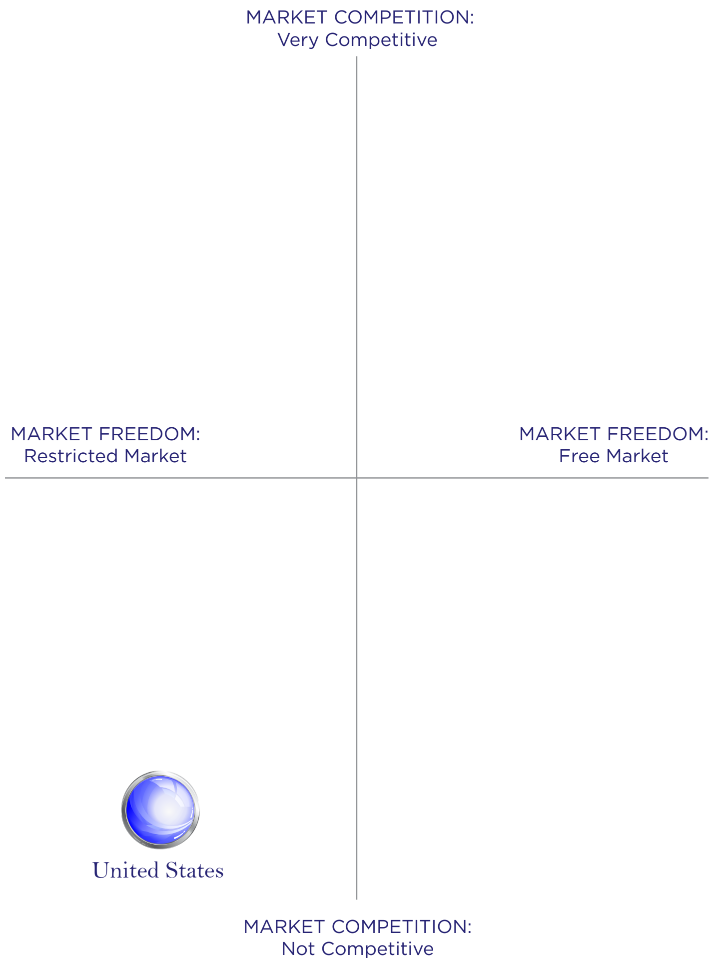
CONSUMER POSTAL COUNCIL

UNITED STATES - USPS

INDEX OF POSTAL FREEDOM



OVERVIEW

The United States Postal Service was created by decree of the Continental Congress in 1775, mainly to deliver mail between Congress and the armies. Today, still wholly owned by the government, it delivers 177 billion pieces of mail each year to more than 150 million addresses.

USPS had 623,128 career and 88,954 non-career employees in 2009. More than 85 percent of the Postal Service's career employees are paid according to contracts that are negotiated through collective bargaining between one of four unions and USPS management. This is a unique arrangement among federal agencies.

The number of addresses to which it delivers increases year on year; between 2008 and 2009 the figure grew by about 900,000. The volume of letters sent by individuals is shrinking steadily, with businesses accounting for the bulk of the mail market today.

The U.S. Postal Service lost $3.8 billion in 2009. Postal management has blamed losses on statutory obligations to pre-fund its pension and healthcare liabilities through 2017 as well as poor economic conditions. Since 2001, under the leadership of Postmaster General John Potter, USPS has cut costs and improved productivity.

A postal reform law passed in 2006 established a hard rate cap for market-dominant products and granted the Postal Service substantial authority to adjust pricing within that cap. It also required USPS to demonstrate greater financial transparency and granted greater authority to the Postal Regulatory Commission, the independent body that oversees rate increases.

Postal products are divided into market-dominant and competitive categories. The Postal Accountability and Enhancement Act lists the following as market-dominant products: first-class mail letters and sealed parcels; first-class mail cards; periodicals; standard mail; single-piece parcel post; media mail; bound printed matter; library mail; special services; and single-piece international mail.

The Act lists the following as competitive products: priority mail; expedited mail; bulk parcel post; bulk international mail; and mailgrams.

LIBERALIZATION

USPS opposes liberalization of the market for letter mail delivery, in which it enjoys a statutory monopoly. USPS also maintains a monopoly on access to a consumer's mailbox -- even if he or she owns and maintains it.

The postal monopolies were granted under the Private Express Statutes, which were enacted by Congress in 1792. The "letters" over which USPS has control are broadly defined to be "messages between parties," with a few exceptions. "Extremely urgent letters" may be delivered by other companies provided that they charge, at a minimum, the greater of three dollars or twice the amount USPS would charge to deliver the same letter as First Class or Priority mail.

Government inquiries have regularly questioned the necessity of the mailbox monopoly, but it has persisted. The President's Commission on the Postal Service proposed in 2003 that consumers choose whether to allow private individuals or delivery companies to access their mailboxes, "so long as it does not impair the universal service or open homeowners' mailboxes against their will."

A 2007 report by the Federal Trade Commission (FTC) agreed. The Postal Service's monopoly on mailbox use "limits consumer choice and artificially increases the costs of private carriers," it concluded.

The FTC also reported on eight countries without mailbox monopolies. None noticed a significant loss in postal revenue. Six reported little or no problem with theft from the mailbox.

The United States is currently the only country in the world with a monopoly on mailbox use.

Some business and consumer groups favor the introduction of competition, but there has been inadequate momentum to lift the monopoly on letter mail delivery.

PRIVATIZATION

USPS is wholly owned by the U.S. government.

William Henderson, the U.S. postmaster general from 1998 to 2001, wrote upon leaving office that "what the Postal Service needs now is nothing short of privatization." He recommended an employee stock-ownership plan that "would motivate workers by allocating stock to them over time." However, in contrast to the general trend in other developed nations, the United States has not taken any steps toward wholesale privatization.

USPS has, however, allowed some de facto privatization of delivery through the use of contractors. Contract mail carriers currently service about 7,600 routes, or approximately 2 percent of all routes nationwide.

Some members of Congress have sought to restrict such contracting. Several pieces of legislation have been introduced that would require USPS to collectively bargain with postal unions whenever it moved to outsource significant amounts of work.

USPS has also increased its reliance on private companies as contractors to aid in the completion of other tasks. In 2009, 15 private-sector suppliers were each paid over $100 million. The largest supplier was FedEx Express, which received $1.4 billion for domestic air transportation of postal express shipments, as part of a deal which expires in September 2013.

USPS regularly enters into worksharing agreements with some bulk mailers of market-dominant products (as defined by the PAEA), offering postage discounts in exchange for meeting certain criteria, such as pre-sorting, processing, and volume. Negotiated Service Agreements, as some of these are termed, are contractual agreements with major mailers that include customized pricing incentives.

PRIVATIZATION (CONTINUED)

It's not clear whether these deals help USPS's bottom line. For instance, the Postal Regulatory Commission predicted that a negotiated service agreement that the agency entered into with Bank of America in 2007 would end up costing "anywhere between $25 million and $45.8 million."

Because of the potential for such losses, negotiated service agreements are becoming less common.

COMPETITION

As described above, USPS has two monopolies: one on letter delivery and the other on the use of mailboxes. USPS enjoys additional privileges as a government entity: It is exempt from most taxes (including taxes on its vast real estate holdings), is permitted to maintain a substantial level of secrecy in many financial matters, and may borrow from the U.S. Treasury at favorable rates. The PAEA prohibits the subsidization of non-monopoly competitive products (like express service products) with revenues gained from monopoly products, but critics often accuse the Postal Service of engaging in such cross-subsidization regardless of the law.

Private-sector companies compete with USPS in express and package delivery. As of 2007, UPS was the leader in ground package shipments, with a 61 percent share. FedEx maintained a strong hold on the overnight market with 42 percent share. The Postal Service led the two-day air-delivery market with 40 percent share, though it relies on FedEx aircraft to transport its express packages. These figures include all domestic air and ground volumes as well as international package volumes that either originate or terminate in the United States. All data are from freight-consulting firm MergeGlobal Inc.

REGULATION & OVERSIGHT

The Postal Regulatory Commission is an independent agency, created by the Postal Reorganization Act of 1970 to set postage rates, and invested with new oversight powers under the PAEA. It considers rates proposed by USPS, holds hearings on rate changes, and makes rate recommendations to the Postal Service Board of Governors, which may accept or reject them.

The PAEA also directed the Department of the Treasury to undertake a review of the Postal Service's accounting and cost attribution practices. The Department's findings were released in late 2007. USPS is able to attribute only about 60 percent of its costs to specific purposes; the rest are categorized as "institutional costs," or overhead.

This inability to attribute costs is significant because it effectively allows the Postal Service to overcharge the captive monopoly consumer. Incomplete cost attribution forces the consumer to contribute more than his fair share to institutional overhead.

The Treasury report encouraged adoption of a simplified approach to computing the "assumed" federal income tax to be paid by the Postal Service on revenues derived from its competitive products in accordance with the dictates of the PAEA. Of course, this "assumed tax" would be paid by the Postal Service to itself -- rendering its status as a true "tax," like those faced by private-sector competitors, dubious.

Despite this putative tax reform on the competitive products side, the Treasury report stopped short of requesting definitive attribution of costs from USPS's monopoly products.

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UNIVERSAL SERVICE

The USO is understood in the United States as six-day-a-week delivery to every address in the nation at a uniform price. As defined by the Postal Reorganization Act of 1970, the USO requires the Postal Service to "provide prompt, reliable, and efficient services to patrons in all areas and . . . render postal services to all communities" at "fair and equitable" rates, including a uniform rate for sealed letters.

In late 2009, USPS began to seek congressional approval to change the USO from six-day-a-week delivery to five-day-a-week delivery. Historically, Congress has opposed any efforts to weaken the USO.

CONSUMER PROTECTIONS

Until late 2007, the Postal Regulatory Commission's Office of the Consumer Advocate was charged with representing the interests of the single-piece letter-mail consumer in matters related to pricing and service. The Office of Public Affairs and Government Relations has taken over the Consumer Advocate's old duties.

USPS itself has consumer affairs offices around the country to which users can bring complaints. In addition, a variety of non-profit organizations and government agencies hear complaints from the public and press for fairness to consumers. The most powerful among them is the Federal Trade Commission.

PRICING

In May 2007, the price to mail a single letter rose from 39 to 41 cents -- the first price increase under the terms of the PAEA. First Class stamp prices rose to 44 cents in May 2009. USPS has asked the PRC for permission to raise stamp prices to 46 cents apiece starting in January 2011.

Each ounce beyond the first costs 17 cents, and there are additional costs based on size and shape. Stamp prices have risen in line with inflation since 1970, and by nearly 30 percent since the beginning of 2001. Businesses and institutions that mail in bulk, which account for 85 percent of USPS revenue, receive discounts from the First Class rate.

In 2007, USPS introduced the "Forever Stamp," which is purchased at the going rate but is valid for use indefinitely, even if used after stamp prices have increased.

Under the PAEA, increases in prices for monopoly products are limited to increases in the Consumer Price Index. These products represent 90 percent of the Postal Service's revenue base.

First Class mail contributes more revenue to cover general overhead than any other category of mail does. Consumer advocates argue that this is unfair to individual consumers, particularly because bulk mailers negotiate to send their missives at a discount.

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