
DELIVERING FOR A WORLD OF CHANGE

PRESIDENT FREDRIC V. ROLANDO
2010-2012 BIENNIAL REPORT



This report is hereby submitted to the officers and delegates to the 68th Biennial Convention of the National Association of Letter Carriers, AFL-CIO, Minneapolis, MN, July 23-27, 2012, pursuant to Article 9, Section 1(k) of the *Constitution of the National Association of Letter Carriers*.

Detailed information pertaining to many of the National Association of Letter Carriers' most important activities can be found in the following pages and in the reports of my fellow officers. I am grateful for their efforts in fulfilling their responsibilities with diligence and competence. My role has been to coordinate and supervise their activities, set an overall direction for this great union and, in a number of key areas, provide direct, active and assertive leadership in the best interests of the members of the NALC and, where appropriate, the U.S. Postal Service as well.

A handwritten signature in black ink, appearing to read 'Fredric V. Rolando'.

President Fredric V. Rolando

OVERVIEW

As we prepare for the 68th Biennial Convention of the National Association of Letter Carriers, I proudly recall the conclusion of our last convention in Anaheim. The leadership of our great union—the shop stewards, the branch leaders, the legislative and community activists and the regional and national officers who served as delegates—boarded 65 buses on a Friday morning in Southern California and met at City Hall in Los Angeles to raise our voices for jobs and justice. In concert with thousands of construction workers, teachers, police officers, firefighters and sanitation workers, more than 4,000 letter carriers rallied to promote job creation to address the nation's jobs crisis. Specifically, we rallied for increased infrastructure spending to employ tens of thousands of laid-off trades workers and for the preservation of Saturday mail delivery. It was an exhilarating rally that has sustained us during perhaps the most difficult two years in the NALC's long and eventful history.

As we gather in the great city of Minneapolis this summer, we must recapture the spirit of that day and build on it to overcome the greatest collection of challenges this union has ever faced. A brief survey of these challenges will help set the stage in July 2012.

THE RETURN OF DEPRESSION ECONOMICS

The longest and deepest recession since the 1930s—lasting nearly two years and reducing national output by nearly 5 percent—ended in the fall of 2009, but the American economy remains deeply depressed. Employment remains 4 percent to 5 percent below pre-recession levels and the official unemployment rate remains above 8 percent (not counting millions of workers who have given up looking for jobs). Wages have stagnated. And the U.S. economy, still suffering from a huge

overhang of private-sector debt, is not growing fast enough to improve the labor market very much at all—only 2 percent in the first quarter of Fiscal Year 2012. Meanwhile, the housing sector—whose recovery is crucial to a recovery of consumer spending, since people overwhelmed by debt or facing foreclosures don't spend—remains weak, even if the worst is over. In other words, the recession is over, but the depression is not.

The poor economy is thwarting any kind of recovery for the Postal Service. Private-sector payroll job growth and new household formation are the two most important drivers of mail volume growth—growth that is vital to overcome the accelerating loss of mail volume to Internet substitution (see below) and to defend our standard of living.

DYSFUNCTION IN WASHINGTON

The response to the crisis has been hampered by a dysfunctional political culture in the nation's capital. The economic stimulus legislation of February 2009, which halted a slide toward an even deeper recession by creating or saving 2 million to 3.5 million jobs, and the rescue of the automobile industry, were high water marks for the Obama administration's efforts to solve the jobs crisis. Partisan obstructionism and conflict have reigned ever since, with the emergence of the Republican Tea Party movement that mistakenly blamed "big government" for the crisis instead of Wall Street and decades of deregulation and free trade. (The economic crisis caused the budget deficit to explode, not the other way around.) That Tea Party movement ushered in an even more obstructionist and reactionary Republican majority in the House of Representatives in 2010.

The two parties are locked in mortal political combat while the problems facing the country go unanswered. Even

addressing non-partisan issues—such as the crisis at the Postal Service—has proved too difficult to accomplish. Worse yet, ideological warriors in Congress threatened a new global financial crisis by blocking moves to raise the national debt ceiling—an act of outrageous irresponsibility that led last summer to the first credit downgrade in U.S. history. Congressional extremists threatened to default on the national debt—to not pay our bills for previous congressional policy decisions—unless they got their way. They blackmailed President Obama into a grossly lopsided deficit reduction deal that has slowed the economic recovery. And now they are threatening to do it all again. Finding a fair and reasonable consensus on postal reform in this context will be incredibly challenging.

THE MERCILESS IMPACT OF INFORMATION TECHNOLOGY

Even in the absence of a near-five-year downturn in the national economy, the Postal Service would face a structural challenge to its existing business model. That model is premised on letter mail, and in particular, First Class letter mail. The volume of such mail plunged by more than 22 billion pieces (nearly 24 percent) between 2007 and 2011. Even though the recession caused much of this decline, it also prompted businesses to adopt Internet-based billing and payment systems that will permanently reduce the volume of letter mail in the United States. The impact of the Internet on letter mail renders the current business model obsolete. In fact, there are now electronic alternatives to virtually everything the Postal Service delivers—magazines, newspapers and advertising mail included.

The economic crisis clearly accelerated the pace of electronic substitution. That is a fact that cannot be denied.

Now we must accelerate our quest for a new business model that will accentuate our strengths—first-mile collections and last-mile deliveries—to capture the new volumes created by the Internet: parcels and e-commerce packages.

MISGUIDED AND HOSTILE POSTAL MANAGEMENT

Finally, we face a hostile and stubbornly misguided executive management team at the highest levels of the Postal Service. When Postmaster General Pat Donahoe took the reins of the USPS in December 2010, I had some hope that we could build on a partnership that NALC had forged with L'Enfant Plaza over the prior 10 years. With the election of President Obama, I anticipated better appointments to the USPS Board of Governors, men and women strongly committed to the mission of the Postal Service. Sadly, it has not turned out that way. Postal management (and the undermanned Board it answers to) have buckled under the pressure of the obstacles I have identified so far—a depressed economy, a dysfunctional political system and the threat of information technology. They have embraced an extreme “shrink

to survive” business strategy that is doomed to fail. No enterprise has ever prospered by offering less service of poorer quality—yet that is the strategy the Postal Service is pursuing. In fact, the postmaster general, with the active or passive consent of the Board of Governors, is proposing to gradually dismantle the Postal Service. We must stop them to save America's Postal Service.

Of course, we cannot save it without the help of Congress and the president. And we cannot save the Postal Service as it currently exists. It will have to change because the country we serve is changing and the current business model is no longer viable. Our core business—letter mail—is fading away and we need to replace it with new business and new services. Direct mail will continue to play a vital role in the U.S. advertising market—it remains the most effective way for companies to target customers and for non-profits or politicians to target supporters. But we must shift our focus to becoming a major player in the parcel and package market, and we must develop new uses of our retail and delivery networks to serve both the commercial and civic needs of our country.

In other words, the USPS we save will not be the one we have proudly worked for in years past. We must join together to reinvent the Postal Service for the 21st century in a way that secures satisfying careers for our members and that will preserve our middle-class standard of living. We must commit ourselves to *Delivering for a World of Change*. That has been the NALC's prime objective over the past two years and that will be the overriding theme of both this biennial report and the 68th Biennial Convention. Our task as leaders in Minneapolis and in the months ahead will be to debate and reach consensus on the kind of Postal Service we want to pursue for the future.

The bulk of this biennial report will cover the activities of the various national and regional officers. However, in this opening section, I want to highlight the activities of the national headquarters office and its various departments, starting with my own activities. These have focused on three major areas: collective bargaining, legislative and political action, and the development of a new business model for the future.

SAVING AMERICA'S POSTAL SERVICE:

POLITICAL, LEGISLATIVE AND MEDIA ACTION

The Postal Service lies at the center of a huge domestic mailing industry that employs 7.5 million workers in America and generates more than \$800 billion in economic activity annually. It affects every household and business in the country, six days a week. Legislation affecting the USPS therefore naturally attracts the attention of many powerful interests—business, media and labor alike. This universal interest in the Postal Service has traditionally complicated efforts to enact postal reform legislation. The 2006 reform legislation, for example, came together after 12 long years of debate and struggle—at which point, it was probably already obsolete. Although most Americans (including Republicans, Democrats and independents) strongly support the Postal Service as an institution and do not view legislation about it in a partisan context, the debate over how to reform the Postal Service is not free of politics. These days, nothing is.

For this reason, NALC must be a player in politics as well as a force in legislative debates. And in both spheres, the role of the nation's media can be decisive. The union has been extremely active in all three of these related spheres of our national life over the past two years.

POLITICAL ACTIVISM

The Republican takeover of the House of Representatives and a similar sweep during state-level elections in 2010 framed much of the union's work since Anaheim. Despite our best efforts to elect pro-worker candidates in November 2010, Congress was rocked with the third straight “wave election,” which brought to power in 2011 the most anti-union and ideologically hostile party since 1947. The economic stress of the Great Recession and a tsunami of campaign money from right-wing ideologues (millionaires and billionaires) and disaffected corporate interests that

objected to health care reform and the modest re-regulation of Wall Street combined to create the so-called Tea Party movement of 2010. This mobilization was mirrored by the loss of energy and focus on the left. Too many progressives, young voters and union activists, disappointed with the shelving of the Employee Free Choice Act and the questionable compromises made to enact the Affordable Care Act (with no public option and no employer mandate), failed to turn out to vote in November 2010. Indeed, the union household share of the vote declined from 25 percent in 2008 to 17 percent in 2010 despite our efforts to get out the vote. (NALC released more than 120 activists to work on the Labor 2010 campaign.) Many democrats and sympathetic independents simply stayed home. The impact on our politics has been devastatingly negative.

Indeed, since the 2010 election, which left Congress divided and the president

without a governing partner, there has been partisan gridlock in Washington. The 112th Congress has made the Do-Nothing Congress that Harry Truman ran against in 1948 seem positively hyperactive. The House of Representatives has blocked every effort to address the jobs crisis or to sensibly reduce the long-term budget deficit. What legislation it did pass would be disastrous for the United States if the Senate were to agree to it. The radical budget offered by Rep. Paul Ryan, the budget committee chairman, and passed by the House called for the privatization of Medicare, transforming a key portion of our nation's safety net into a voucher scheme intended to enrich the nation's private insurance industry. It also called for a 5 percent pay cut for all postal employees to increase contributions to pension funds that are already overfunded. Thankfully, the Senate rejected this budget. But the debt limit deal came at the cost of a downgrading of the nation's debt rating, which will hurt taxpayers for generations to come. And the grossly imbalanced deficit reduction package imposed on President Obama to get the deal (which kept the unaffordable Bush tax cuts for the rich in effect and created the ill-fated "super committee") seriously weakened the economic recovery.

The Tea Party wave was not limited to the national level. State governors and state legislatures fell to right-wing extremists who campaigned on the need for jobs but quickly shifted to ideological concerns that only the most conservative voters supported. Their top ideological goals were to attack and weaken the labor movement and to suppress voter turnout among traditionally Democratic groups. The fight in Wisconsin led by Gov. Scott Walker to strip public employees of their collective-bargaining rights took center stage, but similar fights in Ohio, New Hampshire, Indiana, Michigan and elsewhere also erupted.

NALC responded to these attacks along with the rest of the labor movement because when some workers lose their rights, all workers' rights become vulnerable. We mobilized activists in all of these states. We were successful in Ohio, where voters repealed the notorious S.B. 5 law that stripped state workers of their union rights, and in New Hampshire, where the "right to work" (for less) bill was defeated. In other places, we were less successful despite impressive campaigns. In Indiana, a "right to work" (for less) law was rammed through the legislature. And in Wisconsin, Gov. Walker survived a humiliating recall election by swamping his state with negative ads financed by big bucks from out-of-state

donors, but the right-wingers in the GOP lost control of the state Senate—which can now block Walker's anti-union agenda.

The political trends of the past two years underline the importance of elections and the essential nature of COLCPE and our grassroots mobilization programs (the e-Activist Network and the Carrier Corps). Elections have real consequences. As disappointed as we may have been with the pace of recovery and the lack of progress on postal reform during the 2008-2010 Congress, the results of the 2010 election should serve as a warning to us all: Political apathy carries a price. Doing all we can to elect pro-worker and pro-letter carrier candidates is not optional—it is essential.

LEGISLATIVE ACTIVISM

At the Anaheim convention, our top legislative priorities were clear: to save Saturday delivery by defeating postal management's relentless drive to eliminate it, and to enact postal reform legislation that would relieve the USPS from the crushing burden to pre-fund future retiree health benefits. So far, we have successfully preserved Saturday delivery. But sensible postal reform has so far eluded us, despite some notable progress resulting from the amazing efforts of tens of thousands of NALC activists.

On Saturday delivery, the work we did throughout 2010 to mobilize opposition to the Postal Service's plan submitted to the Postal Regulatory Commission paid off. In March 2011, citing evidence presented by NALC during the year-long proceeding, the PRC raised grave doubts about the savings the USPS claimed it could achieve by axing Saturday service. It concluded that the

USPS overstated its savings by at least 45 percent since it underestimated the negative impact on revenues due to the loss of volume from mailers who value six-day service, as well as the need to pay workers overtime to handle the higher mail volume after the weekend. The PRC's negative conclusion and the grassroots drive to recruit thousands of small businesses to support Saturday delivery helped convince Congress to retain the appropriations language that has mandated six-day service for nearly 30 years in the continuing resolutions (CRs) that funded the government throughout 2011.

Unfortunately, in August 2011, after supporting the six-day language in his first three budgets (for 2010, 2011 and 2012), the president caved to pressure from the Postal Service and called for the elimination of Saturday delivery starting in January 2013 in his proposal to the "super committee" on deficit reduction (which failed to act)—a proposal that also offered \$20 billion in short-term relief on pre-funding and new flexibility to raise postage rates. In February 2012, the president included the same proposal in his proposed budget for Fiscal Year 2013. Given the gridlock and dysfunction, there is no expectation that Congress will enact a budget for 2013—so NALC will continue to fight for inclusion of the six-day appropriations language in any CR to fund the government next year.

Of course, the Saturday delivery issue is also among the issues under consideration in the larger legislative debate concerning the financial crisis at the Postal Service. That crisis has deepened since the Anaheim convention. The crushing impact of the pre-funding mandate is made clear by the table below:

The Policy Legacy of the 2006 Postal Reform Bill (PAEA)

Pre-funding Payments to the Postal Service Retiree Health Benefit Fund (PSRHBF) vs. Reported Net Income 2007-2012*

Year	PSRHBF Expenses (\$bil)	Reported Net Income (\$bil)	Assets in PSRHBF (\$bil)
2007	\$8.358	-\$5.142	\$25.4
2008	\$5.600	-\$2.806	\$31.8
2009*	\$1.400	-\$3.794	\$34.2
2010	\$5.500	-\$8.505	\$40.6
2011*	\$0.000	-\$5.067	\$42.5
2012-Q2 YTD*	\$6.100	-\$6.464	\$44.0*
Totals	\$26.958	-\$31.778	---

Pre-funding expenses account for 85% of reported USPS losses since they were first imposed in 2007—and 94% of losses in the first half of 2012.

Notes: * Legislation adopted in 2009 reduced the 2009 pre-funding expense from \$5.4 to \$1.4 billion. Legislation adopted in 2011 deferred the \$5.5 billion payment for 2011 until August 2012. PSRHBF assets for 2012 is an OIG estimate.

Source: Annual Reports of the Postmaster General, 2007-2011; 2012 10Q report for Q2.

Some 84 percent of the financial losses reported by the Postal Service since 2007 have been caused by the pre-funding mandate—which also accounts for 94 percent of the loss recorded in the first half of this fiscal year. No other agency or private company faces such a mandate and any reform must repeal it or allow the USPS to use its fairly calculated pension surpluses to cover the cost.

The latest debate on postal reform got off to a quick start in 2011 when Sens. Tom Carper (D-DE) and Susan Collins (R-ME) introduced their separate reform bills that aimed to slow, but not stop, the downsizing of the Postal Service—though both sought to recover the Postal Service’s \$50 billion to \$75 billion CSRS surplus to cover the cost of pre-funding. Unfortunately, an October 2011 report by the Government Accountability Office (GAO) was used by opponents of the CSRS pension fix to strip the provision from a joint Carper-Collins bill (S. 1789) that emerged in November 2011 with the backing of Sens. Joe Lieberman (I-CT) and Scott Brown (R-MA). The GAO supported the OPM’s biased pension allocation (see below) as consistent with a 1974 law that OPM cites for its methods. But the GAO also concluded that the methods endorsed by 2010 audits commissioned by the PRC and the postal inspector general’s office were also “reasonable” and that the choice of methods was a “policy decision.” This conclusion was ignored by the bipartisan Senate bill.

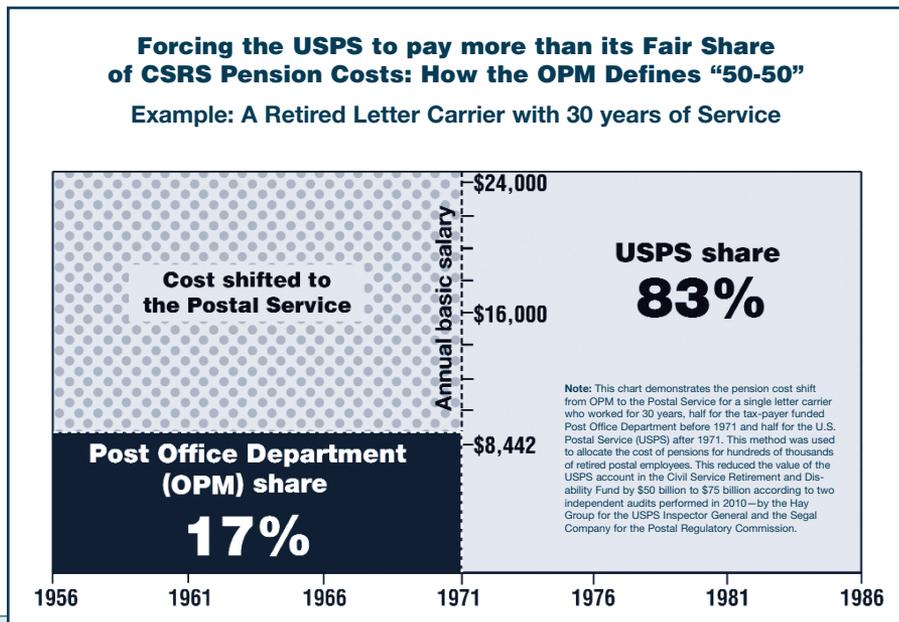
Worse, S. 1789 would permit the elimination of Saturday delivery in two years should the USPS decide it is necessary for a return to profitability, a judgment it has already made. That same provision would open Americans’ mailboxes to third-party deliveries on days the USPS does not deliver—threatening the sanctity of the mail and undermining the privacy rights that only an accountable government agency can protect. The bill would facilitate the downsizing plan offered by the Postal Service, albeit on a slower timeline. And, appallingly, it would slash workers’ compensation benefits for injured postal workers and throw many workers with long-term injuries into near poverty by forcing them to retire on annuity benefits based on the wages they earned at the time of their injuries.

The new freedoms included in the bill to generate new revenues from beer, wine and spirits shipping, and the recovery of the much smaller FERS surplus provided by S. 1789, were just not enough for us to support the bill. While we appreciated the bill’s provision to give us immediate access to the retiree health fund to pay current annuitants’ health premiums, S. 1789 still requires the USPS to pre-fund future retiree health benefits to the tune of \$4.7 billion to \$5.3 billion per year (according to our own unofficial estimates). That simply is not enough relief and we opposed the bill as drafted.

Initially, we made more legislative progress in the House, despite the Tea

Party takeover—thanks to the hard work and activism of our members. Legislation proposed by Rep. Stephen Lynch (D-MA) that would mandate the CSRS pension fix proposed by the independent audits garnered significant support. H.R. 1351 was introduced in April 2011 and we mobilized to visit every member of Congress to recruit their support. Our efforts culminated on Sept. 27, 2011, when we staged more than 500 rallies at House members’ field offices across the country to demand support of H.R. 1351. Within weeks of those rallies, which were co-sponsored by all four postal craft unions and a couple of management associations, a bipartisan majority of 229 members of Congress (including 30-plus Republicans) signed on as co-sponsors.

In a well-functioning, responsive democracy, that should have been enough. Unfortunately, the Republican majority in Congress had other ideas. Rep. Darrell Issa (R-CA) and Rep. Dennis Ross (R-FL) ignored H.R. 1351 and introduced a bill inspired more by Gov. Scott Walker than by previous GOP leaders that NALC has supported (retired Reps. Tom Davis and John McHugh, for example). Their bill, H.R. 2309, The Postal Reform Act of 2011, targets the elimination of 200,000 postal jobs and mounts an all-out assault on letter carriers’ collective-bargaining rights. It would permit one unelected commission to close thousands of post offices and facilities and give another commission the power to rip up the existing collective-bargaining agreements if the USPS missed any future pre-funding payments. Since H.R. 2309 offered no relief from the pre-funding burden and the USPS could not make the next payment in September 2011, the takeover and radical downsizing of the Postal Service would be guaranteed. Even worse, H.R. 2309 called for the elimination of Saturday delivery and the elimination of door-to-door delivery services to 40 million households and businesses that now receive it—to be replaced by cluster boxes. Last October, Chairman Issa jammed H.R. 2309 through the Oversight and Government Reform Committee on a party-line vote after rejecting every Democratic amendment. The committee abandoned its bipartisan tradition on postal matters and declared war on postal employees and the Postal Service. Sadly, Pat Donahoe added fuel to the fire by endorsing



vice. And targeted mailings and advertisements will amplify our message.

Whatever happens in the House, there is a long way to go before postal reform is enacted. A House-Senate conference committee would have to agree on a compromise bill and both chambers would have to pass it again before it could go to the president for approval. As we will discuss in Minneapolis, NALC will do all in its power to defeat a bad bill either in the House or after a compromise emerges from a conference committee. We will also urge a presidential veto if the legislation does not allow the Postal Service to restructure and thrive.

MEDIA CAMPAIGN

Over the past two years, NALC has significantly expanded its media activities in support of our legislative and political goals. Not a day goes by that I do not do interviews with print, television or radio reporters. I have appeared on dozens of TV and radio shows. I have given interviews or issued statements to hundreds of journalists. I have held press conferences by phone and at the National Press Club and I have met with editorial boards. With the help of our excellent communications and media relations staff, I have submitted dozens of op-ed pieces and countless letters to

editors in response to faulty reporting on the NALC and/or the USPS. Of course, many of my colleagues on the Executive Council and countless state and branch leaders, as well as activists across the country, are doing their part to spread our message in the media, too. All of these activities have been designed to get the truth out on the problems facing the Postal Service and what needs to be done to fix them. They are having a positive impact.

Two years ago, the conventional wisdom was that the Postal Service was “failing” because of the Internet, full stop. Sometimes reporters recognized the negative impact of the poor economy. Most of them failed to even mention the pre-funding burden. Today, while there are pockets in the right-wing media where the truth refuses to be told, most reporters acknowledge the unique burden of pre-funding retiree health. Fewer understand the complex issues surrounding the pension surpluses we have highlighted, but we are making progress there as well.

In addition to media interaction, NALC has also created new websites and has employed a variety of social media tools to promote our views. We created and staffed a joint website (saveamericaspostalservice.org) with the

four postal unions to coordinate our grassroots activities and we developed on our own a website for reporters and interested citizens (deliveringforamerica.com). These sites provide data, talking points, news and information about the postal crisis. We use Twitter and Facebook to amplify our message and we supplement these sources with the “Postal Facts” page on the NALC website.

At times, when effective and appropriate, we have used paid media as well. Delegates will recall the cable television ad we ran in conjunction with APWU and the NPMHU in late 2011. That animated ad emphasized that Congress created the financial crisis at the Postal Service and that Congress must fix it. Since then, we have run a variety of web banner ads on key political websites and print ads in strategic Capitol Hill newspapers. Many members have asked us to do more, though it bears noting that truly effective (i.e., long-running) advertising campaigns require tens of millions of dollars. So we will continue to take a strategic approach to advertising. Where it can complement and amplify our grassroots efforts, we will do more of this in the future. But at the end of the day, it is going to take continued “boots on the ground” activism of our members for us to prevail.

COLLECTIVE BARGAINING AT A TIME OF CRISIS

As this report goes to press, the NALC and the Postal Service are in negotiations to select an interest arbitrator to resolve the impasse over a new National Agreement—instead of in negotiations to voluntarily set the terms of such an agreement. This is very disappointing, particularly since we had spent months in productive discussions on the whole range of issues facing us in this time of crisis. It is not necessary to repeat a blow-by-blow account of the negotiations here, but I can report that we made a concerted good-faith effort to conclude a responsible contract that both recognized the financial condition of the Postal Service and rewarded letter carriers for their contributions to USPS’ efforts to survive. We demanded recognition that our jobs have gotten harder

as the series of route adjustments we facilitated reduced the number of routes and increased the average number of deliveries. And we were, and remain, open to innovative ways to reduce health care costs in a sensible manner.

Unfortunately, the Postal Service chose to end the negotiations on Jan. 20 and refused to extend mediation beyond the 60-day interval set by law. So we are preparing for an interest arbitration that is likely to begin before the national convention but conclude afterward. It is now abundantly clear that the Postal Service intends to end 10 years of collaborative labor relations that began after the anthrax attacks in 2001 and extended through the financial meltdown of 2008 until the end of this contract. It has chosen the path of confrontation.

NEGOTIATIONS FOR A NEW CONTRACT

The negotiations got off to a rocky start in August when, just days before talks were to begin, the USPS released two “white papers” calling on Congress to (1) legislate the elimination of no-lay-off provisions in postal union contracts to facilitate a massive downsizing of the Postal Service, and (2) permit the Postal Service to unilaterally withdraw from our federal pension and health benefit programs (FERS and FEHBP) and to set up its own 401(k) retirement scheme and its own postal-only health plan instead, without negotiating with its unions. These provocative proposals, hostile and ham-handed in equal measure, sent a clear message that this round of bargaining would be unusual. The stunt

reminded me of the 1981 round of bargaining when another misguided postmaster general tried to force all the postal unions into a single bargaining unit against their wishes. Such a breach of good-faith bargaining did not work then, and it did not work in this round either.

Once bargaining got under way, we made it clear that the NALC was open to innovations on workforce structure and health benefits that could save money while preserving the wage and benefit standards that we have fought for decades to achieve. Our goals were to increase flexibility and provide cost savings while providing a career path for non-career employees and preserving our wage standards. We also discussed several innovative MOUs to jointly address numerous workplace issues.

Meanwhile, the parties spent months exploring the incredibly complicated issues revolving around health care. We signaled our interest in concepts that would maintain excellent benefits while saving the USPS money and reducing the future cost of retiree health benefits. Both sides employed actuaries and consultants to work through the issues over several months. At the time bargaining ended, we had pending information requests outstanding with the Postal Service and still hoped to explore a postal-only health plan that could operate within the FEHBP umbrella. Unfortunately, the Postal Service grew impatient and cut off the talks—insisting that active postal employees (and future retirees) be forced out of FEHBP. It was “my way or the highway.”

This same attitude became evident on another area of focus: our drive to improve JARAP and to build on our joint efforts to reduce workplace conflict over route adjustments and therefore boost

efficiency. Unfortunately, as the bargaining process came to an end, the Postal Service made it clear that it is no longer interested in a joint process. Management has told us explicitly that it no longer values a process based on accurate data and joint collaboration. A decade of progress has been cast aside. Management has chosen the path of conflict, but we will not shy away from defending our members’ interests in fair route adjustments.

MEDIATION GIVES WAY TO INTEREST ARBITRATION

In February, the Federal Mediation and Conciliation Service appointed New York attorney Joshua Javits to serve as a third-party mediator for a term of 60 days. The parties met several times with the mediator separately, but never together. The Postal Service made demands that we simply could not accept, and it refused to resume discussions on the more comprehensive proposals discussed earlier in the bargaining round.

NALC had hoped to reach an agreement with the Postal Service. Even if agreement could have been reached on workforce structure and health benefits, there were other issues that would have had to have been overcome—our desire to maintain the restrictions on subcontracting, for example. We believe that letter carriers represent the core competency of the U.S. Postal Service and that postal management’s reluctance to strike a strategic partnership with us to develop the last-mile advantage the Postal Service has in the delivery industry reflects the same flawed business strategy so evident in the agency’s legislative strategy. As I have made clear, NALC wants a partner to rebuild the Postal Service for the 21st century. It is no longer

clear that such a partner exists in the current management of the Postal Service.

Under our system of interest arbitration, the Postal Service and the NALC each name an advocate arbitrator to serve on a three-person arbitration board, and the two of them select a neutral arbitrator to chair the board. We have named our General Counsel Bruce Simon to serve as our arbitrator. Bruce has served in that position during every interest arbitration we have conducted and is among the nation’s very best labor lawyers. The Postal Service appointed Robert Dufek to serve as its arbitrator. Once a neutral arbitrator is selected, the parties will set a schedule for hearings. Hearings may go on for several months. Once the hearings end, the arbitrators will go into executive session to hash out a final and binding “award” that will set the terms of the next contract.

In the months ahead, NALC will vigorously defend our wages and benefits and seek to advance our bargaining goals through the interest arbitration process. Our lawyers and consultants have been working for months to find the best witnesses and gather the most convincing evidence we can to advance our positions. As in the past, we will need the full support and cooperation of the membership to put on the best case possible. We will call on working carriers to be witnesses and advocates for their fellow carriers. Our goal is to achieve the best possible contract for the USPS’ hardest-working employees. But just as importantly, we want to lay the groundwork for a revival of the United States Postal Service. A smart contract is the first step, but we will need to do a lot more in the years ahead to create a Postal Service that can thrive in the 21st century. It is to that topic that I turn next.

FINDING A NEW MODEL FOR A NEW POSTAL SERVICE

In late May, as I was completing this report for the convention, I learned that the New Orleans *Times-Picayune* newspaper would end its 175-year run as a daily newspaper. The management of the beloved newspaper announced that it would shift to a three-day-per-week publishing schedule this fall, changing

its focus to online news coverage. A third of the staff members will lose their jobs and those who stay face pay cuts and longer hours, even though the paper has remained profitable. It seems the owner of the paper, Advance Publications, has decided on a digital strategy for all of its newspapers. The move will

make New Orleans the largest city in America without a daily newspaper.

The reaction in New Orleans, where the *Times-Picayune* stands side by side with jazz and Mardi Gras in terms of cultural importance, was shock and disbelief. I was not shocked. And sadly, I had no problem believing the story. Evidence

of the brute power of the Internet to drastically transform industries is all around us—the travel agent business is all but obsolete, the music industry has crashed and burned, and entire bookstore chains have disappeared. Paper-based industries, such as newspaper and magazine publishing and the mail industry, are facing an existential threat. We have no choice but to face up to it.

The fate of the *Times-Picayune* demonstrates that the digital revolution will show us no mercy. It will not matter that 83 percent of Americans have a favorable view of the Post Office. It will not matter that our employer is older than the country itself. We should not kid ourselves: Congress is not going to turn back the clock and start shoveling taxpayer subsidies to the Postal Service as it did before 1971. If we do not adapt, the Postal Service will not survive. If we do nothing, the debate in America will not be about six-day delivery; it will be about three-day delivery—or less.

This concern is what motivated NALC to take the extraordinary step of hiring Lazard Frères, a blue-chip global investment bank, last October to help us understand the economic prospects of the Postal Service given the reality of the Internet age. Working with Ron Bloom, an industry restructuring expert who worked for the Obama administration on the auto industry rescue, Lazard conducted a comprehensive investigation of the Postal Service's operations and finances—a “due diligence” study as it is called in the investment banking business. The good news is that Lazard concluded that the Postal Service has a lot of potential to exploit its last-mile strength to capture a much greater share of the booming package delivery market. The bad news (which is no news at all) is that our consultants concluded that the Postal Service's current business strategy—which Lazard labeled “shrink to survive”—is doomed to fail.

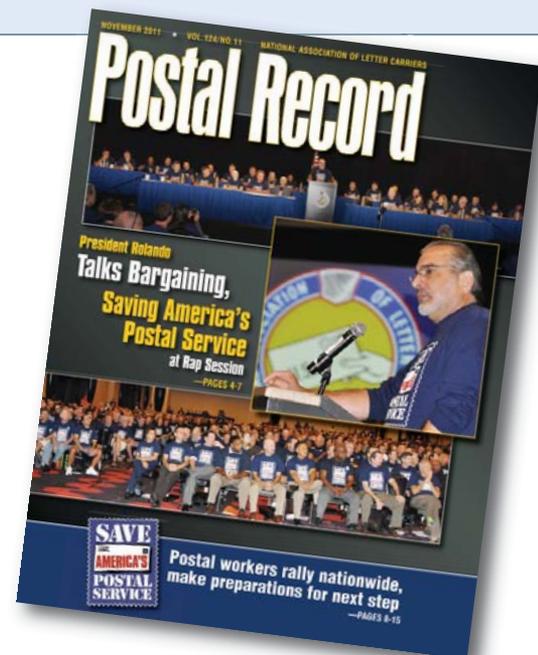
I have been emphasizing these two messages in every possible venue—that we have the potential to reinvent the Postal Service and become a dominant player in the package and e-commerce delivery business, and that the Postal Service's current strategy to dismantle and degrade its network by eliminating Saturday delivery will destroy this potential. I delivered these messages at the annual Rutgers University conference on postal services, an academic forum. And I have delivered them to industry gather-

ings such as the annual 2020 Postal Vision conference. The bottom line is clear: We must innovate to survive.

That imperative lies behind the Last Mile Project we launched in 2009 to solicit good ideas for new sources of revenue for the Postal Service. And it also prompted us to stage a one-day innovation forum in September 2011 with the Canadian Union of Postal Workers before the global conference of UNI Post & Logistics, our global union federation, to learn how other countries' post offices are innovating. Hundreds of ideas have been generated and many of them have real potential—everything from meter-reading services for local utilities and electronics recycling to “first-mile” collections for other delivery companies to partnerships with office supply and drug store chains to provide next-day delivery services (local distribution). We are ready to test these ideas and have proposed the creation of a labor-management innovation task force to do so. So far, the leadership of the Postal Service has rebuffed us—opting instead for its “shrink to survive” strategy. But we cannot take “no” for an answer. We must convince the Postal Service to see that our way is a better way, or we must seek to change the leadership of the Postal Service. We have no other choice if we want to preserve our jobs and our standard of living.

The Postal Service has played an incredible role in the history of the United States—for nearly 238 years. It has constantly evolved to meet the changing needs of the country. In the 18th century, it was crucial to the development of our democracy—think of how the Post Office distributed the Federalist Papers throughout the former colonies that banded together to form the United States. In the 19th century, it powered the westward expansion of our young country through mail-order commerce and became the principal form of communication. In the 20th century, it developed into a crucial infrastructure service for our economy, providing the backbone of the nation's financial payments system and a primary means to conduct commerce.

The challenge now is to find our place in the 21st century. Connecting the sophisticated digital networks that have emerged over the past two decades (Google, Facebook, etc.) with the unique physical distribution networks that the Postal Service maintains



holds tremendous promise as a business strategy—as does serving as the first- and last-mile service provider to global logistics companies such as UPS and FedEx. NALC cannot rely on the Postal Service or Congress to explore these possibilities. We must be the driving force with regard to innovation. Nobody has more at stake than the men and women who deliver the mail. Their union—our union—must summon the courage to lead. If we don't do it, nobody will.

Our mission in Minneapolis—Delivering for a World of Change—is ambitious. Let's dedicate ourselves to making the convention a success and to forging a prosperous future for the 280,000 workers and retirees we represent.

Welcome to Minnesota, brothers and sisters. Let's get to work. ✉