when no longer needed.

III. Is Current Policy Towards Downstream Access Good for the Postal Service of the Future?

These perspectives raise questions about the current emphasis and approach towards downstream access regulation that are not customarily considered.

Good Politics?

- Current policy is preeminently a political approach: i.e. everyone is better off and no one is worse off.

But –

- Are downstream mailers treated fairly?
- Is it fair to USPS to impose different regulatory regimes on it and its private competitors?

Good Law?

- Current policy appears to be inconsistent with the current postal monopoly law.
 - Should not a new approach (good or bad) be approved by Congress?
- If downstream access regulation is justified, why (exactly) should it be administered differently in postal markets than in other markets?

Good Economics?

- Current policy promotes the most efficient means of providing upstream functions.
- But is upstream deregulation an economically sensible way to introduce new competition into postal markets?
 - *Compare the plans of U.K. mailers and regulator . . .*

UK Mailers' Plan for Functional Deregulation of Post Office (1990)

Company	Function	Monopoly
Counters	Counter services	No monopoly
Royal Mail Letters	Collection and primary sort	No monopoly
Mailsort	Bulk mail	No monopoly
Royal Mail Network	Transport	No monopoly
Royal Mail International	International	No monopoly
Royal Mail Delivery Services	Delivery	Monopoly but subcontracting possible
Parcelforce	Parcels	No monopoly
Royal Mail Stamps	Stamps	Implied monopoly

U.K. Postcomm's Plan (2002)

- Deregulate all functions of the U.K. Post Office in 3 phases:
 - Phase 1: Large bulk mail (30%)
 - Phase 2: Small bulk mail (30%)
 - Phase 3: All other mail (40%)
- Shift universal service obligations to all licensed operators, not only U.K. Post Office

Good for USPS?

- Does current policy encourage a level of USPS efficiency and innovation suited to a more competitive world in the future?
- Will loss of USPS's upstream capabilities imply
 - Loss of contact with major customers?
 - Loss of quality control over end to end service?
 - Creation of potential competitors?
- In short: *is a Last Mile Post Office commercially viable in a fully competitive postal market?*