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Before Commissioners:

Dan G. Blair, Chairman;
Mark Acton, Vice Chairman;
Ruth Y. Goldway;
and Tony Hammond

Report on Universal Postal
Service and the Postal Monopoly

Docket No. PI2008-3

**TESTIMONY OF MERLE BARANCZYK
ON BEHALF
OF THE NATIONAL NEWSPAPER ASSOCIATION
(May 22, 2008)**

Mr. Chairman and Commissioners, I appreciate the opportunity to appear before this body as it begins the task of advising Congress on the Universal Service Obligation and the postal monopoly. When the requirement to examine this foundation of the Postal Service was inserted into the legislation several years ago, few of us could have envisioned the climate today. While the assignment to the Commission, and concordantly, to the Postal Service itself, to look ahead to universal service in coming years may have seemed more of an academic, or even political, exercise when the law was formed, today the threat of a \$4 per gallon gasoline price at the pump, the economic slowdown and the runaway growth of the Internet in publishing have changed our picture quite a bit. So it now seems prescient that the bill drafters asked you to begin this examination.

Background

I am Merle Baranczyk, president of the Arkansas Valley Publishing Company and publisher of the Mountain Mail in Salida, CO, a five-day daily

newspaper, and of several weekly newspapers in the surrounding area. I am Region 10 director of the National Newspaper Association and a member of its postal committee. I appear here today on behalf of NNA. A copy of my biography and a list of my publications with information about their distribution strategies is attached.

The National Newspaper Association (NNA) is a 2,700 member trade organization. NNA has represented owners, publishers, and editors of America's community newspapers, since 1885. Fair postal rates and reliable delivery have been part of the industry's concerns since the earliest days of American publishing, and were part of NNA's mandate at its founding. NNA frequently appeared before this body's predecessor, the Postal Rate Commission and was an active participant in shaping the Postal Accountability and Enhancement Act (PAEA). NNA principally represents within-county periodicals mailers, but also has appeared on behalf of outside-county periodicals mailers and Enhanced Carrier Route mailers. All three subclasses are important to community newspapers.

National Newspaper Association will submit detailed comments in response to the Chairman's Order in this docket next month. My purpose in appearing here today is to gaze with you into the crystal ball of community newspapering and try to give you my best predictions on our industry's needs. I appear not as a postal expert, by any means, although I have served on NNA's postal committee for 10 years. Nor am I the ultimate authority on everything about newspapering. But I have been in this industry for nearly 40 years, and I operate newspapers that are much like their peers. They serve a smaller, less urban areas than many of you live in today, and they are the key communications media in our mountain towns. I do have strong views about the importance of the Postal Service and its historic partnership with community newspapers.

I will address two key points here today.

1. Service that is neither affordable nor reliable is no service at all; therefore the concept of “universal service” must assume that USPS can achieve both affordability and reliability.

2. The mailbox may be truly the Postal Service’s only monopoly, in this age where electronic transmission is fulsome and robust, but it cannot be guarded at the expense of depriving any community of the opportunity for service. Some licensing of service providers to rural and hard-to-serve areas may well be required in the future.

Discussion

- I. **Service that is neither affordable nor reliable is no service at all; therefore the concept of “universal service” must assume that USPS can achieve both affordability and reliability.**

As the Commission has noted, the first assignment in this exercise seems to be in establishing a definition of “universal service.”

The existence of 6 day delivery seems to be the most common reference point in discussions of universal service. Sometimes, I understand, the presence of a flat first-class stamp rate is factored into the concept.

But I think both of those principles are secondary to the main question. To a community newspaper publisher, to me, universal service means that when I mail something—whether my newspaper or a letter—it will be reliably delivered to the intended recipient within a reasonable time, and at a reasonable price. If that is not what universal service means at its base, it is hard to see how any of the subsidiary questions are relevant. Why would I care about 6- day service if the

contents of the delivery are late or meaningless? And flat rate postage is of no use if it is not affordable or does not suffice to get the material to its destination on time.

The need for “universal service” as I define it, is probably more deeply buried in the newspaper business than in any other industry in America. The establishment of second-class mail privileges at the founding of the first postal administrations ensured the delivery of newspapers, and later, magazines. The creation of free delivery of within county newspapers in the middle of the 19th century gave a jumpstart to the building of most of America’s frontier communities. It was the Homesteading Act of 1862 that really capitalized on the values that Congress intended when it set out to promote newspapers across the land—because in order to acquire title to property, the settlers had to prove through five consecutive newspaper ads that they had lived up to their residency and tilling requirements.¹ But without reliable delivery, the purposes of the Act could not have been fulfilled and the thousands of community newspapers in America today probably wouldn’t be here. The post office of its day understood this mission, and thus many of NNA’s member newspapers are more than 100 years old. My own daily paper, the Mountain Mail, is 128 years old.

My purpose here today is not to review the history of periodicals mail, except as a reminder of its key role in the Postal Service’s past. NNA will provide a fuller background on this subject in its June testimony. Rather, I want to use this opportunity to explain the mystification that many of my publishing colleagues have expressed with recent postal policies, given our historic reliance upon the Postal Service. I think the trend we have seen in recent years is inconsistent with the concept of universal service and I fear an acceleration of it will lead to an end of that reliance.

¹ From Quill to Computer, the Story of America’s Community Newspapers, Robert Karolevitz, National Newspaper Foundationj, 1985, at 58.

Please understand that I appear here as a publisher outside the Northeast-Middle Atlantic corridor. From my visits to Washington, I can understand how our brand of publishing seems obscure to many whose lives have been spent in and around major cities. In a city or a large suburb, newspapers aren't often delivered in the mail, or if they are, they are not periodicals. City newspapers are either home-delivered, or they are free newspapers that are designed as saturation products and they travel via the old third-class mail system.

But to much of America, the main city in the area is one of 20,000-30,000 people, and the local newspaper and the merchants of the area form a commercial zone that reaches even smaller towns. We wonder sometimes whether folks in Washington, D.C., can truly appreciate that, to us, a small town is that burg of 1,000 or 2,000 people who are tied together by a local church, a farming community or a school. We in the "big cities" of rural America need to reach out to a wide swath of people who are in the truly small towns that struggle for survival. For example, my home community, Salida, is a thriving community. We serve a market area that includes Buena Vista, and the other towns listed in my biography.

To the owners of the rural and ex-urban newspapers that have always been part of the mailstream, a postal policy that seems designed to push us out of the mails is incomprehensible. As we travel to national meetings, we hear that your Commission has had testimony from people that newspapers are all found on the Internet so postal rates are no longer important, or that our postal rates are simply too low when they are competitive with local labor costs, or that in an era of rising costs, carrying newspapers around the country at an affordable price simply can no longer be tolerated by the system.

We see a very different picture in Colorado. Our newspapers, to begin with, do actively publish on the web—but the *printed* product is still our *primary*

product. It is the one most of our readers want. The website has almost a different purpose—for quick reference, or for out of towners who are looking for resort houses to buy. Both readers and advertisers still want print. And our mail is the major account for our local post office. That is true for most of NNA's members. When we fan out across the country as part of the NNA Postal Committee to explain the latest hit we've taken in the latest postal policy, what we get in response from our fellows is a slow shaking of the head and a wondrous, "what can they be thinking?"

Every time the Postal Service introduces some new wrinkle that is designed to create "efficiencies," some of the mail in our industry disappears. Let me just lay out a few.

- Changes in mail sortation under Reclassification in 1996 and consolidation of mailing facilities in the 1990s began our serious regional market delivery problems, as some of our mail began traveling hundreds of miles to reach destinations 20 miles from us. (Fortunately, the Commission and the Postal Service have extended exceptional dispatch privileges for DDU entry, which have saved some of this mail but not all.)
- The establishment of "automation," which in its various generations has required us to print barcodes in order to earn discounts, but then to have a lot of our mail hopelessly delayed by manual sorting, even though the automation sorting equipment is supposed to be able to handle the mailpieces. And the machines that could sort newspapers were replaced by others that don't handle them as well, or so we are told.
- The 2007 surcharge on mail sacks, following the 2006 implementation of a 24-piece minimum sack rule, forced us to consolidate the mail that we had separated out for delivery in an attempt to cure the ills created by the first two elements.

- And then came the surprising charge on the flats tubs that we began using to make life easier for the Postal Service and hopefully enable processing plants to see and handle newspapers better. We were particularly stunned by that because the Commission did not recommend that charge, and yet USPS put it into place anyway.
- Then the multiplied price listings that came out of the Time, Inc., proposals in the 2007 rate case fairly well flattened a lot of us. They are obviously meant to discourage the sending of newspapers long distance—whether readers want them or not. Since the rate has skyrocketed and service is no better, the obvious conclusion is that this service, at least, isn't part of the universe.
- We are trying to play the role of good soldiers in this one by encouraging some of our longer distance readers to accept full facsimile copies of the paper through *.pdf* downloads from the Internet. But we do not want to lose circulation over this shift, since the full copy is being transmitted. Yet a fairly straightforward early-2007 proposal to USPS for us to be allowed to count these copies as paid circulation, as the Audit Bureau of Circulations allows newspapers and magazines to be counted—assuming we can prove their validity in an audit—is mired in some dark hole somewhere in the Postal Service that I don't quite understand.
- We occasionally find something we like in postal policy, as we did when Repositionable Notes were established. Some of our advertisers would like to use them. But the rate of 1.5 cents per piece is too high for us to meet the competition. We've said so, and the Postal Rate Commission urged USPS to take another look at it. We agreed a year ago to stand down in objecting to a renewal of the RPN rate, based upon a USPS promise that the rate would be re-examined. But it still has not happened.

In fact, NNA is now told that since changing the rate is so easy under PAEA, USPS somehow doesn't have time to keep its commitment to us. So postal revenues that USPS could have had are being missed, and we are missing the ad revenues because we are not using RPNs.

- Now we are looking at the dawning of the Flats Sequencing Systems. Most of our members are thus far outside the zones for FSS, thankfully. But as a Postal Committee member, I seem to be seeing ever larger lists of the ZIP codes that are being swept into these new FSS centers. I understand that just as USPS began to deploy the machines, it implemented new pricing philosophies to hike the rates of the very types of flats mail that will be sorted in the machines, and is now trying to recover from the attendant volume losses by reaching into ever wider circles around the machines. We are terrified of losing the ability to enter mail in our local post offices. Given our experiences with processing plant consolidations, where we've seen a world of trouble, we have to assume FSS will mean for most of us an end to our relationship with USPS for both periodicals and ECR mail. And our production deadlines for news and advertising, if pushed back to meet FSS requirements, causes later publication of news and loss of advertising. Or we will see intolerably late delivery for papers that have gotten overnight service for decades.

Several of these developments, of course, highlight the importance of a good service measurement system, and I understand the Postal Service and PRC are working on those now.

When I talk with fellow publishers, I hear a steady drumbeat of disillusionment. I hear publishers who believe Washington, DC, policymakers have drunk the Kool-Aid about newspapers—that they believe because the major metropolitan newspapers are struggling, all newspapers are becoming obsolete. If that is what they believe, it is understandable why they would choose to

change postal policies that eliminate newspapers. Why have a policy for something that doesn't exist? But in fact the Postal Service's own Revenue, Piece and Weight reports show in-county mail growing 9.8% in volume and 5.8% in weight for the first six months of USPS Fiscal Year 2008. Postage revenue is up 23.7%. While it is impossible to detect newspaper volumes in Outside County mail, I can tell you that if our in-county mail is going up, the outside county mail should be rising with it, at least for the areas within our coverage markets.

Most of our members have seen little erosion from the Internet. That may be because nearly a third of rural America does not yet have broadband—but if that is the case, I think our future is reasonably secure, because broadband is going to come slowly to rural areas. To the extent we are seeing circulation declines outside the county, a sizeable amount of it—though in fairness, not all—comes from poor postal delivery.

High gas prices are leading small daily and weekly newspapers away from contract motor route delivery to mail. Mandatory FSS could reverse that trend. And hiking sharply the present carrier-route rates outside FSS zones to help position FSS rates favorably will also dampen or stop in-county mail growth.

I also hear publishers who really, *truly*, do not want to set up home delivery for their newspapers, because they have a full enough mission just running the publishing business. But they fear they may have to—and they wonder why the Postal Service doesn't realize that these home delivery systems aren't going to vacuum just periodicals, but a lot of local advertising mail—like TMC products—into their networks as well.

And I hear publishers who have the highest regard for their local postal employees—as you see through NNA's annual Benjamin Franklin Community Newspaper and Postal Partnership Award of Excellence—but they are seeing

experienced managers hitting the early retirement wall. USPS is often sending in rookies who do not understand periodicals mail very well.

Mr. Chairman, as I said, I am not a postal expert. What I know is about running of newspaper businesses. But from my vantage point, it seems to me as if the Postal Service is trying to solve its problems—legitimate and vexing problems—by tailoring itself to the largest mailers and hoping against hope that by following the advice of economists to go after the most lucrative business, the Service will survive.

If that is the Service's mission—making its products and services most affordable to the biggest businesses—who needs universal service? That universe is too small to justify the proud and trusted institution I grew up with in this business, and I would be sad to see that happen.

2. The mailbox may be truly the Postal Service's only monopoly, in this age where electronic transmission is fulsome and robust, but it cannot be guarded at the expense of depriving any community of the opportunity for service. Some licensing of service providers to rural and hard-to-serve areas may well be required in the future.

The following discussion is largely speculative today, but if current trends continue, it will become an active possibility. It is grounded in the history and concerns I cited above.

It is about access to the mailbox.

I know this report is supposed to be about the Postal Service's monopoly. But I wonder how much of a monopoly the Postal Service really has.

Certainly it has the only present mandate to reach every household 6 days a week with printed materials.

But in the world today, printed materials no longer own the field. People are shopping online more, for example. The Pew Center for the Internet and American Life reported that the percentage of Americans shopping online more than doubled—from 22 to 49%--between 2000 and 2007, for example. Price Waterhouse Coopers recently reported a 25% growth rate of Internet Advertising between 2006 and 2007, according to the Internet Advertising Bureau. Though these trends are not so heavily felt on the local level, they clearly are capturing our attention on the national and international levels.

This migration affects every mail class except packages. And, of course, we know USPS has no monopoly in the delivery of packages.

Where it does have a “monopoly” of sorts is in control of the mailbox. To an economist that probably isn’t a monopoly in itself so much as it is a barrier, but if people don’t want to use the mail or don’t want the mail that comes to them, the mailbox is a pretty useless commodity. So the restriction may not guarantee a mail monopoly.

The restrictions upon access to the mailbox, however, do inhibit growth of private delivery. Today, a newspaper publisher is permitted to nail a tube, hook, or rack of sorts to a mailbox post, though that option is costly and generally used only on the toughest rural routes. Or a publisher can slide a newspaper through a front door slot. But a publisher cannot gain access to a cluster box, nor easily enter an apartment complex or gated community. A publisher has no option but yard delivery for mailboxes attached to the front of the house.

The mailbox is desirable to advertisers and readers. All of us with home delivery services can recite a litany of woes with delivering our products—from

getting kids to “porch” the paper rather than tossing them into rosebushes, from theft of papers from yards, from the expense of investing in plastic bags and on and on. We would be much more effective in our work if we had a lovely receptacle like a mailbox to aim for.

There are multiple and solid national policies that restrict the mailbox to postal workers’ access. Security is one. Another is the simple inhibition it imposes upon competition.

But the day may come, and it may be closer than we think, when the Postal Service should examine a relaxation of its restrictive hold on the mailbox.

As trends continue—and I fear they will despite all good intentions—of increasing consolidation of processing facilities, rising fuel prices, shrinking of services, the Postal Service probably is going to retrench in more rural areas. Indeed, we are aware of communities today that do not receive the vaunted 6 day service. More small post offices will close. Delivery times will get longer in outer areas simply because transportation paths grow longer. The day may come when a town the size of Buena Vista cannot get 6-day service. Indeed, that day may even come for Salida.

If and when it does, smaller communities like mine must have the option of sending their own home grown carriers into Denver or Colorado Springs processing plants to pick up the mail and deliver it to the residents. Depriving small towns them of the service they would have if they were in major cities would be unfair and purposeless, if a local business or organization is willing and able to close the gap by helping with delivery. These local carriers must be licensed by USPS and permitted to carry all mail, including first-class mail, both to and from the local communities, and they must be paid the same way USPS is paid—by the mail class or product that they deliver.

The Postal Service today has contract carriers, as I recognize. But what we may need in the future could be a more franchise-oriented service, where the local mail organization is not only permitted but encouraged to develop the mail volume and to provide necessary services without encumbrance from postal rules.

The day has not yet come to lay out how such a franchise might look. But I would anticipate some newspaper publishers would be among those interested in developing it. Indeed, if FSS begins to gobble up our future, as it presently seems poised to do, there will be more delivery systems in place in the towns that occupy the outer ring of FSS. Congress will take an interest in allowing use of these systems if the Postal Service, guided by the Commission, does not affirmatively develop a way to use them.

Thus, I hope in its report the Commission's experts will look ahead to the concerns of rural America. Factor in fuel prices, labor costs, and the effects of unraveling of universal service if the Postal Service continues to prefer the high-density, nationally-focused mail that it has favored in recent years. The Commission should ask itself: if USPS decides to leave less populated areas with something less than "universal service" (in its meaning of good service at a reasonable price), what steps could be taken to allow those communities to help themselves? Should a revenue-sharing approach to carrying mail be available to them? Could the Postal Service become, to them, primarily a network while intra-city mail that otherwise got lost in the big cities is handled by local businesses?

I believe these are questions not for this year, but certainly for the decade. And I believe they are questions that the newspapers of America can help to answer.

I appreciate the opportunity to appear, and look forward to your questions.

Respectfully submitted,

Merle Baranczyk

On Behalf of the National Newspaper
Association