

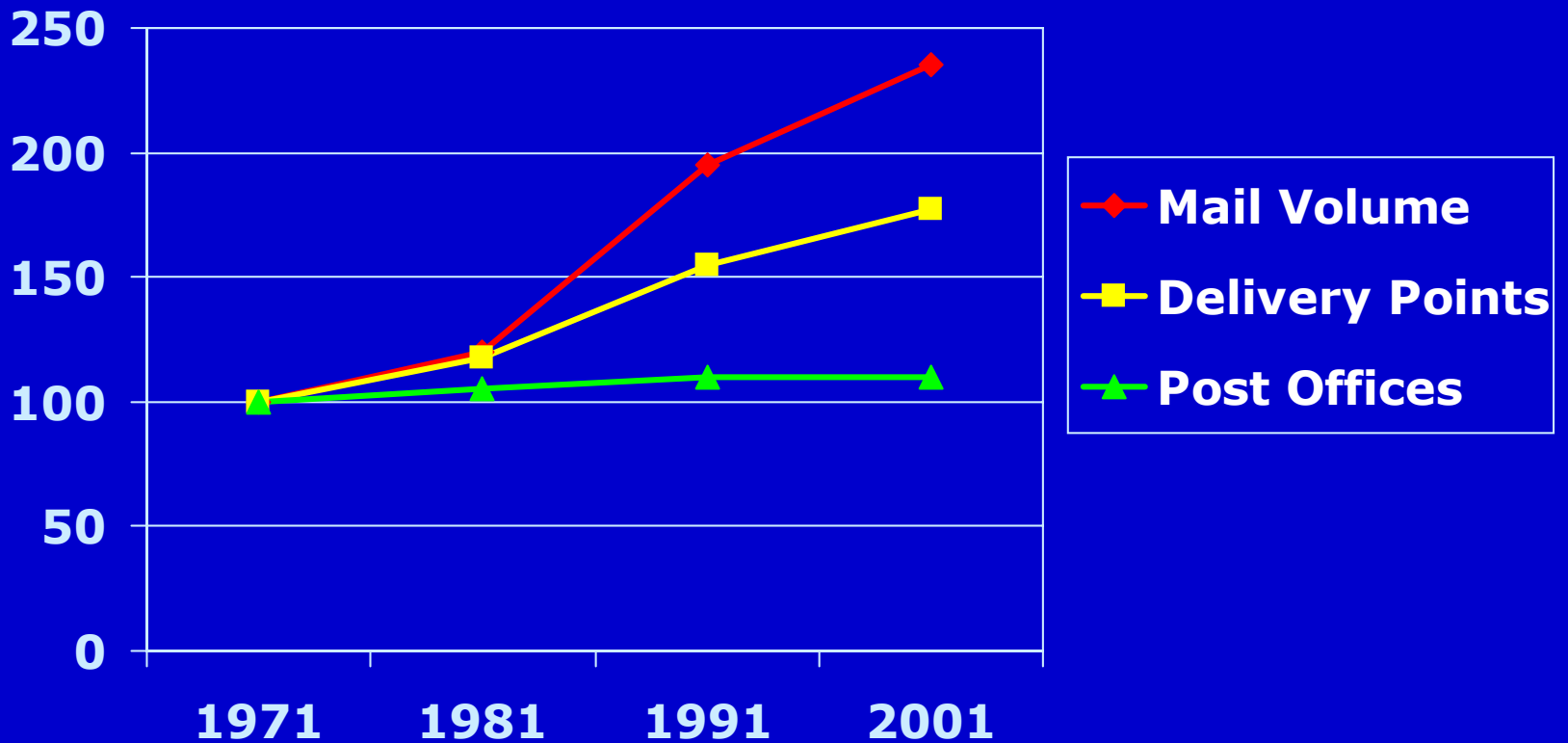
The Postal Future

A Presentation to the 63rd
Biennial Convention, August 2002
Philadelphia, Pennsylvania

Outline

- Where we have been
- Where we are
- Where we are we heading
- What other countries are doing
- Question: What can NALC do?

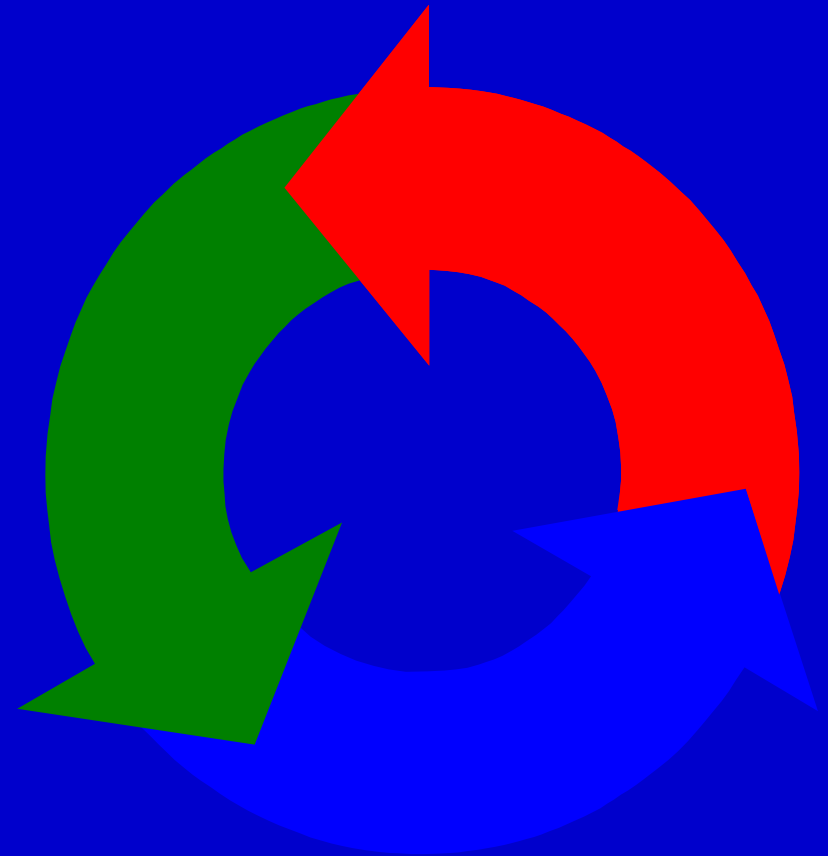
Network and Volume History



Where we have been

Virtuous Cycle

- Rising volume
- Declining overhead per piece of mail
- Affordable postage
- Rising volume



Where we have been

Win-Win Environment

- Mail volume growth drives productivity growth
- Collective bargaining allows us to capture gains from productivity growth
- Mailers/public shared in gains with decline in mailing costs

Where we have been

PFY 2002 Shocks

- Economic recession
 - Shrinking GDP; advertising slump
- September 11th
 - Mail revenue off \$1.5 billion
- Anthrax attacks
 - Mail security costs top \$1.25 billion

Where we are

Post-9/11 Mail Volume

- 2002 volume meltdown: Worst year since 1933

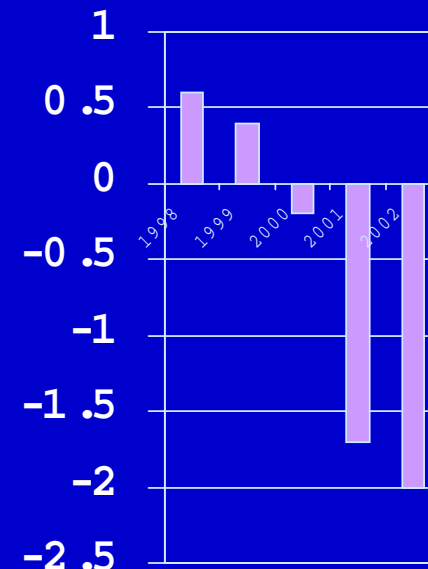
- First quarter: -5.4%
- Second quarter: -3.5%
- Third quarter: -2.7%
- Full Year: -3.5% (-7.3 bil. pieces)

Where we are

Financial Fallout

- Mounting losses
 - \$1.7 billion in 2001
 - \$1.5 - \$2.0 billion in 2002
- 3rd rate hike in 18 months
 - Jan 2001 (4.6%)
 - July 2001 (1.7%)
 - July 2002 (7.7%)
- Approaching debt limit

Net Income: 1998 - 2002 (\$ billions)



Where we are

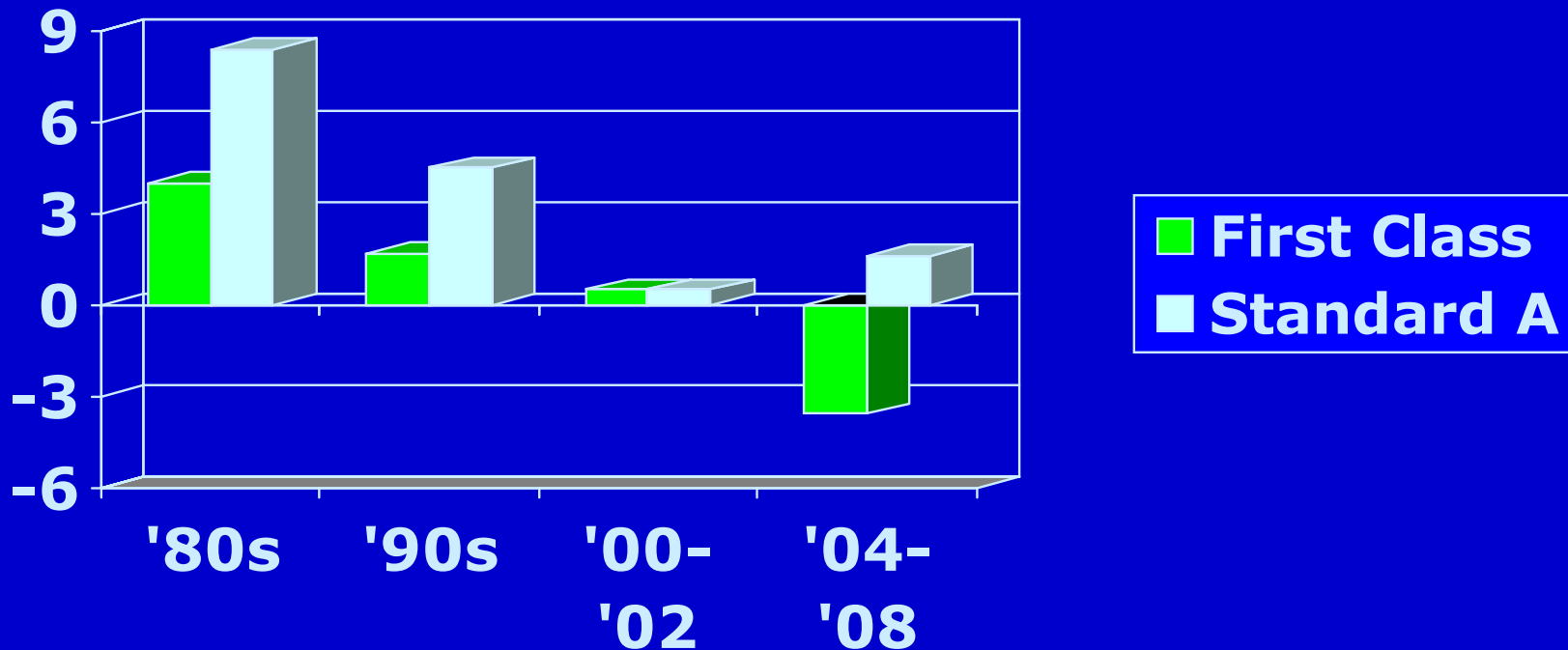
A Crisis in the Making

- Declining Demand for Letter Mail
- Expanding Overhead Costs
- Rising Retirement Costs
- Obsolete Postal Law

Where we are heading

Declining Core Business

Mail Volume - Avg Growth Rates



Where we are heading

Key Factors Explaining Decline

- Electronic substitution
 - Electronic fund transfers
 - E-mail
 - Electronic bill payment

- Private sector competition

Where we are heading

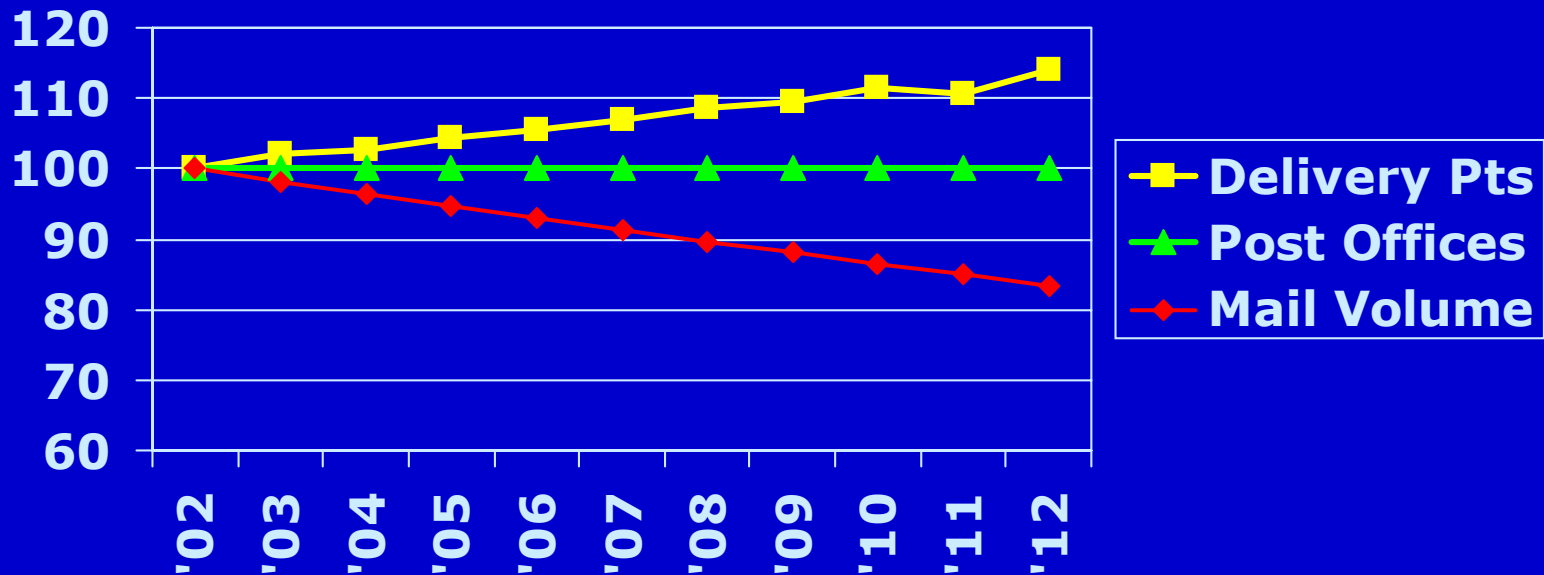
Rising Network Costs

- USPS delivers to 135 million delivery points every day
 - USPS delivery network grows by 5,600 delivery points per day -- 1.7 million/year
 - 3,400 new routes and 80 new post offices needed each year

Where we are heading

GAO Projections: 2002-12

Mail Volume and Network Projections: 2002-12 (2002 = 100)



Where we are heading

The Retirement Crunch

■ FERS and CSRS costs

- \$9.1 billion in 2001; \$14.1 billion in 2010
- \$32 billion long-term liability

■ FEHBP retiree costs

- \$858 million in 2001; \$2.0 billion in 2010
- \$36 billion Long-term liability

Where we are heading

Obsolete Postal Model

- Postal Reorganization Act (PRA) limits USPS ability to respond to crisis
- PRA weaknesses
 - Outdated rate-making system
 - Limits on commercial freedom

Where we are heading

What Other Countries Are Doing

	<u>Commercial Freedom</u>	<u>Postal Monopoly</u>	<u>Private Ownership</u>
Britain	Yes	No	No
Holland	Yes	Yes	Yes
Germany	Yes	No	Yes
Australia	Yes	Yes	No

What Can NALC Do?

- At the bargaining table
- On Capitol Hill
- At the workplace
- In our communities