

**STATEMENT OF  
POSTMASTER GENERAL/CEO  
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BEFORE THE  
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,  
AND THE DISTRICT OF COLUMBIA  
OF THE  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
UNITED STATES HOUSE OF REPRESENTATIVES  
WASHINGTON, DC**

**MAY 8, 2008**

Good afternoon, Chairman Davis, Congressman Marchant, and members of the Subcommittee. As I mentioned to you when we met in February, the Postal Service has entered a period of profound change. Despite the magnitude and pace of these changes, and the effects of an extremely difficult economy, our employees have continued to provide the very highest levels of service and customer satisfaction to the nation we serve. They have also made the Postal Service the most-trusted government agency and one of the ten most trusted organizations in the nation.

As I reported to our Board of Governors at yesterday's meeting, on-time delivery of First-Class Mail set new second-quarter records. First-Class Mail with a next-day delivery commitment held at a 96 percent for the fourth consecutive quarter – marking one full year at this highest level ever; two-day mail rose to 94 percent, a new high; and three-day mail climbed to 92 percent, four points above the previous quarter. Service performance was reflected in customer satisfaction, with 92 percent of residential customers rating their experience with the Postal Service as excellent, very good, or good.

I am particularly pleased that service in Chicago has shown strong and steady progress over the last year. For quarter two, on-time delivery of overnight First-Class Mail is at 95 percent, up five points. Two-day performance is at the national average of 94 percent, up 13 points. And three-day mail has reached 90 percent, an improvement of 21 points.

Our entire Chicago service team, led by District Manager Gloria Tyson, has done an exceptional job. I know they will keep Chicago service strong as they work to align Chicago service performance and national figures in all three of these delivery categories.

While service has been solid, a weak economy continues to place a severe strain on our finances:

- The current economic downturn was led by weakness in the financial, credit, and housing sectors – traditionally strong drivers of mail volume.
- Business and consumer spending is off, resulting in less spending on mailing and shipping, with effects being felt throughout the entire delivery industry.
- Standard Mail, our volume leader, which had experienced a long and steady period of growth, is extremely sensitive to economic trends and recorded a second-quarter volume decline compared to the same period last year.
- Total mail volume, also compared to the same period last year, was down by 3 percent during the first quarter, and fell again in quarter two by 3.3 percent – among of the largest declines ever.
- A continuing decline in mail volume, coupled with rising costs and a growing delivery network, has resulted in less revenue per delivery point;
- With the price of oil exceeding \$100 a barrel, we have seen a huge increase in the costs of fueling more than 200,000 vehicles.
- Similarly, the accelerated funding of statutorily defined and growing retiree health benefits represents a significant cost driver.

Each of these factors contributes to a widening gap between costs and revenue. This is particularly challenging because costs are growing at a rate that far exceeds the price cap that applies to 90 percent of our products.

I am proud of the effort of the entire postal team in meeting the needs of our customers during this difficult period. Every employee in every function, as well as the unions and associations that represent them, have kept their eyes on service as they have helped us to reduce expenses, operate more efficiently and prepare for a stronger future:

- New collective-bargaining agreements protect the economic interests of our employees, while adding necessary operating flexibility and helping to limit growth in health-benefit costs.
- Throughout the organization, our people continue to innovate as they improve key processes and find new ways to offset rising costs in operations, transportation, and administrative functions.
- Through these and similar actions, the Postal Service is on track to achieve an unprecedented ninth consecutive year of productivity growth.
- Our deployment of the Flats Sequencing System, which is proceeding on schedule, will bring added efficiency to delivery operations, and help to manage costs in this extremely price-sensitive product category.
- With the strong involvement of customers, we are preparing for the full rollout of the Intelligent Mail Barcode next May – to streamline and simplify mail preparation, acceptance, processing, and delivery activities, as well as enhance the exchange of information between the Postal Service and mailers.

Despite the best efforts of our employees, the outlook for the remainder of 2008 continues to be troubling. Next week's price changes will generate an additional \$700 million in revenue through the end of this fiscal year, but this will be insufficient to offset rising costs.

And while a significant portion of the current volume declines is directly attributable to a weak economy, this may, to a certain extent, mask more profound and longer-term changes in mail use patterns – particularly among what the Postal Accountability and Enhancement Act refers to as our “market-dominant products,” or, simply put, our mailing services.

These include the diversion of First-Class transactional mail to non-mail channels; customers “trading down” from First-Class Mail to less-profitable Standard Mail; and a reduced reliance on Standard Mail as marketers, reacting to the economy, direct resources to mass channels that may not offer the targeting or effectiveness of Standard Mail, but whose costs may be less. Our historic universal service mandate – a key public policy goal – is provided by products within our mailing services portfolio.

Long-term success in serving our nation depends on a strategy that complements efficiency with growth. This is a situation that was recognized and anticipated by the Postal Act of 2006, which increased the Postal Service's pricing and marketing flexibility in the “competitive products” category – our shipping services. Income from this portion of our business – Express Mail, Priority Mail, ground packages, and some international mail – is intended to contribute to the costs of our universal service mandate.

We have taken full advantage of the new law by offering attractive and innovative published pricing for our shipping services. We have priced these products to sell – while satisfying the related requirements of the Act – because we recognize the significant potential for growth in this product area.

- This includes volume pricing, attractive online and corporate account payment options, and the potential for rebates when volume exceeds defined thresholds.
- Our premier Express Mail product now offers an expanded overnight network and industry-standard zone-based pricing. This reduces the costs of shipping to many nearby locations and, for some weights, offers a price advantage, no matter what the distance.
- Responding to customer needs, we have introduced a larger Priority Mail Flat-Rate box, with a reduced rate for overseas military addresses.
- New pricing incentives, combined with an exceptional degree of reliability, have increased the value of our high-volume, last-mile Parcel Select service for all of our partners, including leading private-sector shipping companies.
- A new, value-based approach to pricing is also making our first-mile Package Return service a more popular choice than ever.

We are also looking forward to the opportunity to negotiate and implement contract pricing, an important new tool available through the new postal law. We are continuing our work with the Postal Regulatory Commission to prepare for contract pricing in both our mailing and shipping services.

With the fundamental changes resulting from the enactment of the Postal Act of 2006, including its call for even greater levels of transparency, we are devoting more resources and working more closely than ever with the organizations charged with oversight of the Postal Service to meet their expanded information needs. These include, among others with more specialized requirements, the new and expanded Postal Regulatory Commission, the Government Accountability Office, the Office of Inspector General, our own Board of Governors and, of course, the United States House of Representatives and the United States Senate.

Despite a difficult year, the Postal Service continues to adapt and change to protect its ability to provide affordable, universal service to everyone in America. Our focus will not waver as we work to protect the unique value of the mail through innovation, efficiency and, above all, service.

Thank you for the opportunity to discuss these issues with you today. I am grateful for your continuing support of a sound and financially independent Postal Service. I would be pleased to answer any questions you may have.

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