

POSTAL NEWS

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1. Burrus Assails USPS Response to Financial Crisis

APWU Web News Article #060-09, May 20, 2009

In testimony before a House panel May 20, APWU President William Burrus told lawmakers that if the Postal Service is to survive, it must re-examine its overall strategy.

He emphasized that the need was urgent for passage of H.R. 22, which would allow the USPS to pay its share of contributions for annuitants' health benefits out of a retirees fund rather than from its operating budget. "But adjusting the payment method of retiree healthcare benefits is just one option the Postal Service is pursuing, and it is only a short-term fix to stave off imminent collapse; it will not address the long-term challenges," he said.

The union president also criticized many of the USPS' cost-cutting efforts. "Actions such as plant consolidations, employee reassignments in large numbers, [and] reduced retail hours are having a detrimental effect on service, and in many cases generate little or no savings," he said during a hearing held by the House Subcommittee on Federal Workforce, Postal Service and the District of Columbia.

The cost-cutting initiatives are undermined by the Postal Service's flawed rate strategy, Burrus testified, which "dramatically reduces revenue from major mailers without a corresponding reduction in service."

Underscoring the severity of the USPS' financial crisis, several lawmakers at the hearing, including subcommittee Chairman Stephen Lynch (D-MA), indicated that Congress may have to consider allowing the Postal Service to reduce the number of delivery days from six per week to five.

Burrus rejected the suggestion, calling it "an act of desperation" that would "hasten the demise of the Postal Service." Private companies would step in to provide service on the sixth day, he said, accelerating the diversion of mail from the Postal Service. Congress is unlikely to approve such a proposal, Burrus said, but because it is so dramatic, entertaining it "sucks all the oxygen out of the discussion."

Strenuous Opposition

Speaking specifically about the postal network, Burrus noted that "since the release of its original Transformation Plan in April 2002, the Postal Service has ignored demands by legislators and workers for details about where, when, and how consolidation would take place."

Many of the consolidation announcements "generated strenuous opposition from workers and affected communities," he testified, noting that "in 2006 and 2007, 37 of the 50 consolidations were terminated, placed on hold, or reversed."

The Postal Service also “was the subject of severe criticism by the Government Accountability Office (GAO) for the lack of transparency in its planning efforts, and for failing to allow for sufficient input from workers, citizens, and public officials,” Burrus said.

A 2007 GAO report concluded that “Inconsistency in data calculations also impacts the ability of USPS to accurately determine the expected cost savings,” and the USPS Inspector General found discrepancies in the projected cost savings... resulting in savings that may have been significantly overstated,” Burrus pointed out.

Concerns Persist

“Despite USPS assurances to the contrary, citizens, community leaders, small-business owners, and postal workers are concerned that a ‘realigned’ mail processing network will reduce service and delay delivery of the mail,” the union president said. “The danger is clear: If service to small businesses and individual citizens is permitted to decline, it could lead to the demise of the institution. Regrettably, the Postal Service has consistently failed to share an overview of its network realignment plans.”

A basic flaw in the Postal Service network realignment strategy is that it considers only the facilities under its direct control, Burrus said, and ignores the broader universe that includes private facilities. In doing so, the Postal Service ignores savings that could be achieved by reducing outsourcing efforts and worksharing-discount programs.

The Postal Service asserts that it is attempting to cut costs, Burrus said. “Despite the shortcomings I have outlined, I want to emphasize that the APWU does not oppose cost reductions or improved efficiency,” Burrus said, adding that the record shows, for example, that the union has supported the USPS automation program. “Even though it had a profound effect on the number of APWU jobs ... we believed it was necessary for the long-term survival of the Postal Service.”

Rate Strategy Subverts Efforts

The APWU president told lawmakers that the USPS cost-cutting efforts are “subverted by its postage rate strategy, which dramatically reduces revenue from major mailers without a corresponding reduction in service.”

“The USPS business model is based on the erroneous premise that discounts for large mailers increase volume. However, a review of the effects of three decades of rate manipulation reveals that discounts have failed to boost first-class volume.”

During the Capitol Hill hearing, Burrus presented data that demonstrate that “despite disproportionate increases in postage discounts, volume has been unaffected. In fact, over time, the Gross Domestic Product has been a more accurate predictor of increases or decreases in first-class mail volume.”

“The misguided rate strategy has undermined the principle of universal service at uniform rates,” Burrus testified, “and tests the limits of the law. Under the guise of transferring postal work to the large mailers and rewarding them with discounts derived from ‘costs avoided,’ the uniform-rate standard has been eroded.”

The only mailers who pay the “published” first-class rates are individual citizens and small businesses, Burrus said. “Passing H.R. 22 will provide the Postal Service immediate relief; but the long-term solution to the crisis is to end the policy of subsidizing large mailers at the expense of American citizens and the USPS.”

2. Liberating the Postal

Posted: May 20, 2009 05:39 PM

Government bailouts of high-profile private corporations have obscured the fact that one of the largest government enterprises, the U.S. Postal Service, is also in dire financial straits. In the case of the Postal Service, however, the fundamental problem is not money or credit, but its "business model" -- that is, the basic organization and purpose of the Postal Service.

In essence, what the Postal Service needs is to be free of congressional interventions and allowed to operate as a regulated corporation in a competitive delivery services industry. Ever since 1970, when it was created by Congress to succeed the old Post Office Department, Congress had said that it wants the Service to operate like a business. Yet ever since 1970, whenever attempts are made to respond to that mandate, some old congressional hobby horses ride forth and interfere.

Postmaster General Jack Potter has asked Congress to accept the fact that we might not need the mail delivered six days a week to every address in the nation -- the universal service level as it is currently defined. Potter asked for nothing more than flexibility for the future, yet several members of Congress immediately cried "Foul!" and insisted on retaining such service.

However, six-day postal delivery was not invented by the Founding Fathers as many today seem to suppose. Until the Civil War, almost all Americans had to come to the post office to collect their mail. Not until the last third of the nineteenth century was postal delivery gradually extended to the main cities. Postal delivery in rural America (where most Americans still lived in 1900) was introduced in the first third of the twentieth century. Even so, as late as 1950, one in six Americans still collected his or her mail from the local post office.

In the late 1970s, the country hit a rough economic patch. Inflation surged, and the federal budget turned red. To save money, Congress decided to renege on its promise to cover the costs of the Postal Service's unprofitable services. Worried that this might force the Postal Service to cut back on Saturday delivery, Congress "fixed" the problem through an appropriations rider that ordered the Postal Service to maintain six-day service without public funds. Presto, something for nothing!

The problem is that almost 30 years later, the same temporary fix is still attached to the postal appropriations bill. After the first couple of years, Congress did not even bother to update it. The provision still requires that the Postal Service maintain delivery frequency at 1983 levels even though no one in Congress, and no one in the Postal Service, can say what the service levels in 1983 were. Furthermore, about 75% of those commercial mailers and households surveyed in the George Mason University study done for the Postal Regulatory Commission said they would be happy with five day delivery. The Postmaster General had a good understanding of what the public wanted.

The annual postal appropriations rider has become a bad habit. It is time to stop the rider and give the Postal Service freedom to adjust delivery frequencies to the actual levels of mail and the real needs of addressees. Not unlimited freedom, but flexibility subject to oversight by the independent Postal Regulatory Commission and, of course, ultimately by Congress.

Yet this only illustrates one facet of a much larger problem: how to equip the Postal Service to meet the needs of the twenty-first century.

The base problem confronting the contemporary Postal Service is that the environment in which it operates has changed drastically. It is less and less a conduit for exchanging first class letters and more and more a broadcast medium, primarily for the distribution of advertisements, periodicals, and parcels. None of these classes

of mail is covered by the monopoly on first class mail, a monopoly adopted by Congress in 1872! Today, the reasons for establishing the Postal Service as a government monopoly are fast disappearing.

We need to think seriously about transforming the Service from a government monopoly into a regulated, competitive enterprise. There are numerous examples from abroad on how the transition might be made. The European Union has ordered the end of virtually all national postal monopolies by the end of the year 2010. And there are ample precedents and lessons to be learned from regulatory reform in other industries in this country.

A restructured postal system would give the Postal Regulatory Commission, an independent and impartial body of experts, the authority to define the truly public interests which must be protected. For example, the Commission might require delivery of individual first class letters to, say, 98 percent of all addresses in the U.S. within three business days at a maximum rate of 50 cents for the next five years. It would be up to the Postal Service to figure out how to do that. If the Postal Service cannot do the job at a profit, the Commission might contract with a private carrier to provide the necessary service. Meanwhile, the Postal Service might find it commercially sensible to reduce rates for some types of letters -- for example, local utility bills. If it can offer lower rates in some places or to some mailers (without unfair price discrimination) it should do so. And if mailers want enhanced service, they should be able to get it and be willing to pay for it. We need to get away from the idea that the same level of service should be provided to all mailers everywhere. The true public interest lies in a guarantee of a reliable nationwide delivery service at an affordable maximum price.

Public policy towards the Postal Service has grown unwise by not changing with changing times. We now have a system in which Congress feels obliged to oversee the execution of a public monopoly granted in the nineteenth century, while the Postal Service is struggling to adapt to life in the twenty-first century. This mismatch between policy and reality endangers the future of the Postal Service. It is time to allow the Postal Service to manage itself subject to clearly stated and impartially implemented rules that protect -- and where necessary pay for -- the essential minimum level of nationwide postal services required by the people.

A. Lee Fritschler, Professor, School of Public Policy, George Mason University, was Chairman of the U.S. Postal Regulatory Commission. With colleagues James I. Campbell Jr., Robert H. Cohen, and Christine Pommerening, Professor Fritschler recently completed a study on the development and future of universal postal service for the Commission.

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Tuesday, May 19, 2009

3. The United States Postal Service & Power Company?

Switching to electric delivery vehicles would enable the U.S. Postal Service to make millions by selling electricity and to reduce delivery costs by millions as well, a postal expert says.

Batteries for the electric vehicles could be charged during off-peak hours and kept connected to the grid, writes Michael Ravnitzky, Special Assistant to Commissioner Ruth Goldway of the Postal Regulatory Commission, in a paper published today on

the PRC's Web site. When not being used in delivery vehicles, stored power in the batteries could be sold back into the grid at times of peak or unexpected surges in demand.

(A presentation Ravnitzky did recently on the concept can be found here. The paper grew out of an op-ed piece Ms. Goldway wrote for The New York Times.)

USPS's fleet of 142,000 right-hand drive delivery trucks is nearing the end of its useful life. The vast majority could be replaced by electric vehicles using today's battery technology, Ravnitzky writes.

"Most daily mail delivery routes are short, repetitive and well-defined, and include many stops, making the postal delivery fleet a prime application for electric drive vehicles. The electrification of the postal fleet could significantly reduce gasoline and maintenance expenses while reducing the fleet's carbon footprint," he says.

"Historical experience with electric drive vehicles suggests maintenance cost reductions of at least 30 percent to 50 percent," he writes. That, and an electricity cost that is equivalent to 80-cents-per-gallon gasoline, suggests annual savings for the Postal Service could be in the hundreds of millions of dollars.

On the revenue side, Ravnitzky sees more opportunity from storing electricity and having it available to the grid on a contingency reserve basis than from actually selling electricity. As such unreliable sources as wind and solar power became more of a factor in the grid, he notes, the needs to store electricity and have it available on a rapid-response basis will grow, he says. He estimates \$2000 to \$2500 annually in revenue per vehicle from various "V2G" (vehicle to grid) services – which would mean several hundred million dollars if most of the fleet went electric.

"The operators of the electrical grid are essentially running a massive just-in-time delivery system and it can be tricky to keep this system balanced."

Electric vehicles cost more upfront than gasoline-powered ones, and some investment in battery-charging operations would also be needed, according to Ravnitzky. Mass production of the expensive batteries would reduce the cost and presumably give a leg up to manufacturers developing similar products for the consumer market. Further study is needed to provide detailed information on capital costs, operational savings, revenue potential, and environmental impact, Ravnitzky says.

Perhaps his vision could be employed to provide a simultaneous bailout for three needy recipients – American car companies, the U.S. Postal Service, and the environment.

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