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Reevaluating the Universal Service Obligation
Report Number RISC-WP-20-004
Commonly utilized in regulated industries, the universal service obligation (USO) is a collection of requirements that ensure all users receive a minimum level of service at a reasonable price. Currently, many key aspects of the U.S. Postal Service’s (Postal Service) USO are not clearly defined. Instead the Postal Service’s USO is made up of a collection of various legal requirements and regulations. In general, the Postal Service’s USO covers several attributes including geographic scope, range of products, access, delivery mode and frequency, pricing, and service. While some aspects have a clear definition, such as the requirement to deliver mail six days a week, others are very broad. For example, the requirements to provide “affordable prices” and “quality service” are more open to interpretation.

For years, the lack of clarity about some USO requirements appeared to not impact the Postal Service’s financial stability; however, over the past decade, the Postal Service’s financial situation has worsened. The combination of declining First-Class Mail volume, a price cap on 96 percent of its product volume, and a growing delivery network makes it challenging for the Postal Service to continue to fund its operations through postal revenues. As financial challenges persist, the Postal Service must find ways to control costs, or identify alternative revenue streams, that do not negatively impact the American public and the mailing community.

In theory, the Postal Service’s USO should provide guidance on the minimum level of service the Postal Service must provide in order to meet the needs of the American public and the mailing community. In reality, the current USO provides limited guidance. A more specific USO would both protect postal customers and give the Postal Service guidance on where it can make changes to potentially improve its financial stability.

For over a decade, there have been discussions among the postal stakeholder community for the need of a comprehensive review of the Postal Service’s USO. However, to date, no such review has taken place. To help inform this discussion, the U.S. Postal Service Office of Inspection General (OIG) issued three reports on the USO between 2014 and 2016 covering the topics of (1) developing a set of guiding principles for a new USO, (2) a quantitative survey on postal customers’ needs, and (3) potential USO funding options. In this paper we build upon that prior work, as we evaluate recent trends of other posts, focusing on eight posts that modified their USOs in the last five years to respond to the financial challenge of volume erosion — Belgium, Denmark, Finland, Italy, Netherlands, New Zealand, Norway, and Sweden. While there are important differences between the U.S. Postal Service and the posts in these other countries, the recent trends provide some insight into the potential future of the Postal Service’s USO.
What we found is that the two most common changes to the USO have been a reduction in the speed of delivery (how fast a product is delivered) and frequency of delivery (how many days a week a product is delivered). However, there is no “one-size-fits-all” solution to the USO challenge and USO changes have been customized for each country’s specific challenges. For example, Italy has reduced frequency of delivery to a greater extent in rural areas than in urban areas. In Finland and New Zealand, however, the opposite was true — the frequency of delivery requirement was maintained in rural areas but reduced in urban areas. In addition, we found that most of the posts or postal regulators undertook a study on user needs prior to modifying the USO. These research findings emphasize the importance of understanding exactly what postal services the American public and mailing community need when crafting a USO.

Furthermore, we discovered that all eight posts already employ more financial levers than the U.S. Postal Service. All eight have the authority to offer non-postal products and four of the eight receive government funding to help cover the costs of their obligations. Despite these additional opportunities, all eight posts also refined the USO to ensure the long-term viability of their letter mail business.

The benchmarking indicated that not all changes to the USO result in a reduction in service. For example, in several countries the number of access points either remained the same or increased. Some posts had the authority to provide access through alternative means, such as postal counters in other businesses, outsourced post offices, and postal kiosks. While there is currently little acceptance of these alternatives as replacements for post offices in the U.S., eventually alternatives to access may become more acceptable than higher prices or reduced retail access.

Of course, any change to the postal USO must take into consideration the financial stability of the Postal Service. Creating a USO that allows the Postal Service to improve its financial health and ensures all users continue to receive a minimum level of affordable service, will involve finding the right balance of obligations, pricing flexibility, and other revenue options such as diversification or government subsidies.
**Observations**

**Introduction**

The universal service obligation (USO) is a collection of requirements that ensure all users receive a minimum level of service at a reasonable price.¹ USOs are needed when there is concern, that absent requirements, providers would choose to either cut service or raise prices in high cost areas. USOs are commonly imposed in regulated industries, especially in network industries that are dominated by a small number of providers. These include the postal, telecommunications, and electric utility industries.² A USO can be served by one or several providers (including private companies), and it is often the regulator’s responsibility to ensure that it is being met. In this country, the Postal Service is the sole postal provider operating under the USO.³ The Postal Service receives no direct funding to compensate it for the cost of the USO, although it does have two monopolies to help maintain adequate revenue.⁴ It is expected to fund its operations, including those services it provides as part of the USO, through revenues earned from its products and services.⁵

Between 2014 and 2016, the U.S. Postal Service Office of Inspector General (OIG) issued three white papers on different aspects of the universal service obligation. The first, *Guiding Principles for a New Universal Service Obligation*, researched lessons learned from other posts and industries to develop a set of guiding principles that policy makers could use to develop a clearly defined USO.⁶ The second paper, *What Postal Services Do People Value the Most*, summarized the results of a quantitative survey exploring four key USO attributes: access, delivery mode, delivery frequency, and price.⁷ The third paper, *Funding the Universal Service Obligation*, discussed the limited options for funding the USO.⁸ While there appears to be some agreement that the Postal Service’s USO needs to be redefined and clarified, little progress has been made. In this context, the OIG is providing updated information relevant to refining the USO. This paper draws on the relevant parts of the OIG’s previous work and synthesizes trends in foreign posts that changed their USOs in the past five years. Appendix A provides further explains the objective, scope, and methodology of this paper.

**The Postal Service’s Universal Service Obligation is Not Clearly Defined**

The Postal Service’s USO is under the purview of Congress. Currently the postal USO is made up of a collection of legal requirements and regulations that, in many instances, provide only broad guidance and are subject to interpretation.⁹ For example, while there is an understanding that access to postal services is an important component of the USO, there are no specific requirements on the number of post offices that must exist (see Table 1). The main exception to this broad definition is frequency of delivery, where annual appropriation language

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⁶ OIG, *Guiding Principles for a New Universal Service Obligation*.
⁸ OIG, *Funding the Universal Service Obligation*.
requires the Postal Service to deliver mail six days a week to most areas of the country.\footnote{10}

Not only is the definition of the USO imprecise, there is some difference of opinion between the Postal Service and the Postal Regulatory Commission (PRC) on what attributes it encompasses. In response to a requirement in the Postal Accountability and Enhancement Act, both the Postal Service and the PRC issued reports on the USO and the postal monopolies in 2008.\footnote{11} In their reports, both organizations provided a definition of the various attributes of the USO.\footnote{12} As summarized in Table 1, both the Postal Service and the PRC included geographic scope, range of products, access, delivery mode and frequency, pricing, and service as USO attributes. The Postal Service added security and the PRC added enforcement of the USO through the complaint process.

### Table 1: USPS and PRC Definitions of the Current USO (From 2008 Reports)

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Postal Service Report</th>
<th>PRC Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Scope</td>
<td>Postal Service required, as practicable, to provide services throughout the United States and to military abroad.</td>
<td>Postal Service required, as practicable, to provide services throughout the United States, military abroad and through international agreements. Obligation can vary from product to product if not unduly discriminatory.</td>
</tr>
<tr>
<td>Range of Products</td>
<td>Market Dominant.*</td>
<td>Market Dominant and Competitive.</td>
</tr>
<tr>
<td>Access</td>
<td>The Postal Service has broad discretion over types and number of facilities but is limited in closing post offices (due to legal and regulatory constraints).</td>
<td>Includes time and distance needed to get to location as well as wait time. Postal Service has flexibility but is limited in closing post offices for solely economic reasons and limitations to delivery frequency (since carriers also provide access).</td>
</tr>
<tr>
<td>Delivery Mode and Frequency</td>
<td>Only restriction is in appropriations rider to maintain delivery at 1983 levels. Type and mode of delivery is left up to discretion of the Postal Service.</td>
<td>Frequency is defined by appropriations language to maintain delivery at 1983 levels. Mode of delivery is up to discretion of the Postal Service.</td>
</tr>
<tr>
<td>Pricing</td>
<td>Some identified products must be affordable. One class of mail must have uniform price.</td>
<td>Affordability is met through rate constraints and uniform price requirement.</td>
</tr>
<tr>
<td>Service</td>
<td>The Postal Service must provide quality service on a nationwide basis, but service levels are up to discretion of the Postal Service (market forces ensure good service).</td>
<td>The Postal Service must provide quality service on a nationwide basis, but there are no substantive and enforceable service quality standards. Any changes to nationwide service are subject to public comment and PRC review.</td>
</tr>
<tr>
<td>Enforcement of USO (Complaint)</td>
<td>Not Included.</td>
<td>Interested parties have a right to file complaints that USPS is not meeting the USO.</td>
</tr>
</tbody>
</table>

\footnote{10}{H.R. 1158, p. 161.}
\footnote{11}{The law required the PRC to issue a report within 24 months of enactment of the act and solicit written comments by the Postal Service. Public Law 109-435, Sec. 702. The Postal Service issued its own report prior to the PRC’s publication.}
While both reports are over a decade old, they remain relevant today for several reasons. The first reason is the reports demonstrate that there is some difference of opinion between the Postal Service and the PRC about the USO. The second reason is that in its report, the PRC suggested that policymakers take a comprehensive review of the USO, and 12 years later, this comprehensive review has not occurred.  

As discussed in both the USPS and PRC reports, the USO has changed over time in response to the public's needs and the cost of providing mail service. While both reports are over a decade old, they remain relevant today for several reasons. The first reason is the reports demonstrate that there is some difference of opinion between the Postal Service and the PRC about the USO. The second reason is that in its report, the PRC suggested that policymakers take a comprehensive review of the USO, and 12 years later, this comprehensive review has not occurred.

### A Comprehensive Review of the Universal Service Obligation is Needed

For years, the lack of clarity about the USO appeared to not impact the Postal Service’s financial stability. As between fiscal years (FYs) 1970 and 2006, mail volumes were growing, and the Postal Service was under a break-even price regulation regime that allowed it to raise prices as high as needed to cover projected costs. However, in FY 2006, both the postal market and postal regulation changed, which has shown over time to cause new challenges for maintaining the financial stability of the Postal Service. At the same time, Congress made no changes to the USO, but as discussed above, included a requirement for the PRC to issue a report on USO along with any recommended changes.

#### The Combination of Declining First-Class Mail Volume and a Price Cap Makes Funding Obligations More Challenging

Total mail volume peaked in FY 2006 and has been declining ever since. Between FYs 2006 and 2019, overall mail volume declined by 33 percent. Even more concerning is that the overall decline is mostly driven by the loss of First-Class Mail, which traditionally has been a large provider of the Postal Service’s net revenue. In FY 2006, First-Class Mail earned enough revenue to cover its costs and contribute $19 billion towards the Postal Service’s institutional costs. By contrast, in FY 2019, First-Class Mail’s contribution was only $12 billion. While over the last two years, the large increase in parcels had begun to offset the losses from First-Class Mail, recent data suggest this trend may not continue. In fact, in the first quarter of 2020, the Postal Service’s Shipping and Package

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Postal Service Report</th>
<th>PRC Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>Maintaining security of the mail is a function of statutory requirements and overseen by the U.S. Postal Inspection Service.</td>
<td>Not Included.</td>
</tr>
</tbody>
</table>

Source: USPS and PRC Reports on Universal Service and Postal Monopolies.

* At the time the report was issued, market dominant products included various package products. Since that time, USPS has moved the majority of its package products to the competitive category. In discussions with postal management, USPS stated that it has always believed that the USO should encompass some parcel products, and therefore now believes the USO covers both market dominant and competitive products.

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16 Total mail volume was 213,139,048 in FY 2006 and 142,569,895 in FY 2018. USPS, Cost and Revenue Analysis Reports, FYs 2006 and 2019, https://about.usps.com/what/financials/.

17 First-Class Mail declined 43 percent between FY 2006 and FY 2019. Ibid.

18 USPS, Cost and Revenue Analysis, FY 2006.

19 USPS, Cost and Revenue Analysis, FY 2019.

volumes were down 4.6 percent compared to the same period of the previous year. While Shipping and Package revenues increased by 2.3 percent during the same time period, there is a limit to how much revenue the Postal Service can grow through price increases if parcel volumes continue to fall.

**Figure 1: Mail Volume Decline Since FY 2006**

Adding to the challenge of declining mail volume, the Postal Accountability and Enhancement Act of 2006 revamped how the Postal Service could change its prices. Now, instead of being allowed to raise prices to cover costs, the Postal Service is limited by a strict price cap on 96 percent of its volume.

The reasoning behind this cap is to create an incentive for the Postal Service to improve its efficiency and to protect mailers from large, unpredictable price increases.

Had mail volumes continued to grow, the Postal Service could possibly have been able to stay financially healthy under the cap. However, the combination of volume declines and a strict price cap makes it difficult for the Postal Service to fund its operations. Unlike private entities, the Postal Service cannot simply cut its services in high-cost areas. Moreover, as mail volume declines, the number of delivery points continues to increase. Essentially the Postal Service must fund a growing network with fewer pieces of mail, with little room to increase prices. As a result, cost controls become an increasingly important lever, and the Postal Service must find the right balance between controlling costs and providing the postal services the American public and the mailing community need.

**A More Clearly Defined USO May Be Beneficial to Both the Postal Service and Its Customers**

An important step in improving the Postal Service’s financial stability is to identify areas where costs can be taken out of the postal network without impacting service. After that step, however, the Postal Service may need to consider where it can modify or enhance services without significantly impacting its postal

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22 Ibid.
25 In discussions with postal management, the Postal Service stated they have other burdens that are not faced by private companies as well. For example, the Postal Accountability and Enhancement Act introduced a requirement to prefund the retiree health fund. Public Law 109-435, Sec. 803.
27 While there is no legal quid pro quo, the Postal Service does have two legal monopolies (letter and mailbox) that are generally considered to help fund its USO. USPS, *Report on the Universal Postal Service and the Postal Monopoly*, p. 3.
customers, including both households and businesses. This is where a USO with better defined requirements would be beneficial.28

The current USO does not always provide clear and specific guidance on where the Postal Service can make changes. As a result, the Postal Service must sometimes use its best judgement on what proposed changes will be acceptable, which can lead to time and resources being used to support changes that never come to fruition. For example, while the current USO prohibits the Postal Service from closing a post office solely for economic reasons, it does not provide any specific guidance on the required minimum number of post offices.29 In 2011, the Postal Service filed a plan with the PRC to close 3,650 post offices that had low revenue and were located near an alternative access point.30 After a year of debate before the PRC, including strong protests from postal customers, the Postal Service fundamentally changed its plan to instead significantly reduce the hours at the existing post offices, resulting in a second round of review by the PRC.31 A USO with more precise parameters around retail access may have streamlined this entire process.

Calls for a Comprehensive Review of the USO

Over a decade ago, the PRC recommended that Congress undertake a comprehensive review of all the elements of the USO.32 Since that time, and as recently as June 2019, the Chairman of the PRC has reiterated the need for a comprehensive review of the USO at various stakeholder meetings and events.33 A 2018 Presidential Task Force report on the Postal Service also found "without a clearly defined USO, it is difficult for the Postal Service to make business decisions in a timely and efficient manner."34

Despite these calls there has been little movement towards a comprehensive review of the USO. We acknowledge that it is a huge undertaking and there are no easy answers. Currently changes to the USO are under the purview of Congress, but Congress could assign another party, such as the PRC or request the Postal Service to make a proposal. In fact, there is nothing prohibiting the Postal Service or the PRC from proactively proposing a new USO.

In context of the need for a comprehensive review, the OIG examined recent postal USO related activities in other countries to offer lessons learned for the U.S.

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28 Nothing in this report should be taken to mean that the OIG is suggesting that all areas of the USO be stringently defined. A comprehensive review of the USO may lead to policy makers determining that there are some areas where more flexible requirements are needed.

29 Table 1.


34 In addition, the Task Force recommended that (1) the USO (and the price cap) be limited to only products that are deemed essential, (2) the Postal Service continue to be required to deliver to every address, (3) there should be a clearly defined requirement for access that still allows the Postal Service to close post offices and collection boxes, (4) the Postal Service be given more flexibility in determining frequency of delivery (5) the Postal Service should have discretion to determine the mode of delivery, (6) the Postal Service should retain discretion to determine processing speed, and (7) the Postal Service should determine ways to optimize activities to cover the costs of the USO. The Task Force on the United States Postal System, United States Postal Service: A Sustainable Path Forward, December 2018, https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Foward_report_12-04-2018.pdf, pp. 41-45.
USO Trends in Other Countries May Provide Lessons for the U.S.

The Postal Service is not alone in its challenge to fund its obligations in the face of declining letter volumes. For example, most posts in the European Union (EU) are facing declines in letter revenues that are not sufficiently offset by the growth in parcels, and this trend is threatening the posts’ profitability. A recent study commissioned by the European Parliament recommended that in response to these trends, governments review and adapt the postal USOs. They also included that government funding in Europe will play an important role in ensuring the future financial stability of the postal USO.

While there are many differences between foreign posts and the Postal Service, USO trends can provide some valuable insight into the potential future of the Postal Service’s USO. Many other posts have already experienced greater volume declines than the Postal Service. Therefore, in some ways, looking at other posts allows a glimpse into the potential future of the Postal Service.

The OIG’s research findings stemmed from a review of overall USO trends as well as more detailed research on eight foreign countries: Belgium, Denmark, Finland, Italy, Netherlands, New Zealand, Norway, and Sweden. We chose these eight because they were posts in developed countries whose governments have made changes to their postal USOs within the past five years.

Most Common Changes Are Reductions to Delivery Speed and Frequency

For the eight posts we studied, the three main types of changes to the USO were: (1) reduced frequency of delivery of letters, (2) lowered speed of delivery for letters, and (3) increased flexibility relating to the retail network requirements.

36 Ibid., p. 11.
37 Differences between the countries can include geographic size, population, mail per capita as well as social, legal and regulatory differences.
38 Copenhagen Economics, Research for the TRAN Committee - Postal Services in the EU, pp. 19-20. In its report, Copenhagen Economics found European Union countries’ total letter mail volume declined 3 percent annually between 2013 and 2017. But there were posts with greater losses. Denmark has lost 15 percent of its letter volume per year, and Italy has lost 10 percent per year. Germany is the one exception, where due to digital security concerns, letter volume is growing. Of the 29 posts in this study, 17 had a larger percent loss during the same time period than USPS loss of First-Class Mail. USPS lost an average of 2.62 percent of First-Class Mail during the same period.
39 The overall trends in the EU are relevant because the EU Postal Directive provides the minimum USO requirements for all posts in the EU. Posts are not allowed to go below these standards, with only limited exceptions, such as due to geographical conditions. However, governments have the right to remove products from the scope of the USO (if a product is not covered by the USO, it does not need to comply with USO requirements such as a minimum of five delivery days a week).
40 These lessons are not meant to be a comprehensive review of all foreign posts. We included posts that made changes to their USO that were implemented in 2015 or later.
41 Please note that the USO in other countries does not apply to all products. Table 2 refers to changes to the USO that apply only to those products within the USO.
Table 2: Summary of USO Changes in Eight International Posts

<table>
<thead>
<tr>
<th>Country</th>
<th>Reduced Frequency of Delivery for Letters*</th>
<th>Lowered Speed of Delivery for Letters*</th>
<th>Added Flexibility to Retail Network</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduced in Urban Areas</td>
<td>Reduced in Rural Areas</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>Denmark</td>
<td>♦</td>
<td>♦</td>
<td>♦</td>
</tr>
<tr>
<td>Finland</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>Italy</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>Netherlands</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>New Zealand</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>Norway</td>
<td>♦</td>
<td></td>
<td>♦</td>
</tr>
<tr>
<td>Sweden</td>
<td>♦</td>
<td>♦</td>
<td>♦</td>
</tr>
</tbody>
</table>

* The changes to frequency of delivery and speed of delivery are specifically for letter mail up to 2 kg
Source: OIG research presented in Appendix B.

When making changes to their USO, the changes have most often focused on delivery speed (how many days it takes for a product to be delivered) and delivery frequency (number of days a week a product is delivered). In its report to the European Parliament, Copenhagen Economics explained that these two attributes are often interlinked in foreign posts, as next-day service standard necessitates the post delivering almost every day.42

As can be seen in Table 2, seven of the eight countries in our research either recently made reductions to the frequency of delivery or are currently looking into making reductions. For example, in Norway, frequency of delivery was...
As can be seen in

> Study of Impact on Stakeholders Often Precedes USO Changes

For all eight countries we studied, either the post or the postal regulator assessed the potential impact on changes to the USO before making the modifications. Some of the studies focused mainly on the postal customers’ needs. For example, in Belgium, the regulator performed a study on user needs prior to the recent changes to the USO. Other studies focused on both user needs and potential cost savings of the USO changes to the post. In Norway, for example, they studied both the impact on postal customers and the potential cost savings to the post. In New Zealand, seeking public comment was part of the legal process used to modify the USO.

User needs are being studied on a larger scale as well. For the postal operations of EU member countries, national USOs must be aligned with or exceed the

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43 Appendix B, Table 10.
44 Appendix B, Table 5.
45 Appendix B, Table 9.
46 For a more detailed discussion see OIG, Maintaining Rural Retail Networks: Best Practices Abroad and Their Implications for the U.S. Postal Service.
47 For example, in New Zealand, the post asked for a reduction in frequency of delivery for all areas, but the concerns raised by citizens in the review process led to the New Zealand Government maintaining 5-day delivery in rural areas. Paul Hodgson, Malcolm Shaw, and Helen Duignan, “New Zealand Post USO Realigned to the Digital Age,” (presentation and paper at the 22nd Conference on Postal and Delivery Economics, 2014), pp. 8-10.
48 The frequency of delivery was lowered in the highest cost of service areas, leading to savings between 30 percent and 50 percent of the costs involved in providing daily delivery. Gennaro Scarfiglioni, “Universal Postal Service Reform in Italy,” (presentation at 16th WIK Königswinter Postal Seminar, November 2-4, 2016), slides 18-19.
49 Appendix B, Tables 4-11.
50 Appendix B, Table 4.
51 Appendix B, Table 10.
52 Appendix B, Table 9.
minimum requirements set by the EU Postal Directive. As part of its review of the Directive, the European Commission outsourced a study on user needs and postal demand.\textsuperscript{53} Results of this study, completed in 2019, will inform the debate on the future of USOs in Europe.

Neither Diversification nor Government Funding has Eliminated the Need to Reduce USOs

Our research showed that even though all eight posts had more financial levers than the Postal Service — the ability to offer non-postal products and in some cases receiving direct subsidy from their government — these advantages were not enough to eliminate the need to reduce the USO.\textsuperscript{54}

Unlike the Postal Service, other posts often have public service obligations, referred to in Europe as service of general economic interest (SGEI), in addition to their universal service obligation.\textsuperscript{55} For example, in Belgium delivery of newspapers is considered to be part of its SGEI, not the USO.\textsuperscript{56} In the United States, similar services would be considered to be part of the USO. Therefore, for purposes of this section of the paper, we shall include both funding of SGEI and USOs.

Table 3: Diversification and Government Funding

<table>
<thead>
<tr>
<th>Country</th>
<th>Diversification</th>
<th>Government Funding for USO or SGEI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Banking, financial services, and logistics.</td>
<td>Net cost of the USO.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Funding for part of SGEI including dense retail network, delivery of publications, basic financial postal services, and the social role of the postmen.</td>
</tr>
<tr>
<td>Denmark</td>
<td>3-D printing, digital solutions, and logistics.</td>
<td>Net cost of the USO.</td>
</tr>
<tr>
<td>Finland</td>
<td>Logistics and software solutions.</td>
<td>N/A</td>
</tr>
<tr>
<td>Italy</td>
<td>Financial services and insurance solutions.</td>
<td>Net cost of the USO.</td>
</tr>
<tr>
<td></td>
<td>Provides order support, food and flower delivery, delivery and fitting of kitchen and other large appliances.</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Owns part of several other businesses (Kiwi Bank, Kiwi Insurance). Offers printing, business process outsourcing and mail house services, and logistics.</td>
<td>N/A</td>
</tr>
<tr>
<td>Norway</td>
<td>Banking services and logistics.</td>
<td>Net cost of the USO (including basic banking service).</td>
</tr>
<tr>
<td>Sweden</td>
<td>3-D printing, digital solutions, and logistics.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: OIG research presented in Appendix B.


\textsuperscript{54} In addition, other posts often have significantly more pricing flexibility than the Postal Service. While that was not a focus of this paper, the OIG discussed this topic in OIG, Lessons in Price Regulation from International Posts, Report No. RARC-WP-17-003, February 8, 2017, https://www.uspsoig.gov/sites/default/files/document-library-files/2017/RARC-WP-17-003.pdf. While USPS has a monopoly that is valuable to ensuring stable revenue, postal management has said the monopoly does not provide sufficient revenue to cover the full cost of its USO.


Among the posts we studied, government subsidies to defray the cost of USO and SGEIs costs are common. Of the eight posts we studied, half received some sort of government subsidy for either their USO or SGEI (Table 3). This is consistent with an EU study that found half of the postal operators in the EU receive some type of direct funding from their governments.  

Reductions in the USO have not been large enough to eliminate the need for government funding to ensure financial sustainability.  

In addition, all eight posts in our research offer some sort of non-postal product. The percentage of their revenues earned outside of letter mail and parcels, however, varies a lot, from around 2 percent at PostNL (the Netherlands’ post) to 67 percent for Poste Italiane (the Italian post). For the eight countries we studied, neither government funding nor diversification provided enough financial support to avoid the need for a reduction in the USO. The opposite was true also; reductions in the USO have not been large enough to eliminate the need for government funding to ensure financial sustainability. For example, in Belgium, the government is just beginning to compensate bpost for the net cost of the USO. In other words, the reduction of USOs and the introduction of government funding of USOs are not mutually exclusive.

**Direct Subsidy by Government is Growing in Use**

As we discussed in our previous paper on USO funding, direct subsidy from the government has been the most effective mechanism used in European posts. Another potential USO funding option is a compensation fund. The main difference between direct subsidy and a compensation fund is the source of the money. A direct subsidy refers to when the government gives the post money from its coffers. In contrast, compensation funds are paid into by other service providers or customers. In our previous paper on USO funding, we found that compensation funds were unsuccessful in European posts due to difficulty in administration and lack of enough funds. Essentially there are not enough players paying into the fund, because the posts remain the dominant provider of mail.

Since that paper was published, government funding of obligations has been more widely used, as compensation funds are being abandoned. For example, as shown in Table 5 in Appendix B, in Denmark, a compensation fund provided reimbursement to PostNord Denmark for USO obligations between 2014 and 2016. However, the compensation fund was eliminated in 2016 and replaced by direct funding from Denmark’s government.

The paper also highlighted that an advantage of government funding of specific obligations is that it helps to align the decision maker of the USO requirements (government) with the entity that foots the bill. This will give the government more incentive to only set USO requirements that are needed. In fact, in Belgium, the implementation of the direct subsidy of the net cost of the USO was tied to rules around reducing the USO. By law, bpost must request a relaxation of the USO if the net loss is greater than 3 percent of the revenues earned by the USO services.

**Allowing Regulator to Change the USO Increases Flexibility**

In the past five years, some countries have been able to modify the USO without amending any laws. As discussed in Appendix B, in four of the eight countries we studied, either the postal regulator or the ministry has authority to make some changes to the USO.

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57 Copenhagen Economics, *Research for the TRAN Committee - Postal Services in the EU*, p. 40.
58 Appendix B, Tables 7 and 8.
59 Prior to this, bpost received funding only to support parts of its SGEI. Appendix B, Table 4.
60 OIG, *Funding the Universal Service Obligation*, p. 7.
61 Ibid., pp. 6 and 10.
62 Only Poland and Slovakia have active compensation funds. Copenhagen Economics, *Research for the TRAN Committee - Postal Services in the EU*, p. 40-41.
63 Appendix B, Table 5.
64 OIG, *Funding the Universal Service Obligation*, p. 7.
65 Appendix B, Table 4.
In Sweden, the Swedish Post and Telecom Authority (PTS) has the authority to regulate which products fall under the USO’s frequency of delivery rules.66

In Finland, the regulator has the right to modify the USO.67

In Italy, the regulator can approve new areas for “every other day” delivery.68

In the Netherlands, some changes to the USO can be made by ministry decision without changes to the Postal Act. The Ministry’s authority includes further relaxation of access requirements, exemption from five-day delivery, and reduction in the number of days to deliver single-piece items.69

More Significant Changes Are Being Considered

The EU authorities are starting a process to reassess the EU postal regulatory framework, including the USO.70 While some of the discussion focuses on continued incremental changes, the European Regulators Group for Postal Services (ERGP) is favoring a more complete revision. The ERGP proposed giving postal regulators oversight of all the companies operating within the universal service segment or neighboring markets (i.e. ecommerce platforms) to ensure a level-playing field. Their approach would limit the USO to only those basic services that the market would not provide (i.e. services to isolated or elderly customers).71 There seems to be little support of these ideas from the posts themselves, and it is unclear whether or how the main tenets of postal USO regulations in Europe will evolve in the coming years.72

Guiding Principles for a New Universal Service Obligation

Looking at what has happened in other countries in response to a decline in letter mail hints at a need for comprehensive review of the USO in this country. As mentioned earlier, the idea of more clearly defining the USO has been discussed for over a decade. To help this effort, the OIG’s 2014 USO report outlined a set of guiding principles that could be used by policy makers in a comprehensive review of the Postal Service’s USO.73 The guiding principles are still relevant today and are bolstered by the recent trends in other posts.

First Clarify Policy Goals

Before defining a new USO, policy makers need to articulate which policy goals are the most important. This prioritization will drive how the new USO is structured. For example, if one of the most important policy goals is ensuring rural areas are protected from cuts in service, the USO could be designed with a higher frequency of delivery in rural areas than in urban areas. In contrast, if the most important policy goal is cutting costs, the USO may be designed to allow the Postal Service to cut frequency of delivery more in high-cost areas, even if those areas are rural.

Prioritizing policy goals is not an easy task. The process to determine these priorities should allow for participation by the mailing community and the American public. As mentioned above, the first step taken by most other posts is to study the impact of potential changes on both postal customers and the post. Over the past twelve years there have been numerous efforts to assess postal customer needs.

Prior to issuing the 2008 reports, both the PRC and the Postal Service gathered information on postal needs. The Postal Regulatory Commission took a two-pronged approach in seeking written comments — requesting written public comments in a formal docket proceeding and employing George Mason

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66 Appendix B, Table 11.
67 Appendix B, Table 6.
68 Appendix B, Table 7.
69 Appendix B, Table 8.
70 Copenhagen Economics, Research for the TRAN Committee - Postal Services in the EU. The entire report is supporting this study. USO is specifically addressed on pages 35-42.
73 OIG, Guiding Principles for a New Universal Service Obligation, pp. 16-18.
University to conduct a national assessment of households, small nonprofit organizations, and small businesses. In addition, the PRC held three field hearings to gather information regarding the needs and expectations of small and rural areas. To support its USO report, the Postal Service employed Great Lakes Marketing to run focus groups on customers’ needs pertinent to the USO. In addition, various groups have run smaller surveys designed to elicit the public’s perception of specific changes, such as the elimination of Saturday delivery. Moreover, as discussed in Appendix C, the OIG has performed several surveys on postal customers' needs. Even with all this information, given the rapidly evolving postal market, an updated and comprehensive study of postal customers' needs would be beneficial.

**Define Minimums but Allow the Ability to Offer Additional Service**

The USOs should be defined to ensure the Postal Service provides a minimum level of service. The Postal Service, however, should be allowed to provide service beyond its USO requirements when it determines it makes business sense to do so.

For example, if the USO were designed with a minimum frequency of delivery days, there may be reasons why the Postal Service would not move quickly to that new minimum. The Postal Service may want to study how a reduction in the frequency of delivery would impact its mail volumes or delivery operations. While a lower frequency of delivery would lower costs, the Postal Service would want to estimate how much the change would impact revenues to ensure such a move would be a financial gain.

In other countries, there are examples of posts providing service above the USO. In Finland, the minimum frequency of delivery in urban areas was reduced from five days a week to three days a week, but Posti has continued to deliver parcels, express letters, and newspapers five days a week.

**Be Flexible Enough to Adapt to Changing Market Conditions**

Currently the Postal Service’s USO is prescribed by law. Current experiences with postal reform demonstrate that the process to change postal laws can be controversial and time-consuming. Therefore, a goal of a comprehensive review of the USO should be to develop a legal USO that can remain in place for years.

In our previous paper, we suggested setting the USO requirements low enough to allow the Postal Service to adjust over time or developing a USO that automatically changes over time. The recent trends in other posts identified another potential option that could be considered in this country—give an independent entity, such as the PRC or the Board of Governors authority over some of the USO requirements. While proceedings at the PRC can still take a significant amount of time, the regulatory process can be relatively faster than having to seek a change in postal law, which can take many years.

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74 PRC, Report on Universal Postal Service and the Postal Monopoly, p. 10.
75 Ibid., p. 11.
77 For example, the Pew Research Center did a poll on ending Saturday mail delivery. “Most Approve of Ending Saturday Mail Delivery,” Pew Research Center, February 14, 2013, https://www.people-press.org/2013/02/14/most-approve-of-ending-saturday-mail-delivery/.
78 Appendix B, Table 6.
80 For example, Congress could define the minimum requirement for frequency of delivery for USO products and then allow the PRC or the Board of Governors to determine which products fall under this USO requirement. Another potential alternative would be for the law to define a lower frequency of delivery but give the PRC or the Board of Governors the authority to determine when the Postal Service could move to this new level.
Focus on the Service Received and Not How the Service is Provided

This guiding principle would allow the Postal Service to provide customers the service they need using the least cost alternative. For example, the USO could be designed to ensure a minimum number of retail locations, but it could allow the Postal Service to meet this minimum requirement through the use of retail alternatives, such as contracting units, outsourced post offices, kiosks, postal lockers, etc. Acceptable alternatives could be determined by a survey on user needs. The advantage of allowing alternatives to cut towards a minimum access requirement is that it could allow the Postal Service to cut costs without reducing service.

For example, in Finland, recent USO changes will allow Posti to close 18 of its post offices, while also expanding the number of service points by 2,800 by using postal lockers and Posti outlets (located in partner businesses). Not only will postal customers in Finland benefit from the increase in number of access points, they will also benefit from the retail alternatives that are open in the evenings and on weekends. While our recent surveys found little acceptance of these alternatives in this country as replacements for post offices, eventually alternatives to access may become more acceptable than higher prices or reduced retail access.

Balance Financial Stability with Reasonable Pricing

When developing a new USO, policy makers must balance obligations with the fact that the costs of these obligations must be borne by someone. Currently, the Postal Service is required to cover the costs of its obligations through postal revenues, which means the cost of the USO is essentially paid for by postal customers. Unlike other countries, the Postal Service still has a postal monopoly on most letter products and the mailbox. As the Postal Service’s management communicated, the monopoly is valuable in providing some revenue stability, but it does not provide sufficient revenue to cover the full cost of its USO. In its annual report, the Postal Regulatory Commission provides an estimate of the cost of the USO. In its most recent report, it estimated the cost of the USO is $5.21 billion.

This estimate may represent a lower bound as the Postal Service has argued that the PRC’s estimate of the USO is understated.

In our previous paper on funding the USO, we suggested that maintaining the monopoly with increased pricing flexibility and diversification could help fund the USO. While both would provide needed revenues, the eight posts we studied illustrate that the results are not a panacea. The combination of declining First-Class Mail, the growing postal network, and society’s need for postal services may mean that policy makers need to make tough choices. At some point, policy makers may need to consider if certain obligations are valued enough to warrant government subsidy.

82 Appendix C.
84 The Postal Service made these comments in response to a report by the Government Accountability Office (GAO). GAO, Key Considerations for Potential Changes to USPS’s Monopolies, Report No. GAO-17-543, June 2017, https://www.gao.gov/products/gao-17-543, p. 47. In addition, in a meeting with postal management, the postal service reiterated its concerns that the PRC’s estimate is understated and the value of the monopoly may be overstated.
85 OIG, Funding the Universal Service Obligation, p. 2.
Postal Service is currently allowed to request an annual subsidy for rural postal service of up to $460 million.\(^7\)

**Requirements Should be Transparent and Measurable**

The Postal Service, the PRC, and postal customers need to clearly understand the USO requirements and determine if these requirements are being met. For this reason, the obligations need to be both transparent, and where practicable, measurable. There is of course a tension between specificity and flexibility and finding the right balance can be challenging.

**Conclusion**

In the United States, mail is clearly still valued by both households and businesses. However, the combination of the price cap on 96 percent of its products, the decline in First-Class Mail volume, and the growing delivery network has made it challenging for the Postal Service to continue to fund its operations through postal revenues. While the purpose of the USO is to ensure all customers receive the services they need, not all aspects of the current USO are clearly defined. Without a more complete definition, the USO does not provide comprehensive guidance on where the Postal Service can make changes that would allow it to improve its financial stability while still meeting customers’ needs.

Our study of other developed posts indicates that such a review is needed soon, as mail volumes are likely to continue to decline. Additionally, for the posts we researched, changes to the USO were necessary despite offering non-postal products and receiving government subsidies. Despite the financial challenges faced by these posts, some changes have increased service, by allowing the posts to use alternative options to increase the number of access points. Another thing we can learn from other posts is that the first step in a full review of the USO is conducting a study of user needs. This type of research will allow policy makers to develop a new USO that ensures the American public will continue to receive the postal services it needs.

The need for a comprehensive review of the postal USO in this country has been discussed for over a decade. To date, no such review has taken place, most likely because no one party owns the responsibility for such a review. Defining the USO in a manner that will provide clear guidance for a future Postal Service will be a challenging task, as it will need to balance the needs of postal customers while still ensuring the financial stability of the Postal Service.

**Management’s Comments**

Management stressed the need for legislative change in their comments and provided its opinion on what changes were needed. In addition they provided additional clarification around two items. Management emphasized that Congress is currently in charge of changes to the USO and if it were to give this authority to an entity, postal management believes it should be the Board. In addition, management stated that the Postal Regulatory Commission and the Postal Service are now in alignment about what the USO encompasses. See Appendix D for management comments in their entirety.

**Evaluation of Management Comments.**

We do not take issue with the majority of management comments, as they generally represent the Postal Service’s position on USO matters. However, there is one point that warrants clarification. Management said “We therefore agree with your conclusion that Congress must provide either adequate funding for, or adequate tools to fund, any and all legislative mandates.” This is a mischaracterization of our conclusion. The conclusion of our paper was that a comprehensive review of the USO will be a challenging undertaking, as it will need to balance the needs of postal customers while ensuring the financial stability of the Postal Service.

\(^7\) Section 2401(b)(1) of Title 39 authorizes the Postal Service to obtain reimbursement from Congress for public service costs associated with serving communities where post offices are not self-sustaining. The Postal Service may obtain reimbursement up to 5 percent of the Post Office Department’s 1971 appropriation. United States Postal Service, Fiscal Year 2019 Budget Congressional Submission, 2018, https://www.prc.gov/docs/108/108499/USPS%20FY2020%20Congressional%20Submission.pdf, pp. I-1. For a full discussion see OIG, Maintaining Rural Retail Networks: Best Practices Abroad and Their Implications for the U.S. Postal Service.
Appendices

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Appendix A: Additional Information

Objective, Scope, and Methodology
The OIG conducted qualitative research including looking at recent trends involving universal service in foreign posts. The objectives of this research project were to:

- Provide an overview of the Postal Service’s current USO universal service obligation (USO) and the challenges faced in continuing to provide services that meet its USO.
- Identify recent changes in foreign posts’ USOs that may provide valuable insight for the U.S. Postal service.
- Assess the importance of gathering information on stakeholder needs prior to redefining the USO.

To gather data for our analysis we used the following methods:

- Performing Team Research on Foreign Posts’ Universal Service Obligations. From December 2019 to January 2020, we conducted research into foreign posts, focusing on eight developed countries that have that have made changes to their USO in the last five years. The countries selected were Belgium, Denmark, Finland, Italy, Netherlands, New Zealand, Norway, and Sweden.88

- Review of OIG’s Previous Research on the USO and Surveys Pertaining to USO Attributes. The OIG reviewed its three previous papers on the USO as well as OIG surveys that implicitly or explicitly asked about USO attributes. We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency, Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on March 31, 2020 and included their comments where appropriate.

Prior Coverage

<table>
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<th>Objective</th>
<th>Report Number</th>
<th>Final Report Date</th>
<th>Monetary Impact</th>
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<td>Guiding Principles for a New Universal Obligation</td>
<td>Review lessons learned from other industry and posts and develop a set of guiding principles that could be used to develop a new comprehensive review of the universal service obligation.</td>
<td>RARC-WP-15-001</td>
<td>November 17, 2014</td>
<td>N/A</td>
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<td>What Postal Services Do People Value the Most? A Quantitative Survey of the Postal Universal Service</td>
<td>Develop, implement and report on a quantitative survey of four USO attributes.</td>
<td>RARC-WP-15-007</td>
<td>February 23, 2015</td>
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<td>Funding the Universal Service Obligation</td>
<td>Analyze and discuss various funding options for the USO.</td>
<td>RARC-WP-16-005</td>
<td>March 21, 2016</td>
<td>N/A</td>
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88 Not all posts have made changes to their USO recently. For example, we looked at Germany, France, and the U.K. and found that there have been no recent changes to the postal USO in these countries.
Appendix B: OIG Research on Other Posts

We looked at eight foreign posts that have made changes to their universal service obligation in the past five years. The following tables show a snapshot of each of the posts we researched.

### Table 4: Belgium (bpost)

<table>
<thead>
<tr>
<th>Government Structure of Post</th>
<th>Privatized (51 percent owned by Belgium State). 89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Postal Products</td>
<td>Banking and financial products and logistical services. These services account for around 17 percent of revenue. 90</td>
</tr>
<tr>
<td>Recent Changes to the USO</td>
<td>In 2019, introduced a new non-priority product that will be delivered on alternate days starting in March 2020. 91</td>
</tr>
<tr>
<td></td>
<td>In 2019, limited scope of five-day frequency of delivery rule to Priority letters. 92</td>
</tr>
<tr>
<td>Funding the USO and Public Service Obligations</td>
<td>Government funds part of their SGEI including the maintenance of the retail network, distribution of pensions, cash at counter, the social role of postmen, and other services, through contract with the Belgian State. 93</td>
</tr>
<tr>
<td></td>
<td>Government funds the delivery of newspapers and magazines, but bpost must win the contract. Bpost currently holds the contract until December 31, 2020. 94</td>
</tr>
<tr>
<td></td>
<td>Government will start to fund the net costs of the USO in 2020. 95</td>
</tr>
<tr>
<td>Requirements Related to Changing the USO</td>
<td>Any official change in the USO requires a change in the law and must take into consideration the EU directives. 96</td>
</tr>
<tr>
<td></td>
<td>Once the State starts funding the net cost of the USO, bpost is required to ask for a reduction in the USO if the net costs exceeds 3 percent of the revenue generated by USO products. 97</td>
</tr>
<tr>
<td>Survey to Support Changes to the USO</td>
<td>Prior to recent changes to the USO, the regulator Belgium Institute for Post and Telecommunications conducted studies including a survey of consumer needs. 98</td>
</tr>
</tbody>
</table>

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91 Phone call with BIPT on January 27, 2020.
92 Belgian Parliament, “Royal Decree of March 29, 2019 approving the Management Contract between the State and bpost relative to the universal service obligation for the period from 2019 to 2023.” Legislative record, The Belgian Monitor, March 22, 2019, Article 4, Section 1.
93 Bpost, Annual Report 2018, pp. 42 and 100.
94 Ibid., p. 42.
95 Ibid., p. 43.
Table 5: Denmark (PostNord Denmark – Part of PostNord Group)

<table>
<thead>
<tr>
<th>Government Structure of Post</th>
<th>State-owned (jointly owned by Denmark and Sweden). 99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Postal Products</td>
<td>3-D printing, digital solutions and logistics. 100</td>
</tr>
</tbody>
</table>
| Recent Changes to the USO (2016) | Priority Mail was removed from USO. 101  
Lowered service performance target from 93 percent of deliveries within three days to 93 percent of deliveries within five days. 102  
Reduced frequency of delivery from six days to five days (no weekend delivery). 103 Denmark has XY delivery, where mail carrier delivers on one side of street on one day, and the other side of the street the next day. 104  
The estimated savings of changes to USO is $48 million. 105 |
| Funding the USO and Public Service Obligations | A compensation fund reimbursed Post Denmark for the net cost of the USO between 2014-2016. The compensation fund was discontinued in 2016. 106  
Denmark agreed to pay PostNord up to $173 million for providing universal services between 2017-2019. 107  
For the first half of 2020, PostNord will receive a little over $14.5 million. 108 |
| Requirements Related to Changing the USO | Appears to require changes to the law. 109 |
| Survey to Support Changes to the USO | The postal regulator, the Ministry of Transport, performed a study on user needs in 2014. 110 |

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102 Ibid., p. 11 and Copenhagen Economics, Report on Net Cost of USO in Iceland, p. 32.
104 XY delivery was put in place in 2009 along with a price increase on the fastest letter product to induce them to move to the slower products. Copenhagen Economics, Report on USO Net Costs in Iceland, pp. 32-33.

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### Table 6: Finland (Posti)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Structure of Post</strong></td>
<td>State-owned (50.1 percent is directly owned by Finland and 49.9 percent is owned by State Business Develop Company Vake Oy).³¹₁</td>
</tr>
<tr>
<td><strong>Non-Postal Products</strong></td>
<td>Logistics and software solutions.³² Logistics account for approximately 26 percent of mail, parcel and logistics revenue.³²</td>
</tr>
</tbody>
</table>
| **Recent Changes to the USO**                | Reduced speed of USO product from 95 percent in two days to 50 percent in four days and 97 percent in five days.³⁴  
Reduced the requirement to deliver five days a week to three days a week in urban areas. While universal service letters are not delivered on Tuesdays, Posti has continued to deliver parcels, express letters, and newspapers on Tuesdays.³⁵  
Removal of strict kilometer or percentage requirements on location of postal service facilities.³⁶ While some post offices will be closed, Posti increased its retail network using outsourcing and postal lockers.³⁷ |
| **Funding the USO and Public Service Obligations** | No subsidies.³⁸  
Posti has argued in favor of state funding for rural delivery of daily newspapers.³⁸ |
| **Requirements Related to Changing the USO**  | Regulator has the right to modify the USO.³¹²                                                                                                    |
| **Survey to Support Changes to the USO**      | Posti did a stakeholder survey on issues ranging from the future of mail delivery to the regulatory reform of the postal industry.³¹³                                                                 |

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¹¹³ Ibid., p. 5. Logistics revenue is 26 percent of total revenue.  
¹¹⁵ Ibid.  
¹²¹ International Post Corporation, “Posti’s stakeholder survey: Funding mail delivery by tax revenue divides opinion among Finns.”
### Table 7: Italy (Poste Italiane)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Structure of Post</strong></td>
<td>Privatized with 35 percent owned by Investment Bank, 29 percent owned by Ministry of Economy and Finance, 23 percent owned by institutional investors, and 13 percent owned by individual investors.²²²</td>
</tr>
<tr>
<td><strong>Non-Postal Products</strong></td>
<td>Financial services, payments, mobile, digital, and insurance solutions. Poste Italiane receives almost 50 percent of its revenue from financial services and only a third of its revenue from mail, parcels and distribution.²²³</td>
</tr>
</tbody>
</table>
| **Recent Changes to the USO**           | Introduced new slower speed (4 day) USO product, Posta Ordinaria.²²⁴  
Reduced delivery in rural areas to alternate delivery days (Monday/ Wednesday/Friday for one week, and Tuesday/Thursday the next). This will be phased in and will impact up to a quarter of the population. Expected to save between 30 and 50 percent of costs involved with daily delivery.²²⁵  
Five-day delivery is maintained in other areas of the country.²²⁶ |
| **Funding the USO and Public Service Obligations** | Government compensation for net cost of USO up to maximum amount of $283 million (2016-2019).²²⁷ Law allows for additional funding to be paid by a compensation fund, but the compensation fund was never created.²²⁸ |
| **Requirements Related to Changing the USO** | Regulator provides ex ante review of new areas for every other day delivery.²²⁹ |
| **Survey to Support Changes to the USO** | Survey in 2014 found that 75 percent of population considered the alternate letter delivery days met their needs. In addition, customers place a high value of post offices (which are used for other purposes than mail).³⁰ |

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²²⁴ Gennaro Scarfiglieri, “Universal Postal Service Reform in Italy,” (presentation at 16th WIK Königswinter Postal Seminar, November 2-4, 2016), slides 15-16.
²²⁶ Ibid.
²²⁹ Gennaro Scarfiglieri, “Universal Service Reform in Italy,” slide 18.
Table 8: Netherlands (PostNL)

<table>
<thead>
<tr>
<th>Government Structure of Post</th>
<th>Privatized (no single company owns significant shares).(^{131})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Postal Products</td>
<td>Provides only mail and parcels, but includes items within parcels that would be considered non-postal in the U.S. For example, parcels include categories such as order support, food and flower delivery, delivery and fitting of kitchen and other large appliances (white goods).(^{133}) These categories only account for around 2 percent of total revenue.(^{133})</td>
</tr>
<tr>
<td>Recent Changes to the USO</td>
<td>Reduced frequency of delivery from six to five days (no Monday delivery).(^{134}) Relaxation of requirements relating to density of street collection boxes and postal outlets.(^{135})</td>
</tr>
<tr>
<td>Funding the USO and Public Service Obligations</td>
<td>Expected to be fully funded (USO revenues cover USO costs).(^{136})</td>
</tr>
<tr>
<td>Requirements Related to Changing the USO</td>
<td>Changes to USO were made easier in 2015, by defining them by Ministry decision and not by the Postal Act. While the EU directive still limits what change can be made, the Ministry has some areas it can change including further relaxation of the access requirements, exemptions from five-day delivery and collection, and reduction in number of days for single-piece items.(^{137})</td>
</tr>
<tr>
<td>Survey to Support Changes to the USO</td>
<td>Commissioned WIK Consult to provide information on expected trends and developments, possible market developments, and the main prerequisites for a viable USO provision in the middle and long term.(^{138})</td>
</tr>
</tbody>
</table>


\(^{132}\) Ibid., p. 3.


\(^{136}\) Ibid., p. 26.

\(^{137}\) Ibid., pp. 75-76.

\(^{138}\) Ibid., p. 2.
<table>
<thead>
<tr>
<th>Table 9: New Zealand (New Zealand Post)</th>
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<tbody>
<tr>
<td><strong>Government Structure of Post</strong></td>
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<tr>
<td><strong>Non-Postal Products</strong></td>
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<td><strong>Recent Changes to the USO</strong></td>
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<td><strong>Funding the USO and Public Service Obligations</strong></td>
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<td><strong>Requirements Related to Changing the USO</strong></td>
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<tr>
<td><strong>Survey to Support Changes to the USO</strong></td>
</tr>
</tbody>
</table>


141 A small percentage of delivery points (0.12 percent) can receive 1-day delivery. Rural delivery points that received less than 5-day a week delivery prior to June 2013 continue to receive that same level of delivery frequency. New Zealand Post, 2013 Deed of Amendment and Restatement between the New Zealand Post and the Crown, https://www.nzpost.co.nz/sites/nz/files/uploads/shared/2013-deed-of-amendment-restatement.pdf, p. 6.

142 The rate of conversion to self-service kiosks must not be higher in rural areas than other areas. Ibid., p. 8.


145 Ibid., p. 4. While the changes to the USO did not occur until 2015, customer input occurred in 2013.
Table 10: Norway (Posten)

<table>
<thead>
<tr>
<th>Government Structure of Post</th>
<th>Norwegian-registered limited liability company with the Norwegian State.\textsuperscript{146}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Postal Products Provided by Post</td>
<td>Banking services and logistics.\textsuperscript{147}</td>
</tr>
</tbody>
</table>
| Recent Changes to the USO | In 2016, they (1) reduced frequency of delivery from six to five days a week, eliminating Saturday deliveries, and (2) merged A- and B- mail creating a D+2 and D+4 mail service.\textsuperscript{148}  
In 2019, reduced delivery days further every other day.\textsuperscript{149} Estimated to save $47 to $70 million per year.\textsuperscript{150} |
| Funding the USO and Public Service Obligations | Government funds net cost of the USO (which includes both postal and banking services). This net cost has been as high as $75 million.\textsuperscript{151}  
Government will put out a tender to pay for local delivery companies that fill the gap for newspaper delivery when moved to an alternate day of delivery.\textsuperscript{152} |
| Requirements Related to Changing the USO | Appears to require change in law (the Postal Act).\textsuperscript{153} |
| Survey to Support Changes to the USO | The Norwegian Ministry of Transport and Communication commissioned Copenhagen Economics (CE) to study the potential and suitable alternatives for the future of USO in Norway.\textsuperscript{154} CE determined that reducing frequency of delivery to 2.5 days, or ideally one day, would significantly reduce the net cost of USO and that most users would accept fewer deliveries. CE suggested finding alternatives to meeting the vulnerable users’ needs.\textsuperscript{155} |

\textsuperscript{147} Ibid., p. 3 and Copenhagen Economics, Effects of Changing the USO in Norway, p. 6.  
\textsuperscript{148} Copenhagen Economics, Report on USO Net Costs in Iceland, p. 36.  
\textsuperscript{149} Posten Norge, Quarterly Report, 3rd Quarter 2019, p. 28.  
\textsuperscript{150} Copenhagen Economics, Effects of Changing the USO in Norway, p. 10. Converted 440 to 650 million NOK to 47 to 70 million dollars using xe converter on February 23, 2020.  
\textsuperscript{151} Ibid., p. 6. Converted 705 million NOK to 75 million dollars using xe converter on February 23, 2020.  
\textsuperscript{152} Posten Norge. Quarterly Report, 3rd Quarter 2019, p. 10.  
\textsuperscript{153} Norwegian Communications Authority, Information about Postal Regulations, https://eng.nkom.no/market/postal-services/postal-regulation/information-about-the-postal-regulations.  
\textsuperscript{154} Copenhagen Economics, Effects of Changing the USO in Norway, p. 6.  
\textsuperscript{155} Ibid., p. 11.
### Table 11: Sweden (PostNord Sweden – Part of PostNord Group)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Structure of Post</strong></td>
<td>State-owned (jointly owned by Denmark and Sweden).156</td>
</tr>
<tr>
<td><strong>Non-Postal Products</strong></td>
<td>3-D printing, digital solutions and logistics.157</td>
</tr>
<tr>
<td><strong>Recent Changes to the USO</strong></td>
<td>In 2018, replaced overnight delivery with two-day (D+2) delivery.158</td>
</tr>
<tr>
<td></td>
<td>While no changes have been made yet, the regulator has been looking into the social impact of moving to less than five-day delivery.159</td>
</tr>
</tbody>
</table>
| **Funding the USO and Public Service Obligations** | PostNord receives no subsidies from Sweden.160  
Government has ability to pay another provider to meet USO if post cannot fulfill USO requirements.161                                           |
| **Requirements Related to Changing the USO**  | In 2017, the postal regulator, the Swedish Post and Telecom Authority was given the authority to regulate where the delivery of postal items with the framework of the USO shall occur.162 |
| **Survey to Support Changes to the USO**      | The Swedish Post and Telecom Authority did two surveys of user needs, one in 2018 and the other in 2019. The survey in 2018 showed just over half of the respondents had no problems moving to two-day delivery. The 2019 survey results showed 37 percent of respondents wanted to maintain five-day a week delivery of letters and parcels.163 |

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158 Ibid., p. 24.
160 Ibid., p. 7.
161 PTS, *Swedish Postal Market 2019*, p. 15
163 Ibid., p. 12.
Appendix C: A Review of Past OIG Studies on Postal Customers’ Needs

The first step to modifying the USO in other countries is often a study on user needs. The needs of postal customers in the United States vary widely between households and businesses and between urban and rural customers. For example, rural customers often rely more on the Postal Service than urban customers who have other alternatives.

We include a summary of USO-related results of four surveys the OIG has undertaken designed to elicit what postal customers want and need from the Postal Service. These four surveys include the following:

- **What America Wants from the Postal Service** – An Internet-based survey of 5,000 households. This survey included the most participants, but admittedly excluded the 20 percent of the population without Internet access.
- **What America Wants and Needs from the Postal Service** – This project used focus groups to allow a deeper understanding of how people felt and was designed to ensure inclusion of people without Internet access. It included participants from 11 states, including urban, suburban and rural areas. It was mainly focused on households, but a few of the participants were small business owners.
- **What Postal Services do People Value the Most?** – A quantitative survey that offered participants various trade-offs between different levels of service and price. This survey design results in a better understanding of how much participants value postal services. It included both Internet-based and mail-based surveys and separate surveys were used for households and business owners. For households, 759 participated by Internet and 178 participated by mail. For businesses, 203 participated including 28 small, 99 medium, and 74 large.
- **Addressing the Diverse Needs and Wants of Rural America: Opportunities for the U.S. Postal Service** – This project focused on rural participants’ needs but included non-rural participants to identify the differences between the two groups. There were two phases. Phase I included online discussion groups with 61 rural customers and phase II was a quantitative survey of 2,533 respondents (1,311 rural and 1,222 non-rural) where the respondents were invited to participate either online or via a telephone interview. The OIG also complemented these methods by interviewing 14 postmasters and former postmasters in rural areas, across all seven USPS Areas.

The summary below represents how most survey participants responded. For any individual survey topic, actual responses varied. Given the ever-changing postal market, this summary should not take the place of an updated, comprehensive study on user needs. However, it can provide some insights into what postal services the American public values which could be useful in the creation of a new study on user needs.

**Americans Value the Postal Service and Believe It Should be Obligated to Serve the Public**

There was general agreement among the surveys that the American public values having a government-owned Postal Service that is obligated to provide delivery to every address. This was reinforced by the concern that if they had to rely on a private company without a USO, it would likely result in higher prices or a lower level of service. In addition, the surveys demonstrate that people living...
in rural areas value the Postal Service as part of the community, more than those in non-rural areas.\textsuperscript{171}

**Five-Day Delivery of Letters May Be Acceptable, but Saturday Delivery of Parcels Is Important**

Both households and businesses that participated in the surveys were willing to receive letters only five days a week, but there was no agreement on what day should be dropped.\textsuperscript{172} There is very little acceptance of 3-day delivery, especially for businesses.\textsuperscript{173} Parcel delivery, however, is another story. The surveys found that the American public wants to maintain parcel delivery 6-days a week.\textsuperscript{174}

**Some Preference for Delivery to Home, but Security and Convenience Are Important**

This question was the most polarizing of topics among the survey results. A quantitative survey done in 2015 found that delivery of letter and parcels to the home (curb or door) was the most important postal service valued by households.\textsuperscript{175} The OIG study using focus groups, however, found that once this option was discussed, rural participants liked having their mail delivered in a secured, locked box that was maintained by the Postal Service.\textsuperscript{176} Whereas most urban and suburban consumers, in the same study, said they preferred delivery to the home.\textsuperscript{177} For those participants that were in support of cluster boxes, the cluster box being put in a convenient location — such as a location they pass while driving home — was more important than having a cluster box close to their home.\textsuperscript{178}

**Americans Love Their Post Offices**

Both consumers and businesses value having access to postal services through a USPS-owned and run post office.\textsuperscript{179} This is especially true for people living in rural areas.\textsuperscript{180} In one survey, while some survey participants supported closing post offices to save money, only 58 percent were still in favor if it were their own post office that would be closed for this purpose.\textsuperscript{181} While there was some support of postal counters in alternative retail space and postal kiosks, there were also concerns raised about each alternative.\textsuperscript{182} The main support for retail alternatives was as additional resources not as replacements to post offices.\textsuperscript{183} When asked about hours of operation, respondents said being open when people have time to visit was more important than the simple number of hours the post office was open.\textsuperscript{184}

**While Postal Customers Value Postal Services, There Is a Limit to How Much They Are Willing to Pay**

While the surveys demonstrate that Americans value the services the Postal Service provides, and in some cases they would pay more to continue to receive a higher level of service, there is a limit to how much they are willing to pay. This survey result demonstrates that while the American public values postal services, it wants them at affordable prices.\textsuperscript{185}

\textsuperscript{171} OIG, *Addressing the Diverse Needs and Wants of Rural America: Opportunities for the U.S. Postal Service*, p. 7. Fifty-six percent of rural participants found USPS a valuable part of their community compared to 48 percent of non-rural participants.

\textsuperscript{172} In two of the surveys, participants were only asked about dropping Saturday delivery. OIG, *What America Wants from the Postal Service*, p. 13, and OIG, *What Postal Services do People Value the Most*, p. 9. In the focus groups, the eliminated day was discussed and there was no agreement on which day was best. OIG, *What America Wants and Needs from the Postal Service*, p. 14.

\textsuperscript{173} OIG, *What America Wants from the Postal Service*, p. 13, and OIG, *What Postal Services do People Value the Most*, p. 11.

\textsuperscript{174} OIG, *What Postal Services do People Value the Most*, p. 10. The surveys were done prior to when it was common for USPS to deliver parcels on Sunday.

\textsuperscript{175} OIG, *What Postal Services do People Value the Most*, pp. 7-12.


\textsuperscript{177} Ibid.

\textsuperscript{178} Ibid., p. 15.

\textsuperscript{179} OIG, *What Postal Services Do People Value the Most*, p. 13.

\textsuperscript{180} Rural customers valued human interaction with their postal clerks and were more likely to know either the clerk or postmaster by name (56 percent of rural vs. 44 percent of non-rural). OIG, *Addressing the Diverse Needs and Wants of Rural America: Opportunities for the U.S. Postal Service*, pp. 7-8.

\textsuperscript{181} OIG, *What America Wants from the Postal Service*, pp. 12.

\textsuperscript{182} OIG, *What America Wants and Needs from the Postal Service*, p. 10.

\textsuperscript{183} Ibid.


\textsuperscript{185} OIG, *What Postal Services Do People Value the Most?*, pp. 13-14.
Appendix D: Management’s Comments

May 4, 2020

ERIN GRIMM
ACTING MANAGER, OPERATIONS CENTRAL
RESEARCH AND INSIGHT SOLUTION CENTER

SUBJECT: Reevaluating the Universal Service Obligation (Final Review Draft, Project No. 2020RISC004)

Thank you for the opportunity to respond to the final review draft of the white paper, “Reevaluating the Universal Service Obligation.”

Amid the ongoing COVID-19 national emergency, it is more clear than ever how critical the postal system is to meeting America’s social, informational, and economic needs. Six days per week, and in some instances seven, the 630,000 dedicated men and women of the Postal Service (including nearly 100,000 military veterans) accept, process, transport, and deliver vital mail and packages to all communities in the Nation, including important governmental information and benefits such as Census materials, Social Security and stimulus checks, and materials advising the public on COVID-19; materials relating to elections, including absentee ballots and political mail; materials that are essential to the functioning of our economy, such as transactional mail; and packages containing vital necessities, including medicines and other goods that sustain us that are purchased online.

The fundamental service which our employees supply is particularly important in rural and other areas, where the Postal Service may be the only affordable delivery provider available to fulfill the needs of these communities. In addition, the population most at-risk from the coronavirus, people over the age of 65, is also the least likely to be using the internet or other technology to access information important to their health.

The immediate concern facing policymakers is how to maintain these essential postal services amid the dramatic and unanticipated mail volume declines that are a result of the COVID-19 pandemic; to ensure continued service to the American people in the near term. While short-term action by Congress to address the liquidity crisis caused by the pandemic is critical, it is also true that the Postal Service faces long-standing financial challenges stemming from a broken business model that is imposed upon us by law and that leaves us financially unsustainable. Mail volumes continue to decline, but our ability to adjust to such volume declines is hampered by an inflexible statutory and regulatory structure that imposes legally mandated, unaffordable costs on us that we are prohibited from reducing, and yet we also lack the autonomy to diversify our products or to control our pricing.

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Reevaluating the Universal Service Obligation
Report Number RISC-WP-20-004
Therefore, Congress must also adopt financial and/or structural reforms to our business model, in order to ensure the Postal Service’s long-term viability. The issues raised in your report regarding the universal service obligation (USO) are relevant as policymakers consider such business model reforms.

In considering the Postal Service’s business model, the fundamental policy questions for Congress to consider amount to (1) what does Congress require the Postal Service to do, and (2) how should those requirements be paid for? The first question includes consideration by Congress of the level of universal postal service that is appropriate to meet the evolving needs of the American people (including, in particular, during circumstances like the current national emergency), and the legal obligations that determine the costs related to the employees and retirees who are providing, or have provided, this essential, fundamental service. The second question requires Congress to consider how the costs incurred by the Postal Service should be funded, whether through the sale of postal products and services, taxpayer appropriations, other sources, or some combination thereof.

A key focus of any longer-term changes to our business model must be on financial reforms, such as those suggested by our Board of Governors and other stakeholders that address the Postal Service’s unaffordable, legislatively determined post-retirement benefit funding obligations, through Medicare integration and adjustments to our payment obligations. To the extent that Congress also considers it appropriate to consider adjustments in our USO, your report notes that considering any such changes would require that policymakers analyze and balance a number of factors.

In that regard, it is Congress that has the authority to make the policy determinations as to the parameters of the USO, and how they are to be implemented. In particular, and as a threshold matter, it is Congress’s determination whether the statutory parameters concerning the USO should set forth service level requirements in detail, or should set forth principles that are more broadly stated, and therefore provide some degree of flexibility as to their implementation. In the latter circumstance, it is also Congress’s prerogative regarding where to vest decision-making authority as to the actual service levels to provide to the American people within those statutory principles.

Under the current statutory structure, even as Congress has subjected the Postal Service’s operational decisions to some regulatory oversight, it has repeatedly affirmed the primacy of the Postal Service’s expertise and responsibility as to the level of postal services that should be provided within the broad statutory parameters established by Congress, to meet the needs of our customers. Examples include 39 U.S.C. § 3661(b) (enacted in 1970), which gives the Postal Regulatory Commission (“Commission”) an advisory, not approval, role on major service changes; 39 U.S.C. § 404(d) (enacted in 1976), which allows the Commission to hear procedural appeals on Post Office closings but not to overturn the Postal Service’s substantive decisions; and 39 U.S.C. § 3691 (enacted in 2005), which requires consultation with, but not approval by, the Commission when the Postal Service sets service standards. Consistent with these statutory authorities, the Postal Service has, in recent years, implemented a number of major initiatives to make its network more efficient and responsive to demand trends, while still meeting the USO standards enacted by Congress: rationalization of the mail-processing, retail, and delivery networks.
realignment of retail facility hours with workload; and leveling of workload across operating days. We have consulted with the Commission with respect to these efforts, as appropriate.

To the extent that Congress chooses to retain an approach in which some or all of the statutory USO parameters are set forth in a manner that confers flexibility as to their precise implementation, we believe it should continue to confer such flexibility on the Postal Service Board of Governors, rather than the Commission. The Board of Governors is best positioned to appropriately adapt service levels to changing circumstances, as customer needs for postal services evolve. In particular, allowing the Board of Governors the flexibility to make policy decisions around the precise service levels that should be implemented within the statutory parameters established by the Congress enables those decisions to be made by the entity tasked with both representing the public interest and ensuring the achievement of the Postal Service’s statutory mission. Moreover, the Postal Service also has a direct relationship with the customer. For these reasons, we believe that the role for the regulator regarding any such matters should remain consultative in nature.

The central issue is that the current statutory structure does not enable the Board of Governors to appropriately balance Postal Service costs with available funding sources to ensure achievement of both the Postal Service’s universal service mission and other legal obligations. We therefore agree with your conclusion that Congress must provide either adequate funding for, or adequate tools to fund, any and all legislative mandates. We note that the only current published estimates of the cost of such mandates – those reported each January by the Commission – focus narrowly on the USO, to the significant exclusion of other legislatively determined aspects of the Postal Service’s cost structure (e.g., pension, health, and workers’ compensation benefits; federal contracting mandates; compliance with other federal laws). Moreover, even the Commission’s computation substantially understates universal-service costs: for example, the Commission measures the cost of only the sixth day of delivery service, and not the fourth or fifth delivery day in areas where a private delivery company would not provide such frequent service. Irrespective of these flawed estimates, it is clear that the costs of the current postal system, when fully considered, are significantly outstripping the revenue sources that Congress has provided.

Finally, the report’s discussion about the differences between the 2008 reports by the Postal Service and the Commission regarding the USO requires further clarification. It should be noted that the Commission report postdated the Postal Service report, and the Postal Service has not contested the Commission’s interpretation that the current statute includes competitive products within the scope of the USO. Indeed, it has always been clear that the USO includes packages within its scope (see 39 U.S.C. § 403(a)), and since the reports were issued the Postal Service has, consistent with the Commission’s interpretation of the scope of the USO, transferred most package products to the competitive side. Moreover, it is clear that access to prompt, reliable, and affordable package delivery to all communities throughout the Nation is a vital component of the Postal Service’s mission; this enables all Americans to participate in today’s e-commerce economy, both generally and in times of national emergency. For its part, the Commission’s most recent annual report to the President and Congress accepts that mail security is part of the USO. At this time, therefore, the Postal Service and Commission’s views in this regard are in alignment.
Please let me know if you have any questions or concerns.

Thomas J. Marshall

cc: Mr. Jeff Colvin
    Ms. Sally Haring
    Ms. Jennifer Daehn
    CARM
    E-FOIA
We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency’s Quality Standards for Inspection and Evaluation (January 2012).