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February 5, 2003

President's Commission on the United States Postal Service
1120 Vermont Avenue, NW, suite 971
Washington, DC 20005

Re: President's Commission on the United States Postal Service; Issues for Consideration; 68 Federal Register 3932, January 27, 2003

Dear Sir or Madam:

The American Bankers Association ("ABA") appreciates the opportunity to comment on the President's Commission on the United States Postal Service's issues for consideration. ABA brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership—which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies, and savings banks—makes ABA the largest banking trade association in the country.

Background

ABA supports the Commission's mission to conduct a comprehensive examination of the state of the Postal Service and to propose a vision for its future. The banking industry that ABA represents is a major user of the Postal Service, sending and receiving billions of pieces of mail every year.

In the course of its participation as an intervener in every omnibus rate case since the creation of the Postal Service and in several other proceedings before the Postal Rate Commission ("PRC"), ABA has become concerned about a trend toward frequent postal rate increases and rate structures which require First-Class Mail to bear a disproportionate share of the Postal Service's institutional cost burden.

ABA Position

ABA's comments are set out below in response to the topics set out in the Commission's Federal Register notice.

"The Role of the Postal Service in the 21st Century and Beyond"

ABA supports a Postal Service, which is focused on, and designed to do what it does best, deliver letters, magazines, and parcels, across the United States in the discharge of its universal service obligation. The Postal Service should not be

distracted from its focus on its main mission by forays into other business lines. The Postal Service should be restrained from venturing into areas such as electronic communications and financial services. Not only is this unfair competition with private sector enterprises by a government sponsored enterprise but the Postal Service's record in such ventures, *e.g.*, REMITCO, the Postal Service's unsuccessful remittance processing operation, has not been successful.

“The Flexibility that the Postal Service Should Have to Change Prices, Control Costs, and Adjust Service in Response to Financial, Competitive or Market Pressures”

The Postmaster General has been quoted as saying that the three most important things for the future of the Postal Service are “pricing flexibility, pricing flexibility, and pricing flexibility.” ABA strongly urges the Commission not to adopt this simplistic reasoning that ignores the Postal Service's deep-seated problems, and, if adopted, would give the Postal Service greater power to exploit its monopoly position by shifting even more of its cost structure onto First-Class mailers as the Postal Service searches out volume in its “competitive” classes, *e.g.*, circulars and other advertising mail.

The current ratemaking procedure, while imperfect, provides First-Class mailers with some protection against exploitation by the monopoly they must endure. Reducing this protection by giving the Postal Service the power to set its own rates would provide the Postal Service with an incentive and the means to load as much cost as possible onto First-Class Mail in order to reduce rates in other classes. As substitutes for First-Class Mail, *i.e.*, email and facsimile, continue to become more readily available and less expensive, increased First-Class rates will cause mailers to accelerate their retreat from the Postal Service. Such an outcome would increase, rather than decrease, the Postal Service's financial problems.

ABA urges the Commission to consider changes that might make it easier for the Postal Service to adjust its services in some circumstances. In order to prosper in the competitive future, the Postal Service needs to be able to pursue reasonable business strategies, such as consolidation of physical facilities, which can improve service and reduce costs.

“The Rigidities in Cost or Service that Limit the Efficiency of the Postal System”

The most significant rigidity in the Postal Service cost structure is in its labor costs. The most valuable assets of the Postal Service are the talented men and women who make up its labor force. Under the current system, labor-management relations have been a consistent problem for the Postal Service and its labor costs are simply too high, as a proportion of its total costs. This issue is at the root of the Postal Service's current problems and is the one issue which must be resolved if the Postal Service is to prosper in the future. ABA urges the Commission to focus its efforts on this issue.

ABA considers two points to be central to improving the Postal Service's labor situation. The first is that the Postal Service labor force may simply be too large.

The success of various automation programs should enable the Postal Service to move more mail with fewer employees in the future.

The second point is that any revised labor scheme must recognize the efforts and contributions of postal employees at all levels and provide incentives for them to improve the Postal Service's productivity.

“The Ability of the Postal Service, Over the Long Term, to Maintain Universal Mail Delivery at Affordable Rates and Cover its Unfunded Liabilities with Minimum Exposure to the American Taxpayers”

The key to this issue is to determine what is required to maintain “universal mail delivery.” ABA urges the Commission to consider the needs of the nation in this area. Questions that should be raised include: Are services being provided which do not have to be provided or which can be provided less frequently? Could the Postal Service provide better service at lower costs with fewer post offices? Can mail service be improved and Postal Service costs reduced by increased use of “worksharing” programs which provide postage discounts for mailers who perform additional mail preparation activities, such as presorting, prebarcoding, address updating, and drop shipping, which significantly reduce Postal Service costs?

ABA would point out to the Commission that, in addition to the worksharing activities that businesses perform on outgoing mail, much of the mail received by businesses, including banks, is not actually delivered by the Postal Service, but is picked up by the recipients. Any changes in delivery operations should not be allowed to reduce either the Postal Service's mail processing operations or the ability of businesses to pick up their mail, whether at physical mail boxes or at larger Postal Service facilities. Any change that would delay the receipt of orders or remittances by businesses would have an adverse effect on the businesses that rely on the mail and would provide stronger incentives for these businesses to find ways to decrease their reliance on the Postal Service.

“The Extent to which Postal Monopoly Restrictions Continue to Advance the Public Interest Under Evolving Market Conditions, and the Extent to which the Postal Service Competes with Private Sector Services”

As stated above, ABA strongly urges the Commission to make recommendations that would require and encourage the Postal Service to concentrate on its historic mission of delivering physical mail. This is particularly true for First-Class Mailers, who face the possibility of having to compete with a government entity that would be able to use the proceeds of the monopoly to fund its ventures into activities best left to the private sector.

ABA supports the Commission's review of the reach of the postal monopoly, which should be no greater than needed to ensure the Postal Service's survival. Of particular concern to ABA is the elimination of any restrictions on mail delivered within a business entity. There is no justification for restrictions on how a corporation delivers mail from one part of its business to another. Under

current regulations, for example, a bank that uses contract couriers to deliver letters between different branches may be in violation of the Private Express Statutes. If the same documents were delivered by the bank's own employees, there would be no violation of the monopoly. This intrusion on business practices of private businesses is neither warranted nor wise.

“The Most Appropriate Governance and Oversight Structure for the Postal Service”

ABA supports efforts to create an effective oversight and governance structure for the Postal Service. The key to improvement in this area is an increase in the powers of the PRC. Granting subpoena power and final rate authority to the PRC are essential first steps. The ability of the Board of Governors to accomplish their daunting oversight and governance tasks might be increased if they had their own staff instead of relying largely on Postal Service staff. ABA encourages the Commission to consider these and other ways of increasing oversight and governance of an entity crucial to our nation.

Conclusion

In conclusion, ABA supports the Commission's efforts to comprehensively review the state of the Postal Service, and to prepare a vision for the future of the Postal Service and recommendations for reforms needed for a viable Postal Service. ABA urges the Commission to craft recommendations that will address the difficult issues facing the Postal Service and allow it to thrive in the future while protecting the private sector from unfair competition by a government sponsored entity and protecting the monopoly classes of mail from exploitation.

If you have any questions or need additional information, do not hesitate to contact the undersigned at (202) 663-5027 or Joseph Pigg at (202) 663-5480.

Sincerely yours,

Irving D. Warden