

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

UNIVERSAL SERVICE OBLIGATION

)

Docket No. PI2008-3

**TESTIMONY OF
JODY BERENBLATT
ON BEHALF OF
BANK OF AMERICA
AND THE
NATIONAL POSTAL POLICY COUNCIL**

Portsmouth, NH

June 19, 2008

Mr. Chairman and Members of the Commission, thank you for the opportunity to appear here today to discuss the universal service obligation (“USO”). My name is Jody Berenblatt. I am a Senior Vice President at Bank of America Corp. (“Bank”), and appear here today both for my company and for the National Postal Policy Council (“NPPC”).

The Commission’s obligation to prepare a report to Congress on the USO and the postal monopoly is as challenging and important a task as any imposed by the Postal Accountability and Enhancement Act of 2006. The Commission’s report could well be a watershed in shaping the postal system of the future. I commend the Commission for its outreach to the public to help inform its report, and am pleased to be able to provide some thoughts on it.

The Bank and the USPS have had a long history together. Rudolph A. Pederson (1904-2003), who served as CEO of the Bank during the 1960s, was a member of the President’s Commission on Postal Organization (more commonly known as the Kappel Commission), whose 1968 report on the Post Office Department led to the enactment of the Postal Reorganization Act in 1970. In 1973, the Postal Service issued a stamp commemorating Mr. A. P. Giannini, who founded the Bank in 1904:



Mail is an extremely important communication channel for the Bank. The Bank mails over 3 billion pieces of mail a year in the United States alone and spends almost a billion dollars on postage for this mail. It goes almost without saying that we are very interested in the future of the U.S. Postal Service.

I also appear today on behalf of the National Postal Policy Council, an association of firms in the banking and financial services, insurance, telecommunications, utilities and mail services industries. NPPC members collectively mail nearly 39 billion pieces and incur postage of more than \$9.5 billion in the United States annually. NPPC supports a robust postal system as key to its members' business success and the health of the economy generally.

In the United States, the USO arose in response to the need for a nationwide, affordable, reliable channel of communication that binds the nation together. The USO has become indispensable to business and embedded in the collective expectations of the public. However, year-to-year volume growth has flattened or reversed, and taxpayer dollars no longer subsidize postage rates. Financial break-even by the Postal

Service may require painful adjustments by all of its stakeholders, including the customers and consumers who have come to regard current levels of universal service as a right.

At the same time, the many uncertainties about future trends in the demand for mail service, the ubiquity and cost of electronic alternatives, the Postal Service's costs, and changing technology warrant caution against prescribing universal service obligations that are overly costly, detailed, or rigid.

What is the legal basis of the Universal Service Obligation?

I will leave to the lawyers an analysis of the extent to which universal service and the USO are prescribed by law. In a practical sense, the question is academic. After many years of universal mail service, it has become engrained in the expectations of both senders and recipients of mail. Consumers, businesses and even governments – state, local and federal – have relied on universal service since living memory, and the geographic dispersion of our population and economy has grown up in reliance on universal service. The USPS and its employees consider themselves obligated to provide it. So, whether or not the law explicitly requires it, the assumption that the postal system will continue to provide a level of universal service at roughly its current level now provided is certainly an expectation of the American public and its political representatives, at least as long as this level of universal service remains affordable.

Does the Universal Service Obligation mean “everywhere” to all delivery points?

Yes. *How* the Postal Service serves those delivery points—e.g., through to-the-door delivery or delivery to cluster boxes, post office boxes, or institutional mailrooms—is a different question. So long as each recipient – individual or business – has reasonably affordable access at reasonable frequency, however that is accomplished, the obligation has been satisfied. While the Grand Canyon has been referenced in previous testimony as an example, there are other locations where geographic obstacles and the lack of population density make it prohibitively expensive to engage daily transport, particularly in places where daily transport systems don’t currently exist (the outer non-main islands in Hawaii for instance). The best policy is probably to leave it to local stakeholders and USPS to determine appropriate arrangements for unusual specific circumstances where they apply. Commission intervention should be reserved for instances when bilateral negotiations break down.

Does the Universal Service Obligation mean “delivery six days a week?”

Unfortunately, even a straightforward and fundamental question such as this does not have a simple answer. We have found that even within NPPC stakeholder positions vary on this issue. Some mailers can be flexible in their mailings and prioritizing. Other mailers’ business plans, not to mention customer expectations, may need to be more

rigid. In other words, six days may be an essential attribute of universal service to some, but not to others.

Further, reducing the number of days of mail delivery may not produce significant cost savings. To set some rough numbers, the 2007 CRA (PRC version) showed that there were about \$10.7 billion in fixed carrier street costs and rural carrier costs out of total USPS costs of \$77 billion. So eliminating one day of delivery could save at most about \$1.8 billion—or a little over 2 percent—of USPS costs. Eliminating even three additional delivery days per week would save at most about \$5.3 billion – about 7 percent of USPS costs. Furthermore, these cost savings could be offset in large part by in-office cost increases for handling and storing the additional inventory of undelivered mail (assuming that the necessary storage space exists). We trust the Commission’s consultant’s report will shed some light on this issue.

Finally, even if there were agreement that reducing the number of delivery days would be beneficial, and how many delivery days should be eliminated per week, there is likely to be strong disagreement among mailers over which delivery day or days should be eliminated. The response rate for solicitation mail often varies by the day of the week, and the optimal day varies by industry and product. Thus, if high response rate days are different for different products, even if there were general agreement on fewer days of delivery, there would still be no doubt lively debate among stakeholders on which day or days would be best to eliminate.

Is the current access to facilities and services the level required for universal service?

Access to services appears to be at about the correct level. Access to *facilities*, by contrast, is probably excessive: the Postal Service probably operates far more retail facilities than necessary or economical.

While it may be contentious to close rural post offices, creatively optimizing the retail network in urban and suburban areas should be easier, and should keep costs under control. Network optimization should continue to be accomplished with the same or enhanced sensitivity to the local community and postal workers as the Service has consistently applied over the past few years of cost reduction.

Further, the costs of retail access can be reduced while maintaining or actually increasing access through technically innovative ways of selling stamps, accepting letters and parcels, and providing other retail services. These solutions are likely to be less expensive, equally convenient, and greener. A Postal Kiosk which sells stamps and special services and accepts mail is just one example. Even as the number of retail facilities decreases, the effective level of access can be increased.

Moreover, even more advanced imaging and other digital solutions should enable further innovative postal uses of the internet that will expand access, while improving and adding to services generally. The testimony of Earth Class Mail at the Commission's hearing in Flagstaff provides a good illustration of this potential. We encourage vigorous exploration by USPS of the technology and adaptability to the needs of the system, mailers and recipients possibilities such as those presented by ECM.

Is the current range of product offerings required under Universal Service?

Certainly, all market dominant products should be included in the USO. Further, the Service should expand its product offerings to meet its customer demand. A distance-related rate for workshared First-Class Mail would likely expand the overall demand for mail, just as all other worksharing discounts offered by the Postal Service have done. Expanding worksharing is not a risky strategy since increased mail volumes certainly improve the business outlook of the Postal Service.

As for competitive products, if they are truly competitive, the USPS should hardly wish to abandon one of its most consistent selling points: delivery everywhere.

How do rates and quality of service factor into the USO?

Businesses and individual consumers are unified in their expectation of affordable, consistent mail delivery. The lack of affordable, consistent, reliable postal services is the primary impetus for congressional attention and legislative change (in 2006 as in 1970). At the same time, however, the quality of service that the Postal Service can afford to provide very much depends on its financial health. Ultimately the value of extra service quality must be balanced against its costs.

Should the letter monopoly be continued?

As the Commission has noted, the issue of whether the letter monopoly should be eliminated has generated widespread debate in the United States and other advanced economies. On the one hand, the proponents of liberalization have contended that the competitive pressures unleashed by eliminating the monopoly on mail delivery could

lead to significant reductions in the average cost of mail service provided by the Postal Service and its counterparts abroad. On the other hand, the opponents of liberalization have contended that elimination of the monopoly, by allowing new entrants to “cream-skim” the Postal Service’s most profitable mail volume (e.g., mail to and from downtown business districts and affluent suburbs) could destroy the Postal Service’s ability to subsidize universal service to relatively high cost rural and inner-city areas.

I am not an expert on these economic issues. For several reasons, however, I believe that tinkering with the scope of the letter monopoly *now* would be imprudent. The new law (PAEA) is just now being implemented. The recent erosion of volume and revenues to the Internet has placed the finances of the Postal Service under great stress. So has the recent slowdown of the American economy. At the same time, the willingness of a number of European countries to eliminate or curtail their own operators’ monopolies on letter mail represents a large-scale social experiment that may conceivably provide a useful empirical test of these competing economic theories. Prudence suggests that the United States should wait until domestic economic conditions stabilize, the 2006 postal legislation is fully implemented, and the consequences of liberalization in Europe become much clearer, before seriously considering such a radical experiment on our own soil.

Should the mailbox monopoly be continued?

Yes, at this point the mailbox monopoly should be continued. NPPC membership believes that opening the mailbox, with its attendant implication for security of the mail

and its recipients, is one of the surest ways to stimulate additional diversion onto the Internet. To be sure, most other advanced industrial countries have eliminated the mailbox monopoly. Opening the mailbox could facilitate competition and innovation in services, with benefits in products and prices available to recipients and senders. In addition, open the mailbox may also offer environmental advantages. Today FedEx and UPS selectively use the USPS to provide delivery or the last mile of service to many parts of the United States. This is a fuel-efficient arrangement. Future collaboration is likely to continue to be warranted.

But there are important arguments against opening the mailbox to third-party delivery companies. Doing so could raise the reality or perception of security issues. How would the mail itself be kept secure against theft, including identification theft, damage or opening? How would proliferation of private delivery companies threaten the actual or perceived physical security of homeowners, especially those with mail slots and mailboxes attached to their houses?

What effects will environmental issues have on demand over the next 3, 5, 10, and 15 years?

The Postal Service is one of the most environmentally-friendly services offered by the federal government. As my colleague Robert Posch first stated, “The Postal Service is the greatest carpool on earth.” The Postal Service is a wonderful sustainability partner. We worry that if our warranted concern about the environment gets entangled with the visceral experience of receiving mail that we could inadvertently suppress demand without justification.

Legislative suppression of advertising mail would reduce mail volume, and could depress postal revenues to the point of destroying the financial basis for universal service. That development would present Congress with a Hobson's choice: resuming taxpayer subsidy of the postal system, or further isolating the most fragile among us: people who cannot afford Internet service or other alternatives to the mail.

America should protect the environment using its best options. I invite other postal community stakeholders to join Bank of America in measuring and then reducing their carbon footprints in cost-effective meaningful ways. Reconciling business plans with the obligation to be responsible stewards of our planet is perhaps the best way to assure the public that the mail can be a constructive part of safeguarding our environment.

Thank you again for this opportunity, and I will be pleased to answer any questions you may have.