

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

Before Commissioners:

Michael Kubayanda, Chairman;
Mark Acton, Vice Chairman;
Ann C. Fisher;
Ashley E. Poling; and
Robert G. Taub

Competitive Product Prices
Priority Mail Express International,
Priority Mail International &
First-Class Package International Service Contracts
Priority Mail Express International,
Priority Mail International &
First-Class Package International Service Contract 14

Docket No. MC2023-113

Competitive Product Prices
Priority Mail Express International,
Priority Mail International &
First-Class Package International Service Contract 14
(MC2023-113)
Negotiated Service Agreements

Docket No. CP2023-116

ORDER ADDING PRIORITY MAIL EXPRESS INTERNATIONAL, PRIORITY MAIL
INTERNATIONAL & FIRST-CLASS PACKAGE INTERNATIONAL SERVICE
CONTRACT 14 TO THE COMPETITIVE PRODUCT LIST

(Issued March 17, 2023)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Priority Mail Express International, Priority Mail International & First-Class Package International Service

Contract 14 to the Competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

II. BACKGROUND

On February 22, 2023, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. §§ 3040.130-.135, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 is a Competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of the Governors’ Decision authorizing the product, a contract related to the proposed new product, requested changes to the Competitive product list, a statement supporting the Request, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Governors’ Decision and the contract, customer-identifying information, and related financial information remain under seal. *Id.* Attachment F.

The Postal Service will notify the mailer of the effective date of the Agreement after the Commission completes its review. Request, Attachment B at 3. If the effective date of the Agreement occurs before March 31, 2023, the Agreement will expire March 31, 2024. If the effective date of the Agreement occurs after March 31, 2023, and is the first of the month, the Agreement will expire 1 year after the effective date; otherwise, the Agreement will expire on the last day of the month 1 year after the effective date. *Id.*

¹ USPS Request to Add Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 to Competitive Product List and Notice of Filing Materials Under Seal, February 22, 2023 (Request).

On February 23, 2023, the Commission issued a notice establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.²

On March 3, 2023, Chairman's Information Request No. 1 was issued.³ CHIR No. 1 asked the Postal Service questions concerning the volume and revenue projections for this contract and the methodology used to calculate unit costs. The Postal Service filed its response on March 9, 2023.⁴

III. COMMENTS

The Public Representative filed comments on March 2, 2023.⁵ No other interested person filed comments. The Public Representative concludes that the contract meets the requirements to be classified as a new Competitive product, and that the contract should generate sufficient revenues to cover its costs. PR Comments at 2-3. She characterizes as reasonable the Postal Service's assertions regarding the classification of the contract as a Competitive product. *Id.* at 3. She also notes that the Commission will have an opportunity to annually review the financial results of the contract for compliance with 39 U.S.C. § 3633(a). *Id.*

² Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, February 23, 2023.

³ Chairman's Information Request No. 1 and Notice of Filing Under Seal, March 3, 2023 (CHIR No. 1).

⁴ Response of the United States Postal Service to Chairman's Information Request No. 1, March 9, 2023 (Response to CHIR No. 1).

⁵ Public Representative Comments on Postal Service Request to Add Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 to Competitive Product List, March 2, 2023 (PR Comments).

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the contract, the supporting data filed under seal, the Response to CHIR No. 1, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 to either the Market Dominant or Competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3040.134. Before adding a product to the Competitive product list, the Commission must determine that the Postal Service does not exercise sufficient market power that it can effectively set the price of the product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. See 39 U.S.C. § 3642(b)(1). In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3040.132(f), (g), and (h).

The Postal Service asserts that it provides postal services of the kind provided under the contract in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3-4.

The Commission finds that the Postal Service does not exercise sufficient market power that it can effectively set the price of the proposed product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of

losing a significant level of business to other firms offering similar products. The availability of other private sector providers supports this conclusion. The contract partner and the Public Representative support the addition of the Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 product to the Competitive product list. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements, the comments filed, and the Postal Service's supporting justification, the Commission finds that Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 is appropriately classified as competitive and is added to the Competitive product list.

Cost considerations. Because the Commission finds Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 is a Competitive product, the Postal Service must also show that the contract covers its attributable costs, does not cause Market Dominant products to subsidize Competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3035.105 and 3035.107. As long as the revenue generated by the contract exceeds its attributable costs, the contract is unlikely to reduce the contribution of Competitive products as a whole or to adversely affect the ability of Competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if the contract covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

In Order No. 6384, the Commission approved the Postal Service's proposal to collapse zoned prices based on origin ZIP Code for Priority Mail International (PMI) destined to Canada into a single country group.⁶ The financial workpapers filed in support of the contract reflect that change by aggregating unit costs for the affected

⁶ Docket No. CP2023-42, Order Approving Price Adjustments for Competitive Products, December 22, 2022, at 4 (Order No. 6384).

zones. The Commission acknowledges that volume projections for other countries without zones prices are typically provided on a country basis, and therefore that disaggregated volume projections by origin zone would not typically be available when projecting cost coverage during pre-implementation review. Accordingly, the Commission accepts the aggregated unit costs at this stage as based on the best available information.⁷

Based on a review of the record, the Commission finds that the rates during the term of the contract should cover the contract's attributable costs. 39 U.S.C. § 3633(a)(2). Thus, the Commission finds that the contract should not result in Competitive products as a whole being subsidized by Market Dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, the Commission finds the contract is unlikely to prevent Competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See 39 C.F.R. § 3035.107(c). Accordingly, a preliminary review of the contract indicates it is consistent with section 3633(a).

The Commission will review the contract's cost coverage and the contribution of Competitive products as a whole to the Postal Service's institutional costs in the Commission's *Annual Compliance Determination* to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Other considerations. As discussed above, after issuance of a CHIR and review, the Commission has accepted the Postal Service's use of aggregated unit costs for PMI for purposes of pre-implementation review. To expedite the pre-implementation review process, the Commission strongly encourages the Postal Service to document and explain any changes to financial workpapers that are typically standardized within an NSA product grouping.

⁷ The Commission notes, however, that the same limitation does not necessarily apply when reporting on the financial performance of PMI and negotiated service agreements (NSA) offering PMI as those reports would be based on actual data which presumably would still be available in disaggregated form.

The Postal Service will notify the mailer of the effective date of the Agreement after the Commission completes its review. Request, Attachment B at 3. If the effective date of the Agreement occurs before March 31, 2023, the Agreement will expire March 31, 2024. If the effective date of the Agreement occurs after March 31, 2023, and is the first of the month, the Agreement will expire 1 year after the effective date; otherwise, the Agreement will expire on the last day of the month 1 year after the effective date.
Id.

The contract also contains a provision whereby the Postal Service can extend the contract for two 3-month periods provided the Commission is notified at least 7 days prior to the contract's expiration date. *Id.* at 3-4. The Commission finds the two potential 3-month extension periods are reasonable because the extension(s) should assist the Postal Service's contract negotiations by providing additional flexibility.

If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in these dockets.

In conclusion, the Commission approves Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 as a new product. Revisions to the Competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.

V. ORDERING PARAGRAPHS

It is ordered:

1. Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14 (MC2023-113 and CP2023-116) is added to the Competitive product list as a new product under Negotiated Service Agreements, International. Revisions to the Competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.

2. The Postal Service shall promptly file notice of the instant contract's termination with the Commission in these dockets if the instant contract terminates prior to the scheduled expiration date.
3. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Erica A. Barker
Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix B to 39 C.F.R. part 3040, subpart A—Competitive Product List. These changes reflect the Commission’s order in Docket Nos. MC2023-113 and CP2023-116. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Appendix B to Subpart A of Part 3040—Competitive Product List

Negotiated Service Agreements*

Outbound International*

Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Outbound International*

Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14

2500 Negotiated Service Agreements

2510 Outbound International

2510.15 Priority Mail Express International, Priority Mail International & First-Class Package International Service Contracts

- Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 14

Baseline Reference

Docket Nos. MC2023-113 and CP2023-116

PRC Order No. 6457, March 17, 2023

Included Agreements

CP2023-116, expires TBD
