UNITED STATES
POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
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

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Good morning, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to speak with you. The Postal Service, which has served America for 234 years, is experiencing a very serious financial crisis because of the downturn in the economy. Today, I will be telling you more about our financial situation. I will explain how the Postal Service is working to address it. And I will be asking for your help through legislative change in two areas.

The first would involve a change in how the Postal Service funds retiree health benefits. This would provide immediate and significant relief for our financial needs, with that relief extending well into the future. The second change I am requesting would provide the Postal Service with flexibility in the frequency of mail delivery. This would address structural limitations that limit our ability to reduce costs.

We need your help because our actions, by themselves, will be insufficient to offset a declining financial situation. Mail volume is running 12 percent below 2008 levels. The gap between revenue and costs has become a chasm, widening each day. We are facing losses of historic proportions. Our situation is critical. The Postal Service is doing everything possible to manage costs, pursue growth opportunities, and provide the best service possible for our customers. The sheer magnitude and velocity of the forces undermining our finances, however, are overwhelming.

The Postal Service's precarious situation is a reflection of the overall weakness in the general economy and is not indicative of any lessening in the actual or perceived value of the mail. A quick look at our results in the years just before the economic downturn illustrates this. Mail volume reached a historic high of 213 billion pieces in 2006.

As the nation's economy stabilizes, our business will stabilize along with it. But stability, by itself, cannot be our goal. A stability based on today's conditions simply means that we have halted the slide. Success demands more than that. It requires that we create an environment that allows us to move forward from a position of financial security when economic conditions do improve, prepared to grow, prepared to make up lost ground, prepared to pay down our debt, and prepared to meet the renewed needs of our customers. I am confident that we can do that.

Assuming that we achieve our planned $5.9 billion in savings, the Postal Service is still projecting a loss of $6 billion in 2010. This follows last year's loss of $2.8 billion, and, in 2007, a loss of $5.1 billion. Mail volume is expected to plunge to only 180 billion pieces by the time we close our books on 2009 at the end of September. Declines are possible beyond that point. Looking ahead, and considering projections for the overall economy, we do not expect any near-term improvement. We anticipate continued volume decline and a loss of more than $6 billion for next year, based on the latest forecasts from Global Insight.

The Postal Service is taking strong and focused actions to remove $5.9 billion from our cost base in 2009. Our plans call for reducing an additional $3.8 billion in 2010. These actions follow reductions of more than $2 billion from our base costs in 2008, and over $1 billion each year beginning in 2002.

Despite the scale of these reductions, they are simply not sufficient to close the expanding gap between a declining revenue base and the costs of financing a network that was designed to deliver mail to America's 150 million families and businesses six days each week. Even in an extremely soft housing market, our delivery network must continue to expand to reach more than a million new addresses each year, adding to our fixed costs as revenue continues to decline.

By taking the right actions now, we can make it possible for the Postal Service to effectively manage through today's dire economic environment and emerge on a firm financial footing. As I mentioned, the Postal Service's efforts -- despite their unprecedented scale -- will be insufficient, by themselves, for us to simply break even. They must be accompanied by changes in the laws that govern our operations.

Those decisions must be informed by an understanding of the three key factors -- structural and external -- that are shaping our business results today.

First: the terms of our funding requirement for retiree health benefits, established by the Postal Accountability and Enhancement Act of 2006, has placed an unbearable strain on our finances. We simply cannot afford the current method of funding these benefits -- without a change, we will exhaust our cash resources.

Second: our revenue base has changed, and will continue to change, as demand for our products changes. This is reflected in plunging mail volumes due to the recessionary economy, and an ongoing shift in the ratio between lower- and higher-revenue-yield products.

Third: current law does not permit us to adapt our service offerings to a changing business environment. The Postal Service, which does not receive taxpayer subsidies, is required to operate like a business, but the law constrains us from taking the businesslike actions necessary to fully and properly align our institutional cost base with reduced and evolving customer demand. Having the flexibility to change delivery frequency will overcome one of our structural barriers.

Based on the law, the Postal Service will pay almost $70 billion from now through 2016 for retiree health benefits. For 2009, this consists of a payment of $5.4 billion to cover our share of the cost of benefits that current employees will receive after they retire, as well as a $2 billion payment for the employer's share of benefit premiums for current retirees.

That combined total of $7.4 billion represents more than 10 percent of our operating revenue -- 10 percent of the price our customers pay for every package, letter, catalog, newspaper, or magazine they send through the mail. This is a prohibitive cost at a time when our revenue is expected to decline by almost eight percent. And it is a cost that will continue to increase -- by almost $400 million each year -- ballooning to payments of $10 billion in 2016.

In fiscal year 2007, the first year of this payment obligation, mail volume was at more than 212 billion pieces and operating revenue at its highest point ever, $75 billion. We would have posted a profit of $1.6 billion before factoring in the financial impact of the Act, which ultimately contributed to that year's actual loss of $5.1 billion. Similarly, in 2008 -- operating in a more difficult business environment, with mail volume down 4.5 percent, our profit would have exceeded $2 billion without this payment obligation, rather than our actual loss of $2.8 billion.

Our long-term obligation for health benefits for current and future retirees began in 1971 and will extend at least fifty years into the future. Such short-term funding for such a long-term obligation is a departure from normal practices in both the private sector and in the federal government.

The Postal Service is the only public or private entity required to prepay health benefit premiums at these extremely high levels.

The current method of payment is not based on any actuarial requirements; rather, it was created by a provision that helped to eliminate concerns regarding the budget neutrality of the Postal Accountability and Enhancement Act of 2006. Previously, the Postal Service paid for these benefits on a pay-as-you-go basis, just as they are paid by our retirees themselves -- after retirement. As an employee retired, we would begin paying the employer's share of the benefit premium.

The 2006 Act created a Postal Service Retiree Health Benefit Fund, which now contains a balance of $32 billion, to prefund the employer share of premium payments for current and future retirees. The Fund's balance will increase this year, through our payment of $5.4 billion for future retiree costs, just as it will increase through our payments in subsequent years.

On January 6, 2009, Representatives John M. McHugh and Danny K. Davis, members of this Subcommittee, both of whom have a wealth of knowledge and experience in postal issues, introduced H.R. 22, a bill that would significantly ameliorate the tremendous financial pressures now being created by this provision.

H.R. 22 would expand the purpose of the Fund by changing the method by which we pay health benefit premiums for current retirees. Rather than requiring a payment of $2 billion this year, with growing payments over the next seven years -- separate and apart from our payment to the Fund -- the bill proposes that this obligation be paid from the Retiree Health Benefit Fund itself. The bill still requires that we continue our contributions to the Fund at the levels currently required by law. The fund will continue to grow to reach $71 billion through 2016.

We are grateful for the leadership of Representatives McHugh and Davis on this issue. We also appreciate the co-sponsorship of other members of this Subcommittee and over 200 members of the House of Representatives. This approach would allow us to narrow the gap between our revenue and costs by $2 billion this year, relief that is desperately needed. We fully endorse H.R. 22 as a reasonable and pragmatic response to a cost burden that, when combined with the other structural and situational challenges we are facing, inadvertently contributes to conditions that threaten to undermine the financial viability of the nation's postal system.

At the same time, by simply reallocating payments that we have already made, we can address a critical cash-flow issue without jeopardizing the benefits our employees have earned through a lifetime of service. Through the approach of H.R. 22, we can do that without any additional costs to our employees or to the American people. I ask each of you for your support of this important legislative initiative.

The second key driver of our trying financial situation is the changing demand for our products. Some of the change is short term and some is longer term. The most visible short-term change is the steep and rapid decline in mail volume as a result of the economic downturn. Businesses and consumers are spending less and mailing less. Industries that have been particularly hard hit by the recession, such as the financial, credit, and retail sectors -- including online and catalog sales -- have been, historically, among the largest generators of mail volume.

Our results so far this year dramatically illustrate the punishing business environment in which we are operating. By the time we end this fiscal year, mail volume will have fallen 32 billion pieces below 2007's figures. With average revenue of 38 cents per piece, that represents more than $12 billion in revenue decline.

In the first quarter of this fiscal year -- traditionally our strongest, due to the holiday mail surge -- volume was down 5.2 billion pieces from the same period last year. This was one of the few times in our history that we experienced a decline in holiday volumes. Quarter-one financial results show that revenue was down approximately $1.3 billion – 6.3 percent – from the same period last year. This drove a quarterly loss of $384 million.

In the first two months of Quarter 2, we experienced a net loss of $1.4 billion as a result of a volume decline of almost 17 percent compared to the same period last year. As we enter the third quarter of our fiscal year, consistent with the economy, we will have experienced nine consecutive quarters of accelerating volume declines.

Over the last decade, we have also been faced with more subtle, longer-term demand changes, no less significant than those being driven by the dynamics of today's economy. A revolution in communications has structurally changed the way America uses the mail. Despite many of the predictions on this subject, which held that electronic communications would almost completely supplant the use of the mail, the trend through most of this decade was strong and growing mail volume. This growth, which was significantly reversed only by a faltering economy, masked the gradually building financial pressure resulting from lower mailer demand for our most profitable products and higher mailer demand for our less profitable products.

Since 1998, there has been a steady erosion of First-Class Mail -- one of our highest-margin products -- as billings, payments, statements, and personal and business correspondence shift from the mail to electronic communications.

Over most of the same period, there was strong growth in our Standard Mail product -- one of the most effective advertising and sales channels in America. In 2005, Standard Mail volume grew to exceed that of First-Class Mail. Yet, while it continues to exceed First-Class volume, lower-cost Standard Mail produces only about half the revenue, overall, as First-Class Mail, and it is extremely sensitive to fluctuations in the economy. Standard Mail volume would have to double to generate the same revenue as First-Class Mail. The growth it has experienced, however strong, has been affected by the chill pervading virtually all corners of the marketplace.

The economic premise of our system, envisioned by the Postal Reorganization Act of 1970, was that ever-growing mail volume would produce the revenue necessary to support a mail processing and delivery network that must continually expand to serve a growing nation.

Even in an extremely soft housing market, our delivery network grew to reach more than a million new addresses last year alone. For more than three decades, that business model was at the core of the development of a self-supporting postal system, one that satisfied the statutory mandate that it break even over time, and one that has not received an taxpayer subsidy since 1982.

With a fundamental and continuing change in the mix of mail products used by our customers, it was clear that, in the long term, revenue growth would be unable to keep pace with fixed system costs and the new costs of necessary system expansion. Change was necessary. Congress, working closely with the entire range of postal stakeholders, enacted legislation in late 2006 that was intended to provide the Postal Service with product and pricing tools that would provide the flexibility needed to operate successfully in a more dynamic, competitive communications market.

By December 2007, barely one year into our efforts to implement the complex provisions of the Postal Accountability and Enhancement Act, this longer-term structural issue was eclipsed by the more immediate issue of volume losses of a magnitude we have not experienced in the 75 years since the Great Depression.

This leads to the third factor that has drastically undermined our financial well being: the very real limitations -- driven by law, tradition, expectation, and experience -- that prevent us from adjusting our service offerings to reflect today's significantly changed use of our products. We can no longer afford business as usual. That is why we are requesting a change in the law to provide us the flexibility to adjust our delivery frequency.

In asking for your support for this issue I recognize the very real need to engage our stakeholders -- consumers, mailers, and employees -- in the process of change. It is their Postal Service. They must understand why we are seeking this level of flexibility. They must understand not only how it may affect them, individually, but how it will help us to build a stronger and more secure mail system for all mail users, collectively. It is just as important that we listen closely to them, so we can continue to provide the best service possible.

This is a critical conversation and I have already begun to meet and talk with our stakeholders. I will continue and expand this effort. Today's hearing, in examining the precarious financial situation of the Postal Service -- and how we can address that situation -- is an important part of that communication effort.

The effects of the mail-volume loss on our network costs have been dramatic. In fiscal year 2000, our carriers delivered an average of 5.9 pieces of mail per day to every address they served, about 36 pieces per week. This year, that has fallen to 4.7 pieces, about 30 pieces per week -- a decline of about 17 percent. Over the same period, our delivery base has expanded by more than 11 million addresses. We are delivering less mail to more addresses, resulting in less revenue per address served.

Adjusting the number of delivery days from six to five would have the net effect of returning to an average daily volume of six pieces per delivery. With the same volume spread over a five-day service week, our fixed network costs could be reduced by almost 17 percent.

This level of potential savings is not possible within today's constraints. Through January, we have made tremendous progress in aligning our resources with a reduced workload. With mail volume down 11 percent, we reduced mail processing workhours by 13 percent. We have reduced retail workhours by 11 percent -- and we have done that without the need for across-the-board reductions in retail service hours.

We have not been nearly as successful in the delivery area, where workhours have been reduced by only 5 percent. That is because delivery workhours, unlike those of other operations, are predominantly fixed. Carrier travel time -- from the Post Office to the route, between addresses on the route, and back to the Post Office -- does not change in relation to mail volume. In fact, with most mail placed into delivery sequence before the carrier leaves the Post Office, the time spent making a particular delivery may vary little based on the number of pieces delivered to an individual address.

Delivery is one of our most labor-intensive activities. Unlike mail processing, it does not lend itself to technological substitution. Nor does it lend itself to staffing adjustments based on mail flow peaks and valleys or to fluctuating levels of customer demand during the course of a single day, a single week, seasonally, or over longer periods of time. Delivery remains our largest, single cost center. And with revenue per delivery continuing to decline -- due to fewer pieces per address and a change in the mail mix to lower-cost products -- our overall delivery costs grow proportionately larger. In effect, we are financing a level of service that exceeds a declining demand.

Recent independent polling suggests that our customers are generally amenable to a five-day delivery week. A USA Today/Gallup survey found that 57 percent of respondents see this as a preferred solution to the Postal Service's financial difficulties. Similarly, a Rasmussen Reports survey found that 69 percent of Americans indicated that they would prefer five-day-a-week service to other alternatives. The Postal Service is the only carrier that offers regular Saturday service -- and at regular prices.

Reducing delivery by one day per week could reduce costs by $3.5 billion annually. This offers a significantly higher cost benefit than any other single option for operational cost reductions. If we reject this approach, we rule out our largest cost-management opportunity at this time when we are facing such staggering financial pressures.

The demographics of our employee base also underline the importance of pursuing this option. Today, 162,000 of our employees are eligible to retire under regular rules. Within the next four years, that number will grow to 291,000. After that time, the number of employees becoming retirement-eligible will fall dramatically. There is no better time to reconfigure our service offerings and avoid a situation in which new workforce growth -- and its associated costs -- exceed current and anticipated future system needs.

Although the financial situation of the Postal Service is grave, it would have been even more untenable if it were not for the aggressive actions we have taken to protect the organization's viability. We recognize that, despite the sources of our financial distress, the Postal Service itself has the primary obligation to bring costs in line with revenue to the extent possible. We have been doing that and we will continue to do that. Those actions began long before we began to see the effects of today's economic distress.

For more than 200 years, the Postal Service had been a tradition-guided, rule- bound, risk-averse organization. With a monopoly based both on law and the practical fact that there was no real alternative to hard-copy postal mail delivery, there was no compelling need for the organization to change its approach.

That world ended as we neared the 21st century. By 1999, understanding that the old way of doing business would, ultimately, be unsustainable in a new, wired world, the Postal Service embarked on a journey of transformational change. The velocity of that change has increased every year as we pushed the limits of the possible within the constraints of law and regulation.

Over time, the effects of the structural shift in communications became increasingly apparent, requiring an acceleration of our cost-management activities. By 2002, we had embarked on a program that ultimately reduced our base costs by more than $1 billion annually. That included reducing our career workforce by some 140,000 positions – through attrition.

We set our sights on achieving previously unimagined efficiency in our operations. This resulted in eight consecutive years of strong productivity gains, resulting in billions of dollars of cost avoidance, and surpassing total productivity growth over the previous thirty years. These gains were disrupted only by the current, worldwide economic recession -- which slammed the brakes on our progress in building an even-more-financially sound postal system.

Our experience over many years has shown that mailing activity is a leading indicator of changes in broader economic cycles. Gauging the level of the economy's deterioration as we moved into 2008, we anticipated an extended weakness in our sales. With that in mind, we acted quickly to adjust our financial plans, doubling already aggressive cost reduction goals to $2 billion – a goal we not only met, but exceeded. This included a reduction of 50 million workhours, substantially mitigating our loss.

We have intensified our efforts this year. Throughout the organization, we are implementing plans that will eliminate another $5.9 billion in costs. We will build on that base, increasing it by $3.8 billion next year.

These initiatives include the reduction of an additional 100 million workhours in 2009 by pursuing even greater efficiencies in every corner of our organization. Our people -- in Post Offices, sorting plants, administrative offices, vehicle maintenance facilities, and on delivery routes -- understand what is at risk and they are doing an outstanding job of contributing to the goal of protecting the future of the mail system for the people they serve.

We have halted the construction of new postal facilities. The limited funds that are now available will be directed only to those sites with the most critical needs. This includes buildings badly damaged or destroyed by natural disasters, locations where we have lost our lease, or sites with safety deficiencies that cannot be abated by repair or alteration.

Working with the National Association of Letter Carriers, we recently concluded a historic agreement that helps us to improve the efficiency of our operations in the face of declining mail volume. The interim agreement establishes a new process for evaluating and adjusting delivery routes, resulting in a quickly implemented one-time adjustment to reflect workload loss, helping to achieve operational savings sooner than ordinarily possible. Ultimately, it will involve the evaluation of 90,000 city delivery routes. This agreement complements the savings that we will experience through adjustments to rural delivery routes through a separate process. These adjustments, however helpful and welcome, will still be insufficient to address the level of change necessary to our operational infrastructure.

Contracts with the two unions that alone represent almost 75 percent of our 652,000 career employees – the American Postal Workers Union and the National Association of Letter Carriers – do not expire until late 2010 and late 2011. We cannot wait until then to address what are pressing needs for change in the way we operate today. I know that our unions share our goal of a financially sound Postal Service and I have proposed to their leadership that we begin talks to create needed levels of workforce flexibility now, when they are so desperately needed.

We are also addressing administrative and management costs. We have reduced the authorized staffing complement at national headquarters by 15 percent. We are taking similar actions in the field, reducing authorized complement at our nine Area offices by 19 percent and by 15 percent at our District offices.

We are eliminating 6 of our 80 District offices, with their duties to be absorbed by surrounding Districts. We are eliminating more than 1,400 supervisory and management positions at nearly 400 facilities throughout the country. Affected employees will be reassigned to other vacant positions or they may take advantage of voluntary early retirement authority. We have also frozen executive pay at January 2008 levels.

Improved fleet management and better transportation and delivery routing will result in reduced fuel usage. With more than 200,000 vehicles, we will also benefit by the reduction in fuel prices from their record-high levels in 2008. We are reducing the number of vehicles that are used primarily for administrative purposes. We are also expanding energy efficiency to reduce energy use throughout our facilities. The drop-back in fuel costs has also had a positive effect on other prices that contribute to the consumer price index. This will result in far more moderate cost-of-living allowances for our union-represented employees.

The Postal Service, with a physical presence in communities from coast to coast, including 37,000 facilities, spends almost $15 billion on supplies and services each year, from air transportation to building rental, from motor vehicles to computer systems, from processing equipment to Priority Mail envelopes in our lobbies. We are working to renegotiate contracts with our suppliers to reflect our reduced needs and to obtain even better value for each dollar we spend. Across the organization we are also constraining spending in every area possible.

We are moving ahead with needed efforts to consolidate some duplicative mail-processing operations while maintaining service. The bulk of these operations occur at 400 large mail processing plants. These are separate and distinct from our network of local, retail Post Offices.

The first step in this effort involves the review of processing needs and capacities to determine which processing operations from multiple locations can be combined at a single, central facility. This helps to maximize operational efficiency and capitalize on the economies of scale offered by automated mail processing equipment. In most cases, consolidation involves only the relocation of some elements of the work performed at a particular sorting facility, with other operations unaffected.

Over the last several years, changing transportation and operational requirements have made it possible to withdraw operations from 60 of our 79 specialized Airport Mail Centers. Another 10 will be phased out this year. Closing these facilities avoids the high costs of leasing buildings on airport grounds.

The need for these facilities was reduced as new air transportation contracts placed more mail on the flights of dedicated shippers rather than commercial, passenger carriers and more mail was placed on less-expensive ground transportation. Throughout this initiative, whether moved on the ground or in the air, mail continues to achieve record service performance.

In seeking even greater operational efficiency through facility consolidations, we share information with our customers, our unions, our suppliers, and the communities potentially affected. We consider the effect on our employees and work through the contractual provisions that govern these activities. It is important that our decisions consider the interests of our stakeholders and represent a realistic response to the extreme financial pressures affecting us.

The primary interest of our stakeholders is a viable Postal Service capable of serving them not only today, but long into the future. Our consolidation activities contribute to this goal. Congress, in enacting the Postal Accountability and Enhancement Act, was clear in its expectations that the Postal Service operate in a more businesslike way than ever before. The Act underlines those expectations through provisions that address and encourage the creation of a more efficient network.

There is consistent, overall stakeholder agreement on the general issue of improved postal efficiency. However, that often weakens considerably when a specific change is proposed for a specific location. As we move forward, I ask for your understanding and your support of necessary actions that promote efficiency. Help us to build a stronger Postal Service able to serve our customers today and long into the future. We must have the latitude to manage effectively to achieve these expectations.

There are two ways of looking at our bottom line. One is to consider what has been lost and act to stem that loss. The other is to recognize the possibilities that have been created by that loss and work to achieve it. We see a silver lining where others see only clouds. That is why our plans go far beyond simply managing costs. Revenue growth that is based on business growth – not simply price increases – is a key element necessary for our long-term viability. This was one of the key purposes of the Postal Accountability and Enhancement Act. Its innovative provisions have altered, for the better, the way we develop, price, and market our products and services.

The recession may have interrupted our growth projections, as it has for so many other businesses, but the value of the mail is as strong -- and in some ways stronger -- than it has ever been. As we adjust our systems to take advantage of the opportunities created by the new law, we are increasing its value even more. Our customers may have pulled back in their spending for mail -- as they have in almost all areas -- but that is driven by reduced spending by their customers. When conditions do improve and they are ready to increase their investment in the mail, we will be ready to show them how we've changed, and how that change can work for them.

Consider this. While mail volumes have fallen -- across the board -- that has overshadowed another, more-encouraging development. We are seeing market-share growth in some product categories in both our mailing and shipping services.

Advertising mail, in particular, has been a strong performer in this regard for the last two years, steadily increasing market share as overall spending in advertising -- no matter what the medium -- has fallen by 20 percent. Advertisers are looking for a sure thing when their reduced budgets are expected to produce more.

Ad mail is targetable and measurable, like nothing else. That makes it effective and that gives it an edge. The same edge will position direct mail and other marketing mail for renewed growth. That will give the Postal Service an edge as the advertising sector begins to recover.

We have seen a similar, encouraging sign in our shipping services, where the Postal Service's products offer world-class levels of reach, performance, and reliability -- at some of the best prices in the business. While all package delivery companies have seen their business projections offset by a weaker demand for their services, preliminary data indicates that market share for our Priority Mail Service increased as we began our second quarter. Overall volume for this product is still down, but our strategy of value pricing -- pricing to sell -- is the right one.

And even though our First-Class Mail product will continue to experience erosion to other channels, there is real opportunity for growth above today's diminished volumes. As economic activity begins to return to more normal levels, we will also see First-Class Mail return to levels far higher than today's.

The Postal Service will not only benefit from the economic recovery, we will participate in the recovery. I am not suggesting that conditions will change overnight. We have a long, hard road ahead of us. But I am confident that when the economy does begin its recovery, the mail will be extremely well positioned to help our customers make the most of it. We have operated through the peaks and valleys of every business cycle since the earliest days of our nation. We understand perseverance, and we will be there for our customers.

That is why we are continuing to develop and implement focused and creative plans to build our business. They are based on the advantages offered by having a broad and well-differentiated product line and an entirely new approach to product development, pricing, and marketing.

Our approach includes discount prices for commercial users of Express Mail and Priority Mail, and a new pricing feature for larger users of these premium products. We streamlined our international products, aligning them more closely with our domestic products. Ease-of-use and value have been our watchwords in these efforts.

We created a new Mailing and Shipping Services group to develop and roll out new product and new pricing initiatives quickly and effectively. That's never been as important as it is now as competition for market share heats up in response to reduced customer spending.

When DHL reduced United States operations, we began a strong outreach effort to make the Postal Service the shipper of choice for former DHL customers. A dedicated sales force is promoting our expedited shipping services, which offer exceptional customer value.

A new pilot program with UPS offers consumers a convenient, new option to return UPS-shipped merchandise. With the new UPS service, a postal carrier picks up a customer's return package and brings it to the Post Office, where it's collected by a UPS driver. This builds on our popular-priced Parcel Return Service, which relies on the Postal Service's unparalleled "first-mile" network.

Similar arrangements with UPS and other shippers benefit from the Postal Service's "last mile" advantage, relying on the reach, the performance, and the price of our Parcel Select product for the last leg of many residential deliveries.

We are improving our website, *usps.com*, making it easier for online customers to access our service -- quickly, easily, and conveniently. A clean new look, easy-to-navigate features, and expanded functionality will make *usps.com* a more valuable growth channel than ever.

In January, we adopted a new price-adjustment schedule for shipping services –which includes domestic and international Express Mail and Priority Mail. This aligns our price adjustments for these products with the standard industry practice of annual, January price changes. All shippers can benefit by having every carrier's price information available at the same time each year.

In May, we will implement regular, annual price changes for our mailing services -- First-Class Mail, Standard Mail, Periodicals, Package Services, Special Services, and single-piece International Mail. Price increases will be capped at an average of 3.8 percent, at the class level, tracking growth in the Consumer Price Index, consistent with the provisions of the Postal Accountability and Enhancement Act.

Our cost growth has far exceeded the CPI during the relevant 12-month measurement period, with huge costs that are not directly reflected in the CPI. But because we cannot raise our rates beyond the cap, this will provide our mailers with a small cushion as they, too, struggle to do more with less. This element of our revenue gap will require us to stay even more-intensely focused on our cost-management program, but it can make it easier for some mailers to maintain levels of mail use that would not have otherwise been possible.

The Postal Service is a unique institution. While it must operate like a business, competing in a marketplace that includes some of the world's most respected and successful businesses, it must also fulfill an important public service role. That is a role we embrace.

We must serve every customer and every community. Rich or poor, from the biggest cities to the smallest towns, we must provide the same high level of service. We must provide the same access. We must make our services available – in both easy-to-serve locations and locations so remote they can only be reached by mule, by swamp boat, or by bush plane.

The Postal Service is today, and has always been, the link that connects every American – no matter who, no matter where – to every other American, for only the price of a stamp and an address. We cannot put this at risk

We are doing our best to manage through the immediate crisis. We have been adapting quickly as mail volume falls, matching workhours to a declining workload, and reducing costs in every operating and administrative unit. Doing the right things today will serve us well tomorrow. While they have embraced new communications technology, Americans still rely on the mail, and they trust it like nothing else -- more than 500 million times each day.

They expect us to be there for them -- and we will be. Without the mail, a vital piece of our nation's infrastructure, our nation would be the poorer. We cannot let that happen. That is why we are turning to you for help.

I come before you today with only one agenda – asking your support in preserving an effective, affordable Postal Service, capable of serving every American in every community, and one that remains an important economic driver for many years to come.

These are extremely challenging times – for the nation and for the Postal Service. As I have explained, we have done a great deal to preserve the future of our nation's mail system. But there is more to be done and we must do it together.

I have a tremendous amount of faith in our business. In my 31 years with the Postal Service, I have seen the conventional wisdom confounded time and again. Anybody who counts us out is making a mistake. I have seen the resiliency of our employees. I have seen their determination in the face of adversity. I have seen their pride in serving our great nation.

And I see, every day, the difference the mail makes. I see it strengthen the bonds among members of far-flung families, in good times and in bad. I see it connect people -- people of all backgrounds and people of all experiences -- through their common interests. I see it help build new and struggling businesses. I see it strengthen established businesses. I see mail as an important part of our shared future, just as it is an important part of our collective heritage.

With your help, we will return to the path of profitability, a path we were diverted from only by the gale-strength forces that pushed the strongest economy in the world off course. Your support of the Postal Service's requests I made will help us to create the firm financial base necessary to respond to customer needs that are very different today than they were a generation ago. I look forward to working with Congress and our stakeholders to do this.

Mr. Chairman, we may be down, but we are far from out.

I appreciate your time. I appreciate your consideration. And, on behalf of everyone who relies on the United States Postal Service, I appreciate your efforts to strengthen America's postal system. I would be pleased to answer any questions you may have.

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