

NATIONAL PRESS CLUB NEWSMAKER WITH POSTMASTER GENERAL JOHN POTTER

SUBJECT: THE FUTURE OF THE UNITED STATES POSTAL SERVICE

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 12:30 P.M. EDT

DATE: THURSDAY, OCTOBER 8, 2009

(C) COPYRIGHT 2008, NATIONAL PRESS CLUB, 529 14TH STREET, WASHINGTON, DC - 20045, USA. ALL RIGHTS RESERVED. ANY REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION IS EXPRESSLY PROHIBITED.

UNAUTHORIZED REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION CONSTITUTES A MISAPPROPRIATION UNDER APPLICABLE UNFAIR COMPETITION LAW, AND THE NATIONAL PRESS CLUB. RESERVES THE RIGHT TO PURSUE ALL REMEDIES AVAILABLE TO IT IN RESPECT TO SUCH MISAPPROPRIATION.

FOR INFORMATION ON BECOMING A MEMBER OF THE NATIONAL PRESS CLUB, PLEASE CALL 202-662-7505.

DONNA LEINWAND: (gavel sounds) Good afternoon. Welcome to the National Press Club. My name is Donna Leinwand. I'm a reporter for *USA Today* and I'm President of the National Press Club and. We're the world's leading professional organization for journalists and we're committed to a future of journalism by providing informative programming and journalism education, and fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org.

On behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd like to also welcome those of you who are watching us on C-SPAN. We're looking forward to today's speech, and afterwards I will ask as many questions from the audience as time permits. Please hold your applause during the speech so we have time for as many questions as possible. For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheon, and not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Tommy Burr of the *Salt Lake Tribune*, a senior Washington correspondent and President of the Regional Reporters Association; Celia Wexler, Washington representative for scientific integrity at the Union of Concerned Scientists; John Fales, also known as Sergeant Shaft of the *Washington Times*; Robert Bernstock, Postal Mailing and Shipping Services President, and a guest of our speaker; Maria Alvarez, ANSA Italian News Agency News researcher and a new National Press

Club member; and Mary Anne Gibbons, general counsel for the U.S. Postal Service and a guest of our speaker.

Skipping over the podium for a second, Melissa Charbonneau, Speakers Committee Vice Chair and of Newshook Media; skipping over our speaker for just a second, Angela Greiling Keane, Bloomberg News and Speakers Committee Chair who organized today's event; John Corbett, Postal Services Chief Financial Officer and a guest of the speaker; Peter Urban, Gannett Washington reporter covering Ohio and Missouri; Drew Von Bergen, National Association of Letter Carriers Public Relations Director, and a past president of the National Press Club; and finally, Paul Page, *Journal of Commerce*, Editorial Director. (Applause)

In the fiscal year that ended last week, the U.S. Postal Service may have lost more than \$7 billion, that's with a B. Mail volume plummeted by as much as 20 billion pieces, to about 170 billion letters and packages. Congress is allowing the agency to postpone a \$4 billion required payment for future retiree benefits, but the Postal Service needs to sharply rein in its spending to get back in the black. To cut costs, the Postal Service is reducing its workforce through attrition, early retirement incentives and closing post offices and postal branches. The agency is evaluating 413 locations for potential closures.

Making this all a bit trickier, the government agency is required to act like a business, but is subject to Congressional oversight and a federal regulator. But John Potter, the 72nd Postmaster General, says he's optimistic about the future of the U.S. Postal Service. A 2006 law gave the Postal Service more authority to adjust rates. It's looking for new ways to make money, as traditional mail is overtaken by electronic communication. The Postal Service says it saved more than \$6 billion through the cuts, including more than 100 million work hours on more than 12,000 carrier routes.

Today, Mr. Potter will tell us what the Postal Service's future holds, as well as talk about the agency's environmental footprint and efforts to be greener. Please help me welcome the Postmaster General of the United States, John Potter, to the National Press Club. (Applause)

MR. POTTER: Thank you, Donna, for inviting me here today. And thank you all in the room for joining us. I see some of our dignitaries; Fred Rolando, the President of the National Association of Letter Carriers. I see Bill Burriss in the back of the room, who's the President of the American Postal Workers Union, and Bill has announced that he's not going to run again. So Bill, thank you for your 50 years of service. You did a fabulous job, and we wish you well. (Applause) Also joined by two former Deputy Postmaster Generals, Mike Coughlin and John Nolan. Thank you for being here.

And I can't think of a better place than right here at the National Press Club to talk about the post office. After all, the press and the postal service have a lot in common. We're both trusted messengers, and have been since the earliest days of our nation. We both touch about every home and every workplace in the country. We are tremendously far-flung with deep roots in every American community. And we're challenged both as

technology, digital technology, alters hard copy communication and a declining economy erodes our revenue bases. Like the press, the Postal Service must change to meet America's changing communication channel preferences.

And that's what I'm here to address today. I'll start with a quick look at the state of the Postal Service. These are challenging times, some of the toughest we've ever had. We've made solid progress in some key areas, and we've made some innovations that were impossible just a few years ago. Next, I want to assure you that hard copy mail continues to have strong value in today's marketplace, one that is being defined by electronic substitution and options that provide robust competition for every one of our products. And finally, I want to talk about the future. The only thing we can do about yesterday is to learn from it. The only thing we can do about today is to make the best of it. And tomorrow, well, it would be a mistake, a mistake, to think even for a moment that we can't influence the direction of our future, that we can't bring a new level of financial stability and success to the United States Postal Service. The options to bring this about are only as limited as our imaginations.

So let's begin. We've called 2009 a challenging year. But I have to tell you, that's being generous. Financially, it threatened to make history, and not the kind we would have preferred. The word that comes to mind is devastating. Mail volume declined by 28 billion pieces. Two things prevented 2009 from being a total disaster; the first was the outstanding performance of our operations group under the leadership of Deputy Postmaster General, Pat Donohoe. Pat and his team reacted aggressively and intelligently to the staggering and unprecedented one year mail volume decline, which was driven largely by the economy.

It was also magnified by the fundamental marketplace shifts that have been changing our business for the last ten years. Consumers and businesses are migrating to the internet at a pace that has escalated in the last year. So, how did we respond to the squeeze play of 2009? Well, we stepped up cost cutting, trimming an unheard-of \$6 billion. Yes, \$6 billion from our expenses. We reduced our career workforce by 40,000 positions. And, we cut almost 115 million work hours from our rolls.

But this isn't a one-time reaction to the demands of today's economy. It's part of a process of continuous improvement. Today, we're down to 816,000 career employees. That's about 160,000, 160,000 fewer, than when I became Postmaster General in 2001. That's more than 20 percent reduction. Through it all, we continually focused on service. Pat and his team brought service and customer satisfaction to record high levels. And Pat doesn't do it alone; our employees did a spectacular job, and I really appreciate what they've done. Today, we're up there with the best when it comes to performance. And by every poll and study, the American people show a remarkable confidence and trust in the Postal Service and mail. We're one of the three most trusted organizations in the nation, the highest ranked in government, and in the shipping industry.

According to a Gallup Poll, a full 95 percent of Americans say it's important to them personally that the Postal Service stay in business. And as much as they may prefer

paying their bills electronically, experts tell me people still want to get those bills in hard copy in the mail. Although we're in a financial bind, we haven't lost our focus on our most important job: providing top quality service. There are a lot of people who deserve the credit for making that happen. Every one of our employees, no matter what their job, gave it their best in a trying year. And they made a difference.

And our union leadership was there with us, too. Did we always agree? Well, a few people here will tell you no. A fact of the matter, of course not, we don't always agree. But we all understood that 2009 couldn't be business as usual. We worked together with our unions to bring down costs and to find better ways to serve our customers. Together, we reduced the number of delivery routes, changed employee work schedules and implemented growth initiatives. Our employees know that we have to work together to build a stronger Postal Service.

And it's the same with our customers. They joined with us to explore advances in processing technologies like the intelligent mail bar code that offers an information-rich stream of data about their mailings. And flat sorting equipment that brings the efficiency of full automation to an even larger portion of our product line.

Even more importantly, industry leaders and our unions rallied with us to address a complex financial dilemma that spelled the difference between profitability and continued multi-billion dollar losses. The problem rose out of a three year old law that added more than \$5 billion to our annual costs for pre-funding retiree health benefits. I was nervous about it because I knew we just couldn't afford to pay that bill when it came due last week. Our mailers were nervous, too. They were concerned that we'd pull back on service to make ends meet, and that would have negatively affected their businesses. And I'm happy to say that didn't happen.

Mailers stood with us, the unions and associations that represent our employees stood with us, and Congress and the administration took the time to understand our concerns, and at the end of the day, they stood with us, too. Last week, the President signed legislation that changed our 2009 retiree health benefit trust fund pre-funding payment from \$5.4 billion to \$1.4 billion. While this is a welcome move that enabled us to meet our obligations in 2009, there is more work to be done to secure our future. We've dealt with the crisis of the day. Now, we have to get focused on the long-term changes needed for the Postal Service to remain a national asset.

And on both sides of Capitol Hill, the chairman of our oversight committees agreed that further legislation is necessary to address the Postal Service's challenge. Congressman Edolphus Towns said that the law which passed would provide the Postal Service with some relief. "But," and I quote, "we still have some work to do. The problem has not been solved." Senator Tom Carper was even more direct. And I quote, "This is a Band-Aid we will accept," he said. Again I quote, "It's not the solution that we need."

Ladies and gentlemen, they're right. Even with \$4 billion worth of welcomed news, we still will lose more than \$3 billion on a pro forma basis in 2009. That follows similar losses in 2007 and 2008, reflecting the effects of the recession, changing mail use patterns; and most importantly, the change in timing of our benefits costs. Compare that to 2003, '04, '05 and '06 when volume was strong, when our total profit approached \$10 billion, and when we completely eliminated our debt. And what's our outlook for this year? Well, without a big change in the way we're required to do business, we're likely looking at a deficit of more than \$5 billion for years to come. This is a critical public policy issue. Everyone has to have a role in a national conversation about the future, and no single group can dominate it. We need the consensus of all parties involved to drive new legislation in 2010 to enable the Postal Service to operate like a business.

That is our mandate today, and it has been our mandate. But, we do not have the tools necessary to operate like a business. And let me be clear about this. The problem is not the value of the mail. I am convinced that mail will continue to be an affordable, accessible and powerful engine to facilitate communication and commerce throughout the United States. And it's our job to keep it that way. Each year, trillions of dollars move through the mail. Even with the volume reductions we're seeing, we delivered about 176 billion pieces of mail last year, with over \$68 billion in revenue. And about 90 percent of that mail is generated by businesses, from the biggest companies in the nation to the stores, restaurants and services in your own neighborhood. Believe me, business would not be in the mail if it wasn't doing the job for them.

Obsolete? I don't think so. Our annual revenue is still higher than 95 percent of the companies in the Fortune 500. So what's the power of the mail? Well, there's no mystery here. It's targetable, it's measurable, it gets opened, it gets read, and it works. Even with the bills, most people enjoy getting their mail. More than 8 of 10 households take the time to look through their mail. And when it comes to advertising, 20 to 30 percent say they consider acting on it. That's an incredible potential response rate.

Then there's the internet. It's changing our business, and in some positive ways, too, ways that we never would have imagined. Retailers with an internet presence will use the mail to promote their businesses, or seeing something that's very interesting. The people they mail to spend more time on their websites, and as a result they buy more and spend more. There have been some other welcome developments, too. The same laws that increases our expenses by more than \$5 billion a year also provided us with some needed new pricing flexibility. While this may not be enough by itself to overcome the magnitude of the costs imposed by that law, it does give us a hint of what's possible for the new and better business model.

We're able to compete on a more equal footing with other shippers, and we've seen some market share increase. This summer, we offered the first sale in our history and followed it up with a fall sale for mail. And from what we've seen so far, these sales are exceeding the goals that we set for them. It's amazing what we can do when we have the opportunity to manage our business like a business.

Now, these may be small steps, but they're steps forward. It all comes back to the role of mail in supporting communication and commerce. Mail works. The problem is that the business model that was created to support the mail no longer works. But facing cost requirements that just can't be squared with the realities of the business. We're at a crossroads. The status quo just won't do anymore. We have to change. We have to make some important public policy decisions about the future of the Postal Service and the mail. The consequences of inaction, quite frankly, they're just too great.

And it's not only about the Postal Service. There are millions of American jobs in the mailing industry. We just don't always see them as directly associated with the mail. There are paper manufacturers, envelope fabricators, mail equipment companies, direct marketing firms, printers, designers, and meter manufacturers. There are small, one, two and three-person businesses that print and pre-sort mail. And there are major consolidators employing hundreds of workers. There are transportation companies that shuttle catalogues, magazines, packages, and other kind of mail to every corner of the nation.

And there are our competitors who fly our mail between America's airports and who rely on us to deliver some of their products in places where we can do it more efficiently. That says a lot about their faith in the Postal Service brand. And I promise you, we're going to keep our brand strong.

This is all pretty solid evidence that mail just won't disappear. The challenge is creating a firm financial base so that the Postal Service can continue to do a great job at prices that make sense for our customers. But it's interesting. When I hear about how businesses and consumers use the mail and how they value the mail, I'm struck by the small, but loud, minority who've been pushing Do Not Mail legislation in state capitols around the nation. On some level, they just don't seem to think that the mail should have a role in supporting commerce. Somehow, they think a sale offer coming through the mail, as opposed to a newspaper, a magazine, TV, radio and the internet, is a bad thing. Well, ads pays for the internet, as well as broadcast TV and radio programs. So, too, ad mail helps pay for universal mail service in America.

But quite frankly, I just don't get it, especially when I look at what they call facts. They've got it all wrong. The mailing industry was at the forefront of the green movement a long time before the movement even had a name. What about the paper? In just about all the mail you get? Well, that paper's recycled, or it comes from trees that were grown specifically to produce paper, not from virgin forests. They're renewable resources. And not only is mail recyclable, but mail has made it easier than ever for you to be selective about the mail you want to receive and the mail you don't. And that business about mail making up 50 percent of municipal landfills? Well, that's just rubbish. The actual number, far closer to 2 percent and shrinking. We process the mail using less energy than ever.

But we're going to do better, better than we've ever done. We're going to cut energy use by 30 percent in our 34,000 buildings over the next five years. We're going to

reduce petroleum use by 20 percent in our fleet of 219,000 vehicles. And that fleet includes almost 44,000 alternative fuel capable vehicles, the largest civilian inventory in the world. We have embraced change when it comes to being environmentally responsible. We did it not only because it was good for business; but even more importantly, it was good for America. As we navigate the complex world of electronic diversion, new media, and changing customer needs, we in the mailing industry must explore and embrace change. The Postal Service is the cornerstone of this industry and change is not new to us. The Post Office has been reinventing itself for nearly its entire existence. The challenges have been many, and in each case, a public policy dialogue led to progressive changes that carried this organization forward.

Today, I ask America to join with me in renewing that dialogue. We must take a fresh look at the future of the Postal Service and its role in serving America. I'm not talking about the short-term future of our mail system; rather, I believe we have to examine what the Postal Service will look like 7, 10 and 15 years from now. If we don't take advantage of the opportunity in front of us today, we will do America a disservice. As I said repeatedly, the status quo simply won't do.

That's why I want to establish a public dialogue about the future of the Postal Service. Not as it existed yesterday, nor as it exists today, but as it evolves and changes for tomorrow. Just a few days ago, "60 Minutes" commentator, Andy Rooney, noted rightfully, that, "There's something very special about a letter. And the best mail is a letter from a friend or a relative." Andy went on to say that, "All the Postal Service needs to do is get America back to writing letters." And I have to tell you, I wish it was as simple as that.

But let's be realistic. Letter writing as it used to be is not coming back. The revolution in technology has changed the way we communicate with each other, permanently and unalterably. I use email, I use the internet. And my son and daughter communicate in ways that seem to change every day. It's not the Postal Service's job to ignore technology. It's not our job to supplant technology, and it's not our job to stand in its way. We're not here to block progress. We are here to make sure that the mail supports and promotes the communication and commerce needs of American households and business. Yes, we can learn from our past, but the imperative is to look forward. The public policy dialogue I'm proposing is not about the needs or preferences of Postal Service management. It's not to be driven by our employees. And it's not about a particular mailing industry segment or a particularly business partner. This is about determining the role of the Postal Service so it has a relevant and viable place in the fabric of our nation for decades to come.

We start by asking the tough questions. How much mail will there be in ten years? How many post offices do we really need? How often should mail be delivered? How will we pay for it? What new products should be offered to better serve America, and what should we charge? And unlike today, should taxpayer funds have a role in supporting it? We must come to the table with an open mind, without any preconceptions except for one: the Postal Service has to offer affordable, universal service for the nation.

Yes, over the past year I have advocated for closing and consolidating offices where it can save us money and where we can protect service. I have advocated for moving to five day mail delivery. I have advocated for legislation to expand our product base. And I have advocated for help from Congress in restructuring legally mandated costs that we simply can't afford.

But we cannot be wedded to any particular approach, and I am certainly not. Each one of these positions was developed for one reason: to build a bridge to help us avoid the consequences of the complete financial disconnect between today's Postal Service and the Postal Service we must reinvent for the future. The future won't come from wishing, it won't come from hoping, it will come from all of us coming together with a common goal of doing what's right for America. The answer to the questions raised in this dialogue must come from many voices with many different ideas. And it has to include new voices, new thinking and new approaches.

That's the key to creating the path that moves the Postal Service forward. We have shown again and again over the course of more than two centuries that the Postal Service can evolve to meet the changing needs of our customers and the demands of the marketplace. And folks, we will do it again.

I was delighted when I learned last month of Postal Regulatory Commission Chairman Ruth Goldway's support for a national conversation on the future of mail and hard copy communications. Thank you, Ruth, that was great. We got to go there. I'm also encouraged that the GAO's study on the future of the Postal Service will add to that dialogue. And I can't underscore the interest of so many members of the House and Senate in helping the Postal Service adapt to bring about constructive change. In many respects, the dialogue has already begun. Let's use the opportunities that we have to craft out a public policy debate that will advance the mailing industry and build unprecedented success and new markets for all of us well into the future.

You know, I can't think of a better place to begin than right here, in this room, with your questions and your ideas. So let's get started. Thank you very much. (Applause)

MS. LEINWAND: Okay, we have a lot of questions, so we'll get started. In the bank bailout, we heard about banks too big to fail. With other firms available to deliver packages and letters, et cetera, is the USPS too big to fail? And if needed, will you go to the President and Congress to ask for a bailout, just as the banks got?

MR. POTTER: Well, first of all, let me say that UPS, FedEx and the Postal Service are in much different businesses. We're delivering 176 billion piece of mail, the bulk of them for under 44 cents. Our average revenue per piece is about 38 cents. So we're in much different businesses. We have expertise that they simply don't have. We respect what they do, we're great partners with them in many regards, but there simply, I don't think, is anyone ready to step in and do the work that the United States Postal Service does.

Regarding what happened this past year, there was no bailout. If you go back to the history of retiree health benefits, it's an obligation that came about because we were over-paying a pension system. If you look at, from an accounting standpoint, postal services mandated since 1970 to do accrual accounting. And according to generally accepted accounting principles, we had to recognize that we had an obligation going forward, but we did not have to fund that obligation. And so like other companies in America, like UPS, we did not put money away for retiree health benefits and have a fund for that. We were on a pay as you go basis.

And if you ask any accounting firm what we should be doing today, that's what we should be doing. And so this \$5.5 and \$5.4, \$5.6 over the ten year period, we're going to pay a hefty sum into a retiree health benefit trust fund. Today, we have over \$30 billion in that trust fund. There's enough money in that trust fund to take care of all 466,000 current retirees. I see a few in the room. You'll be happy to know there's enough money to pay for your retiree health benefits for the rest of your life.

But it's an obligation that simply is a huge burden on the Postal Service. We are not going back and we're not going to ask for a bailout. There are many options in front of us, some of which were described in my speech. Change the frequency of delivery. Right size your workforce, and we're actively doing that. Right size our retail outlets and the number that we have. Those are the types of activities that we need to explore. We need to generate new revenues from additional freedoms on the pricing side of the aisle. And, we need to do what other countries do, which is look at what other products could move through our retail outlets. We have the largest retail footprint of any organization in America. We have more retail outlets than Starbucks, McDonald's and Wal-Mart combined, and we can only sell stamps through them.

I think we're going to have to rationalize, it doesn't take a genius to figure out that the number of stamps that we're going to sell going forward is in a state of decline, it has been. So are we going to maintain retail outlets to sell stamps? Or are we going to allow the Postal Service to use those retail outlets to do other things that will generate money, not to do anything other than to support universal service. And when you look around the world, other countries have faced the same problem and they have taken that step. So if you were in Japan, you walk into a post office, you do your banking and you can buy insurance.

If you were trying to buy a cell phone in France, more than likely you'd buy it at the post because they're the biggest seller of cell phones in the country. And those kind of things that, again, I'm not wedded to any one solution. But I do know that as Americans, we all own a huge infrastructure, retail infrastructure, that right now is underutilized and one that is getting to the point where it can't pay for itself. And we have to figure out how to generate enough revenue to have it pay for itself.

MS. LEINWAND: Will you seek to raise rates above the consumer price index cap for 2010?

MR. POTTER: Well, luckily I can say that's a Board of Governors decision. But I can also tell you that it's our preference not to do that. Obviously, we'll have to continue to monitor what happens with our finances. Hopefully, we'll see an uptick in the economy. If the economy starts to rebound, it'll generate activity, economic activity drives mail, and so we'll make that decision after the new calendar year.

MS. LEINWAND: So before we get into the whole issue of closures, I'm going to ask you to define some things for me. Can you tell me what the difference is between a post office, a post station and a branch?

MR. POTTER: Well, the way to think of this is if you think of a city, if there's one post office-- Think of all the cities. Washington, D.C., is one city. We have multiple retail outlets within Washington, D.C. And there are different types of retail outlets. A station is one where we have letter carriers, post office boxes, retail service, so that's a station. But it's in a big city where there are multiple outlets. We also have branches that might have something less than a full array of services and a full operation.

And so when you think about closures, what our law allows us to do is it allows us to look at those cities that are served by multiple buildings, and where it makes sense we can either increase the number of facilities that are there, or we can shrink the number of facilities that are there. And it's those big cities that we're looking at now to determine whether or not we have some places where we have too big a retail footprint and have too many offices.

On the other hand, post offices are pretty much-- And by the way, there is a Washington, D.C. post office, but it's in multiple locations. But the traditional post office that people think about is where you have a town that has one building in it, and that building is called a post office. And by law, we cannot close a post office for economic reasons. A 1973 law was put in place that limited us that said, "For other reasons, you can do it, but you cannot do it for economic reasons." So that's kind of the backdrop of what's going on there.

MS. LEINWAND: So now we'll get into the nitty-gritty. The U.S. Postal Service said no facilities would be closed before October 2nd, which was last Friday. How many have been closed since then?

MR. POTTER: None.

MS. LEINWAND: Some jurisdictions have been less than forthcoming about the process being used to select the branches and stations for closure. What direction have district managers been given from the headquarters, and are you satisfied with the public involvement so far in the decision making process?

MR. POTTER: First of all, I think this is probably one of the most public events that anyone has ever seen. By law, if we're going to make a change that affects an entire system, we have to inform the regulator about that change. So, we informed the regulator

that we were going to look at stations and branches across the country. When asked what are we going to look at, well there's over 3,000 stations and branches. And immediately, we saw headlines that we were closing 3,000 places. Well, I have to tell you, if you look at those 3,000, they are the biggest post offices in many cases in America. We're not going to close Grand Central Station in New York City or the general post offices in our big cities around the country.

Basically, what we're looking at are finance units and small units, stations and branches, that are in our bigger cities where we don't have enough retail traffic to justify keeping the doors open. It's as simple as that. And so the process has been very public. I believe it's been more public than any other company in America in terms of doing this type of analysis, being forthright with people, publishing of lists as the Grand Central Stations and other big units are immediately analyzed and said there's no opportunity to change it.

And so again, I think this notion of transparency is grossly overstated and it's an easy thing to kind of wave a flag about if you're concerned about an individual station or branch. Our folks have reached out to communities and will continue to do that. But at the end of the day, keep in mind that we are facing a significant gap going forward of \$5 billion. So people cannot expect business as usual and that we will be able to fund everything that we currently do.

MS. LEINWAND: So at the hearing last Wednesday, the U.S. Postal Service said it would be filing an updated list by this Friday on the number and locations of stations and branches that are still being considered. So how about giving us the scoop today? How many will be on the list and how did you go about choosing which to remain on the list and which to remove?

MR. POTTER: The simple and honest answer is I don't know. I don't get into that level of detail, to be quite honest with you. I trust that our managers in the field are doing a thorough analysis, that they're forwarding that to headquarters and I trust that the folks at headquarters are reviewing what they've done and they will make the right decisions.

MS. LEINWAND: How quickly will this be happening? When can folks expect to see some of their local branches and stations close?

MR. POTTER: I would say that probably will not happen until January at the earliest. I would also say that this is part of the problem when it comes to discussing the Postal Service. Because here we are talking about a \$5 billion ongoing deficit, and we're all wrapped up in an issue that's probably worth on the order of, depending on what happens, 20 to 100 million dollars at best. And see, that's part of the speech that I was trying to make was we have to step back and look at the Postal Service in the context of who we are, the fact that we're a government entity, the fact that our charter is to serve the American public. And we as leaders of that organization are ringing a bell and we're saying that given the changing use of the mail by the American public. We're not faulting

anyone. And given what's going on in the economy, we need more flexibility to manage this place so that we can get into the black and continue to serve America and meet America's needs, not just today, but going forward.

And so the dialogue really needs to move up to the 50,000 foot level. And we fall into a trap whether it's a station closing or a discussion about a postage rate here or there, or some rule or regulation. We can easily get distracted from the big picture. And the big picture is we have to make some monumental changes to the Postal Service because if we don't, we're going to become an albatross and we're going to become an albatross in terms of the federal government. And we'll dig a hole so deep that we can't get out. And that's where we are, and so while it's great to talk about stations and branches and, again, that information will come out Friday and will continue to come out in terms of anything we do, I'd really like the dialogue to get up to a higher level because that's what really needs to happen in very short order in order to make this institution-- Or put this institution on a proper path.

MS. LEINWAND: I think you got a steep learning curve here, because here's my next question. My parents in western New York tell me that their local post office has reassigned all the mail carriers to a central office and have left only one postal worker at the community office. What do you say to people that have to wait in long lines just to buy stamps?

MR. POTTER: Well, first of all, I think that we have a lot of work to do on our postal lobbies. We have over 2,500 automated postal kiosks out there throughout the country. You're going to see more of those come in the future. We have a mystery shopper program where we have folks who don't-- Contractors who go out and visit post offices to determine where we have problems, isolate those problems. We've assigned goals to all of our managers to address issues like this.

Unfortunately, we may have a few hiccups in the short run because we have a lot of folks who are retiring and we're going to have to move people around. But let me assure you that our goal is to serve America and to make sure that people have choice.

One of the things that we're thinking about is the future. And so our goal is to make sure that anyone who has a computer has a post office right in their home. And they can get online, buy postage and they can get online, pay for postage for a package, print out a label. And so we're on two tracks. We have to do a better job in retail, and we have to address concerns that are raised because we are in a state of transition. And we will address those. But we want to continue to, again, focus on the future. And there is a lot of work to be done in retail, and we'll continue to focus on that.

MS. LEINWAND: You mentioned the idea of five day mail delivery. What do you think it will take for the American people to accept the idea, and when do you realistically expect that change?

MR. POTTER: Well, first of all, I think that the more people comprehend what's going on with the Postal Service, the more informed they are about the Postal Service, the more that they have the facts in front of them, the more amenable they become to accepting the fact that we may have to move from six day delivery to five.

Now, what do I mean by that? What I mean is that if you look at the facts, in the early 2000 we were delivering about six pieces of mail to every house, every day. We're now at about four. So, here's a network that's supporting less mail delivered every day. The type of mail that's in our system, well there's more advertising mail today than there is first class mail. And the margin on advertising mail is less. That's not to say we just raise prices on advertising mail because we'll drive people away. But we have to consider how we can lower our costs so that we can continue to have affordable prices.

And so when people understand the dilemma that we're in, and then they look at their mailboxes and consider whether or not a six day is really needed, what Americans are telling us, and they've told Rasmussen and Gallup and others who have done polls, that five day delivery is something that they can live with. Now, Rasmussen and Gallup posed the poll, would you rather pay higher prices for mail, or would you accept going from six day to five day delivery? And in that poll, they explained that the Postal Service has financial challenges. And two-thirds of Americans say five day, under those circumstances, makes sense to them.

So I think the more there's dialogue about the situation that we find ourselves in, the more I think the American public will weigh in and they'll have input. And as I said, I'm not wedded to any one solution here. But I do know that there is a need to change. And six to five day delivery is but one of many options that are there in terms of things that we could do to change our infrastructure to better bring our costs in line with our revenues.

And by the way, let me just say this. I get excited when I find out that people get really animated about the mail. The beautiful part about it is they care. Imagine if we had this dialogue and nobody spoke up? That would be really scary to me, because it would say to me that people don't care about the mail. But they do. They do care about the mail, they care about the service, they appreciate their letter carrier probably more so than anybody else. Part of the fabric of America, I always say. But in many cases, our folks are heroes with what they do day in, day out. Watching out for the community.

There's an element of the mail that few people think about in terms of what we bring to each and every community that we serve. And so that's what has them so animated. It has them animated because they think of their letter carrier. They think of that post office that they like to go. And so it's hard when you're part of the fabric of America or you're part of a community, it's very hard for people to think about change. But you have to, and we have to step back and we really have to look at what's going on with the mail so that we can protect it for the long term.

MS. LEINWAND: You mentioned looking at new lines of business for additional revenue sources. What specific opportunities are you looking at?

MR. POTTER: Well, I described earlier in response to a question that what I'm looking at-- I'm looking at other posts and I'm seeing what other posts have done around the world when they've been faced with this dilemma. Now, just this about this. The United States Postal Service delivers over 40 percent of the world's mail. Posts in Europe, Australia, and other places, have seen huge declines in volume and real challenges to their revenue base over the past few years. And what they have done in response, those governments have done in response, is they've looked at what the people in those countries want. And even in America, when you ask people, "Do you want us to shut down your post office?" those same polls, 90 percent of Americans say, "No, I want that post office to stay open." They know where it is, they know if the package is unable to be delivered where they can go pick it up. If they have a more complex transaction, they know where they can go for service.

So 90 percent of the people are saying, "We want to retain that post office." That's common around the world, it's not just germane to the United States. And so when foreign countries were faced with this issue, what they did was, and faced with the notion that there's substitution going on in the mailing industry, substituting electronic communication for hard copy, what they did was they expanded what those foreign posts could do in their lobbies.

And so they sell paper goods, they sell insurance, they do banking transactions. They may not be the bank, but they get paid to conduct the transaction. As I said, France sells cell phones. It's very interesting. It's also very interesting to understand why we weren't in the business. Well, first of all, we had so much mail, that's a real challenge to do that. But in addition to that, there's always been this challenge of what should the federal sector do versus what the private sector should do. And that plays really strong here in the United States, and it appears to be stronger than what happens in the rest of the world.

So that's why we're not going into this with a preconceived notion of we have to be allowed to do X, Y or Z. What we want to do is have a dialogue about whether or not there's value, and that's a path that our politicians, after all they represent all of us, is that a path as an option that they'd like us to explore? And again, the reason that it's on the table is because we just look at what other countries have done and it's been very successful. It's been successful for them in terms of maintaining those retail outlets that America or the households in general enjoy. So, that's how I frame that issue.

MS. LEINWAND: If Congress says tomorrow you can sell things in your retail lobbies, what would you sell? Number one choice?

MR. POTTER: My number one choice? I'd be a bank. If I had a choice of what I want to be, I'd be a bank. But that's not going to happen, okay? It's not going to happen, I don't think. But I think we'd explore with-- I can tell you, I've had conversations with

folks in the banking industry, in the insurance industry. And I've said, "Talk to me about whether or not you'd accept the fact that the Postal Service might conduct transactions, banking transactions, and sell insurance?" And what their answer to me was, "Well, Jack, truth of the matter is we do it through foreign posts."

Now, historically, for example, in the insurance industry, it was driven by agents. You know, agents owned the territory, all sales went through agents. Nowadays, sales of insurance go through the internet and through other medium, other channels. And the bottom line is there's more flexibility in that network, that sale network, than there had been in the past. And so people have stepped up to me and said, "We'd embrace that notion because we're doing it in foreign countries." And by the way, these are American companies that are doing banking services and selling insurance through foreign posts. So I don't think it would take us very long to find people knocking on our door if we had the freedom to do it, to sell product in our lobbies.

And I don't want to narrow the discussion by saying there's one thing that we need to do, okay? That is not what we need to have. We need to, first of all, deal with this concept of would we be given the freedom? And as part of that dialogue, what would we make money on, what's acceptable and what's not acceptable? But there are plenty of examples around the world of where selling, other than stamps in lobbies, is helping protect universal service. And that's what this is all about.

MS. LEINWAND: So you said being a bank, not going to happen. Why not? What's the biggest roadblock?

MR. POTTER: Politics. (Laughter and applause)

MS. LEINWAND: So what are you doing to work with Congress to fix that?

MR. POTTER: Look, again, this is not about banking. No, seriously. I think we're all missing the point here. The point is think of this. We got a \$5 billion challenge every year for as far as the eye can see. What do you do what that \$5 billion challenge? Well, first you look at all payments that the Postal Service is making and you determine whether or not they're reasonable. And where we'd like to start is an open dialogue, and we've already started that dialogue, with the Congress, with the administration, with everybody, about what we're doing to fund retiree health benefits. It's an area that has been analyzed, studies been done by our Inspector General, basically says that we're over-funding, we're on an over-funding track. It's an area that could bring immediate relief.

We have, by law, we're going to put \$55 billion into this retiree health benefit trust fund in 10 years. The trust fund, the total obligation for the trust fund was calculated years ago when we had over 100,000 fewer employees. Obviously, just the fact that you have fewer employees means the obligation should have gone down. Given the financial situation that we're in and the fact that we should follow, and have followed historically,

generally accepted accounting principles, that's an area of opportunity for discussion about how we fund that obligation going forward and do it in a longer-term basis.

One of the options we'd like people to consider is amortizing that over a long period of time. So, \$5 billion? I think that is something that's going to bring many dollars if acted upon to the table. That could be as much as \$5 billion. If we went back to what we did prior to 2006 and not pay, pre-fund our retiree health benefit trust fund.

The other thing that we're talking about, and we're talking about it up front because it is significant in terms of dollars, is the fact that the frequency of delivery, if we moved that frequency of delivery from six to five days, we could save over \$3 billion. So five billion, three billion, a \$5 billion problem, guess what? Problems start to shrink when you start to analyze it, okay?

Now beyond that, if that's not acceptable, okay, then let's talk about our retail footprint and does it make sense for us to have as many not only retail outlets, but processing centers that we have? And how do we fix that network and take some costs out there? And there's another opportunity. And then in addition to that, obviously there's an opportunity to sell something else other than the products that we're selling. And I could go on and on and on with the options. But it's a pie that we have to attack. The \$5 billion is a short-term number.

When you look long-term, ask yourself the question, particularly those businesses in the room, "What's your game plan for use of the mail ten years from now?" And if you think about that, I think some people are going to conclude that it'll be more, because they'll take advantage of package services that we have to offer, and I believe that we're going to grow package services. They'll take advantage of the mail for advertising because it's so strong.

But the folks who currently are doing transactions through the mail, if they're honest they're going to say that their goal is to reduce the amount of bills that they present because they'd rather deal with people electronically. And, they're going to try to influence their payers to pay electronically. Now, let's call that the reality check. And if that's the reality and we think that that might happen ten years from now, then we should be starting to think about how we solve that problem, not just solve the problem in 2010, 2011, but how are we going to deal with this thing when we get to 2019. And therein lies the dilemma and that's the debate that I think that needs to happen. Because we need to be longer term focused, and we need to look at this thing, again, not to say that we don't need to provide the highest level of service and eliminate lines and lobbies and do all those good things, which we work very hard day in and day out to do. But our concern is the longer term. Our concern is that we want to work with others to build a path to success ten years from now.

Therein lies the public policy challenge that everybody has to participate in, not just the Postal Service. We need the help of everyone in the industry, we need the help of the American public, we need the help of the people that they elect who are in

Washington, D.C., who make the laws, who can help us chart a path, one that is politically feasible to have the Postal Service do what it's done for over two centuries; continue to serve America with affordable, universal service. And keep everyone, every American, connected to this economy through the mail and through package delivery.

MS. LEINWAND: Will the Postal Service need increased U.S. Treasury borrowing authority? And if so, by when and how much of an increase will you require?

MR. POTTER: Well, I just laid out what I thought the options were. At no point in time did I say we wanted to borrow more. That is not our goal, to borrow more. Our goal is to deal with those issues that I just described, to be able to not only not have to borrow more, but get back into the black and turn what is red ink right now into black ink over the course of time.

MS. LEINWAND: Okay. We are almost out of time, but before I ask the last question, I have a couple of important matters to take care of. First of all, let me remind our members of our future speakers. On October 13th, we have an evening event with Jeff Dunham, the creator of such infamous characters as Achmed the Dead Terrorist. He'll be at the National Press Club to preview his new series on Comedy Central. Should be a treat. October 15th, Jorma Ollila, is the incoming chairman of the World Business Council for Sustainable Development, and the Chairman of Royal Dutch Shell and Nokia. And he'll be speaking about energy and the need for worldwide action to address climate change in advance of the international climate talks in Copenhagen. October 23rd, we have the multi-platinum selling artist and actor, Chris "Ludacris" Bridges, and founder of the Ludacris Foundation, will make a call for individuals to take an active role in community philanthropy.

Second, I would like to present our guest with the traditional and much-coveted NPC mug. (Applause)

MR. POTTER: Thank you.

MS. LEINWAND: He already has two at home, so now he's got a matched set there. For our last question, what are your projections for the holiday shipping season this year, including Christmas cards and packages? And what are USPS's plans for purchasing outsourced transportation and truck service for the holiday season?

MR. POTTER: Well, we're very hopeful that we have a pickup in the economy and that we have plenty of packages and cards and letters and we're prepared to deliver them. Right now, I would say that we're looking at volumes that are relatively flat and we are not going to use as much outsourced transportation during the holidays as we have had in the past because of better cube utilization on our trucks, and because of the fact that volume will be flat, we think, to what we saw last year.

MS. LEINWAND: I'd like to thank you all for coming today. I'd also like to thank the National Press Club staff members, Melinda Cooke, Pat Nelson and Joann

Booz for organizing today's lunch. Also, thanks to the National Press Club Library for its research. The video archives of today's luncheon is provided by the National Press Club's Broadcast Operation Center, and our events are available for free download on iTunes as well as on our website. Nonmembers may purchase transcripts, audiotapes and videotapes by calling 202-662-7598 or emailing us at archives@press.org.

For more information about the National Press Club, please visit our website at www.press.org. I thank you all.

END