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Report to Congressional Requesters

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U.S. POSTAL SERVICE

Priority Mail at Risk to Competition if Double Postage Rule Is Suspended

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The Honorable David Pryor, Chairman
The Honorable Ted Stevens, Ranking Minority Member
The Honorable Jim Sasser
Subcommittee on Federal Services, Post Office, and
Civil Service
Committee on Governmental Affairs
United States Senate

This report responds to your request that we evaluate the effect on the U.S. Postal Service's revenue and market share if the double postage rule for extremely urgent letter mail were suspended or modified by Congress.

Background

The Private Express Statutes[1] gave the Postal Service the exclusive right to carry letters over postal routes. With some exceptions, the carrying of letters by any person or organization other than the Postal Service is unlawful. Congress did not define what constitutes a letter, leaving this definition to the Postal Service. For purposes of the Private Express Statutes, the Postal Service has defined a "letter" as a message directed to a specific person or address and recorded in or on a tangible object including, but not limited to, paper, recording disks, and magnetic tapes (see 39 C.F.R. 310.1).

In 1979, the U.S. Postal Service issued a regulation (39 C.F.R. 320.6) that suspended enforcement of the general provision of the Private Express Statutes for private carriage of "extremely urgent" letters. Under part (c) of this regulation, extremely urgent letter mail is defined by a cost test: whether the public is willing to pay at least $3.00 or twice the domestic postage for First-Class Mail (including Priority Mail rates), whichever is greater.[2] For example, a First-Class single-piece, nonpresorted letter weighing 9 ounces costs $2.13 to mail through the Postal Service. For this letter to be sent by private carrier as extremely urgent, the carrier is required to charge the sender a minimum of $4.26 because of the double postage rule. If this rule were suspended, the carrier could legally deliver this 9-ounce letter for as little as $3.00, a lower cost threshold for the sender to determine how urgent the letter is.

[1]The Private Express Statutes (18 U.S.C. 1693-1699 and 39 U.S.C. 601-606) are a set of federal laws enacted originally in 1792 to restrict private carriage of letters. Congress enacted these laws primarily to guarantee a healthy postal system that could afford to deliver letters between any two locations, however remote.

[2]We have used the Postal Service's preferred capitalization for First-Class, Express, and Priority Mail, which are registered trademarks.

First-Class Mail consists mostly of letter mail weighing up to 11 ounces and postcards. Priority Mail consists of First-Class Mail weighing more than 11 ounces, and at the option of the mailer, any other mail matter (including regular First-Class Mail) weighing 11 ounces or less. There is no minimum weight limit for Priority Mail. Recently, the Postal Service has aggressively marketed its Priority Mail as a second-day service to both businesses and the general public. About 5 percent of Priority Mail volume is regular First-Class Mail weighing less than 11 ounces. The other 95 percent is heavier First-Class Mail weighing more than 11 ounces and is automatically sent as Priority Mail, which may or may not be delivered in 2 days by the Postal Service.

The issuance of the regulation in 1979 opened more of the expedited mail market (letter mail) to Postal Service competitors.[3] Over a 10-year period, the Postal Service's share of this $6.3 billion market dropped from an estimated 33 percent in 1980 to 12 percent in 1990. Increased competition for the urgent mail business has driven prices down to the extent that private carriers claim they can charge less than twice the Priority Mail rates for overnight shipments weighing more than a few pounds and still make a profit.

In December 1988, private express carriers represented by the Air Courier Conference of America (ACCA) petitioned the Postal Service to repeal the double postage rule, saying that the rule was obsolete and anticompetitive. The Postal Service denied their request on the basis that any change to this rule could adversely affect revenues needed to support Postal Service operations. In October 1989, ACCA tried to get legislation introduced that would codify the Postal Service extremely urgent letter regulation, omitting the reference to the double postage test but retaining the $3.00 cost test. ACCA commissioned a study by Arthur Eden, an economist and former Assistant Postmaster General for the Rates and Classification Department, to assess the financial risks to the Postal Service of doing away with the double postage rule. In the October 1989 study, Mr. Eden concluded that the "revenue consequences for the Postal Service will not be material" if the rule were suspended.

Results in Brief

Under current rates, suspension of the double postage rule would not appreciably reduce the protection First-Class Mail receives from the extremely urgent letter regulation. First-Class Mail is the largest volume mail class and generates the largest segment of Postal Service revenues. In

[3]Package mail has never been covered by the Private Express Statutes.

1991, it accounted for 54.4 percent of the mail piece volume and 63.6 percent of Postal Service revenues. About 99 percent of this mailstream weighs less than 6 ounces and is delivered for less than $1.50. Thus, the remaining $3.00 cost test is still twice the rate for all but 1 percent of First-Class Mail. As postage rates increase, however, the spread between the proposed minimal urgent letter exemption rate of $3.00 will narrow or disappear, increasing the at-risk exposure of additional First-Class Mail volume to private carriage unless the $3.00 exemption rate is indexed to correspond with future rate increases.

The Postal Service's Priority Mail, which advertises second-day service and has a mix of protected and unprotected material, would be immediately at risk to competition if the double postage rule were suspended. Priority Mail rates now start at $2.90 for pieces weighing up to 2 pounds, which is only 10 cents less than the minimum $3.00 limit. It is the fastest growing mail service offered by the Postal Service, having experienced a 50 percent cumulative growth rate since 1987, and it produced revenues of about $1.8 billion in fiscal year 1991. This amount accounted for 4 percent of the Postal Services total revenues in fiscal year 1991.

Private overnight delivery companies, notably the dominant Federal Express and United Parcel Service (UPS), would be strong competitors to carry letters that now go by Priority Mail. UPS currently offers a second-day delivery service and is the Postal Service's chief competitor for the second-day package market. The revenues the Postal Service would lose cannot be determined without knowing the extent to which private carriers would compete for the second-day letter mail and the extent that these carriers would be able to cut prices to take advantage of a new lower minimum. The amount of second-day letter mail at risk to private carriage also cannot be precisely estimated because the Postal Service is unable to distinguish its Priority Mail monopoly letter volume from its other Priority Mail volume. If private carriers do compete, the histories of the Postal Service's overnight mail, or Express Mail, and Parcel Post suggest that the Postal Service could expect a significant loss of its Priority Mail letter business.[4] The Postal Service has a reputation for being less consistent and reliable than its major competitors for on-time performance in its overnight and second-day market.

[4]U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

In addition to the potential for competitors to aggressively pursue the second-day mail market, there are several other reasons why we come to a different conclusion than the study commissioned by ACCA on possible consequences to Priority Mail if the double postage rule were suspended. The ACCA study estimated an 8-percent rate increase at the minimum rate level for 1991, but the actual rate increase was 20 percent. As a result, the maximum at-risk revenue loss of $66.7 million is understated since the minimum rate level ($2.90) is much closer to the $3.00 limit than anticipated. The ACCA study also does not account for the substantial volume growth that has occurred in Priority Mail and probably understates the amount of Priority Mail covered by the Private Express Statutes and double postage rule. Furthermore, its assumption that the effects of any revenue losses that could occur would be mitigated to a great extent by cost reductions traceable to related volume losses may not materialize since the Postal Service has had difficulty in reducing its labor-intensive costs to adjust to volume decreases.

Appendix I provides our detailed analysis of the potential impact to Postal Service's revenues and market share if the double postage rule were suspended by Congress. We are making no recommendation in this report, since postal revenues and market share are not the only considerations in deciding whether to suspend the rule.

Objectives, Scope, and Methodology

The objectives of our review were to assess (1) the extent of competition the Postal Service could face in the marketplace if the extremely urgent double postage rule were suspended by Congress and (2) the financial impact that such a change could have on Postal Service revenues.

In carrying out our work, we analyzed data from the Postal Service's Revenue, Pieces, and Weight (RPW) statistical mail sampling database and its Origin-Destination Information System (ODIS). In addition, we interviewed Postal Service headquarters officials in the Rates and Classification, Law, and Marketing departments and Inspection Service. We also obtained the views of Postal Rate Commission officials on the double postage rule, reviewed the 1989 ACCA study on the financial risk to the Postal Service if the postal monopoly regulations were changed, and discussed our observations on this study with its author, Mr. Arthur Eden.[5] Our analysis and conclusions on the possible consequences to Postal Service revenues and market share is based on current rates and estimated

[5]The ACCA study is the only financial risk assessment that has been made on the proposed rule change.

volumes for fiscal year 1992 and not on out-years after the next rate increase expected in 1994.

We did our work between October 1991 and March 1992 in accordance with generally accepted government auditing standards.

A draft of this report was discussed with the Assistant Postmaster General, Rates and Classification Department, and his staff. Their comments were considered in preparing our final report. In general, they said that they agreed with the report analysis.

As arranged with the Committee staff, we will distribute copies of this report to the Acting Postmaster General, the House Committee on Post Office and Civil Service, and other interested parties. Copies will also be made available to others upon request.

If you have any questions on this report, please call me on (202) 275-8676. Major contributors to this report are listed in appendix II.

L. Nye Stevens

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Director, Government Business
Operations Issues

Contents

Abbreviations

ACCA	Air Courier Conference of America
ODIS	Origin-Destination Information System
RPW	Revenue, Pieces, and Weight
UPS	United Parcel Service

Potential Impact on Postal Service Revenues and Market Share If the Double Postage Rule Is Suspended

To assess the risk to Postal Service operating revenues if the double postage rule is suspended requires (1) identifying the volume of mail protected by the Private Express Statutes and (2) determining what portion of this mail would lose double postage protection by comparing the proposed minimum rate of $3.00 and the corresponding Postal Service letter rate. As postage rates increase, however, the spread between the proposed minimal urgent letter exemption rate of $3.00 will narrow or disappear, increasing the at-risk exposure of the Postal Service mailstream to private carriers unless the $3.00 exemption rate is indexed to correspond with future rate increases. The sections that follow provide our risk assessment of letter mail that would be exposed to competition and operating revenues that could be affected if the proposed change by the Air Courier Conference of America (ACCA) to the urgent letter regulation is mandated by Congress.

Composition of Letter Mail Protected by the Double Postage Rule

Suspending the double postage rule would set the cost test for private carriage of extremely urgent letters at $3.00. Under the $3.00 cost test, the Postal Service would lose part or all the protection now afforded by the double postage rule in two major mail categories—First-Class single-piece (nonpresort) and Priority Mail, respectively. First-Class presort letter mail and third-class letter mail, under current rates, would not in our opinion be adversely affected by the rule change since this mail would still cost less than half the $3.00 rate and thus would continue to receive double postage protection.[1] Express Mail, which represents 12 percent of the overnight market and consists mainly of occasional users of this service, will not likely be affected by the proposed rule change since both Postal Service and competitors' rates are already well above the levels at issue. Our analysis of the composition of First-Class nonpresort mail and Priority Mail that would be exposed to competition by the suspension of the double postage rule follows.

First-Class Nonpresort Letters

First-Class nonpresort letters and parcels constitute the largest mail category in this class, accounting in fiscal year 1991 for 62.4 percent of the First-Class mail volume and 70.0 percent of the revenues. Based on Postal Service Revenue, Pieces, and Weight (RPW) statistics from previous fiscal years, table I.1 shows that 99 percent of the nonpresort volume (about 58 billion pieces) will probably weigh less than 6 ounces in fiscal year 1992 and will account for 95 percent of the revenue (about $18.8 billion). At

[1]Customers who send letter mail third-class understand that this mail will not receive preferential service since it is subject to deferred mail processing and delivery by the Postal Service.

current rates, this mail will continue to receive double postage protection under the $3.00 cost test since the rates for letters weighing from 1 through 6 ounces will be less than $1.50 ($0.29 to $1.44). For mail weighing from 7 to 11 ounces with estimated revenues of $916 million in fiscal year 1992, the double postage protection would be lost, but the current rates at these weights would still be below the $3.00 limit. According to Postal Service officials, mail in the 7 to 11 ounce weight range is predominantly made up of letters and is covered by the Private Express Statutes. But if removal of the double postage rule allowed the private sector to cut prices substantially to a figure near or at the $3.00 minimum, some customers would be willing to pay a premium for greater reliability, conveniently located mail drops, and other services not currently offered by the Postal Service. This would place a portion of the First-Class mailstream at risk to competitive inroads in the future when postage rates will presumably be higher.

Table I.1: Estimated Volume and Revenue for First-Class Nonpresort Letters and Sealed Parcels (Fiscal year 1992)

	Volume		Revenue		
Weight in ounces	Pieces[a] (in thousands)	Percentage of total pieces[b]	Rate[c]	Dollars[d] (in thousands)	Percentage of total
0-1	52,944,131	90.82%	$0.29	$15,353,798	76.77%
1-2	2,261,872	3.88	0.52	1,176,174	5.88
2-3	1,136,766	1.95	0.75	852,574	4.26
3-4	926,901	1.59	0.98	908,363	4.54
4-5	349,774	0.60	1.21	423,227	2.12
5-6	139,910	0.24	1.44	201,470	1.01
6-7	128,250	0.22	1.67	214,178	1.07
7-8	198,205	0.34	1.90	376,590	1.88
8-9	81,614	0.14	2.13	173,838	0.87
9-10	52,466	0.09	2.36	123,820	0.62
10-11	75,784	0.13	2.59	196,282	0.98
Total	**58,295,674[e]**	**100.00%**		**$20,000,313**	**100.00%**

Note: Totals may not add due to rounding.

[a]Pieces weighing 1 through 11 ounces are calculated by multiplying the total volume of pieces by the corresponding percentage of total pieces.

[b]Percentages shown are taken from the Postal Service's RPW statistics for fiscal year 1991.

[c]These are current postage rates.

[d]Revenue per weight category is the product of rate column and corresponding pieces.

[e]Total pieces taken from Postal Rate Commission Docket R90-1, "Appendices to Opinion and Recommended Decision," Volume 2 of 2, Appendix G, Schedule 2, page 1.

Priority Mail

The Postal Service markets its Priority Mail second-day service to both businesses and the general public. This service generated operating revenues of about $1.8 billion in fiscal year 1991, which represents 4.2 percent of total Postal Service mail revenues. The Postal Service delivered approximately 521 million pieces of Priority Mail in fiscal year 1991. About 5 percent of this volume (27 million pieces) was regular First-Class Mail that weighed 11 ounces or less. The other 95 percent (494 million pieces) was First-Class Mail that weighed more than 11 ounces and was automatically sent as Priority Mail by the Postal Service. A mailer of a letter weighing more than 11 ounces may or may not be aware that his or her letter is classified as Priority Mail. According to Postal Service officials, the distribution of the Priority Mail volume is fairly evenly distributed by population and not heavily concentrated in any one sector of the country.

According to the Postal Service's Origin-Destination Information System (ODIS) database, about 53 percent of Priority Mail volume consists of small parcels and packages, which are not subject to the Private Express Statutes and urgent letter regulation. The other 47 percent consists mostly of flats[2] with a small portion identified as letters and cards. The Postal Service does not know how many flats would constitute letter mail because they are sealed from inspection. They believe, however, and we agree that the proportion is likely to be significant.

As table I.2 shows, 78 percent of all Priority Mail weighs less than 2 pounds. According to Postal Service officials, the portion of Priority Mail that is letter material and thus subject to the Private Express Statutes would be concentrated in the lower weight ranges. The Postal Service currently charges $2.90 for 2 pounds or under which approximates the minimum $3.00 cost test of the urgent letter regulation, and thus would be at risk to competition if the double postage rule were suspended.

[2]A flat is a piece of mail that exceeds the dimension for letter size mail (11-1/2" long, 6-1/8" high, 1/4" thick) but which does not exceed the maximum dimensions (15" long, 12" high, and 3/4" thick). A flat may be unwrapped, paper wrapped, sleeve wrapped, or enveloped. See Glossary of Postal Terms, U.S. Postal Service, Publication 32 (Washington, D.C.: 1981), p. 27.

Table I.2: Estimated Volume and Revenue for Priority Mail (Fiscal year 1992)

	Volume		Revenue		
Weight in pounds	**Pieces[a] (in thousands)**	**Percentage of total pieces[b]**	**Rate[c]**	**Dollars[d] (in thousands)**	**Percentage of total**
0-1	230,184	41.93%	$ 2.90	$667,533	33.40%
1-2	199,936	36.42	2.90	579,813	29.01
2-3	51,933	9.46	4.10	212,924	10.65
3-4	23,496	4.28	4.65	109,256	5.47
4-5	13,395	2.44	5.45	73,002	3.65
6-70	30,029	5.47	5.55 to 75.35	356,062	17.82
Total	**548,972[e]**	**100.00%**		**$1,998,592[e]**	**100.00%**

Note: Totals may not add due to rounding.

[a]Pieces weighing 1 through 70 pounds are calculated by multiplying the total volume of pieces by the corresponding percentage of total pieces.

[b]Percentages shown are taken from the Postal Service's RPW Statistics for fiscal year 1991.

[c]These are current postage rates.

[d]Revenue per weight category is calculated by multiplying the current postage rate by the corresponding number from the pieces column, except in the 6 to 70 pound category. This revenue amount was derived by subtracting the sum of total revenue of weight categories 1 through 5 pounds from the total revenue.

[e]Total pieces shown is based on a volume increase of 3.5 percent from fiscal year 1991, which is the year-to-date change (October 1991 through January 1992) reported by the Postal Service. Total dollars shown is the product of total pieces and the revenue per piece figure of $3.64, which is the year-to-date figure reported by the Postal Service.

Consequences to Postal Service Revenues and Market Share If Double Postage Rule Is Suspended

As discussed earlier, the potential for mail diversion to private carriage if the double postage rule is suspended would most likely occur in the Postal Service's First-Class nonpresort and Priority Mail categories. This conclusion is similar to the one that Arthur Eden, Senior Consultant, National Economic Research Associates, Inc., reached in his 1989 study[3] for ACCA.[4] However, in this study, Mr. Eden concluded that for these mail categories as well as First-Class presorted mail, Express Mail, and third-class mail

[3]Arthur Eden, "Economic Analysis Pertaining to a Proposed Bill to Revise and Codify Certain Postal Monopoly Regulations," study for ACCA (Washington, D.C.: Oct. 1989).

[4]ACCA represents the majority of the nation's air couriers and air express companies that compete against the Postal Service for business.

"...any revenue consequences [from suspension of the double postage rule] for the Postal Service will not be material, either in absolute dollar terms or, most assuredly, in relative terms expressed as a percentage of its total revenues. Further, the effects of any revenue losses that could possibly occur would be mitigated, very substantially, by cost reductions traceable to the related volume losses."

On the basis of current rates, we generally agree with Mr. Eden's general conclusion that there will be no material revenue consequences to the Postal Service if the double postage rule is suspended. But this conclusion is true only for the short term and could change after the next rate proceeding expected to take place in 1994. We believe that the current low cost of most First-Class and third-class mail and the $3 minimum rate for private carriers to deliver urgent mail should provide a buffer from price competition in the immediate future. A future rate increase in 1994 in the range of 20 to 25 percent for First-Class nonpresort letters, however, would place single-piece letters weighing from 9 to 11 ounces near or over the minimum $3.00 limit that could be charged by private carriers. A price increase in this range is not unlikely given the financial problems currently facing the Postal Service. The Postal Service recommended an increase of 20 percent in the 1990 rate case, and was granted an increase of 15 percent by the Postal Rate Commission's decision.

Closing the price gap could open up the First-Class nonpresort letter portion of the mailstream to competition because of quality differentials between the Postal Service and private carriers. For Express Mail, the Postal Service has no appreciable share of the high-volume business market targeted by its competitors. We do not believe that suspension of the double postage rule will result in private carriers trying to capture the Postal Service's less profitable overnight market segment.

Regarding Mr. Eden's analysis of Priority Mail, we have a number of observations to make. First, Mr. Eden's 1989 analysis assumed that the current minimum pound rate would be $2.60 in fiscal year 1991, which is 30 cents lower than the actual rate. Thus, Mr. Eden's maximum "at-risk" $66.7 million figure is understated not only because of the lower rate he estimated but by what the Postal Service believes is an underestimation of the Priority Mail volume subject to the urgent letter regulation. Mr. Eden assumes that only a small fraction of Priority Mail (about 57 million pieces or 14.4 percent of total volume) is protected by the Private Express Statutes. Postal officials said that Mr. Eden's estimate is plausible but probably at the lower end of the range for possible diversion. However, Postal Service officials do not have hard statistics on the amount of Priority Mail subject to the Private Express Statutes.

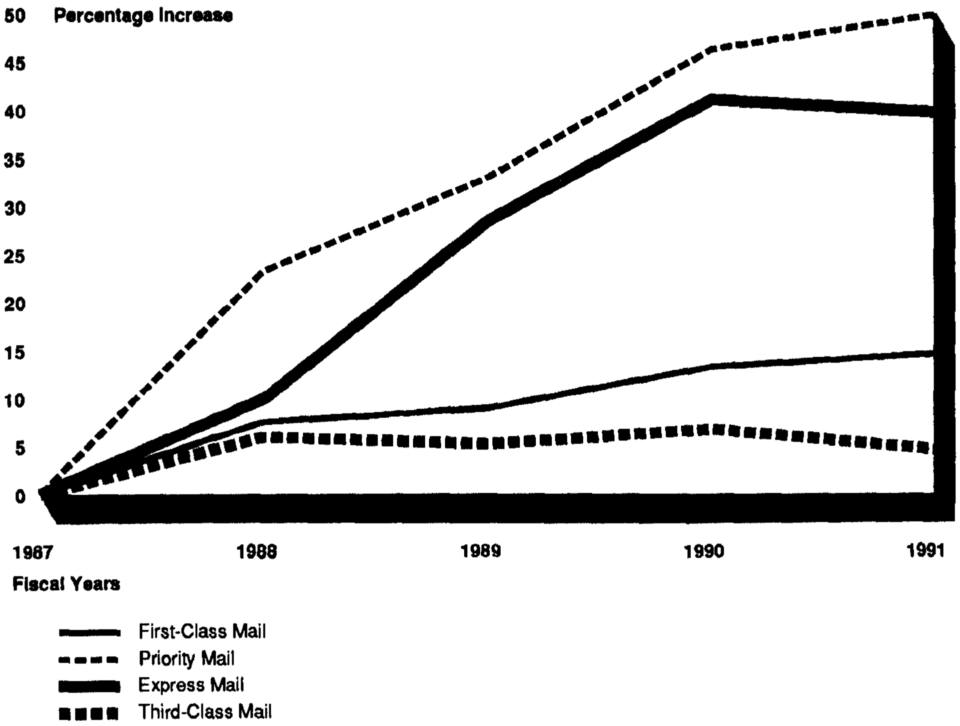
To illustrate potential volume and revenues at risk to diversion, we provide three diversion scenarios in table I.3. We assume the losses will occur in the "2 pound and under" weight categories, which we estimated in table I.2 will amount to approximately 430 million pieces in 1992. As table I.3 shows, a 15-percent diversion would cost the Postal Service about $187 million which is 2-1/2 times higher than estimated at risk by Mr. Eden. At the high end of the range (25 percent), Mr. Eden's maximum at-risk figure of $66.7 million would be understated by about $245 million. We emphasize that these diversion numbers represent only Priority Mail volumes at risk to diversion and are not projections of mail that would be diverted if the double postage rule were suspended.

Table I.3: Diversion of Priority Mail

Diversion rates	No. of pieces diverted (in millions)	Revenue loss (in millions)
15%	64.5	$187.1
20%	86.0	$249.5
25%	107.5	$311.8

Second, Mr. Eden assumed in 1989 that Priority Mail would have a volume growth of 4.0 percent between fiscal years 1989 and 1991, whereas the actual growth rate was 12.6 percent. Priority Mail is the Postal Service's fastest growing mail category with a cumulative growth rate of 49.7 percent over the last 5 years (see figure I.1). The Postal Service expects that this service will continue to grow at high rates as the higher costs of overnight service become an increasing factor for shipments that may not truly require overnight service as opposed to second-day service.

Figure I.1: Mail Volume Growth Rates



Source: Annual reports of the Postmaster General, fiscal years 1987-91.

Third, Mr. Eden assumes that the net financial loss will be far lower than his calculated maximum "at-risk" exposure of $66.7 million due to attributable cost reductions from lower volumes.[5] We do not fully accept this assumption since 85 percent of Postal Service costs consist of salary and benefit expenses, which are difficult to control. Historically, the Postal Service has had difficulty adjusting workforce requirements to meet

[5]Postal Service costs are classified as two types—attributable and institutional. For each class of mail, attributable costs include every cost that is directly or indirectly caused by that class of mail. Costs that are directly attributable can be thought of as the "incremental costs" of that service, which the Postal Service would save, in theory, if it did not provide that service. Some attributable costs are fixed costs specific to a service that would not be saved if volume were lost but only if the service were eliminated outright. Institutional costs are the remaining nonattributable or common costs of providing mail service that cannot be separated and would not be saved from loss of volume in one or more of its services.

volume or productivity changes.[6] To offset Priority Mail forgone revenues and institutional cost contributions with savings expected from attributable cost reductions could require the Postal Service to lay off postal employees. Any layoffs would most likely have to be in addition to the 84,000-person planned workforce reduction the Postal Service expects to achieve by 1995 as it automates its mail processing operations.[7] In addition, if Mr. Eden's assumed attributable cost savings do not materialize, his "net loss" calculation of $59.2 million is probably understated. In fiscal year 1990, the Postal Service reported that the total Priority Mail contribution to institutional costs was about $669 million with a per piece contribution of $1.29. Applying this unit contribution to his estimated 57 million at-risk volume places the net loss at $73.5 million rather than the $59.2 million he calculated if there were no offsetting savings from attributable costs.

For fiscal year 1991, the Postal Service estimates that the total contribution will be about $748 million with a per piece contribution of $1.41. If the Postal Service lost half of the estimated 107 million Priority Mail pieces to private carriers using our 25 percent diversion rate scenario, the Postal Service's net loss contribution would be about $75.8 million assuming that there was no appreciable savings from attributable cost reductions. Although this amount is less than 1 percent of the $16 billion total institutional cost burden estimated for fiscal year 1992, it still represents a loss that will have to be recovered by another mail category. Given that some attributable cost is class-specific overhead, there is also a loss that will have to be recovered by the Priority Mail volume that remains. (See footnote 5.)

Another factor to consider when assessing the potential financial and market share impact from the suspension of the double postage rule is the high probability that a very large fraction of Priority Mail originates in businesses, as does most mail delivered by the Postal Service. According to the Postal Service's latest published study on mail received by households, about 88 percent of mail sent through the Postal Service originated in the business sector, and the other 12 percent originated in households.[8] Federal Express and United Parcel Service (UPS), which target their markets to business shippers, would be strong competitors for

[6]See GAO testimony, Financial Performance of the United States Postal Service (GAO/T-GGD-90-16, Feb. 7, 1990).

[7]GAO will be issuing a report shortly on the Postal Service's automation efforts that will discuss the difficulties the Postal Service is experiencing in achieving the planned workforce reductions.

[8]The Household Diary Study, Fiscal Years 1989 and 1990, the Postal Service, Rates and Classification Department, Demand Research Division (Washington, D.C.: Mar. 1992) p. III-2.

Priority Mail letters because of their existing national network for urgent letters and packages and their reputation for consistent and reliable service. UPS currently offers a second-day air delivery service and reported approximately $1 billion in revenues for 1989 compared to the Postal Service's $1.4 billion Priority Mail revenues for that year.

In our recent report to Congress on pricing postal services in a competitive environment, we discussed how private carriers dominate the business segments of the overnight and parcel markets, leaving the Postal Service with the less profitable household markets. If private carriers enter the Priority Mail market, they will face fewer regulatory constraints than the Postal Service and thus have an advantage in this market. For example, they will have the ability to readily change prices to match competitor prices and to price their services without the constraint of a lengthy ratemaking process faced by the Postal Service. To obtain the business of large shippers, they will probably offer volume discounts that the Postal Service has not been able to do because the Postal Rate Commission has ruled that volume discounts would discriminate among users of the same service.

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