

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

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

**Competitive Products Price Changes
Rates of General Applicability**

Docket No. CP2014-55

COMMENTS OF FEDERAL EXPRESS CORPORATION

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July 17, 2014

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COMMENTS OF FEDERAL EXPRESS CORPORATION

Federal Express Corporation (“FedEx”) respectfully files these comments in response to proposals by the U.S. Postal Service (“USPS”), filed on July 1, 2014, to sharply reduce Priority Mail rates for middle-weight packages and increase prices for low-weight retail packages.

The proposed price adjustments represent a major thrust by USPS into the fiercely competitive market for e-commerce distribution services, an understandable commercial tactic. At the same time, it appears clear that the small retail mailer – really, John Q. Public – will bear a relatively greater share of the institutional costs of competitive products and, in the most commonly used weight steps, face absolute price increases. Indeed, these large discounts which are for this commercially-driven pivot may even result in higher prices for market-dominant mailers, the so called “captive mailers,” due to imperfect cost allocation and attribution. While we are unable to offer a detailed analysis given the lack of data transparency (to all except the Commission),

FedEx has concluded that we must register our concerns relating to the competitive issues raised by this proposal.

At the outset, it should be emphasized that these proposed price changes do not reflect a minor cost-related adjustment in the postage that Grandma will have to pay to send a sweater to young Johnny. What USPS is proposing is an aggressive push to gain market share in the fast-growing business of e-commerce distribution services. To this end, USPS is proposing reductions of 30 to 55 percent in prices for commercial shippers in the weight categories most used by e-commerce. Price reductions of such magnitude will substantially affect competing service providers and the market as a whole.

Since the beginning of postal reform efforts by Congress in the mid-1990s, FedEx has supported allowing USPS to become a more efficient, more flexible, more commercial participant in the national delivery services sector. That support, however, is conditioned on a regulatory system that ensures that USPS does not derive an unfair advantage from legal or governmental privileges when it competes with private sector companies. The Postal Enhancement and Accountability Act of 2006 (“PAEA”) embraced a balance between commercial flexibility and fair competition. As the House Postal Subcommittee declared:

Under the legislation, the Postal Service will compete on a level playing field, under many of the same terms and conditions as faced by its private sector competitors, *albeit with stronger controls, oversight, and limitations in recognition of its governmental status.*¹

Similarly, the Senate Governmental Affairs Committee declared forcefully:

The Committee strongly believes that the Postal Service should operate more like a private business *but, when competing head to head with a private business, we*

¹ House Comm. Rept 109-66 (Apr. 28, 2005), at 44 (emphasis added).

*believe just as strongly that the advantages the Postal Service has as a government entity should be blunted.*²

The continuing evolution of the market since 2006 has heightened the need for the Commission to ensure this balance. While the volume of letters has continued to fall, e-commerce has expanded the demand for package services. The center of gravity of USPS is inexorably shifting from letters to packages and accordingly from market dominant products to competitive products. At the same time, express companies are being pressed by their customers to develop more economical distribution services suited to the needs of e-commerce. E-commerce is sharpening the competition between USPS and private carriers while at the same time encouraging cooperation whenever feasible. In this environment, development of an efficient national e-commerce sector depends increasingly on the success of the Commission in ensuring that prices for USPS's package services correctly reflect costs, so that the "playing field" for e-commerce distribution services remains as a level as possible.

The time has come to reinforce, indeed to rethink, the Commission's role in protecting fair competition in package distribution services. In the instant proceedings, the Commission has allowed commenters only 14 days for preparation of comments on the lawfulness of the proposed prices. Such a time frame precludes considered analysis. More fundamentally, the Commission has withheld from public scrutiny the cost and revenue data needed to make a reasoned evaluation. In short, while giving an appearance of openness, the Commission's procedures for reviewing price decreases for competitive products effectively shut the door to meaningful comment by affected parties.

² Senate Comm. Rept. 108-318 (Aug. 25, 2004), at 27-28 (emphasis added).

Nonetheless, one can draw certain conclusions from the dramatic price decreases in certain critical weight categories. While the USPS proposal notes that overall price decreases are 2.3%, a pound-by-pound breakdown shows that commercial mailers of e-commerce packages (especially large mailers) are getting dramatic price decreases that would be unheard of in the private sector. (See charts attached as Exhibit 1.) One-time price cuts of as much as 55% raise serious questions that the mailers in the mid-weight categories are getting subsidized by someone – what FedEx cannot tell the Commission for sure is, by whom. Largely left behind in this price-cutting frenzy is the ordinary retail customer who brings his package to the local counter (the only plausible beneficiary, if there is any, of a “universal service obligation” in regard to competitive package services). This is a commercially-driven pricing change.

Yet a continuing legal tilt in the playing field for e-commerce distribution services is apparent from a consideration of the wider regulatory framework, whose fairness and transparency also falls largely within the oversight responsibility of the Commission.

1. Packages delivered by USPS benefit from an exclusive right of access to mailboxes and clusterboxes, a postal operator privilege that does not exist anywhere else in the world.

This statutory privilege is reinforced by excessive and apparently *ultra vires* provisions in the Domestic Mail Manual.³ A move by USPS to enlarge the boxes (which are mandatory for anyone that wants to receive mail) to better accommodate packages –and to market such boxes as a “security upgrade” – highlights the disadvantage imposed upon

³ See Postal Regulatory Commission, *Study on Universal Postal Service and the Postal Monopoly* (2008), Appendix B, James I. Campbell Jr., “Postal Monopoly Laws: History and Development of the Monopoly on the Carriage of Mail and the Monopoly on Access to Mailboxes” (2008), at 242-48.

private companies by the mailbox monopoly. Couple this with our inability⁴ to deliver shipments marked for P.O. boxes, and it is clear that the tight statutory grip that USPS exerts over the letter mail market is substantially applicable to e-commerce parcels as well, with the burden of providing for the final collection borne by the addressee, not the delivery company (that is, USPS), as is the case for deliveries by private carriers.

2. The costs of package delivery are borne, in part, by economies of scope sustained by postal monopoly regulations which are wholly *ultra vires* after the reforms of the PAEA.⁵ While other nations are getting rid of their monopolies,⁶ our supposedly free-market economy continues to tolerate this legal anachronism even though, with the volume of letter mail declining, the economic benefits of that monopoly are increasingly passed on to the parcels market, where USPS is not supposed to have a statutory advantage.
3. Cost attribution that allocate shared assets and improvements to institutional costs, when such assets are clearly intended to benefit the growing parcels market, should be reevaluated. The Postmaster General has made it clear that, going forward, major investments will be aimed at improving the ability of the Postal Service to compete in the parcels markets. A bottom-up pricing review, such as that urged by a report to the Office of Inspector General, could “assign and allocate all or most costs, while recognizing that different allocation assumptions are used for different purposes.”⁷ It would enable “one

⁴ USPS, *Domestic Mail Manual* (May 5, 2014) § 4.3.2 (“Only mail and official USPS notices may be placed into a PO box”).

⁵ See generally FedEx, “Federal Express Corporation Comment on the Scope of the Postal Monopoly,” Postal Regulatory Commission Docket MC2013-57 (round trip mailer).

⁶ The postal monopoly has been repealed almost all industrialized countries including the 28 member states of the European Union and New Zealand. Norway will soon follow suit.

⁷ <http://www.uspsoidg.gov/sites/default/files/document-library-files/2014/rarc-wp-14-005.pdf>

system of truth' for systematically identifying and allocating costs to activities, products, and customers.”

4. Most importantly, the Commission's rules on allocating an “appropriate share” of institutional costs have failed to keep pace with the rising share of revenues contributed by competitive products.⁸ The volume of parcels has increased on an absolute basis, plus, with the Commission's approval, USPS has shifted many of the market-dominant products to the competitive products side of regulation. Yet still the 5.5% share of institutional costs borne by competitive products has not been altered since 2007. We would ask that the Commission consider an interim review of this fixed share, preferably with an automatic adjustment procedure.

These separate but related regulatory threats need to be drawn together in a more coherent approach that ensures the fairness and lawfulness of the competitive package delivery services of USPS. The Commission has the right and responsibility to “blunt the advantages the Postal Service has as a government entity.”⁹

Finally, a new approach must include a new level of transparency for USPS's competitive product accounts that “balance[s] the nature and extent of the likely commercial injury to USPS against the public interest in maintaining the financial transparency of a government

⁸ See 39 U.S.C. § 3633. See generally United Parcel Service, “Initial Comments Of United Parcel Service On Notice Of Proposed Rulemaking To Evaluate The Institutional Cost Contribution Requirement For Competitive Products (April 9, 2012),” Postal Regulatory Commission Docket No. RM2012-3 (institutional cost contribution), at 5-6 (“The competitive product category's share of the Postal Service's revenue is growing at a substantial rate, from 11.2% of the Postal Service's revenue in FY2008 to 13.7% in FY2011, to more than 17% for FY2012 (projected), and its share of total attributable costs has grown to over 16%, while its appropriate share allocation of institutional cost remains static at 5.5%”). In FY 2013, competitive products accounted for 21 percent of total revenues for mail and services. See Postal Regulatory Commission, *Financial Analysis 2013*, at 43-44 (2014).

⁹ See 39 U.S.C. §§ 401(2), 404a, 601(c), 3662 (a).

establishment competing in commercial markets.”¹⁰ In implementing this standard, USPS’s speculative claims about the potential for commercial injury must not be accepted uncritically but considered carefully in light of the effects on other commercial enterprises.¹¹

Respectfully submitted,

/s/ Nancy S. Sparks
Nancy S. Sparks
Managing Director, Regulatory Affairs
Federal Express Corporation

July 17, 2014

¹⁰ 39 U.S.C. § 504(g).

¹¹ USPS, “Application of the United States Postal Service for Non-Public Treatment of Materials,” at 2-3.

Exhibit 1

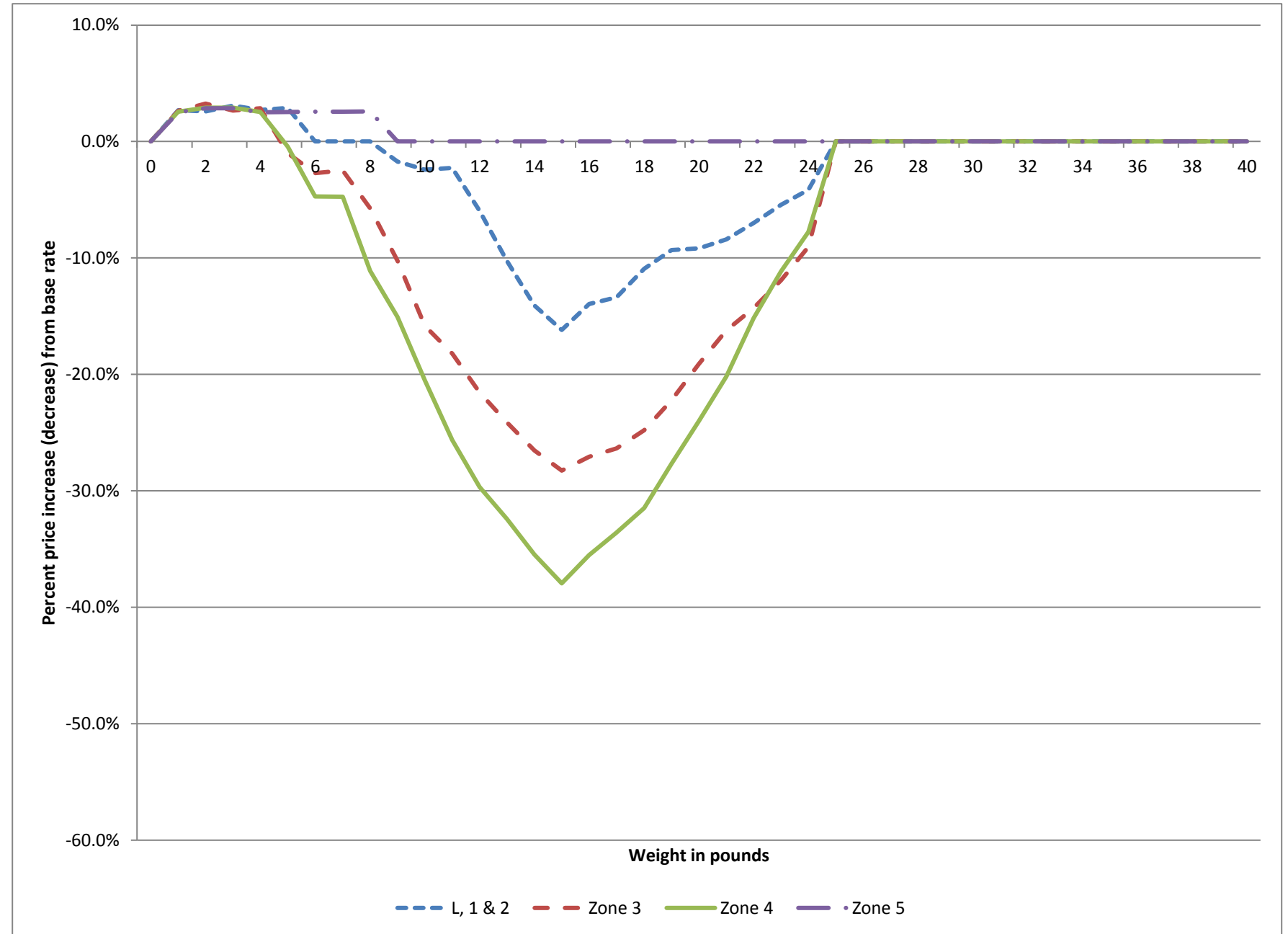
Analysis of proposed USPS Priority Mail Price Changes for Retail, Commercial Base and

Commercial Plus

(comparison to January 2014 prices)

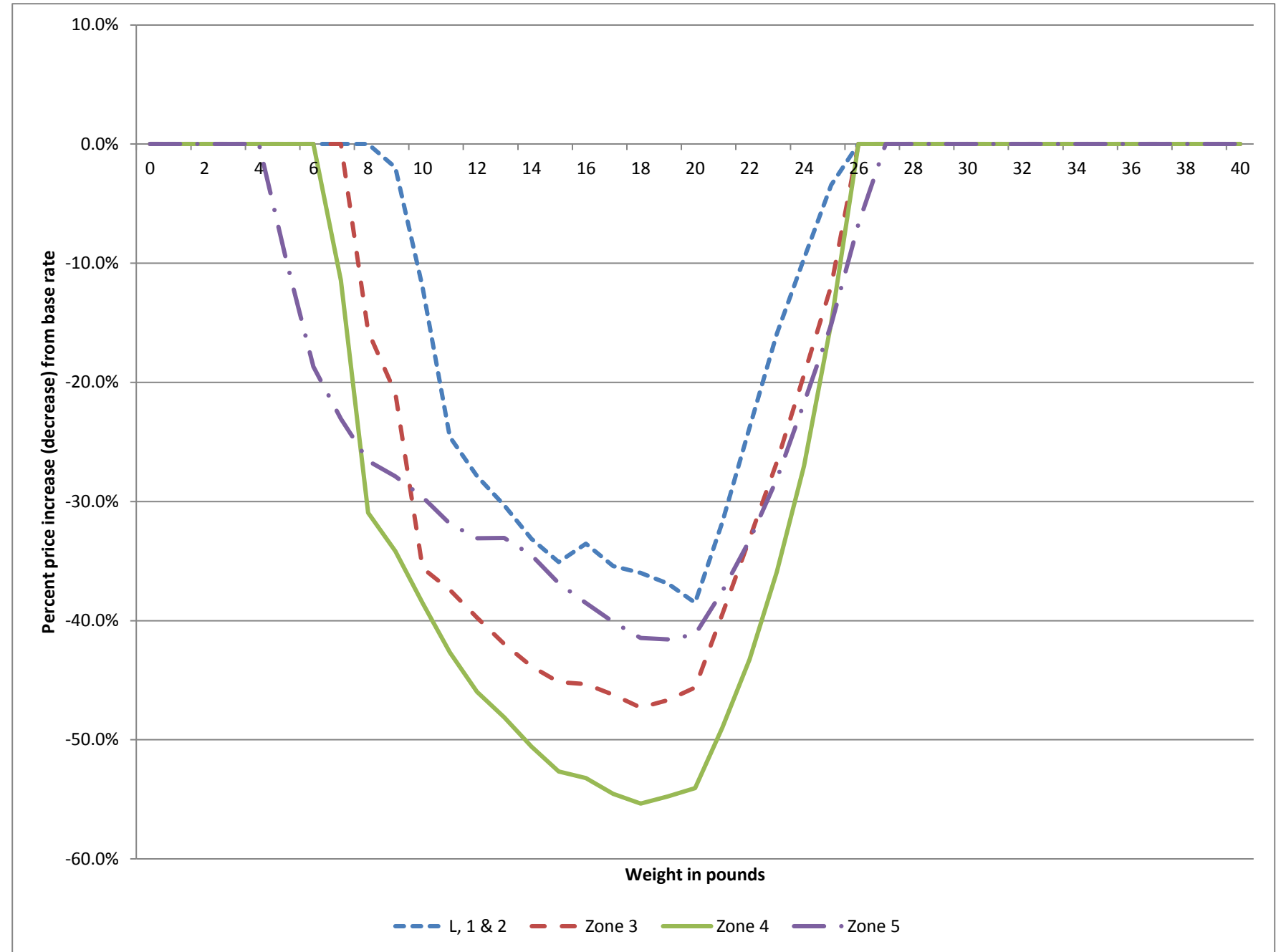
Summary of Percent Price Increases (Decreases) - Retail

Lbs	L, 1 & 2	Zone 3	Zone 4	Zone 5
0	0.0%	0.0%	0.0%	0.0%
1	2.7%	2.6%	2.6%	2.5%
2	2.6%	3.3%	2.9%	2.9%
3	3.1%	2.7%	2.9%	2.9%
4	2.7%	2.9%	2.5%	2.5%
5	2.9%	-1.0%	-0.4%	2.5%
6	0.0%	-2.7%	-4.7%	2.6%
7	0.0%	-2.5%	-4.7%	2.6%
8	0.0%	-5.7%	-11.1%	2.6%
9	-1.7%	-10.2%	-15.1%	0.0%
10	-2.4%	-15.8%	-20.5%	0.0%
11	-2.3%	-18.2%	-25.6%	0.0%
12	-6.0%	-21.6%	-29.7%	0.0%
13	-10.3%	-24.1%	-32.4%	0.0%
14	-14.1%	-26.5%	-35.5%	0.0%
15	-16.2%	-28.3%	-37.9%	0.0%
16	-14.0%	-27.1%	-35.5%	0.0%
17	-13.4%	-26.4%	-33.6%	0.0%
18	-10.9%	-24.8%	-31.5%	0.0%
19	-9.3%	-22.2%	-27.7%	0.0%
20	-9.2%	-19.1%	-24.0%	0.0%
21	-8.4%	-16.2%	-20.2%	0.0%
22	-7.0%	-14.3%	-15.2%	0.0%
23	-5.4%	-11.9%	-11.1%	0.0%
24	-4.1%	-9.0%	-7.8%	0.0%
25	0.0%	0.0%	0.0%	0.0%
26	0.0%	0.0%	0.0%	0.0%
27	0.0%	0.0%	0.0%	0.0%
28	0.0%	0.0%	0.0%	0.0%
29	0.0%	0.0%	0.0%	0.0%
30	0.0%	0.0%	0.0%	0.0%
31	0.0%	0.0%	0.0%	0.0%
32	0.0%	0.0%	0.0%	0.0%
33	0.0%	0.0%	0.0%	0.0%
34	0.0%	0.0%	0.0%	0.0%
35	0.0%	0.0%	0.0%	0.0%
36	0.0%	0.0%	0.0%	0.0%
37	0.0%	0.0%	0.0%	0.0%
38	0.0%	0.0%	0.0%	0.0%
39	0.0%	0.0%	0.0%	0.0%
40	0.0%	0.0%	0.0%	0.0%



Summary of Percent Price Increases (Decreases) - Commercial Base

Lbs	L, 1 & 2	Zone 3	Zone 4	Zone 5
0	0.0%	0.0%	0.0%	0.0%
1	0.0%	0.0%	0.0%	0.0%
2	0.0%	0.0%	0.0%	0.0%
3	0.0%	0.0%	0.0%	0.0%
4	0.0%	0.0%	0.0%	0.0%
5	0.0%	0.0%	0.0%	-9.7%
6	0.0%	0.0%	0.0%	-18.7%
7	0.0%	0.0%	-11.4%	-23.0%
8	0.0%	-15.7%	-31.0%	-26.6%
9	-2.0%	-20.9%	-34.2%	-27.9%
10	-12.0%	-35.6%	-38.5%	-29.6%
11	-24.6%	-37.4%	-42.7%	-31.9%
12	-27.9%	-39.7%	-46.0%	-33.1%
13	-30.3%	-42.0%	-48.1%	-33.1%
14	-33.1%	-43.8%	-50.6%	-34.5%
15	-35.1%	-45.2%	-52.7%	-36.9%
16	-33.5%	-45.3%	-53.2%	-38.5%
17	-35.4%	-46.2%	-54.5%	-40.1%
18	-36.0%	-47.3%	-55.4%	-41.5%
19	-36.9%	-46.7%	-54.8%	-41.6%
20	-38.5%	-45.6%	-54.0%	-41.2%
21	-31.7%	-39.5%	-49.0%	-37.5%
22	-23.8%	-33.1%	-43.3%	-33.3%
23	-15.9%	-26.7%	-35.9%	-28.1%
24	-9.6%	-19.4%	-27.0%	-21.7%
25	-3.4%	-11.9%	-15.0%	-15.1%
26	0.0%	0.0%	0.0%	-6.7%
27	0.0%	0.0%	0.0%	0.0%
28	0.0%	0.0%	0.0%	0.0%
29	0.0%	0.0%	0.0%	0.0%
30	0.0%	0.0%	0.0%	0.0%
31	0.0%	0.0%	0.0%	0.0%
32	0.0%	0.0%	0.0%	0.0%
33	0.0%	0.0%	0.0%	0.0%
34	0.0%	0.0%	0.0%	0.0%
35	0.0%	0.0%	0.0%	0.0%
36	0.0%	0.0%	0.0%	0.0%
37	0.0%	0.0%	0.0%	0.0%
38	0.0%	0.0%	0.0%	0.0%
39	0.0%	0.0%	0.0%	0.0%
40	0.0%	0.0%	0.0%	0.0%



Summary of Percent Price Increases (Decreases) - Commercial Plus

Lbs	L, 1 & 2	Zone 3	Zone 4	Zone 5
0	0.0%	0.0%	0.0%	0.0%
1	0.0%	0.0%	0.0%	0.0%
2	0.0%	0.0%	0.0%	0.0%
3	0.0%	-8.9%	-14.7%	0.0%
4	-8.5%	-19.7%	-26.3%	-12.1%
5	-17.3%	-22.9%	-18.8%	-20.6%
6	-21.7%	-24.5%	-19.1%	-27.6%
7	-24.5%	-25.8%	-31.2%	-32.0%
8	-26.6%	-40.9%	-44.9%	-34.6%
9	-31.7%	-45.3%	-47.6%	-35.9%
10	-39.8%	-46.0%	-49.5%	-36.3%
11	-42.0%	-45.1%	-51.9%	-36.0%
12	-33.2%	-46.2%	-54.0%	-36.1%
13	-33.4%	-46.2%	-54.7%	-36.2%
14	-34.5%	-47.1%	-56.3%	-36.5%
15	-36.4%	-47.7%	-57.8%	-37.1%
16	-25.3%	-38.8%	-50.8%	-33.8%
17	-26.8%	-38.9%	-50.2%	-33.6%
18	-27.6%	-40.0%	-50.2%	-33.7%
19	-29.1%	-39.3%	-49.3%	-33.4%
20	-29.5%	-38.3%	-48.6%	-33.0%
21	-30.3%	-37.6%	-47.9%	-28.8%
22	-26.6%	-34.1%	-43.8%	-24.6%
23	-23.6%	-33.1%	-43.6%	-23.1%
24	-23.8%	-32.4%	-43.5%	-18.5%
25	-23.6%	-31.7%	-43.9%	-16.8%
26	-23.4%	-27.6%	-41.2%	-12.8%
27	-23.7%	-26.9%	-41.5%	-10.7%
28	-24.7%	-26.0%	-41.2%	-9.7%
29	-25.3%	-25.5%	-41.2%	-8.6%
30	-25.8%	-24.7%	-41.0%	-6.7%
31	-22.9%	-20.5%	-38.4%	-5.8%
32	-24.6%	-20.7%	-35.4%	-4.3%
33	-25.2%	-21.0%	-35.2%	-2.9%
34	-26.7%	-21.3%	-35.5%	0.0%
35	-27.3%	-21.5%	-32.4%	0.0%
36	-21.1%	-7.9%	-26.4%	0.0%
37	-11.4%	-4.1%	-23.2%	0.0%
38	-11.3%	-4.9%	-16.7%	0.0%
39	-11.2%	-5.0%	-9.9%	0.0%
40	0.0%	-1.0%	-9.2%	0.0%

