Postal Regulatory Commission
Submitted 6/5/2008 11:24:54 AM
Filing ID: 60071
Accepted 6/5/2008

Before the Postal Regulatory Commission
Docket No PI2008-3

Testimony of T. Scott Mitchell
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June 5, 2008
City Council Chambers, 3rd Floor

St. Paul, MN

Testimony of T. Scott Michell

Good Morning,

It is an honor for me to appear before the Postal Regulatory Commission this morning to offer the perspective of both my industry and my company on universal service and the postal monopoly in the United States. Harvey Mackay founded MackayMitchell Envelope Company in 1959. I came to work for the company in 1993 and today, Harvey and I are business partners. We have sales of over $100 million and we employ 430 in three facilities in Iowa, Minnesota and Oregon. We also have sales offices in 10 states. Harvey and I are both Minnesota natives.

As you are aware, through EMA and our Foundation's Institute for Postal Studies, we have provided our views on the subject of universal service and the postal monopoly for many years. We provided papers to the President's Commission on the Postal Service and have testified on this subject. We are far from experts in this area but I will provide you with a perspective from the Midwest and our industry and will also provide you the perspective of the Envelope Manufacturing Industry.

These are times of unprecedented change for all of us that make our living through providing products and services that are distributed through the Postal Service. We are an industry of 8.4 million jobs and about $1.2 trillion in sales as our most recent *Jobs Study*[1] shows. We are all dependent on a viable Postal Service that delivers to every business and home in this nation either through its own network or by leveraging the network of others. My business depends of the viability of this delivery network and on its on time service and its reach.

In your request for comments, you asked us to respond to several questions that you posed. Let me now cover each question.

[1] EMA Foundation for Paper Based Communications, Institute for Postal Studies, *Jobs Study*, April 2008.

Topic Number 1.1 Universal Postal Service

We have always differentiated between universal service and a universal service obligation (USO). We see the obligation as a statutory mandate to provide delivery of certain types of documents to every household. We know that these terms are used interchangably, but we are making this differentiation to emphcize the government obligation over the need to provide universal service. We see the service as the ability to provide reach to every corner of this nation.

I will also tell you at the beginning of my testimony that our Association and I earnestly believe that it would be a mistake to open up the mailbox to other delivery providers. Mail is both picked up and dropped off one time per day. For most residents, that time is well known and so they place their documents in the mailbox expecting a pick up and also a retrieval of the outgoing mail. If every delivery company that used the mailbox would have to sort through the mail in the mail box to determine what had to be picked up by whom, you could easily see that there would be a substantially increased delivery cost and carrier route time would be significantly increased. We would all pay for this in time. So I start with that bias.

I am a member of the Envelope Manufacturers Association and also the Global Envelope Alliance. We have 37 nations and five posts and courier companies in our Alliance. We admitted the Posts and Courier Companies to our alliance three years ago because we felt that partnerships with our posts were critical to the future of our businesses. We are very familiar with the operations of Australia Post, Canada Post, Deutche Post and New Zeeland Post and somewhat familiar with Royal Mail as they are a partner with our UK Affiliate EMMSA. We have seen postal privatization, postal liberalization, postal corporatization and government ownership through our work. Our Chairman, Bert Berkley, is now working with China Post as they navigate a mandate for privatization. Our Japanese membership is working with Japan Post on their privatization initiative.

So, returning to your questionnaire, we concur that Universal Service should indeed be "universal." The six criteria that you provide: Geographical in scope; a range of products that are clearly specified; receipt, transmission and delivery of those items (the what must be done); that those rates need to be affordable, reasonable and non-discriminatory, and based on a fair apportionment of costs; and, the service should be prompt, reliable and efficient. That seems to us as good a definition of Universal Service as exists today.

<u>Topic 1.2 Universal Service Obligation</u>

I want to return to my opening statement that we see the obligation as framed by the statute but in doing so, we must also be contemporary in our thinking. Let me provide some examples.

In many nations in Europe we are faced with the issue of down stream access. Who delivers the last mile and what do they deliver and who pays for that service? We are still arguing this issue after liberalizing the postal market in Europe. We know, so far, that the national post in a given State is still the predominant down stream access provider, at least in central Europe. If I hop across to the United Kingdom, Royal Mail still has the requirement but it remains unclear how it will be paid for. In Canada, the Crown Corporation Act provides Canada Post with an *Exclusive Privilege* over letter mail and it provides them a monopoly and service standards to meet. There is a most interesting study authored by Torsten Brandt of WSI/HBS for the European Commission that I commend to you for reading. It is entitled *Liberalization, Privatization and Regulation of Postal Services in Europe*. We have sent a copy of this study to your staff with our submission.

Last summer, the USPS created a great deal of interest among many of us in the mailing community when they issued a Request for Information Concerning A Time Definite Surface Network (Reference Number RFI-07-24-2007). We felt that this was a very healthy process for the USPS to go through, to explore the alternatives and look at ways in which the surface network can be optimized. We understand that labor organizations and mailers identified many concerns, but we

also believe that discussions like these are important as we look at how Universal Service and the Universal Service Obligation will be addressed in the future.

If we mandate a universal service obligation than we must provide a means for funding that operation. We cannot leave this up to chance or for it to be worked out. This is stated in the Private Express Statues[2], which I will return to later in my testimony. There are large costs involved in implementing these statutes and we must keep that in mind. At the same time, while the Postal Service is statutorily charged with the universal service obligation, we must be more contemporary in our thinking with regard to this obligation. There may be instances where it would be more cost effective for the entire system, to allow certain routes or product lines to be contracted out using developed service standards and performance requirements. It would be foolish of us not to think about the best quality of service for the lowest cost. For example, could we contract out the distribution network that ties all of the delivery destination post offices together? It would seem to me in the many rural areas that we have in my state, we need our Post Office but we also need a flexible delivery network. How can we have both?

There is no doubt that mail volume delivered to the household is declining, as is the mail that is picked up. That means less postal revenue per house but the universal service obligation remains. If current mail volume trends continue, the cost for household delivery is going to become even more expensive, not less expensive. So we must have solutions that work to lower costs. These may mean days of delivery that are set based on delivered mail volume for a well-defined area. This may mean five days per week high mail density areas and three days per week in lower mail density areas. With rates only increasing with inflation, you can see that we must do something soon.

<u>Topic 2 – Historical Development of Universal Service</u>

The Private Express Statutes were originally enacted by Congress in 1792, and similar laws were in force under the Articles of Confederation. Under the Private Express Statutes, delivery of letters by firms other than the Postal Service is

[2] These laws are found in 18 USC and 39 USC and are central to the USPS Obligation.

prohibited; unless the letters have affixed to them the amount of postage the Postal Service would charge for delivery. Letters are broadly defined as messages between parties although there are some exceptions. As you know, the Private Express Statutes provide exceptions for "extremely urgent letters." Today we define urgent as a multiple of the price of First Class Mail.

Yet, In 1811, when President John Tyler signed an executive order naming the post roads there was a presumption that universal service would have to be provided through collaboration as our young Post Office Department could not reach every address through its network of employees. Benjamin Franklin and William Hunter, who formed the Colonial Postal Delivery Network, used independent riders that were under contract to the Colonial Post Office, as they created the first delivery network that operated from Boston, Massachusetts in the North to Charleston, South Carolina in the South. Rates, at that time, were charged on the distance traveled, not content or type and sometimes service was inconsistent. However, our first Post Office was profitable as Mr. Hunter's business journals demonstrated.

Outsourcing became an important part of the Post's legal monopoly. Before, 1840, rates were not uniform but neither was service. It took Rowland Hill's reforms in England in the 1840's to convince other posts that uniform rates, regardless of distance traveled, but defined by class of mail, were a possibility. The only exemptions were ships letters and letters carried by the "Penny Post" or dispatch services. These ships and dispatch services could not carry the mail unless it had official postage on it and they were allowed to append to the mail their surcharge for delivery. Thus we have a relationship between a private sector provider of service and a Post.

The Postal Reorganization Act of 1970, required the Postal Service to provide "prompt, reliable, and efficient services to patrons in all areas and…render postal services to all communities a "fair and equitable rates." The Act further requires the Postal Service to "receive, transmit, and deliver throughout the United States written and printed matter, parcels and like materials." The extent of the Universal

Service Obligation has always been quite broad, as the Commission has also indicated in the definition of universal service that it has put forth.[3]

We are again faced with the need to assure universal service because it provides value to the mail experience but we need to consider new alternatives in order to enhance that value. We have paved new ground with competitive products; we should also find ways to pave new ground with products covered by the monopoly. We are faced with extraordinary cost pressures. We told the USPS in PAEA that they now needed to operate like a business and we have our own obligation to provide them the tools to get the job done.

Topics Three, Four, Five and Six– Geographic Scope of Universal Service, Range of Product Offerings, Access to Postal Facilities and Services, and Frequency of Delivery

Naturally, we would clearly want a system where all of the enveloped mail could be covered under the USO and delivered at the lowest possible rates. However, we live an environment today where trade offs have to be made; as there is only a limited amount of postal revenue created by a declining volume of mail.

There are difficulties that we face in the current USO framework. For example, we have overlaps in delivery between community newspapers and mail delivery services. Why can't we work to the benefit of both? If a local newspaper covers every address in a rural community and can do so through upholding the same service standards of the Postal Service, should we not provide a mechanism through franchise or license where service can be provided? We all understand that there are fewer pieces of mail being delivered to more addresses. This is the paradigm of the Post for the post millennium mail market place. That challenges all of us to think of ideas that provide universal service at the lowest possible cost.

Geographical scope is important because physical products much reach the mailbox or the doorstep. However, how that geographical scope is achieved must be left open through an ability, through the statute, to contract out where

[3] 39 USC

appropriate as well as contract in where appropriate. The advent of an Intelligent Mail Barcode (IMB), could give us some new technology to cluster mail more readily by service requested and time of delivery. Our own Global Envelope Alliance developed a universal barcode that would work with the IMB to accomplish the same task on a global basis. While First-Class mail classed as urgent may be delivered in three days and paid for, for that service, why can't Business-Class mail carry less costs and be delivered in five days? Why can't Advertising mail or Direct Mail be sold on the basis of response? Why can't it be delivered according to the preferences of the sender and the wishes of the receiver? All of those questions can be dealt with via deploying a new coding strategy and a networked geographic delivery than can be in-sourced or outsourced depending on the desires of the customer who pays the postage. Again, a more contemporary definition of universal service. Geographic coverage no longer needs to be a cost barrier; it can be an opportunity or platform with which to provide additional services or franchised services through a subcontractor or franchisee.

As we take another hard look at the Universal Service Obligation, it is important that we again revisit what need to be covered by the Private Express Statues that define our Postal monopoly. However, we need to do this in a more contemporary light where we have a system of delivery that is based on collaboration rather than competition. We have had the opportunity to see the experience of private sector companies who tried to compete in door front delivery with the United States Postal Service. What we could accomplish cost effectively in one area we could not accomplish cost effectively system wide. However, that experience was based on a competitive model where the private service competed with the public service. We must wonder what would have resulted if we would have been able to do so on the basis of collaboration with the Postal Service?

There are clearly challenges ahead for us as we pave new ground in the years ahead. These were raised in the Commission's questionnaire on Universal Service. Should we define a system that is product focused or service focused? In essence, restrict the USO to specific products and services to insure that there is no "cream skimming" or should we define it as all mail that is serviced based.

Earlier, I began my commentary by stating that we were opposed to opening up the mailbox because of the issue of delivery times and access by consumers. However, what if we were able, using technology to consolidate to first and last mile for all mail and allow private sector providers to compete for the logistics of carrying the mail between origination and destination pairs? Would that violate the spirit of the Private Express Statutes? How would it impact service? We feel that technology may play a very strong role in not only how we define universal service in the future but also in how the universal service obligation is carried forward. We know that all those who have framed the changes in the Private Express Statutes over the years did so in consideration of the technology of the time. We feel that as we consider this area again, we must consider the technology.

Our industry does not feel comfortable restricting the USO to one class of product or another as we believe that the overriding issue is delivering a physical document or package on time and at the lowest cost possible. In addition, we produce about as many packages as we do large envelopes and feel it wiser to let our customers weigh in on these issues. We argue, instead, for an adaptable Postal Service, that through new technologies can gather products together in classes and/or delivery required, and either farm that delivery out to a transport company or chose to in-source that delivery on the basis of the lowest cost to the customer.

<u>Topic 6 – Rates and Affordability of Service</u>

While we do not represent ourselves as postal economists, we do feel that the mail carries with it some important social obligations that speak toward rates and affordability of service. Not every American has access to the Internet or can afford that access. Not every American has a checking account or the income to afford a checking account so to a certain extent the Postal Service becomes an important means by which financial transactions and communications between government and the citizens of this nation can be achieved. It is our feeling that affordability is an important component of the Private Express Statutes.

Given the geographic and age distribution of the population of America, it is likely for sometime to come that mail will continue to be an important communication medium that crosses all classes and social strata. Not for Profit organizations place great value in the mail for their fund raising efforts as it is deemed by many donors to be a safe and secure medium.[4] It is our view that classes of products that would tend to be used by citizens to accomplish transactions that may be related to government or social responsibilities should be covered by some mechanism that insures that prices are kept at or below inflation. It is important to note that the price cap regime in PAEA was not just constructed for business mailers, it was constructed for all mailers. In addition, we have all long tried to find manners in which postal automation discounts can be extended to every citizen, not just those with volume to mail. As we extend the reach of IMB technology forward, it may be possible to code individual stamp transactions and using the IMB assemble groups of individual mailpieces into "automation groups" for purposes of extending automation discounts to single piece mailers. This can be accomplished via the selection of an appropriate service offering where the mailer is trading speed of delivery for lower cost of delivery.

We also feel that there may be reasons in the future, given the scenario that we outlined above for there to be lack of uniformity among classes of mail. An informationally rich mailstream could generate both physical mailings and logical mailings, were smaller mailings wait to be assembled into larger mailings. Presentations made by Dr. Leon Pintsov of Pitney Bowers and Mr. Maynard H. Benjamin of EMA envisioned this type of a mailing structure in their presentations on the Universal Barcode at last years Global Envelope Conference in Berlin. Using a new additional coding scheme, mailpiece could be "virtually" assembled for latter aggregation with the discounted postage paid up front. The advantages of cash flow and cost reductions could justify the investment in this technology. [5]

<u>Topic 8 – Quality of Service</u>

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[4] Envelope Manufacturers Foundation for Paper Based Communication, *Mail Attitude Research*, 2004.
[5] Pintsov, Leon, *The EMAI Barcode*, Global Envelope Conference, Berlin, Germany, June 2007.

The recent process that in service standards measurement and establishment between the United States Postal Service and mailers demonstrates again the important role of the Postal Regulatory Commission in serving as a public forum on issues that are related to the Universal Service Obligation. As the Commission is aware, the Private Express Statutes primarily and historically cover First Class Mail, Standard Mail and related products. Those statutes represent an exclusive and proprietary right to provide letter mail deliver services for those classes of mail that fall under the Private Express Statutes. Service standards and quality of service by relationship, clearly fall under the USO and in our view now under universal services currently and to be established by the Commission. Therefore, the Commission must monitor performance for all products covered by service standards and/or quality of service.

Topic 9 – Methods for Calculating the Universal Service Obligation

We felt this topic best addressed by postal economists and lawyers and offer no thoughts at this time.

Topic 10 – Obligation for the Postal and Mailbox Monopolies

We began this testimony with a statement that we believe that the mailbox must remain the property of the Postal Service as long as there is a Universal Service Obligation. Under that statement, we also suggest that the Postal Service can prescribe regulations to govern the mailbox and the Commission has a right to review those regulations. If the Universal Service Obligation were to be modified, we would feel that unless there was a compelling reason, the mailbox should remain under the control of the Postal Service.

Topic 11 – Universal Service in Other Nations

While there is a great deal of insight to be gathered from the experience of the Asia Pacific area and Europe in their challenges in maintaining universal service and the USO. We feel that the United States stands alone due to its sheer geographic size and the distribution and size of its population. EMA has 37

nations in our membership and we have learned from postal operations in all those nations. We have learned that each situation is unique and that it is dangerous to make generalizations especially on USO issues.

Topic 12 – Other Issues

We have covered many aspects of our vision for the future in other areas of this document. We do see where technology and more intelligent mail may have an impact on how the USO can be interpreted and who will have access to the USO in the future. The same reasons that define universal service are also applicable to technology that can be used to replace physical transactions: cost, ease of use, universality of access, safety and security. Until we can assure everyone in our population that the Internet is safer than mail, until we have an alternative and cost effective channel to deliver the goods that are ordered through the mail, and until we have a citizenry that is totally technologically adept, there will always be a need for a Postal Service, Universal Service and a Universal Service Obligation.

We feel that it is difficult to take the results released through electronic communications deregulation and apply them to the transmission of physical objects. Too many have tried to make parallels from electrical transmission deregulation, or communications deregulation into the mail. Many who were involved in these processes would argue that the Postal Service is different and unique.

It is also important to keep in mind the importance of the Postal infrastructure in the delivery of emergency goods and services for our national defense. What would we do if there were a catastrophic outbreak of a disease, how would medicine be delivered to every part of the country? What if there were a major failure in the Internet and it went down in North America? What would happen? The Postal Service has an important role as the physical representative of the Government of the United States in many communities. It is the end point for the delivery of government services to those who do not have a computer or a bank account. It is an important conduit between the Government and the Citizen for

voting, social benefits, registering for Federal programs and a host of other purposes. It is important that we keep that in mind as we examine the universal service issue.

MackayMitchell Envelope Company and the Envelope Manufacturers Association truly thank the Commission for the opportunity to present our views. We will entertain to the best of our ability any questions you might have about our views expressed in this testimony.