

NATIONAL PRESS CLUB LUNCHEON WITH JOHN POTTER,
POSTMASTER GENERAL AND CEO,
U.S. POSTAL SERVICE

TOPIC: THE FUTURE: IT'S IN THE MAIL

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MR. ZREMSKI: (Strikes gavel.) Good afternoon, and welcome to the
National Press Club. My name is Jerry Zremski, and I'm Washington
Bureau Chief for the Buffalo News and president of the National Press
Club.

I'd like to welcome club members and their guests who are here
today, as well as our broadcast audience, which is watching today on
C-SPAN. We're looking forward to today's speech, and afterwards I
will ask as many questions as I can. You'll -- please hold your
applause during the speech so that 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 the members of the
general public who attend our luncheons, 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, John
Booth, the commander of the American Legion Post here at the National
Press Club; Bill McAllister of Linn's Stamp News; Paul Krawzak,
Washington correspondent for Copley News Service; Bob Madigan, WTOP
Radio's Man About Town; Allen Kane, director of the Smithsonian

Institution's National Postal Museum and a retired -- who retired as a senior vice president for future business design after 30 years of employment at the Postal Service; Laura Robertson, international producer for CBN News; Pat Donahoe, deputy postmaster general and chief operating officer of the U.S. Postal Service; skipping over the podium, Angela Greiling Keane of Bloomberg News, the chair of the National Press Club Speakers Committee; skipping over our speaker for just one moment, John Sayles, also known around here as "Sergeant Shaft," of the Washington Times and the Speakers Committee member who organized today's luncheon; Benito De Soto, chief marketing officer and executive vice president at the U.S. Postal Service; Katherine M. Skiba of the Milwaukee Journal Sentinel; Jonathan Salant of Bloomberg News and former president of the National Press Club; Christine Dell'Amore of United Press International; and Drew von Bergen of the National Association of Letter Carriers, and another former president of the National Press Club.

Today's featured speaker leads an agency that reaches practically every American household six days a week -- the U.S. Postal Service. John Potter, the 72nd postmaster general of the United States, now oversees operations involved in the delivery of more than 600 million pieces of mail each day. And while so much of that mail may seem to appear in our mailboxes so effortlessly, sometimes maybe too effortlessly, running such an agency is by no means easy.

At the time of Potter's appointment in 2001, the U.S. Postal Service workforce included more than 750,000 employees, making it the second largest civilian employer in the United States, and the 11th largest U.S. enterprise, on a revenue basis. In 2006, the Postal Service generated annual revenue of more \$72 billion. And those numbers only hint at the biggest challenge Potter has faced. In the fall of 2001, just months after he became postmaster general, he had to develop and implement a plan to deal with anthrax contamination in the mail.

A New York City native, Potter is the sixth career postal employee to become postmaster general, having begun his career as a postal clerk in 1978. His tenure has been marked by a focus on generating revenue, reducing costs, improving service, and achieving results with a customer-oriented, performance-based culture. Perhaps partly as a result, the Postal Service marked an unprecedented seventh straight year of productivity growth in 2006, as mail volume topped 213 billion pieces. And to hear Potter tell it, that's just the beginning. The title of his speech today is "The Future -- It's in the Mail." Here to tell us exactly what that means, let's welcome Postmaster General John Potter back to the National Press Club. (Applause.)

MR. POTTER: Well, good afternoon, everyone, and thank you, Jerry, for that kind introduction. And I'm really appreciative that everyone was able to join us this afternoon.

Ladies and gentlemen, earlier this morning we announced that the Postal Service is the first mailing or shipping company to achieve Cradle to Cradle certification for our packaging. What's Cradle to Cradle? It's a concept that goes beyond the simple issue of recyclability. It's only awarded to products that reflect an

innovative vision of ecologically intelligent design that eliminates the concept of waste. The certification comes from MBDC, the McDonough Braungart Design Chemistry group. We have with us today Steven Bolton from MBDC. Steven? There he is. What does this mean for the United States Postal Service? It means that a half a billion priority and express mail packages and envelopes will meet higher environmental standards. What does it mean for our customers? You can send green packages across the country or around the world, and it won't cost you any more. Our packaging is still free; it's now much more environmentally friendly.

The fact is the Postal Service priority and express mail packaging had already exceeded EPA standards for recycled materials. But Cradle to Cradle goes beyond that. It's based on a few simple, profound ideas. Products can be manufactured from components that are much friendlier to the environment. It makes a lot more sense to eliminate toxins at the beginning of the manufacturing process than to worry about what to do with them when your customer has finished the use of your product. In addition, Cradle to Cradle seeks to improve the manufacturing process itself by adhering to standards related to energy and water use in production processes.

Once the Postal Service made the commitment to become even greener, there were meetings with 10 vendors who supply us with package products and their 200 suppliers. That led to a review of the 250 primary components and the 1,400 subcomponents of our packaging. Obviously I, like many of you, am not a chemist, so I personally was surprised by the complexity of the components that go into a simple box. What was really encouraging throughout this process was the cooperation and sense of shared mission that was developed with each of our suppliers. Sometimes when you try something new, you assume that it's going to be an uphill battle, but our suppliers share our commitment to improve our environment and they wanted to be part of this important effort. So with their help we were able to achieve this new, higher standard and the certification that we were proud to achieve.

As far as we're concerned, it's just the beginning. In a New York Times interview last week, Bill McDonough, the co-founder of MBDC, raised some interesting ideas about the role that mail can play in the environment and recycling. He imagined a catalogue printed on polymers that can be dropped into a mailbox when you're finished with it. The Postal Service would then deliver it back to a plant where it

could be dissolved and reused. He went on to encourage us to think about everything as having a next life. Another example he used was the idea of letting customers mail back clothing, rather than tossing it out, where it could be turned into new products.

There's a bigger idea behind these two examples, at least for me. It's about mail being central to the recycling process, helping to eliminate the concept of waste. After all, mail is the one channel that physically connects every home and business in America with every other. Following that argument all the way, Bill McDonough says it can mean that nothing has to be thrown out in the future. Speaking for the Postal Service, we'd be happy to act as the middle man. That's something to think about, and just another way of saying, "The

Future: It's in the Mail" in ways that we have never even begun to imagine.

The fact is everything that the U.S. Postal Service has accomplished environmentally started with just a thought. And each of those thoughts led to quite a bit of progress. That's because our commitment to the environment is serious. It has to be, because of our size -- over 700,000 employees, over 200,000 vehicles, 213 billion pieces of mail a year. Our activities have an enormous impact socially, economically and environmentally, and we've chosen to use that impact to make a difference -- a positive difference -- wherever we can.

The Postal Service operates the nation's largest alternative fuel fleet.

That includes more than 37,000 vehicles powered by electricity, compressed natural gas, propane, hydrogen fuel cells, ethanol E85 and biodiesel. We were awarded the White House Closing the Circle Award in 2006 and 2007 for our support of alternative fuel vehicles. And over the last year, we've increased the average miles per gallon for each of the vehicles in our fleet by more than 6 percent. That's important when one of your primary jobs is delivering to more than 146 million addresses each day, and that figure grows by almost 2 million addresses a year.

With almost 37,000 postal facilities to light, heat and power, our monthly utility bill is a little higher than most. That's why we'll be investing \$150 million annually on energy-saving improvements. As we renovate or replace older facilities and add new ones, as we upgrade building systems, we design them to be energy efficient and environmentally benign. We support renewable energy. We have the largest solar photovoltaic system of any civilian agency. When it comes to energy, one of our key strategies is to take a long look at the big picture so that we can find ways to manage our future. That's why we've created a new energy initiatives organization in the Postal Service last fall. It's leading an enterprise-wide effort to develop and implement a comprehensive plan to optimize energy usage from mail processing equipment to vehicles to facilities.

The opportunities are boundless. Frankly, this is something that we can't afford not to do. But energy is only one part of our overall sustainability effort. Each year, the Postal Service buys more than \$200 million worth of products from recycled content. We also recycle 1 million tons of wastepaper, cardboard, plastics, cans and other materials. Some people might call it garbage, but for us it's gold. Last year, we generated \$9 million in revenue through recycling. Through our partnership with the Environmental Protection Agency's WasteWise program, we're continuing to reduce the amount of municipal and industrial solid waste we produce. Two thousand six marks the seventh straight year that we've been recognized with EPA's WasteWise Partner of the Year Award.

Our shared-delivery network may be the most efficient in the industry. Each of our almost 220,000 delivery vehicles is used to deliver all of our products. We also opened up our last mile residential delivery network to other major delivery providers.

That's right, I'm talking about FedEx, UPS and DHL. They're our competitors, but they're also our partners. We do more than \$1 billion worth of business a year with those players. And by working together, we've helped to eliminate the extra fuel and emissions that would have resulted without our productive business relationships, whether it's us delivering mail in rural areas or them flying our mail in different parts of the country. Looking at the entire mail value chain, you can see that the Postal Service is just a small part of an economic engine that generates hundreds of billions of dollars in sales, salaries and supplies that benefit communities large and small from coast to coast.

And our industry partners are also working hard to make sure that the mail -- their mail -- continues to offer great value environmentally and economically. Let's consider advertising. Every dollar spent on direct marketing this year will return an average of almost \$12 in sales. That's a higher return on investment than non-direct mass communication channels. Last year alone, advertising mail contributed more than \$600 billion in increased sales to the economy, and that number is growing. That's why I say the future is in the mail.

Most Americans value what they receive in the mail. They read it. They consider it. They act on it. They like its convenience. They like the offers that they receive, and they like the money that those offers save them. They like the fact that it helps them to help others, not only fundraising for worthwhile charities but mail has helped recover 144 missing children through the "Have You Seen Me?" materials mailed to millions of Americans each week.

While most folks might not think about it, I know they'd like this, too. Shopping by mail reduces gasoline usage. With gas prices zooming into the stratosphere, this has never been more important to every household's budget. By replacing a single trip to the mall with shopping by catalog or direct mail, American families can reduce the amount they drive by more than 1.6 billion miles. That saves almost a quarter of a billion dollars on gasoline costs. But more important, in the long run, it reduces carbon dioxide emissions by about 1.5 billion pounds. Now, I'm not asking folks to forsake the mall. It's an important part of the local economy, and I do have children, and they'd be mighty mad if I said no, I'm not going to drive you to the mall today. But if we cut just a few visits each year, it can really make a difference -- and our mail truck is coming by your house anyway. So when you letter carrier delivers that sweater, that book or that DVD, we're not burning any more gasoline than if we were only delivering your bills, bank statements, greeting cards or magazines.

And what about those catalogs? Well, we've all heard that the Internet would lead to the death of the Postal Service. But I'm here to tell you the opposite is true. Catalogs increase time consumers spend on retail websites. They increase the likelihood to buy, how much is purchased, how much is spent, and they lead to more package delivery. And contrary to popular myth, direct mail only makes up a very small part of municipal solid waste -- about 2 percent.

Everywhere I go, I tell people I'm bullish on the mail, and I've already told you some of the reasons why I feel that way. But I'm

also a realist as well. Not everyone feels the way I do about the mail. I may or may not agree with their reasons, but I have to respect what they think. We know that 85 percent of U.S. households usually take the time to read their advertising mail, and about 70 percent actually act on it. But that leaves a good handful of people who don't use the mail and who may not want it. That's why the direct mail industry provides ways for consumers to get their names off mailing lists, including pre-screened credit card offers. But we have to do more. Even a family that likes to get offers in the mail can get turned off if it looks like a mailer is not paying attention. Like the couple who live in a high-rise condo who get offers for lawn services or gutter cleaning. Now, that's money -- pardon my pun -- down the drainpipe. Or the catalog you received first on Tuesday and then got another copy on Wednesday. Or the family who just can't seem to get a mailer to understand that grandpa's moved on to his final reward. The only buying he'll be doing is for a harp and halo polish. Someone I know tried to deal with that by writing "deceased" on the incoming mail and returning it. When that didn't work, he finally crossed out the old address and sent back an address correction -- "Heavenly Rest Memorial Park, Row 171, Plot 65." (Laughter.) Well, it got their attention, but the fact of the matter is it shouldn't have been so difficult, and it shouldn't have had to come to that.

The Postal Service website, usps.com, links with the Direct Marketing Association's website which helps folks get their names off unwelcome mailing lists and remove the names of the deceased from mailing lists. I don't mean to make light of this, but we undermine the value of the mail if we don't understand the needs and the sensitivities of the people that we're trying to reach.

Mail is the most targeted communication channel there is. That's one of the reasons it's so effective, but we can do better and we have to, because it's the right thing to do, and because if we don't deal with it and these issues ourselves as an industry, somebody else is going to do it for us by stopping the wanted mail, along with the unwanted mail. That's what some "do not mail" legislation threatens to do. And over the last few months, "do not mail" legislation has popped up in over a dozen states. Obviously, we oppose these legislative efforts, and the good news is that more than half the states have tabled their bills, but we can't ignore the issues that are spurring them. Mail that reaches a home where it's not welcomed isn't a good use of anybody's time or resources.

A few months ago, I challenged the industry to take a leadership role in making even greater strides, and I'm pleased to say that they've responded. They understand the need for better targeting and the need to use the cleanest and most up-to-date mailing list possible. They understand the need to eliminate duplication and reduce waste. They understand the need to maintain in-house, do-not-mail lists for new prospects and existing customers who may not be

interested in everything a particular mailer has to offer. They understand those who are no longer with us no longer buy, and that we're all more receptive to mail that's addressed to us personally instead of just "current resident." Ultimately, I envision a day when customers will be able to customize what's in their mailbox. This means that they will get what is welcome and the mail will be more

welcomed than ever.

Now, we have some new technology that's in the pipeline and we've just begun to implement called "the intelligent mail barcode." The information on the barcode includes the street address, the sender and the class of mail, allowing us to track every piece of mail that moves through the system. Using this information, we're going to work with the mailing community. And I think it's going to enable us down the road to work with the recipients of mail and, if necessary, intercept mail that would be unwelcome by an individual customer -- and we'll do that while it's being sorted, not after it gets in the mailbox.

This technology's coming online today, making this vision possible in the years to come. Making the content of mail more welcome and user-friendly is a big job and it's an important job. If we do the right things, we'll continue to be able to say, "The future: It's in the mail."

I've said a lot about what the mail is, but I want to take a moment to talk about what the mail isn't. And a lot of people who are into "do not mail" have kind of gone beyond. There's an important story here, so I want to make sure it doesn't get lost in the shuffle. Despite what you may have heard, the mail is not a significant source of identity theft. I repeat: not a significant source of identity theft.

Specifically, less than 4 percent of the source of identity theft is through the mail, but when I watch TV or read about it, that's not always what I pick up. And let me assure you that any theft is not good. I'm not up here preaching the fact that identity theft through the mail is good. What I basically want to get the message out is it's not the biggest part of the problem.

Last week I saw a commercial for a bank, one that's also a big mail user, urging customers to pay their bills online. It said that if a customer suffered identity theft, the bank would help them restore their good credit rating, which is great. But my question is: Who's going after the criminal, okay? And are we just going to repeat it? The image portrayed to get this message across to you is a mailbox, suggesting that a thief was going to steal your bills out of the mailbox and then steal your identity.

Now, I don't have a problem with competition and it's a good thing. It -- you know, it can keep everyone on the top of their game. All I ask for is a little honesty. After all, when it comes to identity theft, the most important deterrent is an informed citizen. And we really need to have everyone informed about this problem. So when people think about identity theft, they need to think of all the different ways that it happens.

And we were participants -- the Postal Service Inspection Service was a participant in the president's Identity Theft Task Force. And when that identity theft task force issues their report, you're going to hear about, you know, what the predominate reasons or causes of identity theft are and it's employer or insider theft; it's electronic intrusions or hacking; it's phishing for personal information through bogus e-mails; lost or stolen wallets, checkbooks or credit cards;

taking information from a credit card receipt or during a purchase; misuse by family members or sharing personal or financial information with the wrong person; computer malware, spyware or keystroke cloggers; and of course, the old fashioned dumpster diving -- picking through someone's trash. But that's definitely not my kind of recycling, so I don't think we want to go there.

One of the reasons stolen mail plays such a small part in the identity theft is our postal inspection service. As I said earlier, when your identity theft is lost through the mail, we have over 2,000 agents who follow up and go after the criminal. It's not just a matter of, you know, pardoning somebody. It's we go after them. They do a great job of pursuing the thieves, apprehending them and providing evidence so that these folks can be convicted. And that is a deterrent in the sense that you know there's a federal agency out there that's going to come after you and that's going to do their darndest to make sure that you pay for whatever crime you commit.

Now, the Postal Service has a good reputation; you know, the Postal Inspection Service does. And you may not know this, but we have been named the most trusted federal agency for the third time -- third time in a row -- by the respected Ponemon Group. And we also rank amongst the 10 most trusted organizations, public or private, in the country.

We in the Postal Service are proud that we have earned America's trust and will continue to work hard to maintain that trust and will do that without spending taxpayer dollars. We are honored to have the privilege of delivering to every home in America every day. As members of the community, we share a responsibility to protect the environment and are working hard to do our part to ensure that future generations have a healthy place to live. Today is but another step in that journey and that's why I want to leave you with one important thought: The future: It's in the mail.

Thank you very much. (Applause.)

MR. ZREMSKI: All right. We have a lot of questions.

First of all, you discussed using new technology to allow people to kind of customize their mailbox. How long will it take for that kind of technology to really be able to control junk mail?

MR. POTTER: Well, you used the wrong word there. It's advertising mail. And what I want to emphasize is that today you have the ability to get online, go through the Postal Service's website to the DMA website or directly to DMA website -- Direct Marketing Association website -- and state your preference for not receiving advertising mail and/or receiving -- or telling us which mailings you don't want to receive.

As I said, I view the future technology as giving -- having a more robust database for mailers when they're developing their mailing lists so they can make sure that they're up to date. Using today's technology, we can -- and customers can -- tell senders that they do not want certain, specific mailings. They also can go through the credit bureaus to make sure that they're not getting, if they don't

choose to, advertising for credit cards and the like.

So this isn't a matter of, you know, today there are no mechanisms to do that. There are mechanisms today. And when I talked about the new technology, what I was basically saying -- and they will be enhanced down the road. So if people are bothered by the mail, they can step up today and take some action.

MR. ZREMSKI: What sort of enhancements are you talking about and how long would it take for them to be a reality?

MR. POTTER: Well, the enhancements I'm talking about are once you have a piece of mail and you know who the recipient is, you know who the sender is, the class of mail, and it has a unique identifier on it, should somebody get onto a website and say, "I don't want something," the ultimate check could be the Postal Service's equipment, you know, should the databases not be able to catch up.

I think we're talking about like in the three to five year time frame for letters. And then beyond that, for catalogues and flat mail it'll probably be another three to five years after that.

MR. ZREMSKI: If you're really interested in becoming more environmentally friendly, why shouldn't the postal service encourage shopping by the Internet rather than by catalog and encourage sending documents via e-mail rather than through the regular mail?

MR. POTTER: Well, let me say this. We embrace the notion of shopping by using the Internet. The question is if you're a company and you're doing business, how do you get your message to folks who would access the Internet? You know, with the different engines that people have put up in terms of trying to direct people to different products, the mail offers everybody the opportunity to reach out to individual customers in a very targeted way and direct them to a website and make sure that because of the databases that are there, make sure that they have and are aware of the opportunities to make purchases that are least costly and probably the most consistent with what their needs are.

So I don't view these things as being mutually exclusive. And I think if the economy were to suddenly stop on a dime and say do not mail, I think people would be shocked that there would be a major impact on the economy. Again, \$600 billion worth of goods and services are purchased as a result of people receiving catalogs and advertising through the mail. You know, this is not something that I think anyone in America would want to turn off. The mail -- if you look around the world, the mail in the United States, I believe, has helped this economy grow and remain strong and I think it will be a contributor to the economy for a long, long time to come.

MR. ZREMSKI: A previous postmaster general suggested that all post offices have computers and fax machines for public use. Is this still on the drawing board?

MR. POTTER: No. (Laughter.)

MR. ZREMSKI: Why not?

MR. POTTER: Well, you know, the postal service is in the business of delivering hard copy mail. The fact is that if you want to get access online, you can just go to your library. We're not competing with public libraries. There are many other places where you're going to get that access. The cost of computers at the time when that discussion was taking place, people were talking about the great divide, the fact that, you know, there was going to be a community out there that would not be able to have Internet access for a long time to come.

The fact of the matter is, the cost of technology has dropped dramatically and you know, with the price of computers as low as they are today and most people having a land line at least for a telephone, the ability for people to get access to the Internet is no longer as much as a barrier as it was perceived to be when that discussion took place.

So I think the matter of time, matter of making sure that all people have access and largely again through schools, through libraries, it just doesn't serve the postal service, you know, well to do that. Besides, it's now against the law for us to do it, which makes it very simple. (Laughter.)

MR. ZREMSKI: We're now nearly six years passed 9/11 and the anthrax scare of 2001. What has changed in terms of the challenges that the postal services faces in keeping the mail safe during those intervening years?

MR. POTTER: Well let me just say that our response to the anthrax attacks was to make sure that we had systems in place that would protect the mail. So we have bio-detection systems for anthrax throughout the country. And so our system is not exposed.

We're constantly looking, though, and working with our law enforcement -- the postal inspection service works with Homeland Security -- to constantly be on guard and looking forward to determine what, if any, new threats there are, and we're always looking to try and protect our systems to make sure that they don't become a threat to the American public.

And before you ask the next question, it's all secret so I can't tell you what the answer, you know (laughter). But suffice it to say we're working very closely with federal law enforcement to make sure that we stay on top of anything or anyway that the mail could be used to do harm to the American public. And we consider that one of our most important responsibilities.

MR. ZREMSKI: Perhaps not surprisingly, we got more questions about postal rates than anything else. How will you decide the timing of the next rate case and can you give mailers more time to prepare for the increase after the final decision?

MR. POTTER: Well, I can give a very long answer to that because we have a new law now that mandates that the postal service adjust rates on an annual basis, okay, and we're working through the process of transitioning from the current law and the rate setting process and

a new law.

The current law and the new law allows us to file one more time with the old rules or we could file under the new rules. The problem is we don't know what the new rules are and we're trying to anticipate what those new rules are and so we're hoping that the postal regulatory commission comes out with new rules and they're looking to do it very aggressively and we're very appreciative of that. We hear that they're looking to do that in the fall. If they do that in the fall, the postal service will, you know, look at the new rules and we'll make a decision about whether or not we file a rate case under the new rules or the old rules. Under the new rules, you'll get a rate increase sooner than you would under the old rules. But it will be capped by the rate of inflation and so the key going forward is for 90 percent of our products, the market dominant products, under the new law, we have to live under a rate cap, it's very predicable in the sense that people can know what inflation is and that will be the thing that will guide us. In terms of timing or how long will people have to make changes, again that will be determined by the board of governors and it will be a product of, you know, what we are given by the postal regulatory commission in terms of new rules.

So there is no simple answer to that. But we're in a state of transition from old law to new law and this is one element of it that will be clarified and defined by the postal regulatory commission in the coming months. And once that is done, we'll be able to give you -- I'd be able to give you a better answer to that question.

MR. ZREMSKI: Does the new law make it seem like there probably will be annual increases?

MR. POTTER: It mandates it.

MR. ZREMSKI: Hasn't there been any interest in just kind of stabilizing things? Because I get the sense that a lot of people who write these questions are just annoyed that they're dealing with these frequent changes.

MR. POTTER: Well let me just say that many of the people in the room are the ones who sponsored the bill -- (laughter) -- and are the ones who probably are asking some of the questions -- (laughter.) The question that you just read is very pointed because the majority of the people in this room would probably prefer that the postal service raise rates under the new law, again it's not defined, because they know they would get inflation protection with the new law. So that's the motivation behind that.

The notion of annual rate changes is not really designed for John Q. Public. Okay. It's designed for commercial mailers. And what happens, traditionally, if you look back at the history of the postal service since 1970 when the postal service was moved from the, became the postal service after having been the post office department, there was a rate process that was put in place that had rates go up on average every three years. And so what would happen is the postal service would raise rates, and we'd make money in the first year of the rate change, we'd break even during the second year, and the third year we'd lose a lot of money. And what happens to customers if you

think about our rates, they've risen pretty much at the rate of inflation. So if you think of inflation as being 3 percent a year, what was happening to customers was they would enjoy three years of steady rates, and then they're be rate shocked, they'd be hit with a 9 or 10 percent rate increase, and that has a dramatic impact on a business. Just think of what you're paying for fuel now and how sporadic those numbers are, okay?

And so the new law is designed to have us adjust rates on an annual basis to take that rate shock out of the business cycle. Because what would happen is if we raised rates 9 percent, volume would drop, we'd have to adjust our resources, our manpower, to meet that lower volume. And then by the end of the three-year cycle, volume was at a high and then you know, we would have to build up resources to hit that high and then drop off again. So we were doing this circular kind of a thing and it wasn't healthy for business. And so that was what drove the new legislation and that's what was behind the notion of rising rates every year.

Now, that's not perhaps considered friendly to John Q. Public and that's the reason why the board of governors decided to put in the forever stamp. The forever stamp is you can buy a stamp at whatever the current price is and it would not -- you would not need to add two cents or a penny to it. So the notion there is for consumers, you can buy the forever stamp and you're not inconvenienced every time there's a rate change of having to, you know, go out and buy supplemental stamps to, you know, adhere to an envelope. So that's a two-minute answer to a very complex question.

MR. ZREMSKI: Okay. Explain how the forever stamp can forever be profitable. (Laughter.)

MR. POTTER: Well, the price goes up every time rates change so that's how it becomes profitable. There's a -- it's very interesting, there've been a lot of business publications that have had -- have done stories about whether it's wise to invest in a forever stamp. And if you think of the forever stamp as being -- providing a return at the rate of inflation, all you have to do is ask yourself, could I get better than the rate of inflation by putting money in a bank or a CD or investing in a stock? So therein lies the question of whether or not that's good or bad. But, you know, again, this is not something that we expect to do anything but add a convenience for people who use the mail on a regular basis and pay full-price stamp rate, which is about 16 percent of our revenue.

MR. ZREMSKI: Small publications are saying that they are faced with higher postage rates that will kill them. Does the postal service care?

MR. POTTER: Well, we definitely care about those mailers. And what we're working on and looking at is ways to have everybody -- and I'm talking about everybody and this is a historical trend, well, sir, that happily make our operations more efficient. In a lot of cases, there's a -- it's a factor of taking what we call the least combined cost to get something put on paper and get it delivered. And so with small periodicals and other publications, what we're working with them is looking at how we can change packaging, how they can access the

mail in a different way that would actually bring down our costs.

And so -- and we're constantly looking at doing things a better way. So we have a new piece of equipment called a flat sequencer that's going to come out that will take catalogs, magazines and any oversized envelopes and put them in carrier sequence order.

Today if we get that mail at a delivery case, our carriers sort it at eight pieces of mail per minute. We know the machines can do better. And we're going to get a great return on these machines. And we'll present that mail in a format that's already walk sequence that the carrier can take out on the street.

So our goal is to move into that new, flat sequencing environment, make sure that the small mailers -- you know, those people who have publications that have a circulation of 20(,000), 25,000 -- that they have a means of reproducing that in a most efficient way, that it can move into our system, be sorted on this equipment with the least amount of manpower for both that -- the small publisher as well as for the postal service. And, again, we're going to work hard with those folks to try and drive cost out of the system and keep their rates stable.

MR. ZREMSKI: Why does it cost the same amount to mail a letter next door and to California? Why not charge by distance?

MR. POTTER: Well, you'd have to go back to the Founding Fathers to ask them why they decided that the United States needed a universal service. The notion there is that you want to make sure that every community and every person in America has the ability to communicate with others. And so for first class mail, we have one single rate that everybody pays whether you're paying -- you know, whether you're sending something across town or across the country. And the notion there is that from a bigger picture standpoint is that people in rural America, people at the bottom of the Grand Canyon, you know, they have the same opportunity to participate in the American economy as somebody who lives in a city. And that's one of the things that the Postal Service, you know, has been -- the foundation that it's been built on is this notion of universal service of equitable treatment for all people. And so, again, you'd have to go back into the history of the Postal Service.

Now, that's not to say that for certain mail, we don't apply a distance rate. So for packages we apply a distance rate, for advertising mail, for periodicals.

You know, from a commercial mailer's standpoint, there are distance-related rates. And from a consumer standpoint for our package services, there are distance-related rates. But for first class stamps, it's a universal service product and it's provided for by the law. And, you know, I think our Founding Fathers did the right thing because it gives everybody access to participate in our great economy.

MR. ZREMSKI: With the rise of standard advertising mail and the decline of first class, is the postal service becoming a publicly run ad service?

MR. POTTER: I wouldn't go that far. I think that -- that certainly we're providing people access to -- you know, to participate in the economy whether that's the receipt of a catalog or placing of an order -- I don't view us as an ad service, but certainly any business mail -- and ad mail is business mail -- we're facilitating, in my opinion, the business of America and the opportunity to communicate between businesses and consumers. And that's a role we've played for a long time and I hope we continue to play long into the future.

MR. ZREMSKI: One of our guests today writes, "Standard and nonprofit classes are a mess. I personally know of dozens of mailings which have never been delivered. Two companies have been put out of business. Our BMEU supervisor said it is epidemic. We have been told access mail is being put on tractor trailers then forgotten as a means to avoid overtime. This situation is poisoning the direct mail industry. What are you going to do to help?"

MR. POTTER: Well, first of all, if anyone had that experience, I apologize for it because that's not the way that we in the postal service behave, I believe, on the whole. I hope those are just exceptional experiences and negatively exceptional experiences.

But earlier today I mentioned the intelligent mail barcode. And you think about what that -- the ramifications of that. Every piece of mail will have a code on it. That code will say who the sender is; it will have the 11 digit barcode for -- the equivalent of 11 digits of information for the street address, okay? It will also say what class of mail it is, and it will have a unique identifier for that piece of mail. That's the ultimate vision for where we're going as a mailing industry because every piece of mail will be tracked, any delays will be identified immediately and we'll be able to respond to, you know, questions like that because we'll have data around every piece of mail. It's going to force the postal service managers to manage better. It's going to open up to everybody and become very transparent to everybody where we have service problems.

But I think for the most part, what you described there is kind of an exception as opposed to the rule because there are many people now -- and we wish they hadn't -- who are buying down from first-class mail, who advertise using first-class mail and are now using standard mail because the reliability of standard mail has gone up so dramatically in the last six, seven years. If you looked at -- historically, we were as high as 18 percent of first-class mail was advertising. Today that number is down to 9 percent. And it has a lot to do with the reliability that we've built into standard mail processing and delivery because people can get reliable service and they have a choice now. The choice is to buy something that is more economical and they're assured that the message is going to get there. So, again, I'm going to presume that what you just described is an exception and not a rule.

MR. ZREMSKI: When will postal shippers be able to track packages and envelopes as they are now with FedEx or UPS?

MR. POTTER: Okay. Well, I just described the intelligent mail

barcode system that today mailers have the option of using that system. And it will provide tracking capability for letter mail. Basically what it does is it tracks mail through our system. If mail's walk sequenced -- it is walk sequenced on our -- to our carriers, our letter mailers. So once it's walk sequenced, it will be delivered because no one's going to take the time to undo the mail and not deliver it. And so we're there today with that.

When it comes to packages, we do a scan at destination to confirm delivery. We're building in scans at origin and intermediate scans, and it will be there for packages in a couple of years.

For flat mail, we are starting to introduce the 11-digit barcode, but we're not going to be in a walk sequence environment for probably another six to eight years around the country. So you know, that final step of "was the mail delivered?" is something that's going to take a little longer for flat mail.

MR. ZREMSKI: Wachovia Bank is currently running a TV ad suggesting that mailboxes are a major means of identity theft and that customers should contact the bank to learn about fraud protection. What are your views of that commercial?

MR. POTTER: Well, that's the bank I was referring to in my speech. (Laughter.) I was trying to be subtle -- (laughter) -- but since somebody -- well, my views of that commercial are that they are -- they're really doing a disservice to the American public. First of all, they're trying to scare them about the use of the mail. And from our participation on the president's task force, the mail is the safest means of communicating today.

I am really shocked when you -- if you have -- I have a son who's 16. I'm shocked that he can drive down any block and get on a computer -- laptop computer and hook up to, you know, people's homes and get access to their computer systems. And he does it just to, you know, get Internet access use. But what about somebody who's criminally motivated? I think we are not doing a good job of educating the American public on how to protect their systems.

You know -- you know, a member of my family had their identity -- well, their credit card stolen. And after about 6 (thousand dollars) or \$7,000 worth of purchases, the credit card company called us up and said, "Hey, did you make these purchases?" And we said no, no. And then they said okay, and they tracked it to when the credit card was stolen -- they knew where it was stolen. But did anyone bother to follow up and address the fact that a crime had taken place? I mean, if you -- if you think about it, it was stolen at a -- in this case, it was stolen when a purchase was made at an establishment. It was the only time the card had been used in a month. So how hard would it have been to find out which clerk was the one that took the information or allow the person to make another purchase and then catch a criminal in the act?

I mean, to me it's absurd that the bank is pointing to the mail when we know that electronic medium is like the wild, wild West. And there really needs to be a response to that, and the response shouldn't be just to write off billions of dollars every year of your

money and my money. We need to step up and address -- and address the issue, and the way to do it is tell people what they can do to protect themselves. You know, putting passwords on different accounts and protecting their systems from people hacking. And we need to do a better job of explaining to folks who are victims of phishing what that's all about.

I personally got something at work from my bank saying, "Hey, you know, blah, blah, blah, you know, you need to give us this information. We need to do an update. Something's happened to your account." And then I realized, I never shared by work account with my bank. So here's somebody phishing.

I call up the bank -- not Wachovia, another bank -- (laughter). I call up the bank and I said, "What's going on?" I said, "I got this thing, and obviously you don't have my work e-mail."

And the guy says, "Well, yeah, there's about 100,000 of those messages out there. They send about 100,000 out every week."

I said, "Well, what are you doing about it?"

"Well, there's nothing we can do about it."

Now, that to me is really, in my mind, criminal, okay, in the sense that we have issues and there's not enough effort to step up to it.

I've really complained sometimes -- I had to complain to my postal inspectors one day because I was reading about, you know, theft -- identity theft, and oftentimes we're in the story. You read an article about identity theft and the postal service is in it. And the reason that we're in it is because we're the ones who capture the criminals because the way they get these criminals in a lot of cases is mail fraud. So think about it: we're in the process of catching a crook -- we're creating an advertisement that says there's something wrong with our product -- that's not us. People get the information from other sources. Then the best way to capture them is through the mail.

Think about Security and Exchange Commission, you know, kind of violations. There's always postal inspectors there. Why? Because they catch them because of mail fraud, you know? But what's the source of the mail fraud? A lot of cases it's electronic, it's homes -- you know, just information that's passed along and it's stolen.

So I have very strong feelings about this -- whether you can tell it or not -- (laughter) -- and -- but I have them as a citizen. And I just think that we are not doing enough to really inform the American public about what really is going on when it comes to identity theft and we're much more comfortable just kind of sweeping it under the rug. And I don't think in the long run that benefits American society -- waste of money and not only money but the -- when it does happen to you, you lose your identity, you truly feel violated.

And so, you know, I think we need to do a better job as a society

stepping up to that, and the best way to do it is give the American public the knowledge so that they can deter this kind of activity.

MR. ZREMSKI: The postal service is starting to contract out letter carrier work in urban areas, including New York City, to avoid paying some health benefits, pensions, vacation or sick leave. Isn't service going to suffer with these new lower-wage non-government, non-career delivery people?

MR. POTTER: Well, the fact of the matter is that in the 1700s, the Congress mandated that we begin delivery of mail and have some delivery of mail using some contract services. Today about 2 percent of our mail is delivered using contract services.

I think it makes sense to always look and see whether or not you can do something a better way. So when you talk about this city delivery, it might be something that we abandon going forward, but the fact is we had to try it. And so if you think about it, we have 166,000 city letter carrier routes. We've contracted out 18. Now, that shouldn't get anyone overly panicked. But the fact is, is there a better way to deliver the mail? Well, you and any business that anyone's in should always be striving to figure out how to do it a better way. And the fact is, sometimes it's good to have somebody else come in and make that attempt to see whether or not, "Hey, we're doing it the right way; there might be a better way." So that's -- that's really what that is all about.

As far as cost, yeah, there is a cost benefit to it. You know, our employees -- you know, make -- city delivery -- \$37 an hour, okay, including benefits. So you know, the question is, if -- are there better ways of doing it? Are there lower-cost ways of doing it? We have a fiduciary responsibility to constantly look at trying to do things a better way and doing it more economically.

MR. ZREMSKI: With the new postal legislation passed, where do you see the United States Postal Service in 10 years?

MR. POTTER: Well, in 10 years, I've told people that -- let me describe a little element of the law. There's an element of the law that has us paying for retiree health benefits. Prior to this, just like UPS and other employers that had a health benefits program shared with others, we paid as we go. So we pay on an annual basis the cost of health benefits for our 400,000-plus retirees, as well as the 600,000-plus people who participate in the program who are currently working for us.

And so what the law did was said, "Hey, we want you to start creating a fund for these retiree health benefits." And in the coming years we're going to be challenged because we're going to pay, literally, into a fund and hopefully generate about \$80 billion in that fund over the next 10 years.

So in 10 years' time, we'll have gone through that. And I tell everyone internally that in Year 11 they're going to adjust our payment into the health benefit fund. My calculations say it's going to be a reduction in costs of about \$5 billion. So I said, it's a good year to become postmaster general -- a little motivation for the

younger people -- because you're going to look like a star, because you're going to have this, you know, balloon kind of opportunity come your way.

What do I see, though, for the Postal Service? I see the Postal Service continuing to deliver America's mail 10 years from now. I see the level of sophistication of our systems growing. Growing to the point where people are going to use them more readily. There's going to be a lot more intelligence around, because of the transparency of mail.

You know, I truly believe that going forward we are going to continue to deliver for America. What we deliver's going to change. I mean, five years ago, 10 years ago no one would have ever thought that we would be delivering DVDs for Netflix or Blockbuster. Today, we're doing that, you know. There are things that people will put into the mail in the future that, you know, I think will surprise everyone.

The notice -- the idea of working with others on environmentally friendly things is something we're exploring now. You know, we're going to give people an opportunity to bring the environment -- you know, things that need to be recycled back to the post office, whether that's ink cartridges or other things. So again, I just see a strong system.

When you think about this Postal Service, you know, and you think about the history of it, you know, people talked about the Postal Service going away when the telegraph came in, when the telephone came in, when faxes came in, when the Internet came in. And I had the honor of being able to negotiate a contract with somebody who at the time was, I think, 85 years old -- Moe Biller, God rest his soul -- when I was back in the late '90s. And I went in there and I told him, Moe, listen. You know, we're going off a cliff here -- you know, the Internet's coming and all this. He said, "Ah, they said the same thing about the telegraph, the fax and we're still here." And it's because this network that we have is so strong that people look at it and are constantly figuring out new ways of using this great communication channel that has been built up over the years in America and it's served the American economy well. And I don't think that -- you know, I think we'll probably be surprised by some of the things that are going to be done in the mail in the future, but I do know that it's constantly adapting and evolving and I believe it will continue to do that.

And so I don't see the Postal Service going away -- let me just put it that way. And I think that you're going to see us adapt to the environment around us and I think you're going to see people and companies figure out new ways to use the mail to better the life of every American and create profits for themselves.

MR. ZREMSKI: Okay, we're almost out of time, but before I ask the last question we have a couple of important matters to take care of.

First of all, the presentation of our certificate.

MR. POTTER: Oh, thank you very much.

MR. ZREMSKI: And second of all -- handy for the storage of two-cent stamps -- our National Press Club mug.

MR. POTTER: Thank you. (Applause.)

MR. ZREMSKI: Okay. Last question is what are your favorite stamps of all time and which stamps bombed the worst?

MR. POTTER: Ah! Well, I'll tell you, the favorite stamp of all time is the Elvis stamp to this day. So his fans are still out there. We might have to reissue that at the new rate.

But, you know, I don't think of any stamps as bombing, because stamps are used as a vehicle to honor the people, the places and the things that make America great. Some are more popular than others. I'm really excited by the work of the Citizen Stamp Advisory Committee. We have some new innovations to try and attract the younger folks and the not-so-young folks like comic book stamps, Disney stamps and we just did the Star Wars even out in California. And we have Star Wars stamps coming this year.

So when I think of stamps, I don't look at the negatives, I look at the positives. And again, I view them as a celebration of everything that makes America great. And I think the Citizen Stamp Advisory Committee does an outstanding job of selecting those images that have people look at the positive side of America and all that's great about this country.

MR. ZREMSKI: Great. Thank you very much. (Applause.)

I'd like to thank you for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz and Howard Rothman for organizing today's lunch. And thanks to the NPC library for their research.

Thank you. We're adjourned. (Sounds gavel.)

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