Congressional Testimony

House Committee on Oversight and Government Reform

Subcommittee on Federal Workforce, U. S. Postal Service and Census

Bypass Mail, A Broken System

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Mr. Chairman, members of the Committee:

Thank you for allowing me this opportunity to talk about a subject that is very important to me. I am a resident of Alaska for over 50 years and have traveled to most communities within the state. My professional career started with the US Postal Service, all within the state of Alaska, for a total of 30 years. As a Network Specialist for the USPS, I managed all aspects of mail air transportation within Alaska, which included among others, managing air carrier scheduled performance and reliability and ensuring bypass mail shipper participation and policy compliance.

In 2011, the USPS offered an early-out retirement package to management personnel, which I accepted, along with several of my peers and supervisors. While I am currently the Senior Vice President at Alaska Central Express (ACE Air Cargo), an Alaskan passenger charter and freight airline, I am still intimately involved in the transportation of mail within Alaska, including bypass mail.

I come to speak to you today based more on my experience with the USPS and the Alaskan aviation industry than as an active representative of an Alaskan airline.

The State of Alaska is unique. It is the largest state in the United States in land area at 586,412 square miles, over twice the size of Texas, the next largest state. Counting territorial waters, Alaska s larger than the combined area of the next three largest states: Texas, California and Montana. It is also larger than the combined area of the 22 smallest U.S. states. It has a longer coastline than all the other U.S. States combined. There are over three million lakes. Marshlands and wetland permafrost

cover 188,320 square miles. The capital city, Juneau, is situated on the North American continent, but is not connected by road to the rest of the North American highway system. Accessibility was and is only available by air.

This presents a huge logistical problem for the USPS. Bulk subsistence type products had to be shipped through air transportation. The products were delivered to the main USPS distribution facilities in Anchorage and Fairbanks to be inducted, sorted and then delivered to air carriers for transportation. The USPS facilities and staffing were inadequate to handle the millions of pounds bulk mail that was being processed weekly.

In this unique location where there are no roads to over 200 hub and rural communities, the USPS needed to develop a program to move bulk subsistence type products by air due to a lack of infrastructure and personnel both at origin and destination. Growing bulk mail volumes overwhelmed the facilities in Anchorage and Fairbanks as well as at the small one room Post Offices in the rural communities. In order to meet this service need, with the support of U.S. Senator Ted Stevens, we implemented the "Bethel Experiment". It was a pilot program that intended to reduce the congestion and the costs to the USPS. The program had authorized bypass mail shippers delivering the mail directly to a qualified air carrier who then transported this bulk mail to a hub for delivery by them to the addressee or to a secondary bush carrier for final delivery to the destination community. All aspects of the transportation, transfer and delivery to addressee were the responsibility of the air carrier. These carriers were paid a rate periodically set by the US Department of Transportation based on reported air carrier costs.

Based on my years of experience with the movement of mail within the State and the unique challenges in doing so, it is my opinion that one would be hard pressed to devise a better or more efficient system for moving millions of pounds of subsistence type product to rural communities where no roads exist and the socioeconomics of these communities are largely sustained by either federal or state subsidy programs. However, providing this needed mail service comes at a considerable cost and at a loss to the Postal Service.. The postage rates set for bulk type mail that is transported more cheaply via surface transportation in the lower 48 States, simply do not cover the higher air transportation costs that the USPS incurs within Alaska. One could debate whether it is appropriate for the USPS to subsidize through postage rates the cost of those living in rural Alaska. However, it is beyond argument that the USPS accomplishes the transportation of its mail products across vast distances within the largest State of the union in a highly efficient manner.

It is important for the Committee to know the history of the aviation industry that transports bypass mail in considering its future. During the late 80's/early 90's, the Alaskan aviation industry consisted of approximately 35 air carriers, with the majority

consisting of small carriers operating to bush communities. These were not the large mainline carriers that transport large bypass volumes out of the Anchorage and Fairbanks origin points, but were the carriers that transported bypass mail from the hubs to the final village community using small aircraft that had to make multiple trips to move all of the mail. During this period it was quite common for there to be one or two passenger carriers serving bush villages along with six or seven all cargo carriers. The all-cargo carriers would file a schedule with the USPS but would only fly on the days that they received mail tender from the Postal Service, usually bypass mail. This resulted in full service passenger, cargo and mail carriers having to split the mail with these "cherry picking" cargo carriers who only flew mail. The results were higher passenger ticket costs for interior Alaskans due to passenger carriers not having an efficient mix of passenger and freight/mail revenue to cover the high cost of their services.

Fast forward to the early 2000's and we found ourselves with a bush aviation industry in Alaska that was economically distressed due to the perverse incentives driving cargo carriers to compete for the carriage of bypass mail. When the Rural Service Improvement Act of 2002 (RSIA) was being drafted, the most important goal was to establish and stabilize the bush passenger, freight and mail transportation system for the residents of rural Alaska. Some thought that to achieve this objective it was necessary to include in the bill a provision to block the entry of new mainline air carriers other than the ones that were currently in place at the time. At the time the USPS expressed its objection to this provision as unnecessary and not good public policy. As a USPS representative, I met with Senator Stevens and his staff to provide the views of the Postal Service as to the likely effects of the legislation. Of course, incumbent mainline carriers favored such a provision as it would limit competition. The USPS was able to offset, but only in part, the proposed preference for mainline carriers. Hence, in the final bill mainline competition was limited as proposed and passenger air carriers, at the bush level, were given the lion's share of the mail to transport via the "pool concept" in line with the objective of preserving passenger service to bush communities. The statutory pool concept required the USPS to tender 75% of the mail to passenger carriers and only 25% of the mail to freight only carriers. This was in spite of the fact that under this federally regulated environment, mail was loaded only after passengers and their bags were enplaned. The result forced the USPS to tender the majority of the mail to those air carriers with the least amount of capacity to transport it. However, the RSIA did achieve the objective of reducing the number of carriers conducting bush operations thereby providing the remaining carriers a more stable source of revenue. From over 30 small bush air carriers, there remain today a total of 9 small bush air carriers still transporting bypass mail.

Unfortunately, while the pool concept has narrowed the number of bypass mail carriers, the result is having an unintended, negative effect on USPS costs. A recent study commissioned by the State of Alaska, Department of Transportation, Statewide Aviation, identified the fact that bush carriers are now flying less efficiently due to the RSIA requirements for remaining qualified to participate in the passenger pool—and its 75% set aside. During interviews with bush air carriers, the firm Northern Economics (commissioned to produce the report) was told by air carrier interviewees that passenger carriers fly more frequently than they are scheduled in order to keep their passenger traffic numbers high, to remain qualified to participate in the movement of no less than 75% of the mail. This inefficient activity results in lower passenger load factors being reported to the US DOT and resultant higher rates being set by the DOT that the USPS has to pay to transport mail. (Note the DOT set rates paid to air carriers is entirely independent of the postal rates paid by the postal patron). USPS payments to Alaska carriers currently results in a loss of approximately $100 million on an annual basis and the majority of the loss is attributable to the RSIA "pool concept" that dictates to the Postal Service the requirement to tender mail to those carriers with a bypass mail preference at increasingly higher DOT set rates.

Another component of RSIA that hinders competition by restricting the USPS from utilizing bush air carriers is the restrictions on using the DOT "rate equalization" policies that allow air carriers to equalize the rate of their pay to a lower one in the market. As an example, allowing composite rate equalizations, where a carrier flies direct from an acceptance point to a bush community would not only improve mail/passenger/freight service to residents of Alaska, but it would also bring an immediate savings to the USPS. This is accomplished by the USPS paying one less terminal handling fee to the air carrier than they would normally pay for service provided through the assigned hub. Allowing utilization of the DOT equalization policies brings immediate savings to the Postal Service.

Where are we today?

It is my opinion that the Alaska Bypass Mail system is not significantly broken although it is in need of some repair. The number of air carrier participants, both mainline and bush, in the Alaskan aviation industry has been reduced as intended by the RSIA. Those that remain are long established and have a wealth of experience flying in Alaska's harsh operating environment. The large numbers are gone, the mail only carriers no longer exist which is all to the good. The entry barriers in RSIA effectively restrict new competition except to those already established in Alaska. The Committee finds itself with an opportunity to amend RSIA in a way to ensure that bypass mail continues to provide the residents of rural Alaska the subsistence type

products that we take for granted in the lower 48, while at the same time fostering a more efficient Alaska transportation system based on competitive principles and doing so at lower costs for the Postal Service.

How do we do that?

Leaving the existing barriers to entry in place, while eliminating the pool concept will allow for more Alaskan air carriers to engage in the transportation of bypass mail. This will not only provide better service to the residents of rural Alaska, but it will also ensure higher and more efficient load factors for all carriers, not just a few. This will also allow for more efficient flight and passenger scheduling by full service carriers; those efficiencies resulting in a downward pressure on the DOT set mail rates.

Allowing for equalizations is an easy fix and simple to understand. By removing a terminal handling fee for every pound of mail transported in a market, over the existing cost being paid by the Postal Service, will bring immediate savings.

Lastly, I respectfully propose that you consider making these changes to RSIA not only to preserve the bypass mail system for rural Alaskan residents and to reduce USPS losses, but also to correct the imbalances created by the sections of RSIA that favored a few carriers at the expense of competition and the public interest but that are now increasing the cost of the Postal Service when providing bypass mail service.