

**Envelope Manufacturers Association
500 Montgomery Street, Suite 550
Alexandria, Virginia 22314**

Via Email and Fax

Six Pages

Management Information Briefing

December 15, 2010

Good Morning/Good Afternoon:



Happy Holidays!...As we begin to focus our time and attention on celebrating the upcoming holidays with family and friends, we wish to extend to you and yours the most joyous holiday season and our wishes for a very successful New Year. Our good friend Keith Bartlett of Encore Envelopes in the UK took the photo of the Victorian Postbox at the left. It is a reminder to all to get those holiday greetings in the mail by December 17 to ensure your greeting is delivered on time. It is the personal touch of a holiday card that makes the difference! Stay in touch with family and friends through the mail.

Envelopes...As we move into the holiday season business seems to be getting a little more active. In October, Standard mail grew by over 15.6 percent against last October; and cumulatively, it is still up only about one percent. The envelope manufacturing marketplace in North America has been busy but was up only one percent through October. However, the order rate moved up by three percent. We will not have the November numbers for a few more days, but we feel that even though there were fewer working days in November than previous months, we are hearing that everyone was very busy. We also heard from our colleagues in Europe that the market is getting more active, the slow recovery is continuing, and companies have adapted to the market changes that we all went through last year. We are all hopeful that 2010 will end with a strong finish as the economy continues to improve. We will be issuing a December 30 report this year to cover some of the year-end results.



How do they do it?...

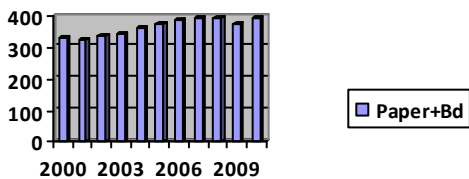
Sarah Robertson of Kansas City, MO, recently won a national tattoo competition in Dallas, Texas. She proudly displayed the Tension Envelope factory tattooed on her right thigh. We must point out that while Sarah is not an employee of Tension Envelope, she is proud enough of her city to display one of its most prominent features – the Tension Envelope building located at 819 19th Street. Sarah is shown on the right wearing her new crown as Miss Tattoo – Dallas 2010. Never let it be said that there is no excitement in the envelope manufacturing industry and that envelopes are not in style. Congratulations to Sarah and best wishes for much future success. I hope she starts a trend.



Commercial printing... According to *WhatTheyThink* October 2010, commercial printing shipments were \$7.6 billion, up \$108 million compared to October 2009. Adjusted for inflation, shipments were up 0.3 percent. According to Dr. Joe Webb, this is the seventh month in a row that printing shipments increased. 2009 was a difficult year in the printing industry with shipments down 12 percent. It is good to see that the industry is slowly recovering.

Paper...

Paper and Paperboard - The Global Market (M - Tonnes)



It is interesting to take a look at the global paper and paperboard market from 2000 through 2010. While on the surface we can see that the market is slowly growing back from the drop that occurred in the recession, underneath these figures is a slightly different story. In the last decade, the United States has seen a reduction of 2.3 percent in output, Western Europe down 1.9 percent, Japan a reduction of 1.5 percent, yet China is showing an increase of 12.2 percent and India an increase of 8.8 percent. Clearly, Chinese paper output will be a significant factor in the industry in the future. In India alone there are 571 paper mills with demand at 9.9

million tons and manufactured paper at 8.9 million tons. About 3.3 million metric tons of printing and writing paper are manufactured in India. Recycled fiber is about 55 percent of the mill stock input in India. The US is exporting about 1.2 million metric tons of recovered fiber into the Indian market.

Source: RISI and CellMark Paper.

USPS News... The latest news with regard to the USPS is the postal oversight hearings of December 2 when the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security met. The full text of all of these statements is on our website. In addition, just before the hearings, Senator Susan Collins introduced her own postal reform bill, which is covered below. Here is the essence of what the legislators said during the hearing and how key witnesses responded:

Senator Thomas Carper

- Wants the challenges facing the Postal Service to be address soon. Concerned that the Postal Service may no longer be depended on for mail service.
- Conceivable that by December 2011, the USPS may not have enough funds to keep its doors open.
- He stated that \$5.5 billion of the \$8.5 billion loss the USPS recorded this year is due to the pre-funding requirements. Only \$500 million was an operations loss.
- Congress must go beyond addressing retirement and health payments to comprehensively addressing the Postal Service’s needs.
- Doing “just enough” to get the Postal Service by for Christmas 2011 is not good enough.
- He stated that he was not an advocate of eliminating Saturday delivery but he was an advocate for giving the USPS the ability to manage.
- He wants arbitrators to take into account the USPS’s financial vitality when rendering decisions about labor rates.
- He feels it would be a tragedy if the millions of jobs related to mail use would be put in jeopardy because Congress cannot act.

Senator Susan Collins

- The Postal Service is facing an abysmal fiscal crisis.
- The Postal Service business model needs to be re-engineered to better meet the needs of the nation.
- Those who think we can do nothing are sadly mistaken.
- The Postal Service needs a structural reinvention; it cannot just raise prices and drive customers away.
- The Postal Service has been slow to take advantages of some of the flexibilities it has been afforded by the Postal Accountability Act of 2006.
- She feels that the retirement overfunding and healthcare payments issues need to be resolved, as well as some of the contracting abuses that the Office of Inspector General has reported.

Senator Thomas Coburn

- Feels that the Postal Service needs to run at a profit and not just a positive cash flow.
- He feels that forecasting needs to be realistic on the USPS financials.
- He wants the Postal Service fixed, not just patched together.
- He feels that the new postmaster general has the authority to fix it now. The problem is labor costs—these needs to change.
- There is authority to do more things with retail services.
- We will help the USPS with the cash flow issue but they have to fix their business.

Postmaster General Donahoe

- We now have the smallest career complement since 1970.
- Our current rate of loss is unsustainable; the largest part of the loss is caused by prefunding requirements.
- We need a profitable, nimble Postal Service.
- We will remain a powerful conduit for business and we will adapt.
- The USPS will not be able to make the prefunding payment at the end of FY 2011.
- We need to grow mail—the business to consumer channel. We need to grow small business, package business, return package business and improve the customer experience overall.
- We don't really want to move to lesser than six days to deliver to every address in America, however, we are facing declining revenue per delivery. This makes it very difficult to deliver six days per week.
- We would like to move to five days for collecting, processing and delivering mail. Post office box delivery, Express Mail delivery, and drop-box pickup would remain unchanged.
- Right now about 35 percent of retail revenues are conducted outside the post office. We are looking at contracting out more services to retail stores.

We will continue these presentations as they occur during the next legislative session. Clearly, Congress is starting to move on the issue of postal transformation.

Companies in the News...

Cenveo...Cenveo has announced that it may sell assets and equipment of its bindery division, and if this sale is completed, will reduce its work force by 65 employees in its St. Louis facility.

International Paper...An awareness campaign entitled *Go Paper. Grow Trees.*TM developed by International Paper is designed to give consumers the facts on how using paper products makes a direct contribution to the health and growth of trees and the forests. The program was created to connect readers to the challenges private landowners face in growing and maintaining healthy forests. For more information, you can consult www.GoPaperGrowTrees.com.

New Page...NewPage Corporation has announced that it will close its Whiting, Wisconsin mill at the end of February 2011. The Whiting mill currently operates two paper machines, which produce approximately 250,000 tons annually of coated paper used by the publishing and printing industry. Approximately 360 employees will be impacted by this shutdown.

Staples...Staples Advantage, the business-to-business division of Staples, has announced that its Print Solutions business has acquired PRINTSouth Corporation (operating as "Miami Systems"), a leading national manufacturer of business forms. Miami Systems was founded in 1926 and has evolved into a leading national provider of transactional documents and related managed services with about \$70 million in sales.

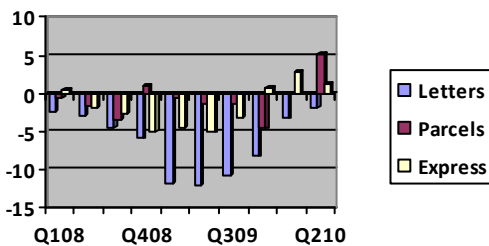


Global Envelope Alliance News...GEA Chairman Bert Berkley and President Maynard Benjamin attended the Consultative Committee Management Committee Meeting on December 9-10, 2010, in Washington, D.C. The focus of this meeting was in planning for the 2011 program year. Bert Berkley reported on his meetings with China Post, Taiwan Post, and Thailand Post. He has continued to emphasize to

the Posts the importance of promoting mail as a viable and important communications technology and received positive information from the chiefs of the Posts he visited. Maynard reported on the visits he made with Australia Post, Japan Post and New Zealand Post, all of which have active programs for promoting mail. Bert went on to explain to the management committee that he would like to see the Universal Postal Union (UPU) work with GEA to continue the mail promotion effort and also talked

about the messages to be developed. He received positive consideration from the management committee and an agreement to review this matter with the UPU administration. The UPU staff also shared some very promising information with us that global domestic mail volume, while still in a negative volume for the second quarter, was showing very significant improvements across the globe, principally in direct mail and mail used to carry other advertising. You can see this trend in the chart at your left. This chart shows the changes in total domestic mail volume across the globe in percentage change by month. Basically, the drop in letter-mail volume has slowed significantly, but may shortly turn upward. The

Global Domestic Volumes (2008-2010)



drop in parcel volume is now moving upward, as well as express mail volume. We still do not have the final two quarters of 2010, but we will publish when we do. The good news here is that mail volume across the globe is starting to bottom out; however, it still was not growing positively through the second quarter.

Postal news from around the world...

European Regulators Group for Post (ERGP)...ERGP held its first meeting on 1 December 2010 following its establishment on 10 August 2010 by the European Commission. The ERGP was formed to strengthen cooperation between independent national regulatory authorities as postal markets liberalize in Europe. ERGP will consider the best regulatory practices across Europe and will act as an expert advisor to the European Commission on postal issues. It will also facilitate consultation,

coordination and cooperation between the independent national regulatory authorities. At the first meeting, Jöelle Toledano, commissioner at ARCEP, the French postal and telecom regulator, was elected to chair EGRP for 2011. Tim Brown, chief executive of British Postcomm, the UK Regulator, and Göran Marby, director general of the Swedish regulator PTS, will serve as vice chairs.

EU Commission...The Commission wants to start a review of the security regulations for postal shipments before the end of the year. The examination will include all postal services, letters and packages.

Austria...Austrian Post will move to a new headquarters in the next year. The administrative board of Austrian Post has decided to centralize all office locations currently spread across Vienna, into one central location. The former headquarters of *Siemens* in Vienna Erdberg will become the new Austrian Post head office. In related news, Austrian Post will sell a great deal of its real estate in the next two years.

Austria and Switzerland...Austrian Post and Swiss Post have been given the approval by the EU Commission to begin their joint venture to start delivering direct mail in Germany. Austrian Post's venture is called *meiller direct* and Swiss Post's is called *Swiss Post Solutions*. The joint venture will begin operations in 2011.

Germany...The government's draft for a law to regulate the services of *De-Mail*, has bogged down in the upper house of the German Parliament. Several of the issues center on the coordination of legislative procedures and bringing the proposed law into harmony with existing laws. An additional issue was to ensure that *De-Mail's* security was compatible with the electronic P.O. Box for courts and the administration, used by legal bodies in Germany. In related news, *E-Postbrief* has successfully repelled its first hacker attacks and *Postbrief* is planning to go more strongly into the global market. In further news from Germany, Deutsche Post stated it plans on delivering less direct mailings on Mondays from January 2011 onward. The company announced that the majority of its advertising mail will be delivered on the prior Saturday or on Tuesday. According to the Post, Mondays account for only 10 to 11 percent of the weekly mail volume.

Japan...The ruling *Democratic Party* of Japan has confirmed that they will stop discussing the bill to reverse the privatization of Japan Post in the current Diet session, a bill first initiated under former Prime Minister Koizumi. This means the first reorganization of Japan Post will be postponed until 2012 with the whole postal reform bill on hold.

Netherlands...The Dutch government has instructed their competition watchdog authority NMa to investigate price dumping in the postal market. The three companies under investigation are *Sandd*, *Selektmail* and *Netwerk VSP* that, in a complaint, are selling their products below costs. State Secretary for Economics Henk Bleker made the announcement. In other news, TNT employees have gone on strike to protest against planned job cuts.

TNT France is looking for a new president according to news reports. Eric Jacquemet, a 24-year TNT veteran, will be leaving his post. Additionally, TNT has disclosed that it plans on selling its *Express* unit. TNT stated that it plans to keep its *Mail* business for now and a 30 percent stake in its *Express* business.

Portugal...The Portuguese minister of finance, Teixeira dos Santos, officially spoke out against any speculation about *CTT Correios's* privatization planned for 2013. He felt it was necessary to determine first how to secure the funding of the universal service after the market liberalization in 2011. Currently, the introduction of a flat levy is under public discussion. What has been made public is that licensees will have to pay an allocation of one percent of their gross turnover. Last year, the 60 licensees in

Portugal held a market share of 10 percent. Altogether, the privately run service providers handled almost 118 million shipments in 2009.

Romania...The Romanian government plans to invest into the post's equipment to prepare the company for the upcoming market opening in 2013. According to Romanian Communications Minister Vreme, the government has to invest about 113 million euros (\$155 million) in automated sorting centers, integrated IT systems, new printing systems and modernization of their vehicle fleet. *Posta Romana* has been in the red since 2008 and the government does not expect the post to be in the black until 2014.

Saudi Arabia...The Saudi Post has announced a very large project to install house numbers and letter boxes equipped with RFID tags at every house in the Kingdom. More than 10 million letterboxes with Gen 2 RFID tags are installed and are now being used. Deliverers are equipped with *Intermec* mobile devices, which send the delivery data to the Post's central office. The next step in this program will be tracking & tracing for some services.

Things to Think About...

No WikiLeaks



A salute to the VDBF...Our colleagues in the German Envelope Manufacturers Association (VDBF) usually know how to get to the heart of things and always involve an envelope. They started to circulate the picture on the left in light of the massive numbers of disclosures of sensitive military secrets being released as a result of poor web security procedures. Safe, secure and inexpensive—that is an envelope. Thanks, VDBF.

Document outsourcing...According to InfoTrends, the document outsourcing market will once again experience positive growth.

Upcoming Events...

GEA Board of Directors – The next meeting of the GEA Board of Directors will be on January 20, 2011, via teleconference.

Spring Meeting...It is never too early to start planning to attend the 2011 EMA Spring Meeting that will be held in Orlando, Florida, April 13-16, 2011, at the Ritz Carlton Hotel. Rooms are \$199 double occupancy.

Global Envelope Congress...The dates and the location have been set. The hotel will be announced in the near future. Please mark your calendars now for the **2011 Global Envelope Conference** to be held **22-24 September 2011**, in Edinburgh, Scotland. GEA and FEPE (European Envelope Manufacturers Association) are collaborating on an outstanding program. A flier with program details will be sent out soon. For now, just reserve these dates.

Fall Meeting 2011...Mark your calendars now; it is October 19-21, 2011, in Washington, D.C. We will be announcing our hotel shortly. We are including a legislative working day in this meeting (Wednesday afternoon) as well as discussions with Congressional, Administration and Postal leaders. More details are coming.

That's All for Now...Until Next Time...Maynard Benjamin