

Edited Transcript of Breakfast Keynote Talk at the 2008 Parcel Forum
By Commissioner Ruth Y. Goldway, Postal Regulatory Commission
Chicago, Illinois – October 8, 2008

(These opinions are personal views and do not necessarily represent the opinion of the Commission.)

Thanks to Dan O'Rourke and Vivian Li for arranging for me to be here and for their warm welcome. I want to thank Endicia for being most generous in sponsoring our breakfast this morning as well as our Monday evening WILDS¹ networking event. I also want to thank our hosts, Parcel Magazine and Events Evolution.

This is the first time I have used a video or even audio visual assistance in my talks. I usually prefer to speak off the cuff. However, I think at a time of dramatic change in our field, I will change too. It has been worthwhile to go back and see how important the institutions we are working with have been in the history of our country. So I hope you enjoy this vintage footage of parcel services and the accompanying Woody Guthrie song that he wrote for his children and that is sung by Pete Seeger.

[Introduction consisted of a three minute video of historic film footage of postal mail and package handling from 1930-1950.]

This film is not meant to be just a bit of nostalgia or entertainment — although I thought it was really fascinating to see the use of hooks to catch the mail as trains passed through the stations — but I want to remind you about the vital social and economic impact of parcel delivery services in the history of our country. From planes to boats, to airplanes, the Postal Service helped subsidize the development of every major form of transportation, and was the impetus for important facets of our nation's growth.

¹ Women in Logistics and Delivery Services



This photo was taken around 1913, the first year of the enactment of National Parcel Post Service. Actually parcel history can trace its beginnings back to 1896 with the enactment of the Rural Free Delivery law. For many years before that, farmers lobbied Congress asking for a system to allow them to deliver their goods directly to the consumer, bypassing the middlemen. Since farmers at that time were then about 54% of the population (compared with less than 1% of the population now), they had considerable clout with Congress and thus a new government service for the rural areas was enacted.

But the first people to take advantage of this new service were not so much the farmers as two companies that were started right here in Chicago, in 1872 and 1893, Montgomery Ward and Sears Roebuck, so much so that by the end of the first year of this rural free delivery service -- just one year -- Sears Roebuck was selling four suits and one watch every minute and a revolver every two minutes. By 1904, five years after enactment, Sears' business had tripled. When on January 1, 1913, full nationwide parcel service was established, demand had grown so much the postal service handled four million packages on the very first day.

By 1918 there were huge fleets of trucks on the road delivering goods between cities and the country. Eggs were one of the staples of agricultural transport commerce and soon

after that baby chicks. I remember my first case in front of the Postal Rate Commission in 1998 involved the standards for shipping baby chicks and we are still shipping baby chicks today. No other service will deliver them — the Postal Service will.

During those early years, while trucks served the continental United States, we had this totally remote territory up in the far north called Alaska. So the Postal Service agreed to ship parcels by boat to Alaska and then take them by plane to the outback country. The Alaska bypass service continues to this day.

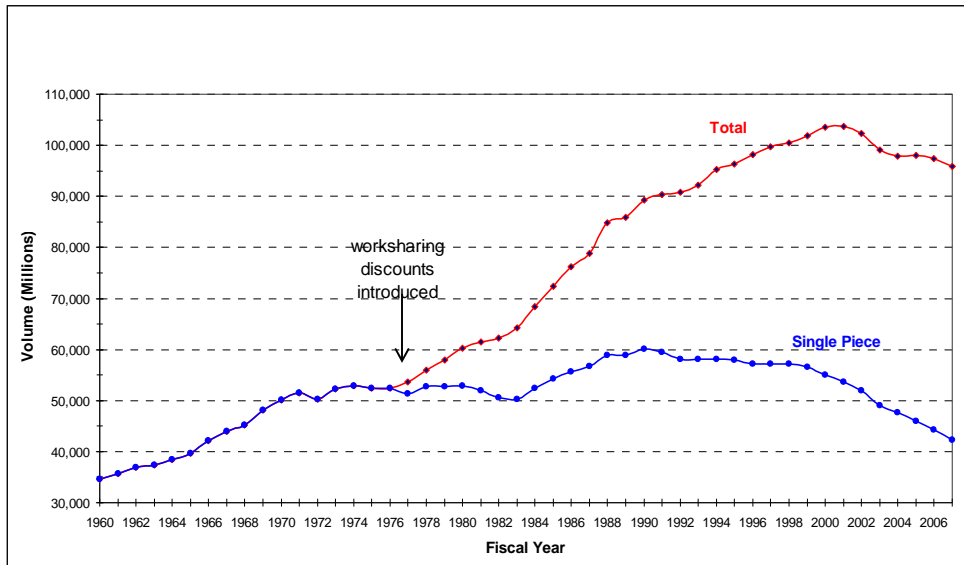
My point is that Parcel shipping services have proven to be a huge dynamo in the development of our nation's retail and service economy. In fact, when the Postal Service built its station in downtown Chicago in the 1930s, it was the largest post office in the world and it was designed specifically to serve the fulfillment needs of the big dry goods shippers based here. Similar stories can be told about the Postal Service's contribution to the growth of railroads, to the incubation of the airplane passenger service systems; to the distribution of national magazines and thereby a national press. And in recent years we have seen new concepts like Netflix, eBay, pet food and discount prescriptions among the industries that have been created and thrive because of the network that is the Postal Service.

The US Postal Service is the only national monopoly in the United States that is owned by the Federal government. There are a few regional operations like the TVA or the Rural Electric Association that are owned by the government but the Postal Service is the only national such institution. It was enshrined in the Constitution, enacted in 1789 to bind the nation together, to ensure the free flow of ideas in a democracy and to ensure the economic integration of what was then a small, disjointed economy. It has served us well. It's an institution which does what the film I showed you earlier demonstrates, but far more efficiently.

But by 2004 and 2005, people in the mailing business acknowledged that there were some problems with the old model. Congress came to the realization that the decline in First Class letter mail volume (especially single piece mail) beginning in about 2000 would continue.

First Class letter volume is the cash-cow of the Postal Service and those with a stake in the mails understood that to ensure the future of the Postal Service we needed to make some fundamental changes in the law to enable the Postal Service to compete.

First Class Mail: 1960 - present



So in December of 2006 Congress enacted the Postal Accountability and Enhancement Act: PAEA. And it has indeed resulted in big changes in the Postal Service and in the Postal Regulatory Commission that oversees the Postal Service. The Postal Service has moved from a system regulated by rates to one regulated by a price cap. This means that the Postal Service doesn't need to come to the regulator to ask for a rate increase but instead it can, every year, raise rates by the rate of inflation within each class of mail. It has a great deal more flexibility.

The Postal Service has gone from a complete monopoly to an agency that's allowed to compete; it has both "market dominant" and "competitive" products. The market dominant products include single-piece parcels but all the rest of the parcels including Express Mail, Priority Mail, Bulk Parcels and Parcel Select are now in the competitive category. And the Postal Service is beginning to change from what was once an insulated, unresponsive big-brother agency into to an agency that's transparent and accountable and into a flexible partner of the business world and within the broader postal community.

My job has changed too. I and my fellow Commissioners are no longer just the gatekeepers who merely try to keep the rates low and fair. I'm now a policy maker. The new regulatory system that we have created requires the Postal Service to give public notice that it will raise its rates. The Postal Regulatory Commission's job is to ensure that the rates do in fact respect the change in the Consumer Price Index and that all rates cover their costs. We must make sure that no products are subsidizing one another. But beyond that the Postal Service has great flexibility in setting rates.

We have established a consultative process with the Postal Service that was called for in the new law. Instead of acting solely in a judicial-like capacity, the Commission now meets with the Service on a monthly basis. Together we have developed a new system for service standards and agreed upon delivery standards for all products, both competitive products and market dominant products. We are working toward a measurement system to measure the service standards and to ensure that the Postal Service meets announced goals of service levels. The Postal Regulatory Commission has to report to Congress on whether or not the Postal Service has met those goals. Among our primary responsibilities under the new law is that we must ensure that the information about service standards systems, measurement processes and levels of service are open and transparent.

Congress directed us to approve much more rapidly the kinds of products that the Postal Service wants to introduce in the competitive market place. In the last six months we have received seventeen Negotiated Service Agreements contracts and we have processed all of those in less than 30 days each. We now have an efficient system for getting new products out to the community and we are working with the Postal Service to do more of that in the future.

We are now required to clearly define Competitive and Market Dominant products so that the distinction is clear to the people using them. We will be establishing regulations to identify postal and non-postal products, and those non-postal products that the Postal Service can continue to offer.

The law in effect says that the Postal Service should stick to its knitting. We must try to figure out a way to make that happen that gives the Postal Service the flexibility and freedom that it needs in the future.

We are to establish a complaint process so that you, or your customers or average citizens who are concerned about the Postal Service will have an open and accountable and responsive agency to come to that will deal with those complaints.

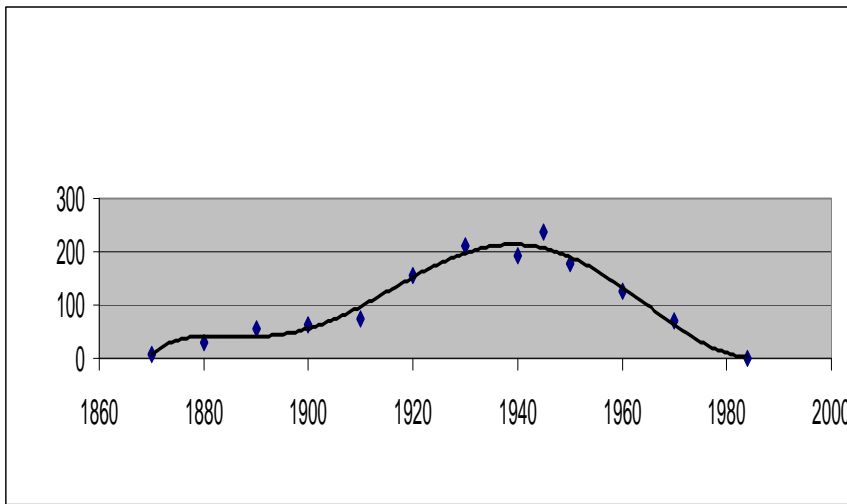
We are also developing rules of confidentiality because, while we do want accountability and public disclosure, the Postal Service and private corporations will be assured that they have the necessary confidentiality to make the business agreements that work in the competitive private sector. Every five years we will consider and provide to Congress ideas for possible changes to these laws based on our experience to date. We will submit to Congress each year an Annual Compliance Report that will assure Congress that the Postal Service is doing what it is supposed to do, meeting its obligations on service standards and maintaining an effective, fair and universal mail service.

The Commission sees our role as the public face of the regulated mail sector. I think that especially after the past several weeks of turbulence in the financial markets, people recognize the importance of regulation. I think our role as a regulator is very different from what it was before and will be valued more in years to come.

The Commission no longer spends up to 90 days considering and allocating the actual work-share discounts that are appropriate for a particular product. My job now is to consider the big picture, reach out to the public and to look to the future.

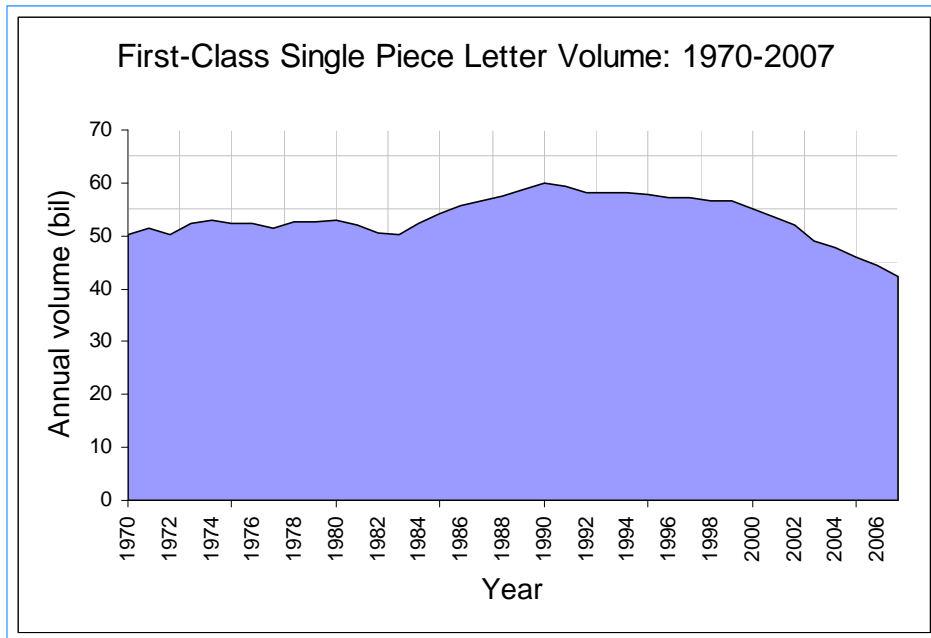
So that is why I would like to show you some other slides:

U.S. Telegrams Sent Per Year (millions)



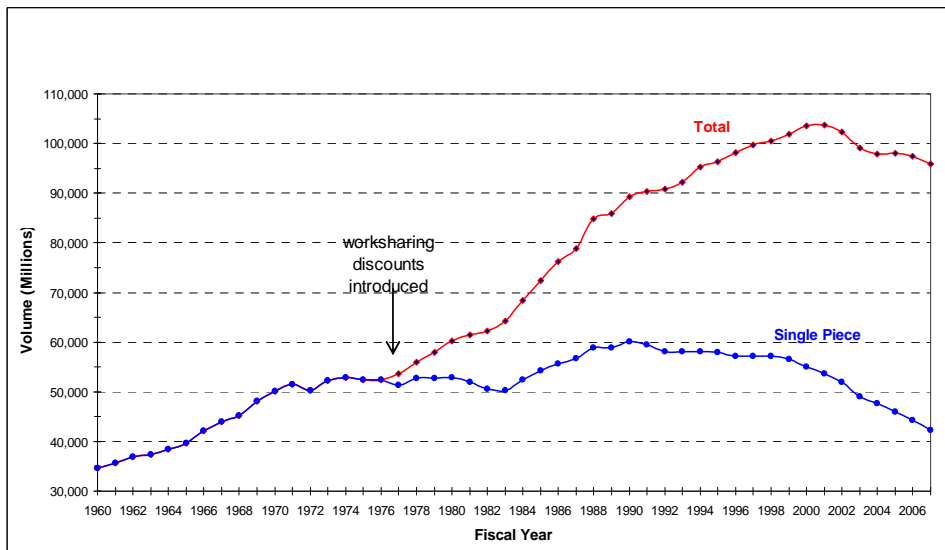
The first slide I want to show you is a line graph of the number of telegrams sent in the United States each year from the beginnings of such service until its demise. This is a classic bell curve type shape. You can see that the service grew steadily until the 1940s, and then after 1945 there was a rapid decline. We can look at alternative products and see similarly shaped charts, and across history and see similar patterns.

The concern we share in First Class letters: is it a potential bell curve shape?



If you look at First Class mail over a longer period of time since 1960 and look at not just single piece but also at workshare-discounted First Class mail you'll see the bell curve is even sharper than in this slide.

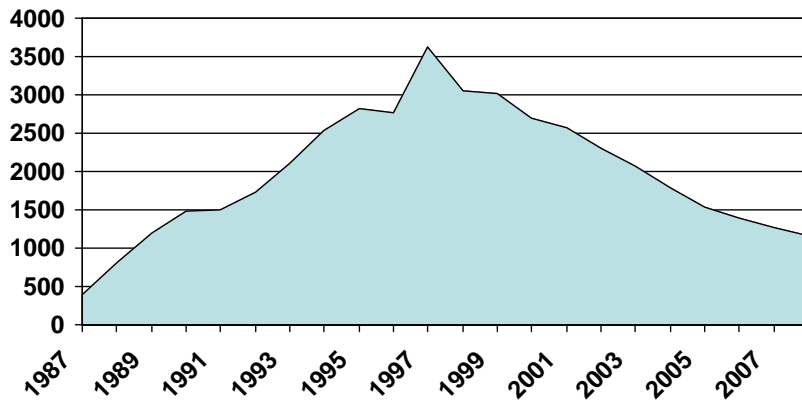
First Class Mail: 1960 - present



For a while it looked like bulk mail was compensating for the decline in single piece mail, but from about 2001 onward it's been clear that all First Class mail is declining and this is even before the recent shock to our economic system. Clearly, the internet and other forms of communication are replacing letter mail.

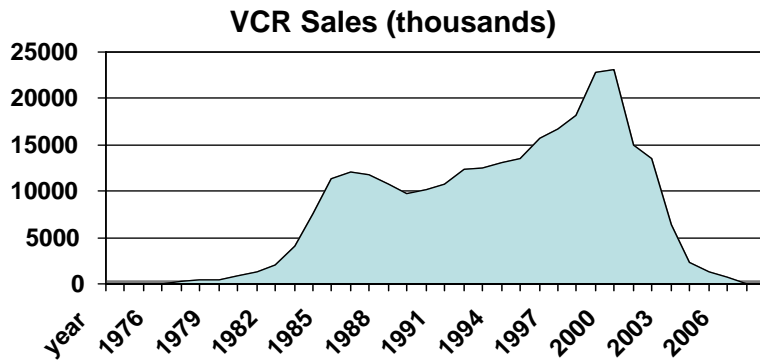
This slide shows the demand curve for Fax Machines. In a matter of twenty years, a product comes and goes.

Fax Machine Sales (thousands)

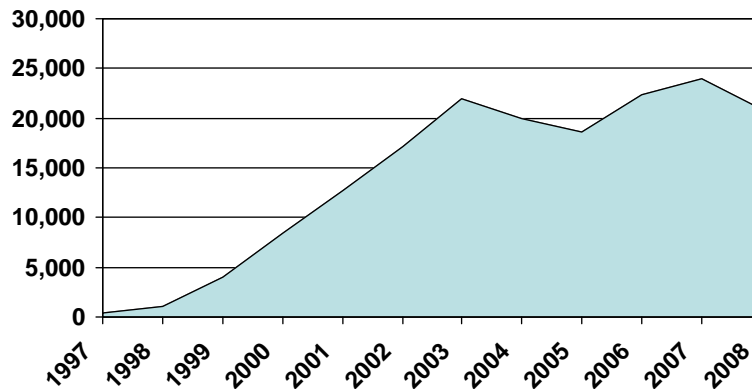


Here are similar slides for annual sales of VHS players and sales of DVD players:

VCR Sales Per Year



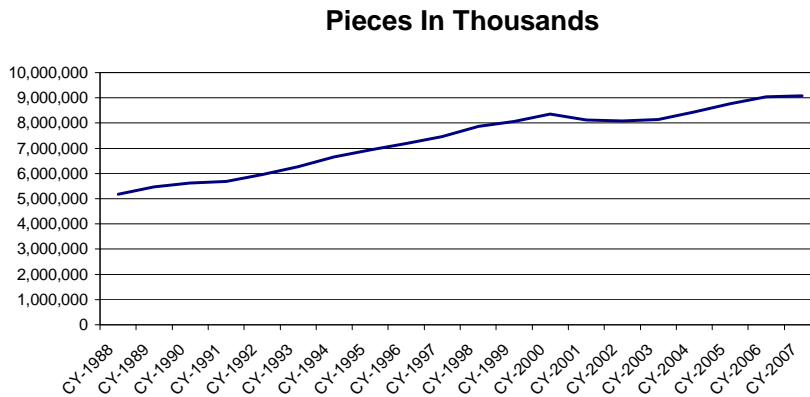
DVD player sales (thousands)



Soon there will be charts that show the reduction in the use of email and the growth of cell phones, and similar shifts toward text messaging as more cell phone use is comprised of text messaging, such as is happening in many places in the world. It turns out that almost one-third of Americans now have only a cell and no landline. So another chart

may well illustrate how cell phones are replacing telephone land lines. In other countries the adoption of cell phones bypassed the landline stage almost entirely.

Total Air And Ground Pieces By Calendar Year



But -- here's the chart showing growth in package delivery (Source: The Colography Group). I think I can say that here is an industry that still looks strong and shows a lot of growth and we can plan for many more years of package growth. And in fact studies show that total package volume growth from 2002 to 2007 was 8%. Business to consumer package volume was up by one-third. Business to Business growth volume held steady but went to 70% of the volume as its share was shrinking. Mail order catalogs and e-tailing were up 113% in those five years as well. Total package growth by weight was 9%, but in the under five pound segment the growth was larger, at 13%.

USPS has the largest share of the packages under five pounds — well over one-third of the market. Clearly USPS is well-situated in the mix of the fastest growing segment of the parcel industry. Even in what will be a slow market, there are still opportunities for growth.

Under the new law, with the PAEA, the USPS can participate in this growth in a way it never could before, as long as its costs are covered. And the Postal Service is a competitive partner offering Priority Mail, Express Mail and Parcel Select. And the Service provides added-value services such as tracking, and can provide co-branded boxes. I'm told that if you go online, potential discounts range from 1-11% and there may be more options when you contact the Service's business agents directly. So my message is that there is a future in the parcel section of the Postal Service, and that the

Postal Regulatory Commission is here to work with the Postal Service and with shippers to make sure that that happens.

When I look at the big picture around growth I think there are opportunities for you to consider; opportunities to brand the product in the public imagination in just the way it was done through that Woodie Guthrie song and vintage films. We can begin to define packages as an important and exciting part of an energy efficient transportation network. There is a strong argument to be made around the most efficient way to purchase and deliver goods. Packaging can be identified as recycled and recyclable. Packaging can even be designed and produced so it may be easily reused for shipping purposes. The Postal Service is going to the last mile for delivery anyway; let them take the parcels to you and pick them up as well. Then there are essential social services that involve parcel delivery.

USPS is working with the Consumer Product Safety Commission to be the focal point for the logistics of product recalls. They are working with the computer industry to pick up old inkjet cartridges and other high-value recyclables and they have an understanding with the Department of Homeland Security to be part of the first line of responders in certain emergencies.

I believe that the package industry has a long way to go before it looks at any downward slope in demand. It is important that you're all here together at the Parcel Forum to discuss these ideas. It has been an interesting couple of days and we can be confident and hopeful about the future of parcels.

I brought with me another DVD that I would like to show you. It's about 12 minutes long. It is a collection of clips and movies about the mail and I would like you to give me other suggestions to add to this file for the future. I would like to expand my library. The very first one you are going to see is my favorite: the scene from "A Miracle on 34th Street" in which the Post Office proves the identity of Santa Claus.

Again, thank you for your invitation and the opportunity to appear before you. I'll be happy to take any questions.