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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Price Adjustment) **Docket No. R2008-1**

SUPPLEMENTAL COMMENTS OF AMERICAN BUSINESS MEDIA

(March 3, 2008)

Pursuant to Order No. 59, issued in this docket on February 14, 2008, American Business Media, which is a signatory to the joint comments submitted today by the Alliance of Nonprofit Mailers, *et al.,* hereby submits these Supplemental Comments limited to an issue not addressed in those joint comments: Val Pak's likely repetition here of the of the ill-considered suggestion made in Docket ACR2007 that, if the Commission finds that the price cap "trumps" the cost-coverage factor found at 39 U.S.C. § 3622(c)(2), the Commission should nevertheless ensure that Periodicals rate increases are targeted on those Periodicals that may not cover "their" attributable costs in order to elicit "supply side effects sufficient to eliminate the shortfall between revenue and costs." Val Pak reply comments at 13.[1] Val Pak was more candid, and more specific in its initial comments, contending there (at 50-51) that the Postal Service should be required to "focus the entirety of its [cap-limited] rate increases" on "low volume, high cost magazines that are circulated nationally."

[1] References to "comments" or "reply comments," unless the context requires otherwise, are to comments and reply comments filed in Docket ACR2007

Although American Business Media predicts that Val Pak will again raise this suggestion, the conviction with which it will do so is uncertain. Perhaps having realized the error of its ways, or at least the folly of its proposal, between the filing of its initial and reply comments in Docket ACR2007, Val Pak's reply comments include a new disclaimer to its conclusion (at 13) that the Commission "will need to insure that rate increases for Periodicals are targeted" in order to close the alleged cost and revenue gap. At page 11, footnote 9, Val Pak states that "[p]resentation of this alternative should not be read as support for it. . . ," a comment that would bring smiles to the faces of political operatives. There should be no doubt that American Business Media's opposition to Val Pak's proposal is unequivocal.

Whether Val Pak's expected alternate proposal is supported or merely tossed out for consideration, the result sought would be unwise, ineffective and unlawful as well as outrageous.

Val Pak's alternative proposal assumes that focusing the rate increase essentially on the same publications that bore the brunt of the last increase will improve the revenue/cost relationship. Val Pak posited three scenarios that, it claims, would produce this result: (1) payment of the large rate increase, (2) a change in mailing practices to reduce postal costs, and (3) the failure of publications that cannot bear the increase.

Although Val Pak repackaged its proposal somewhat from its initial to its reply comments in Docket ACR2007, it remained essentially the same. And American Business Media's responsive position (submitted, as suggested above, because we expect Val Pak to repeat its proposal in a proceeding which no reply comments have been authorized) remains essentially the same.

Even Val Pak would have to agree that, if the Postal Service were to comply with Val Pak's suggestion, and if those upon whom the totality of the cap-limited increase is imposed respond by paying the increased rates, costs and revenues for the class will be precisely the same as those produced by the equitable increase proposed in this docket by the Postal Service, although the revenues would come from somewhat different sources. Any gap will remain, because revenues will increase by the same amount, and costs will be unaffected.

Thus, only two of the three alternate scenarios presented by Val Pak actually could, in theory, close the alleged cost/revenue gap. In one such hypothetical scenario, at least some of those faced with a second punishing rate increase in one year change their mailing practices <u>to a greater extent than they would have in any event</u>, and such new mailing practices produce cost savings to the Postal Service greater than rate savings to the mailer. In the other, and in Val Pak's words (reply comments at 12), publications are "forced to go out of business altogether."

There is no evidence that the incremental cost reductions in the first of these scenarios will in fact transpire, and there is substantial evidence in the record of Docket No. R2006-1 that the very mailers that Val Pak seeks to punish already have more than sufficient incentive to seek such services as co-mailing but are not likely to find sufficient co-mailing capacity to satisfy an increased demand beyond that now pent up, at least over the next several years.[2] Thus, while American Business Media expects that there

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[2] See American Business Media's Initial and Reply Briefs in Docket No. R2006-1.

will be an increase in so-called "efficient" mailing practices irrespective of future rate design (that will reduce the historic cost/revenue gap), based upon past rate increases and a slow but steady increase in capacity, limitations on the supply end will prevent still greater demand from being satisfied.[3]

Accordingly, it is reasonable to conclude that Val Pak's third scenario, if any, is the most likely to produce the result sought, since the Val Pak proposal would indeed cause a good many adversely affected publications to cease publication in the face of yet another double-digit postal rate increase. Val Pak welcomes this result (reply comments at 12-13). American Business Media does not, nor should the Commission. As we stated in Docket ACR2007, what Val Pak finds so desirable is analogous to amputating an infected limb rather than administering antibiotics. We doubt that Congress sought to accomplish this result when it passed the PAEA.

To summarize, Val Pak and American Business Media agree that there are three theoretical reactions by Periodicals that under Val Pak's alternative proposal would bear the entire capped increase, all of which are likely to occur in some unknown ratio: (1) they could pay the new rates (despite the burden), (2) they could change their mailing practices or (3) they could throw in the towel. In the first of these, the principle Val Pak espouses would not be advanced, because the same revenues would be obtained (albeit from a different set of mailers), and costs would be unaffected. In the second, it is possible in theory that the revenue/cost gap would be diminished, although there is

[3] Val Pak's suggestion (reply comments at 13) that a weekly publication might simply reduce its frequency to every other week shows a total lack of understanding of the publishing business. Weekly business-to-business publications that sought to reduce their frequency from 52 times per year to 26 times per year would soon find that their frequency was zero times per year.

good reason to believe that the impact would be *de minimis*. And in the third, the gap might be narrowed, but the Periodicals class and the American people would be irreparably injured.

If Val Pak repeats in this docket the suggestion made in docket ACR2007 that, if the price cap is to be honored, a highly discriminatory rate increase must be ordered, American Business Media submits that the proposal should be rejected, for the reasons stated above.

Respectfully submitted,

/s/ David R. Straus
David R. Straus
Attorney for American Business Media

Law Offices of:

Thompson Coburn LLP
1909 K Street, NW
Suite 600
Washington, DC 20006-1167
(202) 585-6900
dstraus@thompsoncoburn.com

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