

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

REPORT ON UNIVERSAL POSTAL SERVICE)
AND THE POSTAL MONOPOLY)

Docket No. PI2008-3

**COMMENTS OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
(June 30, 2008)**

The Magazine Publishers of America, Inc. (“MPA”) appreciates this opportunity to respond to Order No. 71, *Universal Service Obligation*, 73 Fed. Reg. 23507 (April 30, 2008), the Commission’s notice and order soliciting comments on universal service and the letter and mailbox monopolies. MPA also addressed many of these same topics in its 2003 comments to the President’s Commission on the United States Postal Service.¹ Despite the many changes that have occurred since 2003, our perspective on these topics remains largely unchanged.

MPA has approximately 240 domestic magazine publisher members who publish about 1400 magazines. Virtually all of these publishers use the United States Postal Service to deliver their magazines to subscribers. MPA members' magazines provide broad coverage of domestic and international news in weekly and biweekly publications, and publish weekly, biweekly, monthly, and quarterly publications covering consumer affairs, law, literature, religion, political affairs, science, sports, agriculture, industry, and many other interests, avocations, and pastimes of the American people. Our membership is broad and diverse, but all magazine publishers

¹ http://www.treas.gov/offices/domestic-finance/usps/comments/organizations/comments_MagazinePublishersofAmerica.doc

share at least one common objective: ensuring that we have an affordable and reliable postal system providing universal service throughout America.

While most consumer magazine publishers sell copies to readers on both a single copy and subscription basis, there is no doubt that mail subscriptions will for the foreseeable future remain the major component of hard-copy magazine circulation in the United States. For the industry as a whole, subscription copies have grown to about 87% of circulation. Almost all of these subscription copies are delivered to readers by the United States Postal Service. In addition, magazine publishers rely heavily on First-Class Mail and Standard Mail to support subscriptions (through acknowledgements, invoices, and renewal notices) and to attract new subscribers (through promotions and special offers for magazines and related products). For every dollar publishers spend on Periodicals postage, they spend approximately sixty cents in First-Class Mail and Standard Mail postage to promote and service those subscriptions

Changes in media consumption patterns and publisher efforts to leverage technology to facilitate quicker, less expensive, and more effective communication with our readers have resulted in significant growth in magazine publishers' digital initiatives. However, most readers still prefer paper copies. MPA's members are committed to the written word and the print medium, and intend to continue hard copy dissemination of our magazines and related mailings for a long time to come.

MPA does not believe that substantial changes to the universal service obligation (USO) or postal monopolies should be made at this point, so soon after the enactment of the PAEA. We thus urge the Commission to focus its report to Congress on an assessment of the costs and benefits of the current arrangements, rather than propose structural changes.

Topic 1: Scope of “Universal Postal Service”

There has been considerable discussion in recent years about what mail services, and what attributes of services, are encompassed by the statutory term “universal postal service.” These comments do not seek to repeat that discussion. One fact is clear, however: a longstanding element of universal service, now codified at 39 U.S.C. § 3622(c)(11), requires not only the universal delivery of Periodicals mail, but delivery at special rates. As the Commission is no doubt aware, select categories of mail – magazines, newspapers and books – have historically been given special recognition in the nation's postal law for their educational, cultural, scientific and informational value, a ratemaking factor known informally as “ECSI” value.

Indeed, facilitating nationwide distribution of the printed word was a fundamental justification for the original establishment of America’s government-sponsored postal system. Beginning with the 1792 Post Office Act, and reaffirmed in every major revision of postal law since then (1845, 1863, 1912, 1917, 1958, 1970, 2006), successive Congresses and successive Administrations have agreed that facilitating and encouraging the distribution of periodicals through the mail is in the national interest. We believe the historical recognition in postal law and policy for the important role magazines, newspapers, and books play in educating and informing the public is as important today as it was when the national postal system was first created over two hundred years ago -- and should be continued. Magazines make a difference in people’s lives, and in the life of the nation.

Furthermore, we believe that magazines play a crucial role in keeping the Postal Service strong. Magazines are one type of mail that people seek out and enjoy receiving -- a reason people look forward to getting their mail delivery each day. At this year’s National Postal

Forum, Postmaster General Jack Potter referred to magazines as the “anchor of the mailbox” – one of the main reasons people go there. Magazine publishers need the Postal Service and the Postal Service needs magazines.

Given the importance of magazines to the nation, Periodicals should be included as a universal service that the Postal Service is required to offer. Below, we discuss features of universal service that are important to magazine publishers.

Topic Nos. 3 and 4—universal service: geographic scope; range of product offerings.

MPA opposes changes to the postal monopolies that would allow “cream-skimming” and potentially deprive the Postal Service’s delivery network of both the mail volume and contribution needed to fund the Postal Service’s universal service obligations. However, we believe that with the monopolies comes responsibilities. First, as the only truly universal service provider, the Postal Service should continue delivery to each and every business and residence as it does today. The ubiquity of the Postal Service’s delivery network is critical to publishers since magazine subscribers, of course, live throughout the nation and in both urban and rural areas. There are magazines, in fact, geared toward readers in rural areas where delivery is more expensive and perhaps most likely to be curtailed in the absence of a USO.

Second, the Postal Service must accept and deliver the broad variety of mail that publishers (and other mailers) want to send and that, in fact, their recipients desire. Publishers use the Postal Service to distribute a broad spectrum of magazine formats – ranging from ounces to pounds; from digest size to tabloid size; from unwrapped to polywrapped. MPA supports the Postal Service’s efforts to reduce its costs through the automated sorting of magazines and other

mail. However, as it deploys new equipment, the Postal Service must retain the capability to process the broad spectrum of mail that publishers send.

Topic No. 5—universal service: access to postal facilities and services

Due to the substantial volume of magazines that publishers mail at one time, our industry generally enters its mailings at larger mail processing facilities, not at post offices. Thus, MPA takes no position regarding access to post offices except to note that the digital age has provided new ways to access postal services. Rather than having to go to the local post office, many postal services can now be accessed online, e.g., at www.usps.com.

However, MPA does strongly believe that in the face of declining First-Class Mail volumes, internal cost controls will be critical to funding the universal service obligation in the future and that realigning the Postal Service's network of processing facilities provides substantial opportunities toward this end.

Realigning the network is particularly important given the substantial changes in mailing patterns (e.g., increased presorting and dropshipping) that have occurred over the last few decades. Consistent with Congress' finding in Section 302(c)(1)(D) of the PAEA, 120 Stat. 3219, the Postal Service should not only be given the flexibility to, but also be encouraged to realign its network as long as it continues to meet its universal service obligation.²

Another opportunity to reduce Postal Service costs significantly is the deployment of the Flat Sequencing System (FSS), which will begin later this year. This deployment will reduce

² Section 302(c)(1)(D) of the PAEA states, "Congress strongly encourages the Postal Service to—(i) expeditiously move forward in its streamlining efforts; and (ii) keep unions, management associations, and local elected officials informed as an essential part of this effort and abide by any procedural requirements contained in the national bargaining agreements."

postal costs by automating the sorting of flats to delivery point sequence, an operation that is currently performed manually by carriers. Controlling costs by enhancing operational efficiency (e.g., realigning the network and increasing automation) is critical to preserving universal service at affordable rates.

Topic No. 6—universal service: frequency of delivery.

While delivery six-days-per-week is not equally important to all publishers, the industry believes that this frequency of delivery is important and should be continued.³ Delivery six days per week is critical to the timely dissemination of news and other time-sensitive information through Periodicals, which we believe is one of the cornerstones of the Postal Service's mission.

Furthermore, in the case of magazines, both production schedules and reader expectations are geared to certain days of the week or month. Certain magazines may be best received just prior to or on the weekend when readers have more time to devote to reading the magazine. Other magazines may be best received early in the week to provide useful information a reader can use during the workweek. Magazines are not unique in this regard – many mailers target their mail for delivery at a specific time to maximize benefits to the mailer and the recipient.

Finally, the cost savings from reducing the number of delivery days per week are not likely to be significant in comparison to the negative effects of such an operational change. As Jody Berenblatt, Senior Vice President, Bank of America, testified (at 5) at the Commission's recent field hearing in Portsmouth, New Hampshire, the maximum savings that could result from eliminating a delivery day would be about two percent of postal costs, but those savings may be

³ MPA understands that even today the Postal Service does not deliver mail to absolutely every address (e.g., the bottom of the Grand Canyon) six days per week and does not oppose this approach. MPA, however, believes that six day per week delivery should be maintained as a general proposition (a belief that the USPS has repeatedly said it shares).

largely offset by additional in-office costs for handling and storing additional undelivered mail. Moreover, the potential savings would be further offset by volume reductions stemming from the reduced level of service being offered.

Topic No. 7—universal service obligation: rates and affordability of service.

Affordability is a critical aspect of the universal service obligation because offering a service at an unaffordable rate has the same practical effect as not offering it at all. As Jamie Trowbridge, CEO and President of Yankee Publishing, testified at the Commission’s recent field hearing in Portsmouth, New Hampshire, Periodical rate increases have a direct and negative effect on publishers, their readers, and the Postal Service:

Ever-increasing production and distribution costs may force magazines to raise prices for consumers and advertising customers. Unfortunately, our subscribers and advertisers are more focused on their costs than ours and they are very price sensitive. Realistically, the only way we can accommodate increased costs is by cutting back the least profitable parts of our business as they turn unprofitable. That decreases the volume of our business and the volume of the USPS. Thus begins the downward spiral.

Trowbridge Written Testimony at 3.

MPA believes that the best way to ensure affordability while providing sufficient pricing flexibility to enhance operational efficiency and grow mail volumes is to adhere faithfully to the CPI-based rate indexing mechanism, codified by the PAEA at 39 U.S.C. § 3622(d)(2), which limits the average rate increase for each market-dominant mail class to inflation while allowing fine tuning of the rate structure and the introduction of new services and discounts.

Topic No. 8—universal service: quality of service.

MPA believes that the quality of service currently offered by the Postal Service for Periodicals is generally acceptable and should be maintained. Including explicit service standards in the universal service obligation is unnecessary, however. Rather, MPA supports the PAEA approach to managing service performance: requiring the Postal Service (1) to establish clearly articulated service standards and service measurement and reporting systems; and (2) to meet the established standards. This approach provides the Postal Service with flexibility to adjust its standards over time to align them with network capabilities while providing for accountability.

On this point, while we expect some bumps in the road as the mailing industry transitions to the use of Intelligent Mail barcodes (IMBs) and we thus encourage the Postal Service to be flexible when initially implementing the new standards, MPA supports the Postal Service's IMB initiative. IMBs are critical to the PAEA approach to managing service performance and will provide the Postal Service and industry with the detailed information necessary to identify and resolve service issues as they arise.

Topic No. 10—the implications of the universal service obligation for the postal monopoly.

As mentioned at the Commission's June 12 workshop in Washington, DC, magazine publishers have tested alternate delivery options and have concluded that efficient and affordable last mile delivery requires large quantities of all types of mail – quantities that only the Postal Service possesses. In particular, starting in 1989, Time, Inc.'s Publishers Express delivered magazines and catalogs not subject to the letter monopoly in a limited number of areas, starting with 2 suburban ZIP Codes in Atlanta, Georgia and expanding to 1,000 ZIP Codes in 32 major cities over time. Despite focusing its operations on the most desirable delivery locations,

Publishers Express only made a profit in one month of its six-year existence due to inadequate revenue (i.e., volume) per stop. In fact, its one month of profitable operations resulted from reducing the number of delivery days per week to one (the one that worked for most participating publishers) in an effort to build its revenue per stop.

Given the substantial quantities of mail required for efficient and affordable last mile delivery, we believe that lifting the postal monopolies is likely to result primarily in “cream-skimming” of high-density mail routes, not the development of any competing nationwide delivery networks. Allowing new entrants to cream-skim the Postal Service's most profitable mail volume could deprive the Postal Service's delivery network of both the mail volume and contribution needed to underwrite the cost of the Postal Service's universal service obligations. To keep the Postal Service's delivery network strong, we believe the Commission should defer consideration of any changes to the letter monopoly or mailbox monopoly, at least until the effects of PAEA and ongoing changes in mail volume patterns on the Postal Service's functioning, finances and viability become much clearer.

CONCLUSION

The existing scope of universal service provided by the Postal Service—in terms of geographic coverage, frequency of services, cost, service performance, and range of products—is generally consistent with the expectations of magazine publishers and other mailers. Given the threats and uncertainties now confronting the Postal Service—a stagnant economy, rising energy prices, electronic diversion and the still-incomplete implementation of PAEA—the Commission should refrain at this time from either mandating changes in universal service or restricting the appropriate flexibility of the Postal Service going forward. For similar reasons, now is not the time to consider modifications to either the letter monopoly or the mailbox economy. Rather, the

Commission should provide to Congress the best available assessment of the perceived costs and benefits of universal service and the postal monopolies as they exist today.

Respectfully submitted,

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