

**UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

Petition by Consumer Action

Docket No. *2003

COMMENTS OF PITNEY BOWES INC.

Pitney Bowes Inc. respectfully submits these comments pursuant to Order 1364. Order 1364 asks commenters to address the United States Postal Service's "Report on Nonpostal Initiatives" in the context of how the Commission should proceed with the petition filed by Consumer Action ("CA") and the Office of the Consumer Advocate ("OCA") for a review of unclassified services.

Pitney Bowes previously submitted comments pursuant to Order 1353 stating that review of an expected report by the Postal Service of its internal review of the fourteen unclassified services enumerated in the OCA/CA Joint Petition would inform its comments on how the Commission should proceed with that Petition. On March 10, 2003 the Postal Service submitted the report, which provides a summary of the business review processes adopted by the USPS to evaluate and monitor the continued viability of the unclassified services identified.

Pitney Bowes understands the Commission's request as a solicitation for comment on the most appropriate and useful procedural role for the Commission to play in evaluating the unclassified services. Pitney Bowes will accordingly limit itself to identifying the issues it believes should be addressed, with the understanding that a fuller discussion of the jurisdictional

status and policy issues with respect to the unclassified services will be undertaken in whatever proceedings the Commission establishes.

The Postal Service Should Focus on Its Core Business

Pitney Bowes has consistently maintained that the Postal Service should focus on developing its core business and work to continuously improve its traditional role of accepting, collecting, sorting, transporting, and delivering physical mail. Many successful businesses share the philosophy of maintaining focus on core products and core competencies as a means of delivering superior customer value. The core business of the Postal Service is the accepting, collecting, sorting, transporting, and delivering of physical mail – letters, printed matter, and packages. Consistent with the philosophy of focusing on its core business, the Postal Service should focus on the constant, vigorous improvement of the customer value of mail as a communications tool.

In pursuing its mission to revitalize and enhance the value of physical mail, the Postal Service should be afforded the commercial freedoms to adopt flexible pricing and leverage public-private worksharing arrangements. The Postal Service should be permitted to pursue private sector pricing strategies such as volume discounts, negotiated service agreements (“NSAs”), and even dynamic pricing (e.g., pricing by season, month, week, or time of day), where such arrangements would create additional mail volume and revenue contribution. For these reasons, Pitney Bowes supports the pending NSA proposed by Capital One Services and the Postal Service. Pitney Bowes believes that the Capital One NSA is an example of the type of flexible pricing models that the Postal Service should be pursuing as a means to enhance the value of mail. Similarly, Pitney Bowes believes that the Postal Service should endeavor to enhance the operational efficiency and effectiveness of the physical delivery of mail by

leveraging public-private worksharing arrangements that serve to lower end-to-end (total system) mailing costs.

The Role of the Postal Service in Competitive Markets

Pitney Bowes believes that the Postal Service should not enter markets that can be served by the private sector. Pitney Bowes has long maintained that special attention must be given to the potential competitive effects of the Postal Service's regulatory authority, particularly its licensing power over private sector enterprises in markets where the Postal Service seeks to compete with private entities either directly or via public-private partnerships. Specifically, Pitney Bowes believes that the Postal Service should not be able to use its extensive authority with respect to postal-related matters to provide a competitive advantage to products or services that it offers in the marketplace. To avoid this inherent conflict of interest, the Postal Service should not compete in markets that it substantially regulates. Similarly, Pitney Bowes has consistently maintained that the Postal Service should not interfere with the competitive marketplace by compelling the transfer of intellectual property rights, explicitly limiting or reallocating market shares, or offering any product or service that uses information obtained from a private company without the consent of that company.

Moreover, there is little evidence, either from the Postal Service's own experience or that of foreign posts, that revenue diversification initiatives would benefit the Postal Service. Rather, the evidence establishes that such ventures succeed only in stifling innovation and diluting resources properly applied to revitalizing and enhancing the value of the Postal Service's core business.

Pitney Bowes understands that the Postal Service is concerned that core business revenues will decline due to the accelerating use of electronic alternatives (electronic diversion), slowing or stagnant mail volume growth, and the entry of new competitors due to market liberalization. Further, Pitney Bowes is mindful of the increasing costs imposed on the Postal Service in the performance of its Universal Service Obligation as delivery points and labor costs increase. This could lead to pressures to pursue non-core services that potentially intrude in competitive markets. To the extent that the experiences of foreign posts are illustrative, however, non-core initiatives do not appear to have yielded substantial benefits. Electronic services have not been demonstrably successful for foreign posts in generating revenues and profits sufficient to make up for fundamental problems in their core business. The Postal Service's losses in connection with the unclassified services, as identified by the General Accounting Office ("GAO"), substantiate these conclusions.

In sum, Pitney Bowes believes this financial relief should not be sought through distractions outside the Postal Service's core business area. The USPS should be granted the commercial freedoms that will allow it to thrive and prosper in the future, but not to the detriment of existing or potential private players. The need for the Postal Service to focus on the mail rather than various non-postal services has also been a cornerstone of pending postal reform legislative proposals.

The Need for Regulatory Oversight

Pitney Bowes believes that the Commission can and should play a useful role to ensure a level-playing field for all participants in the postal sector. Currently, the Commission plays an important role in the establishment and review of rates, classifications, and fees for core domestic postal services. As set forth above, Pitney Bowes believes that the Postal Service should focus exclusively on its core business and not engage in non-core, unclassified services that potentially intrude in the competitive marketplace. If the Postal Service does engage in non-core services, however, Pitney Bowes believes that there must be regulatory oversight of those services to assure that they neither harm the Postal Service's core functions nor allow unfair competition with private service providers in these nonpostal areas. This proceeding is an appropriate one to resolve whether that oversight is available under existing law.

If the Postal Service were able to determine unilaterally which products or services are subject to the Commission's jurisdiction, large areas of activity would potentially be removed from any regulatory oversight whatsoever. Pitney Bowes does not believe this would be a desirable result. While Pitney Bowes is sensitive to the Postal Service's contention that the review procedures suggested by the Petition may prove "convoluted" or "unworkable," logistical difficulties alone cannot serve as the basis to preclude any meaningful regulatory oversight. Moreover, an important aspect of any proceedings under the Petition would be to address such difficulties to assure that oversight was accomplished in an efficient and effective manner.

If the Postal Service were a purely private entity, the exercise of its management discretion to determine what is or is not "postal" would not pose a problem. The Postal Service, however, is a U.S. Government establishment with a statutorily defined monopoly and service obligation. Regulatory oversight has uniformly been considered essential in such circumstances,

to police the relationship between regulated and unregulated services. Regulation of communications and energy utilities provide two very prominent examples.

The need for regulatory oversight of non-core services is particularly acute where, as here, the potential exists that the rate-paying public will be forced to underwrite non-core services in areas presently served by the competitive market. The Petition alleges that the Postal Service has cross-subsidized the development, start-up, and operational costs of non-core services with general revenues obtained by virtue of the Postal Service's statutorily defined monopoly. The need for scrutiny is highlighted by the GAO reports suggesting that the financial information provided by the Postal Service has been incomplete and inaccurate, and the GAO's findings that the Postal Service's internal accounting standards have been inconsistently applied with respect to the unclassified services. The internal report submitted by the Postal Service on March 10, 2003, does not speak to the cost accounting issues.

Following on to the recommendations of the GAO, Pitney Bowes submits that the Commission is uniquely situated to provide the needed regulatory oversight. The Commission has direct interest and a responsibility to insure that revenues derived from the rate paying public's consumption of classified services are not being used to subsidize unclassified services.

Commission Review

Pitney Bowes submits that the Commission should initiate hearings to assess the feasibility of establishing cost accounting control and reporting standards for unclassified service offerings, and guidelines for the Postal Service's introduction and provision of such offerings. The hearings should be structured to provide the Commission with the information and guidance necessary to determine the appropriateness and permissibility of proceeding with a rulemaking to establish accounting conventions and reporting requirements for unclassified service offerings.

Respectfully Submitted,

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