

THE UNITED STATES



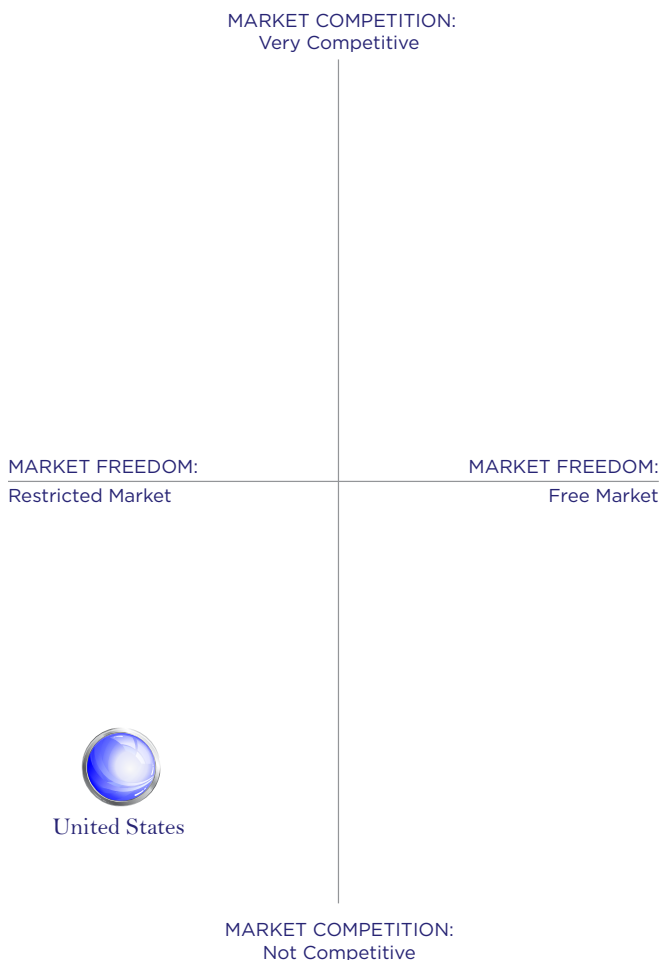
OVERVIEW

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 168 billion pieces of mail each year to more than 151 million addresses.

The number of addresses to which it delivers increases year on year; between 2010 and 2011 the figure grew by about 637,000. The volume of letters sent by individuals is shrinking steadily, with businesses accounting for some 90 percent of the mail market today.

USPS had 557,251 career and 88,699 non-career employees in 2011. 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.

The U.S. Postal Service lost \$5.1 billion in 2011, after losing \$8.4 billion in 2010. 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, USPS has cut costs and improved productivity.



The Postal Accountability and Enhancement Act of 2006 (PAEA) 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.

In 2010, the Postal Service projected \$115 billion in cumulative losses by 2020, even if it achieved all cost savings that it asserted were within its control. It warned that failure to effectively adopt new cost-saving strategies could produce cumulative losses of \$238 billion over the same 10-year period.

The Postal Service is managed by a 9-member Board of Governors, appointed by the President and confirmed by the Senate. The board functions as a board of directors, responsible for appointing the Postmaster General and Deputy Postmaster General, who serve at the pleasure of the governors for an indefinite term. Attorney Thurgood Marshall, Jr. became Chairman of the Board of Governors in January 2012.

LIBERALIZATION

USPS opposes liberalization of the market for letter mail delivery, in which it enjoys a statutory monopoly. USPS also holds a monopoly on access to consumers' mailboxes, which consumers are responsible for buying and maintaining.

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

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, adopted some de facto privatization of delivery through the use of contractors. A 2008 report by Kevin Kosar of the Congressional Research Service noted that 6,531 carrier routes were served by contract delivery service providers.

USPS has also increased its reliance on private companies to aid in the completion of other tasks through procurement contracts. In 2010, 11 private-sector suppliers were each paid over \$100 million. The largest supplier was FedEx Express, which received \$1.37 billion for domestic air transportation of postal express shipments, as part of a 7-year contract which expires in September 2013. A total of seven audit reports by the Postal Service's Office of Inspector General noted that weaknesses in process, guidance, training, and monitoring in the

PRIVATIZATION (CONTINUED)

implementation of the FedEx Transportation Contract resulted in more than \$94 million in unnecessary costs to the Postal Service.

Additionally, USPS has regularly entered 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.

It's not clear whether these deals help USPS's bottom line, and Postal Regulatory Commission opinions have questioned Postal Service management's effectiveness negotiating contract terms.

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 priority mail packages) with revenues from monopoly products, but critics often accuse the Postal Service of engaging in such cross-subsidization regardless of the law. With between 40 and 45 percent of its operating expenses lumped into one vast "institutional overhead" category, to which market-dominant products contribute higher levels of "cost coverage" than competitive products, many observers feel such subsidies are inevitable.

"Even with growth in our package business, we cannot replace the profit contribution of First-Class Mail that has been lost over the past few years and will continue to decline in the future," Postmaster General Patrick R. Donahoe said in 2011.

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 2006 PAEA. There are five commissioners, each appointed by the President and confirmed by the U.S. Senate. The Commission considers rates proposed by USPS, adjudicates complaints, and determines whether the Postal Service is in compliance with current law. The PRC has subpoena authority, the power to adjust rates, and the ability to levy fines against the Postal Service.

REGULATION & OVERSIGHT (CONTINUED)

Additional oversight is provided on an ongoing basis by entities including the Postal Service's Office of Inspector General, House and Senate committees with postal oversight responsibilities, and the Government Accountability Office.

UNIVERSAL SERVICE

The Universal Service Obligation 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.

The Postal Regulatory Commission estimated the value of the U.S. Postal Service's combined monopolies to be \$1.55 billion in 2010. This represents a sharp decline from the \$3.48 billion the Commission identified as the value of the combined monopolies in 2007.

It also calculated the total cost of the Universal Service Obligation to be \$5.37 billion in 2010, an increase of more than \$950 million over 2007.

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. Two years later, the Service had not yet received congressional approval to eliminate a day of delivery.

In late 2011, the Postal Service announced a plan to save costs by loosening delivery standards for first-class letters and postcards. The plan, which postal officials declared would save \$2.1 billion annually, would effectively end all next-day delivery of first-class letters, to be replaced with a new standard of two- to three-day delivery.

PRICING

In January 2012, the price to mail a single letter rose to 45 cents -- the second price increase under the terms of the PAEA.

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.

PRICING (CONTINUED)

The 2006 legislation classified postal products into market-dominant and competitive categories, with different pricing rules for each. It 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.

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