

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

Report on Universal Postal Service
And the Postal Monopoly

Docket No. PI2008-3

COMMENTS OF AMERICAN BUSINESS MEDIA
(June 30, 2008)

American Business Media hereby submits its comments in the above-captioned proceeding. These comments expand upon those submitted orally at the June 12, 2008 workshop.

Background

By Notice issued April 18, 2008, the Postal Regulatory Commission called upon the postal community to submit comments to assist the Commission with its obligation to report to Congress on “universal postal service and the postal monopoly in the United States . . . including the monopoly on the delivery of mail and access to mail boxes.” That report, due by December 19, 2008, is mandated by Section 702 of the Postal Accountability and Enhancement Act, enacted in 2006.

The Act further provides that, if the Commission makes recommendations on changes to universal service or the postal monopoly, it must accompany such recommendations with estimates of the impact of those changes on the Postal Service’s financial condition as well as on postal service, postal rates and the security of the mail.

Although the scope of the letter mail and mail box monopolies is reasonably definitive, the Commission notes (Notice at 5) that there is no express or generally-

accepted definition of either “universal service” or the Postal Service’s “universal service obligation.” Nevertheless, the Commission continues, that obligation:

is often thought of as an obligation with characteristics or features such as: (1) geographic scope, (2) range of product offerings, (3) access to postal facilities and services, (4) frequency of delivery, (5) rates and affordability, and (6) quality of service.

While this listing provides a helpful framework for a discussion of the topic, it does not, as the Commission recognizes, provide guidance as to the minimum levels of these characteristics that must be met before service meets the standards of “universal service.” Congress has assigned the Commission the unenviable task of filling in those blanks.

In the comments that follow, American Business Media will not attempt to address the myriad issues, sub-issues and implied issues listed or identified in the 15-page Notice and the 20-page Discussion Memorandum. That task, we assume, will be undertaken by the contractor retained by the Commission to aid in this endeavor. By limiting these comments to a few, discrete issues, American Business Media hopes that it will offer some measure of assistance to the Commission on those issues about which American Business Media and its members feel most strongly.

Comments

As the Commission requested, American Business Media will do its best to organize its limited comments in accordance with the Commission’s listing of topics.

Topic No. 1: Scope of “Universal Postal Service” and “Universal Service Obligation”

As noted (and listed) above, the Commission posits that there are six general “elements” that could be used to define “universal service.” The Discussion Memorandum (hereafter “Memo”) (at 5-7) expands upon the initial list qualitatively (though not quantitatively), and then (at 6-7) suggests a “working definition” of universal service for purposes of this study that is based upon those six factors.

American Business Media does not intend to address each of these factors and make recommendations on, for example, the range of products and levels of service that are essential to universal service. Suffice it to say, as we did at the June 12 workshop, that even though it would appear that the Commission must develop an acceptable definition, that task is likely to be less important than the task of determining how the Postal Service can meet—or must be permitted to modify—that definition if declining volumes and increasing costs require cutbacks from present levels of service.

Implicit in this comment is American Business Media’s view, a view that it appeared was shared by others at the workshop, that the Postal Service today generally and usually satisfies its universal service obligation, however that obligation might be defined. Even though specific mailers from time to time have complaints about the level of service or rates, and even though not all mail

recipients receive the same level of service,¹ there appears to be general satisfaction with mail service today. American Business Media suggests, therefore, that the Commission can short-cut the metaphysical by using the present level and quality of postal services as a starting point in its analysis.

In doing so, however, the Commission should keep in mind, as stated by several parties at the workshop, that for most if not all purposes, it should consider that the Postal Service's "customers" are those who seek and pay for its services—that is the mailers—and not those who receive mail paid for by others. Although this suggestion may seem harsh, callous and contrary to the Postal Service's mission of "binding the nation together," it is a truism that mail recipients will never receive a level of delivery service for which mailers are unable to pay, however much they may desire it or even deem it necessary. Therefore, unless the Commission intends to expand this exercise to consider a system in which mail recipients pay for mail delivery, its focus must be on the level and type of service that mailers require and for which they can afford to pay.

In addition to these general comments, American Business Media has specific comments on factor (5), described in the Memo (at 7) as follows:

Rates and Affordability of Service. Universal service charges prices that are fair, reasonable, non-discriminatory, and based on a fair and equitable apportionment of costs.

¹ For example, some routes are delivered six days a week, some five and some, we understand, less frequently than five. Some mail recipients receive mail at their doors, some at their curb, some at cluster boxes and some by picking it up at a local post office. If American Business Media's premise that the Postal Service now meets its universal service obligation is correct, it follows that this obligation does not require the same level of service to all mail recipients.

As American Business Media mentioned briefly at the workshop, this description introduces the notion of cost allocation where it has no place. Perhaps American Business Media, whose members are still reeling from the 20%, 30% and even greater Periodical rate increases for some members of the class mandated in Docket No. R2006-1, is reading more into the words “fair and equitable allocation of costs” than was intended, but the fact remains that these grossly disproportionate increases were based on the Commission’s view of a fair and equitable relationship between costs and rates.

Whatever the merits of that view from purely a ratemaking perspective, it is indisputable that increases of that magnitude (like similar increases for many mailers of Standard flats) have led to a reduction in volume from certain types of mailers and threaten the viability of many others. If, for example, mailers of “journals of opinion,” of small-circulation weeklies than cannot co-mail, and of certain catalogs are forced to reduce or discontinue use of the mail, it can hardly be said that the “fair and equitable” allocation of costs that produced these rates enhanced universal service.

Stated otherwise, no one—not even American Business Media—would contend that the postal rates established by Congress for the 200 years prior to the Postal Reorganization Act of 1970 reflected a fair and equitable allocation of costs. Rather, they reflected policy decisions that, in turn, led to a rate schedule rife with non-compensatory rates, cross subsidies and, probably, excessive rates. Yet no one then argued or argues now that the Post Office Department therefore failed to meet its universal service obligation during that period. Thus, even though affordable rates are a sine qua non of universal postal service, it is not necessary—for this purpose—that those rates be based upon a “fair and equitable” allocation of costs. Rather, history

shows all too well, a movement toward rates with greater cost recognition may be inconsistent with the provision of universal service, and it would be worthwhile for the Commission to address this tension.

Topic No. 6: Frequency of Delivery

The sanctity of six-day delivery is possibly the most talked about and controversial concept in the universal service discussions to date. It is also a topic as to which the distinction between those who pay for postal services and those who receive the mail plays perhaps the greatest role. These comments will be from the perspective of periodical publishers—those who pay for postal services.

As stated at the June 12 workshop, American Business Media members, like mailers generally, want and need good service at low rates. Yet they recognize that financial realities pull these two considerations in opposite directions and that the goal must be to reach an appropriate balance between these competing concepts. The problem faced by both mailers and the Postal Service is that neither acceptable service at unacceptable rates nor unacceptable service at acceptable rates is a satisfactory outcome.

Therefore, although American Business Media members continue to support the continuation of six-day a week delivery (where it exists today), they recognize the possibility that a combination of the price cap and the need to charge rates that mailers can pay may combine to force a serious examination of delivery service reductions. Should such examination be necessary, it is essential that the Postal Service (or the Commission, if it intends to make recommendations on this issue) thoroughly understand the needs of mailers before determining when, if at all, deliveries can be

reduced. From the perspective of American Business Media members, for example, especially mailers of news content, weekly publications, Monday delivery is often crucial.² To other mailers, such as those mailing bills to residences, we understand that Saturday delivery is deemed to be crucial (because, they assert, many recipients pay bills on weekends, and Monday delivery instead of Saturday delivery could delay payment by as much as a week).

Thus, if a reduction in the frequency of delivery in some or all geographic areas is to be considered, the Postal Service must take all steps necessary to determine the best way to accomplish that result—from the perspective of those who purchase its services.³

Topic No. 7: Universal Service Obligation: Rates and Affordability of Service

American Business Media has already commented on the need for affordable rates under topic no. 1, above. Here, we address the sub-issues identified in the Memo (at 17) addressing the relationship between the letter mail and mail box monopolies and affordable rates.

American Business Media's position is quite simple. Elimination of either monopoly will threaten and likely destroy the Postal Service's ability to provide adequate

² Such publications typically close editorial Friday evening, print and mail Friday and Saturday and, through the combined efforts of the Postal Service and the mailers, reach their readers on Monday. Pervasive Tuesday (or later) delivery would destroy their business models and, ultimately, the publications themselves.

³ Given the dramatic impact that reduced deliveries could have (on both mailers and recipients), American Business Media submits that neither the Postal Service nor the Commission should rule out scenarios in which cutbacks are imposed unevenly, depending, for example, on the cost to deliver, the volume of mail and other factors. Once again, however, it is essential that the needs of mailers, not mail recipients, be considered paramount.

service at affordable rates. In advancing this position, American Business Media recognizes that at least one representative at the June 12 hearing asserted that the letter mail monopoly is dead and that it produces no financial benefit for the Postal Service. As it did then, American Business Media respectfully disagrees. It is of course true that the age of the Internet and very cheap (or even “free”) long-distance calling has eroded the value of the letter mail monopoly, as mailers with no hard-copy alternative have found electronic means of conveying their messages and paying their bills. But the volume of mail subject to the monopoly that remains in the postal system is enormous, as is, we submit, the amount of such mail that, if the monopoly were eliminated, would leave the postal system for alternate hard-copy delivery years ahead of when some of it might otherwise migrate to an electronic alternative.

American Business Media can present no study or empirical evidence to support this belief, although we hope that the Commission’s contractor will be in a position to do so. Nevertheless, this belief is supported by experience—experience that reveals that the vast majority of high density (and high profit) First-Class mail, such as gas, water and electric bills, IRS forms, and many other types of mail would be extraordinarily attractive candidates for diversion to existing alternate delivery companies and newly-created delivery alternatives that could deliver such high density, local mail at rates well below those of the Postal Service. In addition, non-saturation advertising mail is deemed by the Postal Service to be “letter mail” subject to its monopoly, and this mail

could easily move to alternate delivery.⁴ The revenue and institutional cost contribution loss to the Postal Service would be staggering.

Mailbox access would magnify the losses that elimination of the letter mail monopoly would produce. The more obvious cause of these increased losses is that mail is more likely to divert to alternative forms of delivery if it can be delivered in a mailbox, rather than on a door knob or a driveway. Representatives of the now defunct Publishers Express have been known to claim that their efforts to divert magazines (and accompanying advertising) from the Postal Service would have succeeded had mailbox access been available.⁵ See also, the initial comments of Time Warner.

The less obvious cause of the adverse financial impact of mailbox access, a consideration wholly apart from security considerations, is the additional cost to the Postal Service if carriers confront material in the mailbox when they attempt to deliver the mail. The carrier will not know without examining each piece in the mail box whether it is non-postal material that has been delivered by someone else, or whether it is outgoing mail that the resident expects the carrier will enter into the mail stream. The added costs of such additional carrier stop time would be enormous.

As to the general topics of the letter mail and mailbox monopolies (and the related topic of privatization), American Business Media endorses the well-documented views expressed in the comments submitted in this docket on June 6, 2008, by Murray

⁴ Although many alternate delivery companies are relatively small, some are not. For example, CIPS Marketing, in Los Angeles, reaches 4,300,000 homes every week with adult carriers. It is not difficult to imagine how many hundreds of millions of pieces of mail this one company could deliver, especially if it had mailbox access. See www.cipsmarketing.com and www.aapsinc.org.

⁵ American Business Media recognizes that Periodicals are not subject to the monopoly. The point here is that mailers and mail recipients typically prefer mail box delivery.

Comarow. Among other things, Mr. Comarow demonstrates that experiences in other countries do not support the notion that ours would be better off with privatization or relaxation of these monopolies.

Conclusion

Given American Business Media's belief that the present scope and nature of postal services generally satisfy any reasonable definition of the Postal Service's universal service obligation, we suggest that the Commission adopt a version of the Hippocratic oath: first, do no harm. Do not recommend that the postal system be privatized or that the Postal Service's limited monopolies be eliminated or relaxed. Then, based upon the needs of the postage-paying public, determine whether, and if so how, the Postal Service can continue to provide an acceptable level of affordable service. If it appears that it will not be able to do so under present law and political realities, then the Commission should recommend to Congress such changes as it deems necessary to preserve this essential public service.

Respectfully submitted,

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