

Extemporaneous Remarks of
Commissioner Dana B. "Danny" Covington
Before
The Association of Priority Mail Users
Denver, CO
October 16, 2001

- Commissioner Covington began with an introduction.

Talking Points

- This is a bad period for the Postal Service and ratepayers because rates are rising faster than inflation.
- "Inflation" is the maximum that rates should rise because the Postal Service has so much fixed cost.
- Unfortunately, for this gathering, Priority Mail rates have fallen out of bed.
- Priority Mail had become the Postal Service's flagship product. Extensive advertising convinced the public that Priority Mail was a good and reliable service at a good price.
- Priority became a great generator of revenue and net income, helping to keep rates down for all mail.
- Now it seems that Priority Mail has gone from being a great success to becoming a failure because of inadequate vision. The saga of Priority Mail reminds us of Walt Kelly's Pogo who said, "We have met the enemy and it is us."
- The Postal Service has allowed huge cost increases to seriously damage the competitive advantage that Priority Mail enjoyed; its very competitive prices.
- However, much of Priority's volume is a product of its monopoly, and not subject to much competition.

Handout

- The chart covers the years from 1995-2003.
- It displays total unit cost for Priority Mail and mail processing cost and transportation cost for Priority Mail.

- For compensation, it displays total unit costs for other mail (excluding First Class and Priority), and it displays mail processing cost and transportation cost for other mail.
- First Class is excluded from the comparison because it is almost entirely letter shaped, the one shape whose cost is declining due to automation.
- In the next set of rows, the chart shows the annual percentage change of all these costs.
- In the final set of rows, the total percentage change is provided on a cumulative basis.

Annual Change in Total Priority Mail Costs.

- In 1996, total Priority Mail costs grew 12 percent while total other mail costs grew only 2 percent. Remember other mail excludes First Class.
- Total Priority cost grew much faster than other mail in years 1996 through 2000. In '01 and '02, Priority costs are forecast to grow less than other mail but Priority costs are forecast to grow faster than other mail in '03.
- The cumulative growth total Priority Mail cost from 1995 to 2000 has been 65 percent, compared to 2 percent for other mail.

How is this possible?

- Certainly the Emory Air contract has been an important contributor. It began in April 1997 and ended in September 2000.
- 1998 is a particularly interesting year because total Priority cost grew by 13 percent, even though Priority processing and transportation costs dropped. This is because Emory took over some of the mail processing and transportation of Priority Mail and these contract costs caused total costs to grow faster than mail processing or transportation costs.
- 2001 shows the reverse. Mail processing and transportation costs rise faster for Priority than for other mail, but total costs for Priority rise less than other mail because the contract costs are gone.
- In summary, the Emory contract was a failure. The question is how is it that the Postal Service entered into this arrangement?

FY 1995-2003

<u>Unit Cost</u>	1995	1996	1997	1998	1999	2000	USPS Estimates from R2001-1		
							2001	2002	2003 AR
Total Priority	\$ 1.56	\$ 1.75	\$ 1.76	\$ 1.99	\$ 2.33	\$ 2.58	\$ 2.87	\$ 2.86 ^b	\$ 2.94
Mail Processing	0.46	0.49	0.55	0.53	0.57	0.61	0.76	0.83	0.86
Transportation	0.56	0.62	0.58	0.55	0.58	0.71	0.94	1.13	1.12
Total Unit Cost for Other ^a Mail	0.15	0.16	0.15	0.15	0.16	0.15	0.18	0.18	0.17
Other Mail Processing	0.05	0.05	0.04	0.04	0.05	0.05	0.05	0.05	0.05
Other Transportation	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
<u>Annual Change in Unit Cost</u>									
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Priority	NA	12%	1%	13%	17%	11%	11%	0%	3%
Mail Processing	NA	8	11	(4)	8	7	24	9	3
Transportation	NA	12	(7)	(5)	5	24	32	20	(0)
Total Other Mail	NA	2	(6)	1	8	(3)	14	3	(4)
Other Mail Processing	NA	1	(7)	1	11	(0)	2	1	0
Other Transportation	NA	8	(3)	1	(11)	(2)	6	6	(3)
<u>Cumulative Change in Unit Cost</u>									
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Priority	NA	12%	13%	27%	49%	65%	83%	83%	88%
Mail Processing	NA	8	20	16	26	35	67	82	87
Transportation	NA	12	3	(1)	3	28	69	103	102
Total Other Mail	NA	2	(4)	(3)	5	2	16	19	15
Other Mail Processing	NA	1	(6)	(5)	6	5	7	8	8
Other Transportation	NA	8	5	6	(5)	(7)	(2)	4	0

a: Other mail is all mail excluding First-Class and Priority

b: Total Priority unit cost decreases in 2002 due to the elimination of the Emery contract

Source: Cost Segments and Components Reports