

**REMARKS BY POSTMASTER GENERAL JOHN E. POTTER  
PRESIDENTIAL COMMISSION ON THE U.S. POSTAL SERVICE  
WASHINGTON, DC**

**JANUARY 8, 2003**

Thank you Chairman Pearce, Chairman Johnson. Commissioners . . . thank you all for agreeing to be on the Commission and for allowing me to participate in this first meeting of the President's Commission on the Postal Service.

I want to begin by thanking President Bush for putting this panel together. The fact that the President chose to form the Commission at this time attests to his interest and concern about the future on the Postal Service. And for that we are grateful.

I also want to thank Treasury Undersecretary Peter Fisher for his comments this morning, and for understanding the challenges we must overcome to provide affordable, universal service for everyone in America in the future.

Joining me today is Richard Strasser, our Chief Financial Officer and Executive Vice President. At the conclusion of my remarks, Dick will add some detail and perspective about our finances and the challenges associated with funding a \$67 billion organization.

I want to begin with a brief overview of the size and scope of the Postal Service of today and the massive mailing industry that has evolved and grown over the past 30 years.

As Secretary Fisher mentioned, ours is a truly national industry today -- interconnected with thousands of American businesses that employ 9 million people whose work is directly related to or dependent on the nation's mail. Together, it's a \$900 billion industry that relies on the 750,000 men and women of the United States Postal Service.

It was 35 years ago that a Presidential Commission began examining America's postal system. Their recommendations were the basis for the Postal Reorganization Act of 1970 that established the United States Postal Service.

- The Post Office Department had been receiving up to 20 percent of its revenue from tax payer subsidies.
- There were limited funds to expand and improve the infrastructure.
- Service had fallen.
- Employees were stuck in a personnel system where politics often outweighed merit when it came to promotions.

From that flawed system, the Postal Service emerged to act in a more businesslike manner.

In the years since 1970, we have lived up to our mandate to provide affordable, universal mail service to every American regardless of where they live, where they work, and regardless of their economic circumstances.

The United States Postal Service has been successful.

The Postal Service has grown with America and the economy.

- The number of addresses served has increased 72 percent since 1970.
- Mail volume has grown from 87 billion pieces to 203 billion pieces of mail.
- The price of the First-Class stamp, adjusted for inflation, is essentially the same as it was in 1971.

The Reorganization Act brought about significant changes in the way management approached the business. We used our increased flexibility to transform from a primarily manual operation to a highly mechanized operation in the 1970s and '80s to what is today a highly automated operation.

Over the past 30 years, we've looked at the entire mail chain from printing to delivery. When we saw volume increasing dramatically in the late '70s and early '80s, we had two options: invest in more infrastructure or get our customers involved.

We chose to engage our customers to help us find equitable ways to share the work and share the savings. The net result is \$15 billion in annual worksharing discounts for our customers and less investment in buildings and equipment for the Postal Service.

The point is the Postal Service made a strategic decision not to own everything. We looked at the least combined costs of alternatives and felt that worksharing and customer involvement was in the nation's best interest. The postal network is an open system.

Postal reorganization also changed our approach to service. By the 1980s we were no longer the only game in town. Competition compelled us to rethink what we had been doing.

We moved to independent performance testing for First-Class Mail -- and we publicly reported service results on a quarterly basis. The initial results were not what the American people deserved.

Today, service performance is at record levels and we continue to publicly report our First-Class Mail performance scores. Customer satisfaction is also at record levels.

So with all that good news, you are probably asking yourselves, why are you here.

Ladies and gentlemen, the Postal Service is challenged by changes in the marketplace -- primarily electronic communication.

Our primary source of revenue is First Class letter mail. Twenty-five percent of postal revenue comes from bills and payments -- the segment of the mail most vulnerable to electronic diversion.

The potential significant diversion of letters to electronic medium challenges our basic business model. That model assumes that mail volume and revenue growth will finance the Postal Service's growing infrastructure of some 1.7 million additional delivery points per year. As new homes, towns and cities are built, the Postal Service must grow with them.

In addition, GAO raised concerns regarding long-term liabilities and obligations related to debt repayment, pension costs and health care benefits for retirees.

As a result of all these concerns, in 2001, the Senate requested us to put together a Transformation Plan. Simply put, they asked us to look ahead and come up with strategies to assure that the needs of the American public would continue to be met in the future.

This past year we seized the initiative to transform the Postal Service -- to begin the process of preparing for the future -- to preserve America's trust in our ability to deliver.

The Transformation Plan has three basic elements. The first element all centers around doing a better job with the resources we have under the current legislation.

- It lays out specific goals for improving service and operational efficiency.
- It identifies specific ways we will grow our business by enhancing products and expanding customer access to postal services.
- And it details plans and strategies to improve financial performance.

This past year, we made great strides in transforming the Postal Service while maintaining our focus.

Service is at all-time highs. Productivity is up. Employee complement has been reduced by over 45,000 through attrition in recent years.

We've committed to take \$5 billion in expenses out of our operating base over five years and are well ahead of our plan.

However, bio-terrorism, recession, and electronic diversion have negatively impacted volumes. Despite productivity gains, we have had to raise rates 15 percent over the two year period. No question, those rate increases have hurt growth.

Despite stiff competition and a changing marketplace, we are working hard to encourage growth. For example, we are exploring alternatives such as phased rates for future rate cases, negotiated service agreements, and adding value to our existing mail products through information technology.

As the Postal Service looks to the future, we recognize that there is a need to change the legislation under which we operate. The second portion of the Transformation Plan addresses short term legislative change.

Recently, OPM completed an extensive review of USPS pension obligations for employees covered under the Civil Service Retirement System and concluded that we would find ourselves in an overpayment situation were we to continue payments on the current schedule as set by a 1974 law.

We are pleased that the Administration has drafted legislation to correct this situation. If enacted, it would reduce the Postal Service's annual payments to the CSRS fund by some \$2.9 billion in 2003.

The combination of management's efforts to improve productivity, coupled with a change in pension legislation, could enable us to hold rates stable through 2006. It would also enable us to lower our debt, something I know Treasury favors. This stability in rates and debt obligations would foster some growth in the mailing industry, but would do little to reverse electronic diversion.

The third piece of the Transformation Plan addresses the need for long-term legislation. That's where you come in. We certainly welcome any and all recommendations by the Commission to improve service and efficiency within the current legislation, and will actively pursue those recommendations.

However, today, you the members of this Presidential Commission, have an historic opportunity to offer your findings and recommendations to make the postal system a viable, efficient and affordable service to all Americans well into the future.

We urge the Commission to engage in a thorough review of the key public policy issues related to the Postal Service.

From the early years of our history, the principal defining public policy that has guided and governed the Postal Service has been the vision of a universal mail service.

That vision was founded on the notion of equal access to postal services that would connect the American people for generations to come. Equality demanded that uniform rates be set, that a single stamp can get your letter from anyplace in America to its destination anywhere in America – whether that's around the block or around the country.

Equality demanded regular delivery to every mailbox be provided to everyone, not just the privileged and well-to-do.

That promise still holds true today. But our society is far removed from the world of our forefathers. Today, we live in a highly technological environment that has created a fiercely competitive marketplace – one where change is inevitable but also critical.

Our customers have changed as well.

Technological advances offer our customers more choices and more options to communicate across town and across the world. More choices and options signal a shift in customer behavior that favors the service provider best equipped to meet changing customer needs.

Meeting those changing needs demands that we change. That's what the Transformation Plan is all about. The question now before us, however, is how to define the needs of our customers, the American people in the decades ahead.

Since 1994, the Congress and the entire mailing industry has debated public policy issues ranging –

- from strict pricing regulation to pricing flexibility;
- from binding arbitration with labor to the right to strike;
- from breakeven to retained earnings;
- from a \$15 billion borrowing limit to doubling that amount;
- from fewer post offices to more post offices;
- from a stricter monopoly to no monopoly.

In the end it's not about any single issue. It's about universal service to the American people.

The key question is how can we continue to provide the universal service to all Americans and still make it affordable in the face of potentially declining mail volume. That is the central public policy issue facing this Commission.

As you may have concluded, the issues related to postal services in this country are complex. The mailing industry comprises a wide spectrum of varied interests and conflicting opinions about Postal Service reform and transformation. And everybody in the country is a customer of the Postal Service.

That's why we welcome this opportunity to work with the members of this Commission in a thorough and objective assessment of the Postal Service.

Collectively, you represent a wide spectrum of business experience and expertise that will enable you to bring a new and unbiased perspective to the public policy issues facing the Postal Service now and, most importantly, in the future.

Thank you Chairman Pearce and Chairman Johnson for this opportunity. I'll now turn to CFO Strasser who will provide a more in-depth review of our service and financial positions.

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