



# **American Forest & Paper Association**

## **American Forest & Paper Association Statement Submitted for the Record**

### **Senate Committee on Homeland Security and Governmental Affairs Hearing- “Realities of the Postal Service” January 21, 2016**

Chairman Johnson, ranking member Carper, members of the committee, my name is Kathy Collins and I am the mill operations manager at Domtar’s Rothschild paper mill in Wisconsin. I am responsible for directly managing the manufacture of approximately 136,000 tons per year of printing papers, much of which is delivered to our end-customers through the U.S. Postal Service.

Today, I am speaking on behalf of the American Forest & Paper Association (AF&PA), which is pleased to submit this written statement to the Senate Homeland Security and Governmental Affairs Committee on the business realities and future viability of the United States Postal Service.

As I am sure you are all well aware, the paper industry has a large stake in the future success of the United States Postal Service. Over one-third, or \$6 billion of the communications papers manufactured by the industry are delivered through the postal system. In addition, the packaging sector of our industry is becoming an increasingly important part of the Postal Service growth strategy for package delivery service driven by the surge in e-commerce. We depend on the Postal Service as an essential component of our nation's economic engine which, according to the most recent Mailing Industry Jobs study, supports \$1.4 trillion in mailing industry revenue and employs over 7.5 million people. The Postal Service is a uniquely American enterprise as it has the infrastructure to enable our customers, which include printers, direct mailers, publishers, ranging from multinational to mom and pop companies to connect and conduct business with every household in this country through printed communications.

The American Forest & Paper Association (AF&PA) serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry’s sustainability initiative - [Better Practices, Better Planet 2020](#). The forest products industry accounts for approximately 4.5 percent of the total U.S. manufacturing GDP, manufactures

approximately \$200 billion in products annually, and employs nearly 900,000 men and women. The industry meets a payroll of approximately \$50 billion annually and is among the top 10 manufacturing sector employers in 47 states. We are an integral part of the fabric and economies of the communities in which we operate, many of which are in rural areas where similar job and economic opportunities do not exist.

The Postal Service is facing unprecedented challenges to adapt to the new market realities of communication and commerce. These challenges are all too familiar to Domtar and our industry, as we confront the same shifts in the way people communicate with one another and conduct business. Our industry recognizes that the highly mobile and internet-enabled economy has forever changed the landscape for paper use. Yet throughout the backdrop of recession, global competition, and the shifting consumer preferences of recent years, the paper and packaging industry remains a significant contributor to the economy and in many of our host communities - often rural and remote - pulp and paper facilities ARE the region's economic lifeline. These new market realities offer both challenges and opportunities for the paper industry and the same is true for the U.S. Postal Service.

In response to a changing market, the paper industry has adapted by realigning infrastructure, redirecting core competencies and seizing new growth opportunities through innovation. Industry companies have re-focused productivity and production to concentrate on the most efficient manufacturing processes. At the same time, worker productivity has increased. Between 2004 and 2014, the average output per man hour at U.S. pulp, paper and paperboard mills increased by nearly 13 percent.

In addition to these efforts, Domtar, like many companies in the industry, has repurposed facilities to enhance quality, improve efficiency and expand capabilities of manufacturing assets, enabling us to take advantage of opportunities to produce new and value-added products that serve adjacent markets. Such new product developments include flexible printed electronic circuits, embedded RFID components, as well as QR codes and augmented reality applications that link consumers from physical print to digital product experiences.

In May 2011 one of my Domtar colleagues appeared before a House subcommittee to detail some of the actions taken necessary to protect Domtar. My colleague talked about the painful, but needed actions taken to preserve our company. We challenged the Postal Service to right-size its organization and want to recognize the important initiatives undertaken by the USPS to meet the challenge.

Some companies, Domtar included, are seizing the growth opportunities in non-traditional papermaking markets by producing specialty pulps and highly engineered, fiber-based absorbent personal care products and wipes.

Through innovation, the industry is leveraging new applications for nano-materials and wood byproducts that make products like paint and plastic composites stronger and last longer. Forest biomass is quickly becoming an important feedstock for manufacturing

green chemicals, a sustainable replacement for those currently made with fossil fuels. At the facility I manage we have an onsite partner that removes lignin from the pulping residuals we generate. At a Domtar facility in Quebec, Domtar has invested in a pilot plant that can produce nano-crystalline cellulose from cellulosic fiber (wood fiber) produced at Domtar mills. We are at the edge of beginning to understand the uses and applications for both lignin and nano-crystalline cellulose. In addition to Domtar's Rothschild mill, lignin separation takes place at a Domtar mill in North Carolina.

And throughout our adaptation to changing markets, meeting the needs of our customers remains at the forefront of our long-term strategy. An example of that industry commitment can be seen through the recently launched industry-wide collaboration "Paper and Packaging-How Life Unfolds™" campaign launched last summer. Run by the Paper and Packaging Board, the program aims to remind the public of the importance paper and paper products play in the daily lives of each American, including those products shipped and received through the U.S. postal system. As important as it is to develop new revenue streams, it is equally important to keep loyal customers in our mature businesses and preserve the value represented in those segments - a lesson the Postal Service should take to heart as it seeks growth opportunities outside its core business.

In addition to the market realities facing the U.S. Postal Service, the declining financial condition of the agency is highly linked to statutory financial obligations and growth limitations imposed on it by Congress. With the \$5.1 billion loss reported in fiscal 2015, the Postal Service has accumulated its ninth consecutive year in the red. According to the April 13, 2015 report of the U.S. Postal Service Office by the Inspector General, USPS losses are driven primarily by the requirement to prefund its retiree health benefits fund and its workers' compensation expenses, both of which are beyond the Postal Service's control.

Because of the many challenges the Postal Service is facing and the handcuffs Congress has placed on it, our industry has been an advocate of comprehensive postal reform legislation. Uncertainty regarding the reliability of the Postal Service and the cost to transact business through the mail, combined with stopgap measures by USPS to reduce costs have only added to doubts among mailers that threaten to further accelerate mail volume decline. And with current law constraining the Postal Service's ability to diversify, financial instability of the USPS can only be expected to continue.

To its credit, the Postal Service has been aggressive about cutting costs by consolidating mail processing facilities, changing Post Office window hours, eliminating delivery routes and reducing the size of its workforce. However, there is a limit to how much USPS can cut without degrading service. A look at current service standards performance, may suggest that the USPS has cut too deeply.

Given the realities of its financial obligations and the constraints imposed upon it, the Postal Service cannot succeed without the help of Congress to pass comprehensive postal reform legislation that not only alleviates unreasonable financial burdens, but

preserves and attracts customers, as well as convinces former customers to return.

Domtar, and the larger paper industry, support legislative measures that will help the Postal Service achieve long-term viability by realigning its outdated cost structure, encouraging new revenue sources, and leveraging its unique infrastructure to meet the service needs of future customers.

We support postal reform that considers the following:

- Aligns labor costs, benefits, and future obligations with market competition. The handcuffs and unreasonable burdens of the current statutory requirements must be changed, as these obligations are the largest contributor to USPS financial losses.
- Postal facilities must adjust with the evolving realities of communications and business transactions, while ensuring the service needs of postal customers are met. Our neighbors to the north at Canada Post have made many successful changes that the USPS might also benefit from.
- Rate stability and predictability are bedrock requirements for business to stay with mail. Congress and USPS must recognize that raising prices while reducing service is not a successful strategy to address declining demand. Mail must be cost competitive for business to continue to use it. Future rate setting should include checks and balances that provide price predictability for mailers and cost-control incentives for USPS.
- Reliable service is essential if mail is to compete with other communication options. Prompt and timely delivery must be maintained for mail to deliver its key value proposition. Service standards changes should realistically weigh cost savings against customer expectations or mail will become increasingly less relevant.
- The Postal Service should leverage its unique infrastructure and have the flexibility to innovate and develop new revenue sources. There is value in increasing the revenue yield of traditional products and customers as well as diversifying into other business opportunities.

To those who may think that paper and physical mail is a thing of the past, I would like to remind you that many consumers, even digital natives, cannot conceive of a world without paper.

A recent study by consulting firm InfoTrends, in collaboration with the U.S. Postal Service Office of Inspector General clearly shows that consumers by an overwhelming 91 percent prefer to receive utility bills in the mail as a record-keeping tool and reminder to pay, even though they may prefer to pay their bill electronically.

Another joint study by the Office of Inspector General and the Fox Center for Neural Decision Making, comparing consumer responses to marketing material delivered in digital and paper formats, found that customers spent more time with an ad on paper, had a stronger emotional reaction to printed ads, and could more quickly and confidently remember the printed advertising source, with a stronger subconscious desire for the product or service that was promoted on paper.

Direct mail makes good business sense, as evidenced by research findings reported by the Direct Marketing Association where the response rate for direct mail catalogs was 35 times greater (4.26%) than that for e-mail, which had responses of 0.12%.

The paper industry agrees that a viable Postal Service is an important part of the American economy. Our members and our customers depend heavily on getting our products and messages delivered to the final destination in a secure, timely and cost effective manner. Congress needs to help by passing legislation addressing the fundamental issues that stand in the way of the Postal Service adapting to a changing world and doing so profitably. We specifically cite the pre-funding of retiree health care benefits and needed reform to Federal Employee Compensation Act relative to workers compensation claims as areas that need prompt attention.

We greatly appreciate the Chairman, the Ranking Member, and the Committee for making reform of the Postal Service a priority. Domtar and the whole of the paper industry look forward to working with members of this Committee as well as your counterparts in the House to enact comprehensive plans that will put USPS on a path to long-term sustainability.