
**Hearing before Subcommittee on Federal Workforce,
U.S. Postal Service and the Census
Committee on Oversight and Government Reform
House of Representatives**



Oral Statement

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Mr. Chairman and members of the committee, Alaska Bypass is a unique service not provided anywhere else in the country. It was created in 1972 to ease operational bottlenecks but has come to resemble a freight service rather than typical mail or parcel delivery. Under the program, large pallets weighing a minimum of 1,000 pounds are shipped via air transportation. The Postal Service's normal weight limit for parcels is 70 pounds.

The Alaska Bypass pallets of goods travel from the commercial warehouse via the airline to the merchant's door bypassing the Postal Service's infrastructure. The Postal Service is required to pay for this air transportation. However, postage is assessed at less than \$30 for every 70 pounds and has no relation to the actual costs.



Alaska Bypass pallets at warehouse in Fairbanks, ready for air transportation to Barrow.

The Postal Service has lost money on Alaska Bypass every year since its inception. In 2013, the Postal Service paid out \$108 million for Alaska Bypass transportation, while it brought in only \$32 million in revenue, losing \$76 million.



Goods are picked at the warehouse in Fairbanks for bundling onto Alaska Bypass pallets.

Keeping the program consistent with its original intent has been challenging. For example, in the late 1980s, the Postal Service began prohibiting shipments of concrete and building materials after excesses emerged. In 2002, the program goals were formally

expanded to include supporting Alaskan passenger and freight air transport.

Thus, the program evolved beyond improving Postal Service operations.

The Postal Service is also restricted in how it operates the program. Changing the Bypass network requires 12 months of public notice and consultation with the government of Alaska. Additionally, in a throwback to the days before airline deregulation, the law mandates that the Postal Service pay air carriers non-competitive rates set by the Department of Transportation. The Postal Service is required to equitably share Bypass volume among designated carriers, and new carriers must overcome significant hurdles to participate. These features burden the Postal Service with additional costs unrelated to the postal mission.

Alaska is an enormous state with few roads and many communities accessible only by air. We are sympathetic to states facing infrastructure challenges, but national and state infrastructures are typically financed by the federal government and the states. Under the current Bypass program, significant support to Alaska's transportation infrastructure is paid for by postage sales outside Alaska.

Postal revenues are collected from postal customers, not taxpayers, and the Postal Service has a duty to collect only such revenues as are needed to provide each service. Programs that do not pay for themselves require cross-subsidization from other products and customers, which is normally prohibited for the Postal Service.

Moreover, our research suggests that the Alaskans buying goods shipped through Alaska Bypass do not appear to benefit from this transportation subsidy. For example, in the towns our staff visited, a tube of toothpaste cost \$1.10 more than in Anchorage, even though shipping costs through the Bypass program were as low as 14 cents. Also, the University of Alaska Fairbanks has found that the same basket of groceries can cost more than twice as much in some Bypass hubs than in Anchorage.

One possible reform is to end Alaska Bypass and return freight shipment to the private sector. If Congress wishes to retain Alaska Bypass, we developed several options for consideration:

- The Postal Service could be given operational freedom to operate Alaska Bypass more efficiently by ending the 12-month notice and consultation period.
- Statutory restrictions that prevent new carriers from entering the market and that restrict competition could be removed.
- The Postal Service could charge higher rates to make the Alaska Bypass self-sufficient and eliminate its burden on other postal customers.
- Alternatively, the federal government or the state of Alaska could reimburse the Postal Service for its Alaska Bypass losses. The Alaska Permanent Fund, which was established to invest Alaska's oil and mineral revenues, has a balance of almost \$50 billion that earns interest. The postal losses from Alaska Bypass would be just 2.6 percent of the \$2.9 billion that the fund earned last year.

Delivering mail and parcels anywhere in the United States, regardless of geography, is the Postal Service's primary responsibility to the American people, but this universal service obligation has no relation to Alaska Bypass. Reforming the program should not affect universal mail and parcel services to Alaskans or to any other American. Thank you.