

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

**Report on Universal Postal Service and
the Postal Monopoly**

Docket No. PI2008-3

**INITIAL COMMENTS OF PITNEY BOWES INC.
IN RESPONSE TO NOTICE OF REQUEST FOR COMMENTS ON
UNIVERSAL POSTAL SERVICE AND THE POSTAL MONOPOLY**

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I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) is pleased to provide these comments in response to PRC Order No. 71 (Order 71), the Postal Regulatory Commission's (Commission) Notice of Request for Comments on Universal Postal Service and the Postal Monopoly Laws (Docket No. PI2008-3).

Section 702 of the Postal Accountability and Enhancement Act (PAEA or Act)¹ requires the Commission to “submit a report to the President and Congress on universal postal service and the postal monopoly in the United States (in this section referred to as ‘universal service and the postal monopoly’), including the monopoly on the delivery of mail and on access to mailboxes.” The PAEA directs the Commission, in developing its report, to “consult with the Postal Service and other Federal agencies, users of the mails, enterprises in the private sector engaged in the delivery of the mail, and the general public.” Pub. L. 109-435, § 702(c), 120 Stat. 3198, 3244. It is also required to make recommendations. *See id.*, at 3243-44.

Pitney Bowes commends the Commission for seeking views in this docket from a broad audience of postal stakeholders. In addition to this formal comment process, the Commission has solicited input from a wide range of stakeholders through a series of field hearings in locales throughout the United States and a public workshop in Washington, DC. The Commission's report will add to the larger, historical dialogue and continue the work of earlier examinations of universal postal service, including the 1968 President's Commission on Postal Organization (the Kappel Commission), the 1970 Postal Reorganization Act, the 2002 President's Commission on the United States Postal

¹ *See* Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The PAEA amends various sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.

Service, and the decade-long debate leading up to enactment of the PAEA. It is of great importance to all users of the mails.

The Commission has invited comments on a wide range of topics that pertain to the notion of “universal service.” It provided a Discussion Memorandum for Use in Preparing Comments on Universal Postal Service and the Postal Monopoly Laws (Discussion Memorandum) to focus comments on specific topics and questions. Pitney Bowes’ comments focus on Discussion Topic No. 1: Scope of “Universal Postal Service” and “Universal Service Obligation”; Discussion Topic No. 5: Universal Service: Access to Postal Facilities and Services; Discussion Topic No. 7: Universal Service Obligation: Rates and Affordability of Service; Discussion Topic No. 8: Universal Service: Quality of Service; and Discussion Topic 12: Other Issues. These comments also address the importance of the postal monopoly on the delivery of mail and the mailbox monopoly and advocate that the Commission not propose any change in either monopoly at this time.

II. DISCUSSION

A. Defining “Universal Postal Service”

In Order 71 the Commission points out that “[u]niversal postal service’ is the term commonly used to refer to postal service to all parts of the country. *See United States Postal Serv. v. Flamingo Indus. (USA) Ltd.*, 540 U.S. 736 at 741 (2004) (citing 39 U.S.C. §§ 101, 403). The Postal Service’s obligation to provide such ‘universal service’ is often referred to as the universal service obligation (USO).” Order 71, at 5. The Commission further observes that notwithstanding the common use of the term “universal service” is undefined in U.S. postal laws. *See Order 71*, at 6. Thus, the

Commission suggests that one of the “fundamental tasks” of its report to Congress is to define the concept of “universal postal service” or “universal service.” *Id.* To facilitate discussion, Order 71 notes that “[a]lthough the USO lacks an express statutory definition, it 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. Order 71, at 5. Pitney Bowes agrees that these characteristics and features establish a set of working parameters to facilitate the discussion. These comments will highlight the importance of three key components of “universal postal service” - universality, affordability, and quality. Pitney Bowes believes universal, affordable, quality service will enhance the value of mail to senders and recipients and ensure the continued viability and relevance of the Postal Service.

As to the definition of “universal postal service,” Pitney Bowes offers one threshold constraint and one threshold observation. First, any attempt to define “universal postal services” is necessarily constrained by the statutory definition of “postal service.” The PAEA defines the term “postal service” as the “delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto[.]” 39 U.S.C. § 102(5).

Second, any definition of “universal postal service” must be designed to promote, consistent with economic efficiency, the operational and pricing flexibility afforded to the Postal Service under the PAEA. Declining mail volumes and increasing factor input costs coupled with the imposition of a regulatory price cap present new uncertainties and

difficult challenges for the Postal Service.² These uncertainties and challenges militate against prescribing a detailed, rigid definition of “universal postal service.”

The Postal Service, in consultation with its customers, is uniquely positioned to gauge what is necessary to ensure the provision of universal, affordable, quality postal services. Mailers and recipients, citizens and businesses, all turn to the Postal Service with different and evolving expectations of what postal service is optimal. Moreover, there is little to suggest that the imposition of a rigid, regulatory definition of “universal postal service” would benefit the Postal Service or the mailing public. Imposition of a rigid, regulatory standard based on the status quo would likely undermine the operational and pricing flexibility afforded to the Postal Service under the PAEA to meet changing customer needs and demands. A rigid regulatory standard set below or above current service levels would most likely result in either a reduction of service or increased costs unrelated to customer needs or expectations.

Nor is a regulatory definition of “universal postal service” necessary to protect the interests of underserved constituencies. The PAEA vests the Commission with the authority to review service performance and pricing under separate statutory authority governing complaints and the annual compliance determination. *See* 39 U.S.C. §§ 3662, 3691.

Accordingly, the Postal Service should retain authority to determine the level of service necessary to enable it to address changing customer needs and expectations. This will enable it to optimize mail’s value for senders and recipients.

² *See e.g.*, GAO Report 07-685T, U. S. Postal Service, Postal Reform Law Provides Opportunities to Address Postal Challenges (April 19, 2007).

B. Universality – The Commission’s Report Should Encourage Expanded Retail Access to Postal Services

Universality includes geographic scope and frequency of delivery, which have been discussed in field hearings and undoubtedly will be expanded upon by written comments. Universality, however, also includes access to postal services.

Discussion Topic No. 5, “Universal Service: Access to Postal Facilities and Services,” invites commenters to express their views on the “need for access to post offices, the types of services that require access to post office facilities, the adequacy of existing post office facilities, and the adequacy of substituting contract post offices or other types of retail outlets for Postal Service post offices.” Order 71, at 8. Pitney Bowes believes the ubiquity of, and access to, postal services is a critical element of universal service.

Expanding the availability and ubiquity of postal services via expanded retail access enhances the value of the mail by promoting efficiency and reduced costs, encouraging increased mail volume through enhanced convenience and customer loyalty, promoting further investment in technology and new product development, and expanding the benefits and availability of workshare discounts to small mailers. The Postal Service should also encourage expanded access as a means of enhancing the value of the mail for mail recipients. For example, access to postal services could be enhanced by facilitating dynamic routing or mail forwarding as a means of keeping mail recipients connected.

Pitney Bowes respectfully urges the Commission to encourage expanded access to postal services beyond traditional brick-and-mortar Postal Service offices and Contract Postal Units (CPUs). The Commission’s report should examine the tremendous potential

of technology, including kiosks, postage meters, and online mail services, to enhance the availability, access, and ubiquity of the postal retail network. The Commission's report should discuss how such expanded access should be encouraged through pricing incentives and other initiatives.³

The Commission's report should also address the potential inter-relationships among existing postal retail facilities and new technologies that can be distributed beyond the Postal Service's traditional retail network. Too often discussions regarding the optimization of the Postal Service's retail network become political and focus narrowly on whether a brick and mortar post office should be here or there, or even exist. There is a tremendous potential – particularly in urban and suburban areas – to introduce non-traditional retail access technologies that will augment existing traditional postal facilities and increase access and convenience to postal services while minimizing retail operating costs.⁴ Price incentives that recognize costs savings resulting from use of these access channels could democratize workshare discounts by enabling small volume mailers to

³ For example, the Postal Service is to be commended for proposing ambitious, market-responsive price changes for its Express Mail and Priority Mail products. *See* Dkt. No. CP2008-3. The structural changes and pricing incentives proposed for these products should enhance the Postal Service's competitive position by providing incentives for more efficient, high-volume "commercial" mail. Providing these and other pricing incentives will promote the adoption of cost-effective and value-added payment evidencing methods and encourage increased mail volumes.

⁴ This potential was recognized and discussed in the July 2003 Final Report of the President's Commission on the United States Postal Service:

the Commission recommends expanding and accelerating efforts already underway at the Postal Service to bring a wider array of services to customers in convenient locations *throughout* their community—from grocery stores, to pharmacies, to cash machines, and even into homes and businesses via a more robust and user friendly Postal Service website.

* * *

These alternative venues would feature expanded hours of service, including around the clock access at sophisticated self-service kiosks that can perform all the most popular functions of a post office. This enhanced customer convenience is also a plus for the Postal Service's bottom line, since these more convenient customer points of access are generally more cost-effective than service delivered at the post office itself.

Final Report, at xviii.

reap the benefits of employing access channels that reduce costs and enhance the operational efficiency of the Postal Service. For example, providing pricing incentives based on the transaction costs avoided for postage evidencing purchased via a kiosk sited in a corporate office park or college campus would allow small volume mailers to enjoy workshare discounts while promoting the overall operational efficiency of the postal system.

Congress recognized the importance of expanded retail access when it specifically directed the Postal Service, in consultation with the Commission, to develop and submit a plan “to expand and market retail access to postal services, in addition to post offices, including (1) vending machines; (2) the Internet; (3) postage meters; (4) Stamps by Mail; (5) Postal Service employees on delivery routes; (6) retail facilities in which overhead costs are shared with private businesses and other government agencies; (7) postal kiosks; or (8) any other nonpost office access channel providing market retail access to postal services.” Pub. L 109-435, § 302, 120 Stat. 3198, 3221.⁵

To promote universality, the Commission’s report should encourage expanded retail access to postal services and should encourage the Postal Service to employ price incentives to increase non-traditional access channels to better serve its retail customers.

⁵ The Postal Service recently submitted its Postal Service Plan to Congress. *See* United States Postal Service, *Postal Accountability and Enhancement Act § 302 Network Plan* (June 2008) (302 Report). While the 302 Report provides a useful overview of existing alternate retail access channels, the report could have placed greater emphasis on the potential for increasing retail access and reducing costs, through incentives to encourage greater use of payment evidencing devices, kiosks, and other alternative retail channels. *See* 302 Report, at 41-47.

C. Affordability – The Commission’s Report Should Emphasize the Importance of Increasing the Efficiency of the Postal System as a Means of Ensuring Affordable, Universal Postal Services

Discussion Topic No. 7, “Universal Service Obligation: Rates and Affordability of Service,” requests comments on the interplay between rate levels and the affordability and availability of postal services. As the Commission’s Order recognizes, affordability of services is a key component of universal service. Order 71, at 9. Pitney Bowes agrees.

To promote affordable service, the Commission and the Postal Service should continue to focus on increasing the efficiency of the postal system. Historically, the U.S. postal market has recognized the value of promoting the lowest combined costs through public-private partnerships and efficient access pricing for upstream services. Indeed, the realization of the lowest combined costs of the postal service is a fundamental principle of the PAEA and the Commission’s implementing regulations. *See* 39 U.S.C. § 3622(b)(1); 39 C.F.R. § 3010.14. Going forward the Postal Service should further explore opportunities to increase the productive efficiency of the postal system as a means to lower prices and preserve affordable service.

Opportunities for productivity enhancements include extending the reach and benefits of targeted workshare discounts to low volume mailers, expanding workshare opportunities for presort and bulk mailers, and deaveraging rates across a broader range of cost-causative characteristics, including shape, postage evidencing, distance and address hygiene. For example, the Postal Service should consider pricing incentives to encourage broad-based adoption of enhanced address hygiene practices as a means of reducing costs and improving operational efficiency. The academic literature and

empirical evidence confirm that workshare discounts stimulate new postal volume.⁶ New volume, in turn, increases revenue that can help support the universal service obligation. Accordingly, the Postal Service should use the pricing flexibility afforded to it under the PAEA to adopt innovative new pricing incentives in the form of discounts and dynamic pricing adjustments to stimulate volume and lower the combined costs of the postal system. The Commission's report should encourage such incentives.

D. Quality – The Commission's Report Should Underscore the Importance of Service Quality

Discussion Topic No. 8, "Universal Service: Quality of Service," requests comments on the quality of service of universal services. Along with universality and affordability, "quality" is a key component of universal service. Service quality depends on two important elements: (1) clearly articulated service standards, and (2) a transparent service performance measurement system to ensure that such service standards are met.

The PAEA explicitly recognizes the importance of consistent, reliable service via the requirement that the Postal Service and the Commission develop and implement modern service standards and a system of service performance measurement for market dominant products. *See* 39 U.S.C. § 3691. This requirement promotes the provision of consistent and reliable postal service necessary to preserve and "enhance the value of postal services to both senders and recipients." 39 U.S.C. § 3691(b)(1)(A). Section 3691 further provides that the standards shall "reasonably assure Postal Service customers reliability, speed and frequency consistent with reasonable rates and best business practices." 39 U.S.C. § 3691(b)(1)(C). The Commission asks whether there should be a

⁶ Pearsall, Edward S., *The Effects of Worksharing, Other Product Innovations and the 9/11-Anthrax Attack on U.S. Postal Volumes and Revenues*, Regulatory and Economic Changes in the Postal and Delivery Sector, Eds. Michael A. Crew and Paul R. Kleindorfer, (Boston, MA: Kluwer Academic Publishers) 2004.

separate quality of service requirement for universal services. Discussion Memorandum, at 17. Pitney Bowes believes a separate requirement would be redundant and unnecessarily burdensome on the Postal Service. The newly established modern service standards and the proposed system of service performance measurement should adequately address these needs.⁷

Similarly, while there is a critical need for publicly available, real-time, verifiable and accurate service performance measurement, Pitney Bowes does not advocate, at this time, for a separate monitoring of the performance of “universal services.” The implementation of the Postal Service’s modern service standards and its proposed system of service performance measurement should illuminate the quality of service component of universal service. Again, a separate, parallel system of performance measurement would impose an undue and unnecessary burden on the Postal Service.

Finally, in response to the Commission’s question regarding the importance of mail security, *see* Discussion Memorandum, at 17, Pitney Bowes agrees that mail security is an important element of service quality. Protecting the security of the mail and the mailbox is essential to enhancing the value of mail. Both senders and recipients attach great importance to the fact that the Postal Service, as a trusted public institution, is vigilant in ensuring that their mail is not diminished in any way by fraud, theft, or abuse.

⁷ *See e.g.*, Docket No, PI2008-1, Service Performance Measurement Systems for Market Dominant Products.

E. The Commission’s Report Should Acknowledge the Threat of State “Do-Not-Mail” Initiatives to Universal Service

Discussion Topic No. 12, “Other Issues,” invites commenters to provide views on “broader social, economic, and technological trends that may affect the future needs and expectations of society generally with respect to universal service.” Discussion Memorandum, at 20. In this regard, the Commission’s report should acknowledge the potentially adverse impact of state do-not-mail initiatives on universal service. State do-not-mail laws would directly undermine the federal policy objective, most recently codified in the PAEA, to promote universal mail service. Setting aside the legal issue of whether the states have the power to directly regulate the mails (and we believe there are serious questions about whether the states have that power), the potential effects of state do-not-mail laws on mail volumes, Postal Service finances, and the Postal Service’s ability to provide universal, affordable, quality service are significant.⁸ Accordingly, the Commission’s report should acknowledge the potential effects of state do-not-mail initiatives on universal service. A more in-depth review of the issues surrounding state do-not-mail initiatives – economic, privacy, environmental – is properly reserved for a separate, focused Commission inquiry.

⁸ See *The State of the U.S. Postal Service One Year After Reform*, U.S. Senate Committee on Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, 110th Cong. (Mar. 5, 2008)(statement of Hon. John E. Potter, Postmaster General, U.S. Postal Service)(“‘Do Not Mail’ legislative initiatives . . . threaten the viability of the mail in and among the affected states; they also undermine our ability to support a national network, one capable of serving every resident of every state, territory, and possession - affordably, effectively, and efficiently. We believe the success of these initiatives will also come at the expense of jobs, the viability of local businesses, and the reduction in municipal, county, and state revenue. We cannot afford these results during the best of times; they are unthinkable when the economy is faltering.”).

F. The Commission’s Report Should Not Recommend Any Changes to the Existing Postal Monopolies

Section 702 of the PAEA recognizes that there are two distinct postal monopolies – “the monopoly on the delivery of mail” and the monopoly “on access to mailboxes.” Section 702 further directs the Commission to assess the scope and standards of the current postal monopoly and the nature of the postal monopoly likely to be required in the future. Pitney Bowes supports the continuation of the existing postal monopolies and urges the Commission not to recommend any changes at this time.

The existing postal monopolies have served the Postal Service, U.S. citizens, and the mailing industry well. The postal monopolies have helped promote and sustain mail as a vital communications vehicle necessary to achieve social policy goals such as “[binding] the Nation together through the personal, educational, literary, and business correspondence of the people.” 39 U.S.C. § 101(a). The American public consistently identifies the Postal Service as a highly trusted institution. The monopolies also underlie the public trust in the security and sanctity of the mail. This trust is integral to the Postal Service’s ability to serve a larger social policy role as the face of the federal government and as a first-responder for the provision of essential governmental services in times of regional or national emergency. The recent experiences with Hurricane Katrina underscore the importance of this role. In short, there is no compelling reason to change course now. To the contrary, there are numerous reasons not to change course at this time. Postal liberalization in other countries is still unfolding, the implementation of the PAEA is not complete, and the economic challenges facing the Postal Service and the mailing community are significant.

Accordingly, Pitney Bowes suggests the Commission's report should not recommend any changes to the existing postal monopolies.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments. We look forward to participating in the continuing dialogue on these important issues.

Respectfully submitted:

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