



**STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

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Good morning, Mr. Chairman and members of the Subcommittee. I am pleased to be with you today to discuss one of the most difficult challenges faced by the Postal Service – the need to balance rising costs within a rate structure defined by a price cap. The Postal Accountability and Enhancement Act of 2006 requires that we keep price adjustments at or below the rate of inflation for market-dominant products, which are over 90 percent of our revenue base.

In an ideal world, this would mean that our costs would rise at the rate of inflation. Unfortunately, our costs are not governed by this same standard and many have been rising faster than the consumer price index.

Work-hour costs for our career employees and other expenses, such as energy, have been growing at a rate above inflation. At the same time, First-Class Mail volume, which represents over 50 percent of our revenue base, is declining. The number of addresses we serve is increasing by almost two million new households and businesses each year. This means that, on average – even with the recent rate change – we are delivering fewer pieces of mail to each address and average revenue per delivery is decreasing. We are projecting a loss of \$5.7 billion for this fiscal year.

This is not a formula for long-term success. The challenge is to close the gap between prices and costs while improving quality service. The question is, “How do you do that?” As I see it, management can proceed along any of three paths.

First, we can continue to operate as we've been operating for more than three decades. After all, that brought us a level of success that no one could have imagined when the modern Postal Service was created in 1970. Service rose to record heights. We achieved our statutory “break even” mandate. And we reached unprecedented levels of efficiency.

The problem with this approach is that the ground rules have changed. To proceed along the path of business-as-usual would be inconsistent with our rate cap obligations under the Postal Accountability and Enhancement Act. We have to do more, much more, if we are to keep our costs in check, with overall growth no higher than the rate of inflation. Prudent exercise of our fiduciary responsibility demands that we intensify our focus on the business imperative of driving costs out the system. We cannot afford to do any less.

A second path to closing the gap between rates and costs would be the absolute expansion of the outsourcing of work now performed by Postal Service employees as a cost-reduction strategy – whenever and wherever possible. This would certainly be effective when viewed from a pure cost-management perspective. But business success is not solely a factor of reducing costs. It is also a reflection of the entire organization working cooperatively to meet the needs of its customers. Contracting out, while potentially reducing significant direct costs, could come with the intangible – but just as significant – costs, of lost focus on service, and diminution of the Postal Service brand.

That is why I prefer a third path – working directly with our unions and customers to confront the critical issues we are facing as an organization, such as improving service to meet the changing needs of the marketplace, as well as the need to increase revenue and reduce costs. By doing this, we can develop the solutions that can help us overcome flaws in our business model.

The tentative collective-bargaining agreement we reached with the National Association of Letter Carriers last month does this. It keeps the most important focus where it must be – on our customers – by helping us to improve service and operational efficiency. It provides our employees with a fair wage. And it commits both parties to growing the business. This is more important than ever, as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's wired world.

We were successful in reaching negotiated agreements with each of our major unions in this year's round of bargaining. This is a reflection of the value of cooperative labor-management relations. We do not expect that we can agree on every issue, every time, but we have demonstrated our ability to overcome our differences, confront our shared challenges, and negotiate working agreements that benefit the Postal Service, our employees, and the people we serve.

The Postal Service occupies an unusual position within the federal government. It is required to be operated "... as a basic and fundamental service provided to the people by the Government." Yet, unlike most other agencies, the cost of providing our service is not borne by taxpayer-funded Congressional appropriations. Rather, is paid for by its customers through the purchase of postal products and services.

Since the modern Postal Service assumed operations from the heavily-subsidized Post Office Department in 1971, it has been required to operate like a business. With the enactment of the Postal Accountability and Enhancement Act, this requirement has been underlined significantly, since we must now operate within the restraints of a price cap – although there are no offsetting restraints on our cost drivers.

To overcome this considerable limitation, the Postal Service must redouble its efforts to reduce costs and increase productivity. But if we are to do that, it is necessary that management retain the flexibility to explore and implement cost-reduction initiatives that support the fulfillment of our mission of providing high-quality, affordable, universal mail service. In doing this, we are also protecting the interests of all postal stakeholders, including our employees, by offering the attraction of minimal rate adjustments, so as to maximize mail volume in a hyper-competitive communications and delivery marketplace.

This means we must continue to change. We must question our assumptions about what we do and how we do it. We must be open to new ways of doing business. We cannot assume that what worked in the past will work today – or tomorrow. And we must consider our expectations about the Postal Service within the context of today's financial reality.

Over the past several years, we have been very successful in managing costs. But that very success – which has eliminated the low-hanging fruit – requires us to reach even higher and to look at our operations more intensely to build on this success. As we work to take this to the next level, my approach is to look at every event as an opportunity to lower costs. By an "event," I mean a situation that requires us to make a decision to continue doing what we've been doing or to make a change. Events can take many different forms.

For example, when a lease expires for a postal facility, we have to take a hard look at our needs going forward. Do we need as much space as the old lease provided? As we deploy new equipment that can sort larger mail pieces into delivery sequence, we might need less space for carriers to sort mail at their local delivery offices. If that's the case, we should negotiate for less space or attempt to lease a smaller facility.

When a highway mail transportation contract comes up for renewal, we need to take a realistic look at our transportation needs. Are we paying for a trip or vehicle capacity beyond our actual requirements? Are we paying the contractor to haul a half empty truck from one Post Office to another? In the simplest terms, are we paying for more vehicle cube than we have mail? If we are, we have to use the opportunity to change the contract specifications and match mail volume with the trip frequency and truck size.

And we have to continue to examine new deliveries as well, since this function is one of our largest cost drivers. Average annual cost per delivery for a route served by a city carrier is \$215. For a rural carrier, this is \$164 and for contract delivery, \$106. Unlike many mail processing, support, and retail functions, mail delivery itself cannot be automated.

With delivery-point growth approaching two million new homes and businesses each year, it makes good business sense to examine the available options when preparing to serve new delivery areas. It could mean that some new deliveries would be served by more economical contract services. But it is worth emphasizing that the overwhelming majority of new delivery continues to be assigned to Postal Service carriers and that contract service represents less than two percent of the nation's deliveries.

By "new deliveries" we are referring to a newly established business or residential address where the Postal Service has not previously provided service.

As you know, expansion of contract delivery services has become the subject of a great deal of discussion over the last several months. This is one of the reasons we are here today. I am hopeful that the information I can provide today will assist in your understanding and consideration of this matter.

Through testimony at previous hearings and through correspondence, I have referred to contract delivery services as a valuable tool in helping provide quality, affordable service to our customers.

Contract delivery has affected only a portion of new deliveries, not existing deliveries already provided by Postal Service carriers. Contract delivery expansion has not resulted in the layoff of any letter carriers.

Contractors and Postal Service employees are governed by the same legal and administrative standards regarding the sanctity and security of the mail entrusted to them. The Postal Inspection Service, the federal law enforcement agency charged with protecting the security of the mail, ultimately determines the suitability of contractors. And there is no appreciable difference in the care exercised by postal employees or contractors in the care of the mail.

The independent Ponemon Institute, a leading privacy and data protection think tank, has named the Postal Service the "most trusted" government agency for the last three years and, for 2007, among the ten "most trusted" of all organizations. This is a judgment of the organization as a whole – reflecting the combined accomplishment of all groups, working together.

The Postal Service's use of private-sector services is not a 21st-century development. We have used contractors to transport and deliver mail since 1785, when Congress first authorized the Post Office to contract with stagecoach companies for mail transportation. This was later expanded to include delivery. In fact, the storied Pony Express was a contractor to the Post Office Department.

Much of the mail you receive each day—whether delivered by a City Letter Carrier or a Rural Letter Carrier—has been handled by contractors providing over-the-road or air transportation. Moreover, the postage stamp that paid for that mail may have been purchased at a supermarket, convenience, stationery, or greeting card store.

In addition, it is quite possible that the postage was applied by a postage meter, which are all owned and leased by private-sector providers. And it is very likely that many of you have had experience with one of our contract postal retail units, nearly 4,000 of which are operated by respected local business people in their communities.

In addition, the Postal Service, with the concurrence of the Postal Regulatory Commission, uses our rate schedule to effectively incent mailers and consolidators to presort and transport the mail. Through the use of workshare discounts, valued at roughly \$18 billion last year, an entire industry has flourished to help increase mail volume and revenue. These are just a few of the ways that the Postal Service, in cooperation with the private sector, provides high-quality, consistent service to the American public in the most cost-effective and efficient manner.

Looking beyond the specific subject of contract delivery, there is a bigger issue at stake. That is the ability of the parties, the Postal Service and its unions, to resolve their differences through the collective-bargaining process.

One of the most important accomplishments of the Postal Reorganization Act of 1970 was the extension of full collective-bargaining rights to the postal unions. Over the course of more than three decades, these have served our employees, our unions, and the Postal Service well. And, in serving the Postal Service well, they have served our customers well.

As difficult as negotiations may sometimes be, the process is designed to produce consensus, maintain stability, and protect uninterrupted mail service for our nation. Because the Postal Service is a public service, federal law forbids our employees from striking. This principle also takes the form of a provision in our collective-bargaining agreements.

In its wisdom, however, Congress recognized that bargaining impasses can occur and understood that there must be a mechanism to resolve seemingly insoluble disputes that, in other situations, might result in work stoppages. That method, enshrined in the Postal Reorganization Act of 1970 and continued and expanded through the provisions of the Postal Accountability and Enhancement Act of 2006, calls for fact finding, mediation, and mandatory arbitration if the parties reach impasse.

The current round of bargaining between the Postal Service and the National Association of Letter Carriers was lengthy, difficult and, at one point, seemed headed for arbitration. Yet, as intractable as some of the issues appeared, we continued discussions at the highest levels of both organizations and, as I have noted, arrived at a tentative agreement – without the need for arbitration. Among its other terms, the new agreement contains specific provisions addressing the issue of delivery outsourcing.

I have always been a strong believer in the value of the collective-bargaining process. No one understands the issues we face better than Postal Service people – management and our unions. No one understands our shared challenges better than we do. No one understands the opportunities better than we do. Our future is the future of the organization. There is no one in a better position than we are to build the agreements that will help us face that future together – successfully. And, as we have seen, the process can – and does – work.

Of course, we are mindful that many others have taken an interest in the subject of contract delivery. While there are different thoughts as to the relative advantages of one form of delivery compared to another, I am extremely encouraged by the level of interest. It represents widespread agreement that the mail and, in particular, mail delivery service, continues to offer unique value to our customers, their communities, and the American economy.

Having participated closely in the collective-bargaining process over the last decade, I am no longer surprised at its amazing flexibility. Even when the issues it is asked to take on can seem larger than the ability of the parties to resolve them, the process itself often brings out the very best in its participants. I have seen this time and time again. And I remain impressed that such a simple process, when approached in good faith, allows the parties to see beyond their individual and immediate interests and act for the greater good. Because in doing that, all parties – including the people we serve – are the winners.

Collective bargaining in the Postal Service has been shown to be a valuable and productive tool in bringing the Postal Service and its unions together on an equal footing. The process represents a sound public policy decision, one made almost four decades ago by public law, which not only allows, but more importantly, requires the parties to bridge their differences without the need for direction from parties who are not directly involved in the process.

The continued viability of the process requires that the Postal Service retain its ability to bargain collectively on a level playing field, and know that agreements that are reached through good-faith negotiations, and the subjects of those negotiations and agreements, will not be altered as a result of legislative action. The precedent set by legislatively overriding a long-standing provision of a collective bargaining agreement is very dangerous for all parties. It is not hard to imagine how a future Congress with a different composition or different priorities could tilt the playing field dramatically in a different direction.

As the Chief Executive Officer of the Postal Service, and as a member of the Postal Service's Board of Governors, I am keenly aware of my responsibility in the development and implementation of policies that support our mission of providing quality, affordable, universal mail service to our nation. This is why I am extremely concerned about the precedent of legislative intervention in the collective-bargaining agreements with our employee unions. If Congress acts on restricting or eliminating the option of contract delivery, what other work or cost-management initiatives would be next? This is dangerous step on a very slippery slope. While, today, such an action might be to the advantage of our employees, in the future, a different Congress might intervene on issues adverse to employee interests.

The hurdles created by the new postal law are among the highest we have ever faced. Removing specific cost-management strategies from consideration through additional legislation limits the tools that are available to the Postal Service to satisfy the mandates of our enabling legislation.

When I became Postmaster General in 2001, the Postal Service's debt had reached more than \$11 billion dollars. That was a huge burden to carry; simply servicing the debt exceeded \$300 million a year. It is very clear that the Postal Service has to take thoughtful, serious actions to continue to control costs or we will be back on track to potentially incur significant debt – which also contributes to increases in our costs.

In planning for today's hearing, the Subcommittee has also expressed its interest in the Postal Service's efforts to develop modern service standards and to measure our performance against those standards. Both of these requirements were established by the Postal Accountability and Enhancement Act, which recognizes that sound adjustments of the Postal Service's processing and transportation network depend upon accurate service standards and performance measurement systems for our market-dominant products. In turn, greater network efficiency will be the primary driver behind better service performance in the future. We have undertaken a wide range of activities to comply with the requirements of the new law in this respect.

First, we are working with a diverse group of stakeholders to examine existing end-to-end service-standards for our market-dominant products. This is helping us to identify which standards may be candidates for revision, based on factors such as changes to business rules, actual network capabilities, and the growth of worksharing programs since current standards were first established. This will provide the baseline information necessary to determine if modifications to some standards are warranted.

Our efforts involve the participation of the Mailers Technical Advisory Committee through a workgroup that involves over 100 representatives from all elements of the industry. It includes the participation of the independent Postal Regulatory Commission and the Government Accountability Office. We have also surveyed more than 35,000 small businesses and residential customers to help guide the development of the new standards. Outreach efforts also include interacting with attendees of the National Postal Forum, the leading annual mailing industry trade gathering, and briefings to our employee unions and management associations.

We are on target to complete this review – which will include proposed new service standards – this summer. We have also begun consultation with the Postal Regulatory Commission so that we can publish revised service standards by late December 2007.

Our goal in developing these standards is to meet the needs of our customers while building from a base that is within the reach of the capabilities of our system. And, as we establish full accountability in achieving the new goals on the part of our managers, we believe that fairness dictates that we compile a full year's baseline of performance data under the changed standards prior to linking their performance evaluations to the achievement of the new goals. As an organization, however, we will bring all of our efforts to bear on meeting the revised service standards as soon as they are effective.

Just as important as the establishment of the new standards is the development and implementation of measurement systems to determine our compliance in meeting the standards. This is a subject that is also being examined by the Mailers Technical Advisory Committee.

Our efforts include planning for the possible use of the Intelligent Mail platform for accurate service performance measurement. Leveraging this internal, passive data collection system will allow us to accurately measure aggregate performance – rather than sampling. We believe this is ultimately in the best interests of our customers, who ultimately pay for service measurement through the price of postage.

Our innovative Intelligent Mail system uses barcodes that uniquely identify each piece of mail for purposes of sorting, identifying special services, performing diagnostics as we identify system “pinch points,” and providing status data to mailers. From the perspective of a passive service measurement system, the Intelligent Mail barcode will permit us to identify when mail enters our system, track the mail as it moves through the network, and tell when it has been delivered. As we expand Intelligent Mail to different types of mail, it can be used to accommodate service measurement needs. We anticipate full implementation of the Intelligent Mail barcode for most commercial mail in 2009. The Intelligent Mail barcode contributes to enhancing the value of the mail for our customers, contributing to their business growth and success, ultimately helping the Postal Service to achieve its critical goal of revenue growth.

We look forward to working with our stakeholders, particularly the Postal Regulatory Commission, in achieving agreement on revised service standards and measurement systems for our market-dominant products.

I appreciate having the opportunity to discuss these important issues with you today. I would be happy to respond to any questions you may have.

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