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POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Notice of Rate Adjustment **Docket No. R2011-2**

Comments of DHL Global Mail
February 3, 2011

DHL Global Mail respectfully submits the following comments in response to the United States Postal Service's (the "USPS") Notice of Market-Dominant Price Adjustment of January 13, 2011 (the "Notice"). DHL Global Mail appreciates the opportunity to submit its comments on the Notice, and appreciates the Commission's time and consideration of its comments addressing the USPS requests which, if accepted as proposed, would have dramatic and detrimental effects.

As will be discussed in detail below, DHL Global Mail's concerns go to the requested price increases on 5 digit Standard Mail Parcels; most specifically to 5 digit Machinable parcels. The present USPS requests would create an incentive to redirect use away from 5 digit Standard Parcel use and toward more inefficient and expensive use; would result in greater cost burdens for the USPS; would unfairly result in DHL Global Mail and other USPS Workshare partners' infrastructure investments in 5 digit service to go for naught; and would inevitably result in higher costs to postal consumers. DHL Global Mail believes that a more balanced and equitable approach is warranted.

THE USPS PRICE INCREASES CANNOT BE JUSTIFIED AND THEIR <u>ADOPTION WOULD BE CONTRARY TO JUSTICE AND REASON</u>

The USPS states that: "The need to increase revenues almost of necessity requires higher price increases for 5-digit parcels, since they constitute the largest single group of parcels within their respective categories (machinable, irregular, NFM)." Implicit in this phrasing "almost of necessity" is the suggestion that its tremendous price increase should be taken as self-evident, without the need for close critical analysis. It would be unfortunate if the USPS failed to do such an analysis; and it is outside the realm of possibility for the Commission to do so.

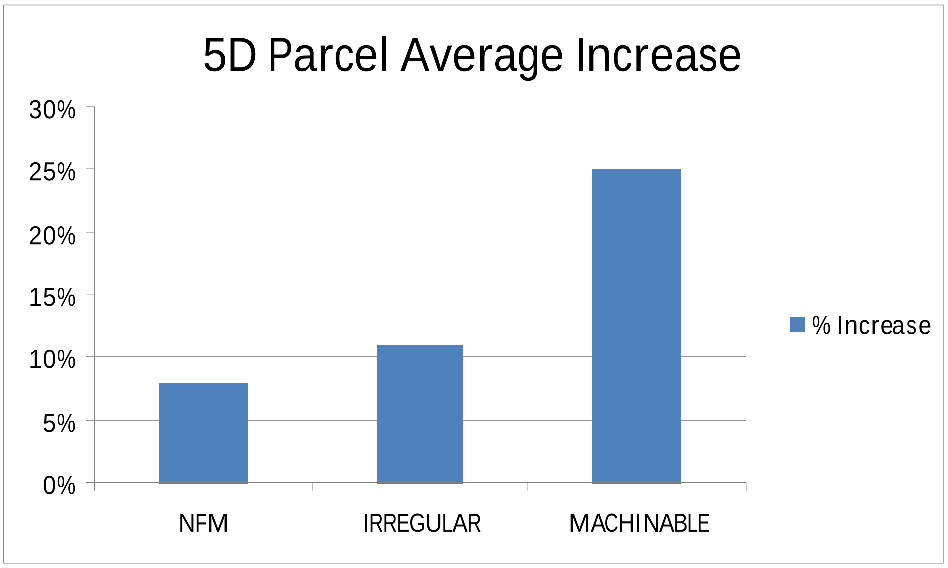
The USPS's justification for the increase targets the 5 digit parcel simply because it is the largest group; raising the transparent issue of using monopoly power to increase costs on a targeted market.[1] The USPS's justification for uniquely gouging standard parcel mailers, while explicitly giving disparate (favorable) treatment to other similarly situated products (simply because they are unprofitable) is properly reproached in the Comments of the Parcel Shippers Association ("PSA"), quoted below:

> There is no equity here. … [T]he [USPS] admits it can gouge these [standard parcel] mailers because of the monopoly it holds in the Standard Mail fulfillment parcel market, the very same parcels it has proposed to transfer to the competitive category of mail in Docket No. MC2010-36.:
>
> > The Postal Service intends to restructure its Standard Mail parcel offerings by broad market segment into parcels that are used to fulfill merchandise orders, believed to be less price elastic, and parcels that largely carry marketing messages, believed to be much more sensitive to postage prices. The Postal Service believes that 5-digit presorted parcels, particularly in the NFMs category, are most heavily weighted toward fulfillment parcels, and therefore are able to absorb relatively higher percentage increases than marketing parcels, which are more heavily concentrated at less fine presort tiers.
>
> Notice at 37. This unreasonable use of market power was not allowed in the exigency case (R2010-4), it should not be allowed in the docket considering transferring Standard Mail fulfillment parcels to the competitive category of mail (MC2010-36), and it should not be permitted here.

The hard numbers paint a clear and direct portrait of the unjust and inequitable nature of the USPS's proposal. Thus, 5 digit Machinable parcels

[1] This motivation was certainly not the intent of the Postal Accountability Enhancement Act of 2005, Pub. L. 109-435, 120 Stat. 3198 (2006) (PAEA), as evidenced by the PRC Order Denying Request for Exigent Rate Adjustments of September 30, 2010, Docket No. 2010-4.

would bear the brunt of the entire increase, with increases ranging from 18% to 32%. Five digit Machinable parcels make up 26.7% of total mail volume for all Standard Parcels (ACR FY 2010); however, the proposed revenue increases on 5 digit Machinables equal nearly 50% of the total revenue increase.[2] This is an unequaled disparity for any subset of increase throughout the entire R2011-2 filing. See attached spreadsheet.



THE PRICING DISPARITY IS UNREASONABLE AND FAILS TO MEET ANY ACTUALLY RATIONAL GOAL WHEN MEASURED AGAINST PRACTICAL REALITY

$0.04 Price Gap Between 5 Digit and SCF Non-Machinable Parcels

As set forth in the chart, immediately below, the proposed differential between the 5 digit sort preparation and the SCF sort preparation is only 4 cents.

[2] As set forth in the attached spreadsheet, the standard parcel revenue proposed increase is $643,024,834.21, an increase of $68,330,251.75 from the FY 2010 total. The 5 digit Machinable increase would be $33,746,705.67. The percentage of the 5 digit Machinable revenue of the total increase alone is 49.4%.

Non Machinable Parcels						
	Proposed SCF SCF			Proposed 5D SCF		
OZ	STD	Increase	%	STD	Increase	%
4	$ 0.81	$ 0.06	8%	$ 0.77	$ 0.08	11%
6	$ 0.88	$ 0.06	7%	$ 0.84	$ 0.08	10%
8	$ 0.95	$ 0.06	7%	$ 0.91	$ 0.08	10%
10	$ 1.02	$ 0.07	7%	$ 0.98	$ 0.09	10%
12	$ 1.09	$ 0.07	7%	$ 1.05	$ 0.09	10%
14	$ 1.16	$ 0.08	7%	$ 1.12	$ 0.10	9%

This minimal price differential has numerous implications. Irregular Parcel Shippers can justifiably collapse their 5 digit sorts without the incentives to support the additional handling to get to the 5 digit. Shippers will have no financial incentive to provide 5 digit Machinable services where there is only a $.04 differential in the discount, and where their costs do not justify providing the 5 digit service instead of a 3 digit service to customers. The incentives do not cover industry handling costs. Given the 4 cent price incentive to move Irregular pieces to the 5 digit, up to 170 million pieces could begin to shift to the SCFs sort.

Workshare Discounts and Benchmarks--Standard Mail Parcels and NFMs (Commercial and Nonprofit)				
Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail Parcels				
Presorting (dollars / piece)				
NDC Machinable Parcels	Mixed NDC Machinable Parcels	$0.415	$0.365	113.7%
5-digit Machinable Parcels	NDC Machinable Parcels	$0.347	$0.635	54.6%
NDC Irregular Parcels	Mixed NDC Irregular Parcels	$0.391	$0.131	298.5%
SCF Irregular Parcels	NDC Irregular Parcels	$0.437	$0.314	139.2%
5-digit Irregular Parcels	SCF Irregular Parcels	$0.040	$0.413	9.7%
Standard Mail NFMs				
Presorting (dollars / piece)				
NDC NFMs (Irregular Parcels)	Mixed NDC NFMs (Irregular Parcels)	$0.415	$0.215	193.0%
SCF NFMs (Irregular Parcels)	NDC NFMs (Irregular Parcels)	$0.372	$0.252	147.6%
5-digit NFMs (Irregular Parcels)	SCF NFMs (Irregular Parcels)	$0.024	$0.414	5.8%

As a result, Industry delivery will end further upstream, i.e., it will begin for the USPS further upstream and increase USPS time and cost commitments. The USPS cost models do not indicate that they can sort Non-Machinable

Parcels which they can sort downstream from a SCF sortation to 5 digit for less than 4 cents per piece. The net result creates a "negative cost coverage incentive model." This would create a lose-lose scenario for the USPS and the Industry, that will result in future cost coverage issues moving forward.

DHL GLOBAL MAIL AND OTHER SIMILAR ENTITIES HAVE RELIED FOR YEARS UPON THE USPS DRIVING THEM TOWARD THE 5 DIGIT DOWNSTREAM MODEL PRIOR TO THIS UNPRECEDENTED TURNABOUT

The entire thrust of the USPS for at least the last decade has been to use the Workshare Model to have servicers delivering the mail further downstream in the system. The plain goal was to reduce the USPS costs. The USPS actively pursued this program by making this its express goal and by incentivizing DHL Global Mail and others by providing discounts favoring 5 digit downstream services. DHL Global Mail and others have spent tens of millions of dollars, if not more, during this time, to create infrastructure for themselves to achieve these goals towards which the USPS knowingly and intentionally moved them.

As recently as R2009-2, the USPS continued with its price signals to drive pieces deeper into the USPS distribution network. The Industry followed the USPS's express direction and promises, and further developed infrastructure to achieve that end. The USPS's position, upon which the Industry relied was clear, unequivocal and direct. These infrastructure build-outs were developed with the unwavering belief that the USPS would continue to support its own Workshare Models, which provided the Returns on Investment (ROI) to support these infrastructure expansions in resources, distribution networks and facilities.[3]

[3] Among other things, the USPS stated in R2009-2:

> The Postal Service is working to improve the contribution for Standard Mail Parcels / NFMs in order to improve the cost coverage of this product (Factor 12). Standard Mail Parcels / NFMs receive an increase of 16.425 percent. However, pricing incentives to dropship deeper into the system are enhanced to encourage more efficient transportation and entry practices (Factor 5). The pricing for parcels is also a further step in the Postal Service's ongoing harmonization of all of its parcels offerings (Factor 6). Further details on worksharing are discussed below in Part II.C.

It is truly outrageous that the USPS caused these entities to expend huge resources to develop this infrastructure, and now seeks to pull the rug out from under them with this complete inversion of its longstanding position on downstream delivery and 5 digit primacy.

THE SOLUTION PROPOSED BY THE USPS IS NOT THE SOLUTION TO ITS PROBLEMS

DHL Global Mail and its Industry are partners, not adversaries, with the USPS. Their role should be understood as that of allies to the USPS's ends. Their success is in fact intertwined with the USPS's success; and that success requires predictability. This is reflected in 39 U.S.C. § 3622(d)(1)(B), which establishes the basis for a rate schedule under which rates, when necessary and appropriate, should change at regular intervals by predictable amounts. As set forth above, given the consistent directives and representations from the USPS, the Industry could never have predicted the increases for 5 digit parcels, the most efficient parcels tendered to the USPS.[4]

> In addition to these pricing changes, the Postal Service is revising the pricing categories for Standard Mail Parcels/NFMs to better align those categories with the most efficient processing paths for parcel-shaped pieces (Factor 7). As shown in Appendix A, the Postal Service will no longer offer a separate price for machinable parcels, irregular parcels, and NFMs presorted to 5-digits and entered at origin. For such pieces, the lowest price available will now be the BMC price.14 For the same reasons, separate pricing for origin entered SCF (formerly 3-digit) irregular parcels and NFMs; for DSCF entered BMC (formerly ADC/BMC) irregular parcels and NFMs; and for DSCF and DBMC entered Mixed BMC (formerly Mixed ADC/BMC) irregular parcels and NFMs has been eliminated. These changes will align parcels pricing with the most efficient preparations and mail processing paths for parcels and NFMs. The cap compliance calculations have been adjusted to reflect the probable price impacts of eliminating these mail preparation options.

[4] In some cases, these 5 digit increases are even higher than what was proposed in the Exigency Case.

There is no question that the USPS has significant financial problems, and DHL Global Mail understands the need to improve this situation. It does not oppose pricing changes that are reasonably designed to address the USPS's problems. Such pricing adjustments, however, must be balanced, reasonable, and predictable. Any planned changes should harmonize subcategories of underwater products to cover costs over time (even though the PAEA states that cost coverage is at the Class Level).

Unitary Pricing must be evaluated in context. The justification for looking strictly at the 5 digit category alone, to match the prices for Machinable Parcels to that of Non-Machinable Parcels, is different than setting prices for Machinable Parcels alone, i.e., a broader view is needed when setting costs for Machinable Parcels. Unlike their Non-Machinable counterparts, Machinable parcels do not have an equitable "mid-level" SCF sort to help offset costs when mailers are unable to make a 5 digit sort. Unitary Pricing creates a disparity for Machinable Parcels, which would now have an overall higher cost, i.e., when a 5 digit sort cannot be made pieces must flow to an NDC sort, disabling any possibility to gain an SCF sort price or a DSCF Entry Rate. NDC parcels first opportunity for Destination Entry Rates start at the DNDC.

The USPS would now have this Commission condone a pricing structure under which a mailer would gain a greater cost advantage for a Non-Machinable Parcel than a Machinable Parcel. This would be an Alice-in-Wonderland result for the USPS and DHL Global Mail. Of equal or greater significance, the higher costs that will inevitably arise from this mistaken program would be imposed on the mailers; and in truth, the USPS and servicers **like DHL Global Mail are not ends in themselves, but providers of services to consumers. No program can be considered and implemented without properly and forthrightly evaluating the cost to the consumer users for whom this system is ultimately designed, for whom those in the system serve and without whom the system has no meaning**.

For all of the foregoing reasons, DHL Global Mail respectfully requests that the Commission remand the Unitary Pricing proposal of the USPS back to the USPS. Specifically, the USPS should be instructed on remand to eliminate the dramatically reduced discount rate differentials for 5 digit Machinable and Non-Machinable parcels that it has proposed. Instead, the USPS should either (1) maintain the discount rate structures in a relationship that is consistent with the current rate design or (2) expand the discount rate differentials to maintain the necessary incentives to increase the level of 5 digit and downstream delivery services.

Respectfully submitted,

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