

Opening Statement for

Hon. Mickey D. Barnett, to be a Governor, U.S. Postal Service

Chairman Carper, Ranking Member Coburn, and members of the committee, thank you for the opportunity today to speak to you about the future of the U.S. Postal Service. I want to also thank Senator McConnell for his recommendation, and President Obama for my nomination.

These past eight years have been a real learning experience for me. Fortunately, I have served with talented and experienced Governors and together we have been able to reach consensus on every important issue, including the selection of the current Postmaster General and Deputy Postmaster General.

I have become a passionate advocate of the Postal Service and its incredible history of service to the people of our country. I feel an obligation to do everything I can do to make sure it continues to be a viable entity capable of prompt and reliable delivery of the mail and packages.

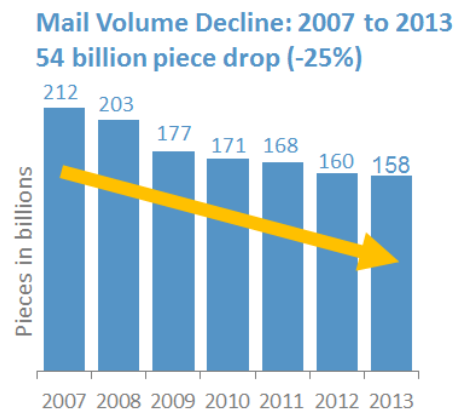
As everyone here knows, the Postal Service is in a crisis mode. Our liabilities are approximately 68 billion dollars, and we have a fleet of over 200,000 delivery vehicles with an average age of more than 22 years. Even with a reduction of more than 200,000 career employees over the past eight years, a reduction in mail processing facilities, and a reduction in operating hours at some Post Offices, we are unable to service the debt, pay down liabilities, or pay for needed capital investments.

Our most profitable product, First-Class Mail, continues to decline at eight percent a year while our costs, like everyone else's, continue to rise. Even a lawyer like me understands that no business can stay in business if costs increase every year and volume declines every year, resulting in net losses year after year.

Allow me to elaborate.

The erosion of First-Class Mail volumes is being driven by rapid changes in the way Americans communicate.

Smartphones, texting, Email, and the Internet were unheard of only a few short years ago, but today, they are the primary way most individuals interconnect.



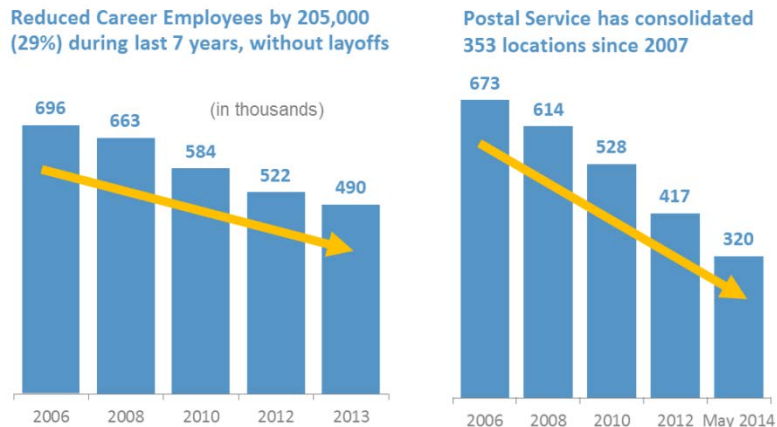
But, as First-Class Mail has declined, the U.S. Postal Service's package revenues are growing more than 10 percent, compared to last year, and advertising mail revenues are relatively steady. However, to fully leverage the package revenue opportunities and remain competitive, the Postal Service will need to invest billions of dollars in new delivery vehicles, infrastructure, and new package sorting equipment in the near future.

The Postal Service, working in conjunction with the Board, has developed a reasonable approach to pay down its debt and achieve financial stability. If

given the flexibility through comprehensive postal legislation, it can put the negative headlines in the rear view mirror.

Focusing on those business decisions that are within its authority to independently implement, the Postal Service has decreased its career

workforce by 205,000 positions and reduced the annual cost base by \$15 billion since 2006 through workforce reductions—all through attrition and voluntary retirement incentives.



The Postal Service has also implemented cost reductions for retail, mail processing, transportation, delivery and administration—literally, every area of the organization. In fact, most of these cost reductions have taken place behind the scenes, in areas that do not directly impact customers.

Moving forward, under current law, the Postal Service has some limited flexibility to make further cost saving changes. However, these measures are insufficient to close the remaining financial gap.

Given its current governance and business model constraints, the Postal Service cannot achieve financial stability without the passage of *comprehensive* postal reform legislation. If given the flexibility by Congress

to quickly adapt to today's evolving marketplace and customer demand, the Postal Service can chart a path forward to remain viable and relevant for many years to come.

As Chairman of the Board of Governors these past two years, I have had the opportunity to meet with members of the Senate and House to discuss Postal reform and I won't repeat all those requests here. But, and this is an important point to emphasize, even if all the reforms are made the Postal Service will remain in trouble if it does not work to aggressively generate additional revenue.

The Board of Governors has made a concerted effort to meet with many large mailing customers to discuss and learn what we can do to improve and grow. We met with them in San Diego, Las Vegas, Phoenix, Kansas City and New York to get their input on how we can best go forward to put us on a path to profitability. These meetings along with the marketing efforts of Postal management have resulted in significant increases in package delivery. We believe that this growth will continue and help offset the declines in mail volume.

Two years ago we had a "futurist" meet with us. She predicted that in thirty years there will be no paper. Now I am not here to tell you that this is a reasonable prediction but if it is even possible, the Postal Service must be forward thinking—if true there will be no mail in 30 years. That is why we are so focused on increasing our package delivery.

I am hopeful to continue my service on the Board of Governors and can add to my eight years of experience. I look forward to discussing this in more depth, and look forward to questions.

Thank you again for this opportunity and for considering my nomination to serve another term.