

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Report on Universal Postal Service :  
and the Postal Monopoly : Docket No. PI2008-3

REPLY COMMENTS OF THE GREETING CARD ASSOCIATION

I. Introduction

*Scope and organization of GCA's comments.* There are a number of perspectives raised, and suggestions made, by various mailer groups and others in this proceeding in comments on universal postal service and the postal USO filed on June 30, 2008. Many of these can be supported by the Greeting Card Association (GCA), some cannot. For example, the perspective offered by National Association of Presort Mailers (NAPM) that "Customers are those who pay for goods and services which means the mailer not the mail recipient"<sup>1</sup> is not something to which GCA can subscribe. Nor can it subscribe to Direct Communications Group's (DCG's) June 30 Memorandum which takes a similar view in trying to link the USO to the sender-customer: "By focusing on the customer, and more specifically the sender as customer, obligations to recipients become implicit in obligations to senders."<sup>2</sup>

While GCA could respond separately to individual points such as NAPM's, above, the very lengthy comments by DCG are comprehensive in the sense of presenting an overall approach to the USO that in GCA's opinion should

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<sup>1</sup> Docket No. PI2008-3, Comments of the National Association of Presort Mailers in Response to Commission Order No. 71, June 30, 2008, p. 2.

<sup>2</sup> Docket No. PI2008-3. Comments on Docket No PI2008-3, Report on Universal Postal Service and the Postal Monopoly, p. 15 ("DCG Comments").

definitely not be adopted by the Postal Regulatory Commission. As such, in our comments below we have elected to address many of the points raised by the DCG comments on the presumption that this will cover other parties who made similar recommendations. Where necessary we also respond to issues raised by other mailer groups not within the scope of DCG's comments.

*“Sender” versus “recipient” as a basic concept in participants’ comments.* Among the most important propositions which GCA disputes is the sharp division of mail users into “senders” and “recipients.” As we explain more fully below, “sender vs. recipient” is an artificial and misleading distinction. For example, households received 18.8 billion bills in PFY 2007, mainly from *non-household bulk mailers*, who “purchased” postage for the mailing and thus were USPS “customers”.<sup>3</sup> However, *household retail mailers* paid 10.2 billion of those bills by mail, purchased postage for the mailing and thus were every bit as much USPS “customers” as the non-household bulk mailers.<sup>4</sup> If, as DCG appears to argue, recipients are not customers and should not factor in the postal USO of the future, it would follow that the credit card companies and other bulk mailers receiving payments by mail really should have little if any say over how timely

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<sup>3</sup> While the *economic incidence* of the postage for the bill payment was clearly on the household retail customer mailer, it is far from clear that the economic incidence of the bulk postage for the bill fell on the bulk mailer, or whether as part of his cost of doing business, it was passed onto the household recipient indirectly. For example, merchants pay credit card companies for the right to conduct sales using a customer's credit card. The cost the credit card company charges the merchant should generally include all its costs plus a normal profit, and postage to send out its monthly billing statements to card holders is one of those costs. Ultimately, the merchant passes his credit card company fee onto the customer in the price of his merchandise, so it is the retail recipient of the credit card statement that pays the postage for it, not the credit card company issuing the bill through the mail. In some situations, of course, no such tracing is needed: the recipient is explicitly charged postage. This is normally the case when a householder orders merchandise by mail, and must include payment not only for the merchandise but for “postage and handling” as well.

<sup>4</sup> USPS, *2007 Household Diary Study*, p. 27, Table 4.1. The method and cost of recipient/sender entering the bill payment into the USPS was different from that of the sender/recipient entering the bill, but that difference is *already* reflected in rate differences between single piece (retail) and presort (bulk) mail, and this proceeding is not a rate case. However, the method and cost of delivering the bill to the household was likely identical to the method and cost of collecting the bill payment from the household for house-to-house delivery/collection.

that mail is delivered, and whether or not they gain or lose some time value of money in the USO of the future compared to that of today.<sup>5</sup>

*The two-part advertising-mail agenda.* Two introductory points can be made about the DCG comments and other intervener comments which are similar. First, the DCG argument is transparent in attempting to use the USO debate to allocate more costs than at present to “retail” mail and less to “bulk” mail generally, and bulk advertising mail in particular. Cost allocation arguments are appropriate for rate cases, not this case, but since DCG has raised this issue, GCA feels compelled to offer at least some arguments below as to why retail mail already pays proportionately too much for the current USO relative to bulk mailers and why it makes more sense—in light of many of the statistics DCG itself touts—for bulk mail and bulk advertising mail in particular to pay more of the USO costs than at present.

Second, the DCG argument is not at all transparent in its attempt to re-make the USPS and its USO in the image that bulk mailers, especially bulk ad mailers, would find ideal, to the exclusion of all other postal products and patrons. It never states this parochial goal directly; the author claims to speak only for himself but acknowledges he has had bulk ad mail clients.<sup>6</sup> What is most determinative, however, is that in fact many of DCG’s arguments appear plausible *only* when applied to bulk ad mail: (1) the sender is the only USPS customer, since ad mail generates little return mail; (2) recipient receives little, no, or negative value, and only the sender-customer receives value; (3) only the sender pays the postage. A separate issue arises from the fact that the proposed USO re-make relies on the tenuous and economically-nonsensical proposition that postal mail volumes rather than relative economic value, and

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<sup>5</sup> By contrast, the household retail customer sender of the bill payment in the USO of the future should expect faster delivery to the company’s postal lock box so that he can delay sending payment until the last minute given the time value of money and the company’s tendency over the past several years to cut down his turn-around date for timely payment from 30 days to 20 days.

<sup>6</sup> DCG Comments, p. 1.

postal mail revenue streams should dictate the shape of the postal USO of the future. As we demonstrate below, DCG's otherwise inexplicable choice of volume as a comparator disguises the importance of the value contribution made by *other* types of mail (non-advertising bulk mail and "retail" mail).

The DCG argument is truly dangerous for one over-arching reason: if ever adopted by the Commission in its recommendations, and ultimately as the basis for universal service, it would further downgrade household retail/recipient influence over postal regulations and operations, thereby not only accelerating diversion to broadband and away from demand for postal services, but also simultaneously strengthening do-not-mail sentiments across the country. A USO catering to the needs just of bulk ad mail would produce falling volumes of ad mail as do-not-mail legislation reacted to the new USO by advancing state by state or even at the federal level, and as retail customers reacted individually by abandoning postal services in favor of broadband for their own needs.

II. Should the Only Universal Service Obligation Be to the "Bulk Mail" Customer/Sender?

DCG's comments submitted to the Commission on June 30 purport to present an elaborate "general approach" to defining universal postal service and the USO, one which is essentially the opposite of the approach the Commission should take in reaching its decision in this proceeding. At times, the DCG argument appears to pit all bulk mail against all retail mail in claiming that only senders of bulk mail are USPS customers and that, therefore, the postal USO should be designed around them because the volumes of bulk mail dwarf the volumes of retail mail. We deal with this effort below. At this point there is a preliminary question: Is it appropriate to use only the concept "customer" as the basis for defining universal service?

A. To What Customers Should the Postal USO Apply?

*“Customer” an unsuitable sole basis for defining the USO.* DCG urges the Commission to shape its definition of universal service and the USO around the characteristics of postal “customers.” For example, DCG states that:

The question as to who are the customers of the Postal Service is important in setting the framework for understanding the postal market and evaluating both policy and economic issues associated with the universal service obligation and the mail. Identifying the Postal Service’[s] customers will help identify to whom the Postal Service has obligations. . . .<sup>7]</sup>

No other basis for the Commission’s inquiry is suggested, and throughout its Comments DCG appears to assume that none need be.

It is far from obvious, however, that designing universal service and the USO around what are thought to be the significant characteristics of “customers” is the best, or even a particularly desirable, procedure. Postal history suggests strongly that a category of postal *service* is very likely to be broader, both actually and (more important) potentially, than would be suggested by a snapshot of its customer base at any given time. Focusing on “customers” to the exclusion of potential new uses for the mail – which of course imply the potential appearance of new customers as well – may be an unduly constricting approach.

The logic of definition suggests the same thing. If “customer” is defined as broadly as possible, in order to avoid the problem just suggested, the result is likely to be a definition too nebulous to be helpful in either limiting or setting minimum requirements for universal service and the obligation to provide it. Such a definition would have to include both actual and potential users of the mail, to cover both existing and reasonably foreseeable new mail products, and to encompass both present-day and possible future uses of the mail. On the

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<sup>7</sup> DCG Comments, p. 13.

other hand, if we attempted to narrow the definition to increase its usefulness for limiting or setting minima for universal service, we would risk excluding valuable and remunerative new products or uses simply because they had not yet been thought of.

GCA described a practical example of such innovation in our June 30 Comments: the pattern developed by Netflix of distribution to customers, and return to the distributor, of DVD movies via the mail.<sup>8</sup> If, at some time in the not too distant past, it had been ascertained that single-piece users never sent DVDs by First-Class Mail, and that subclass had been so defined as to exclude them (since no relevant “customers” appeared to want to send them), this innovative business pattern could not have been developed.

A more suitable starting point, we would suggest, would be to consider the present and reasonably foreseeable new types of mail usage and mail products that would be valuable both to the public and to the Postal Service, and shape the definition of universal service and the USO so as to accommodate them. We should note that the problems inherent in basing the definition process on the concept “customer” are independent of the still more troubling questions raised by the way in which DCG would have the Commission define that concept. We discuss those questions below, and will show that DCG’s definition of “customer” is itself radically defective.

B. The Volume and Value of Bulk Mail, Bulk Ad Mail and Retail Mail

However, with statements that the sender of the mail values it far more than the recipient<sup>9</sup> and that only the sender pays for the postage, DCG gives away what is an important if not transparent qualifier as to what its argument truly

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<sup>8</sup> Comments of the Greeting Card Association (June 30, 2008), pp. 11-12; Appendix, pp. 1-3.

<sup>9</sup> DCG Comments, see e.g. page 14.

is: the postal USO should be designed around the needs and only the needs of bulk ad mailers.

*Value to senders and value to recipients.* DCG's assertion that mail is far more valuable to the sender than to the recipient is clearly wrong with respect to many important types of mail – however true it may be for advertising mail. First Class bulk mail, no less than First Class retail mail, has value for both sender and recipient and it would be hard to argue that the value for the recipient is any less than it is for the sender. For example, transactions comprise 54% of all Household First-Class Mail, and totaled 43.3 billion pieces in 2007.<sup>10</sup> Much of it was bulk mail, a great deal of it was retail mail, all of it had value for sender and recipient regardless of who the sender or recipient was. To see this clearly, one need only consider a household-origin First-Class single-piece letter containing a credit card payment and addressed to the card-issuing bank as recipient.

Bulk mail having the sender-customer characteristics that DCG ascribes to wholesale mail generally totaled 103.5 billion pieces in PFY2007, while First Class Mail, which typically has value for recipient and sender and is paid for by recipients and senders, totaled 95.9 billion pieces.<sup>11</sup> For purposes of the USO, a balance between the needs of First Class Mail and Standard Mail, as well as other mail classes, is the appropriate volume-based metric as relative volumes between the two major mail classes are about equal. GCA believes that if the Commission uses a volume metric in deciding the future of the USO, this is the appropriate one to use, not DCG's Table 4 metric<sup>12</sup>, which includes First Class bulk mail *not* having the attributes of its customer-sender bulk mail profile.

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<sup>10</sup> U.S. Postal Service, 2007 Household Diary Study, p. 27.

<sup>11</sup> This is the total RPW volume for Standard mail in PFY2007.

<sup>12</sup> Under this false classification, bulk non-household mail totals 80% of all mail and all non-household mail totals 89% of all mail.

**Table 1  
FCM Presort vs Std. Mail Volumes**

<b>Year</b>	<b>FCM-SP</b>	<b>FCM-WS</b>	<b>STD-Reg</b>	<b>Total STD</b>
<b>2001</b>	50,946	47,214	75,515	89,938
<b>2002</b>	49,253	47,658	73,224	87,231
<b>2003</b>	46,558	47,288	75,965	90,492
<b>2004</b>	45,162	47,334	81,122	95,564
<b>2005</b>	43,376	49,066	85,895	100,942
<b>2006</b>	41,930	49,862	87,857	102,460
<b>2007</b>	40,122	49,978	88,732	103,516
<b>2008*</b>	37,714	49,229	86,248	100,618

\* 2008 estimates are based on the first 6 months volumes and the percentage drops over 2007 volumes.

Sources: 2001-2008 RPWs.

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One reason DCG elevates the importance of bulk mail over retail mail when it comes to USO considerations is found in the following argument. “A significant challenge in serving retail customers is that the retail postal market is a market in rapid decline. “ (DCG Comments, page 18). However, not all bulk mail markets are much healthier than retail, as suggested by the volume data in Table 1 above. Bulk FCLM has essentially stagnated in this decade, and is unlikely to resume the growth it experienced in the 1980s and 1990s. There is essentially no more mail volume left to convert from non-presort to presort in First Class, and electronic diversion may produce a decline in bulk FCLM in the next decade just as it did in retail FCLM during the past decade. Within Standard Mail, ECR has been stagnant or falling this decade, having exceeded its 32.8 billion piece level in PFY 2001 only once since then. If the DCG argument is that only currently growing mail-stream volumes should factor into the postal USO, then

clearly it should not be limited to all bulk mail, but only to bulk Standard Regular mail.

Notwithstanding the above volume perspectives, however, it makes less economic sense to base the future of the postal USO on volume measures than postal revenue measures, which at least incorporate an aspect of the economic value of mail. The better metric is relative economic value of mail products and services and closest approximation we have to the relative value of various postal products and services is the revenue generated by each one. While DCG emphasizes the precipitous decline of First Class retail mail volumes, therefore, it remains a fact by its own statistical citations, that retail customers generated 51% of postal revenue in 2001, and still generated 42% by 2007 after the precipitous decline in volume of First Class single piece mail over the intervening six years.

In other words, on a value-metric rather than a volume-metric basis, retail mail is about an equally important consideration to the future of the USO as non-retail mail, i.e. bulk mail. Bulk mail having the customer-sender attributes DCG ascribes to such mail (value only to sender, not recipient; customer pays postage, etc.) generated postal revenue of \$20.8 billion in 2007, whereas total First Class Mail generated roughly double that, \$37.6 billion. Retail “single piece” letters, flats and parcels alone created postal revenue of \$19.6 billion, about the same as bulk ad mail.

Using postal revenue as the proper metric for the future of the postal USO, retail mail is as important, if not more important, than bulk ad mail in such considerations.<sup>13</sup> Furthermore, for purposes of the USO, First Class Mail and Standard Mail is a better demarcation than bulk mail and retail mail. Bulk ad mail sent at Standard Mail rates can be drop shipped whereas bulk First Class mail cannot be. While bulk First Class mail has some attributes of bulk Standard mail,

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<sup>13</sup> As we demonstrate below (pp. 19-22), postal revenue does not equate to the total economic value of the mailpiece, but in rank order in a consumer’s ordinal utility function, there should be a closer correspondence between these two than between economic value and postal volume.

it also has several attributes of retail mail, e.g. it is subject to the same transportation and staging for final delivery as retail mail once it enters the USPS network. Furthermore, bulk ad mail can be laser printed and carrier walk sequenced from the printing process before it ever enters the Postal Service's downstream automated processing facilities for a final pass on DCBCS close to the recipient. Very little if any First Class bulk mail can be carrier walk sequenced, the standard is 3-digit or increasingly 5-digit presortation on costly private sector MLOCRs and BCSs and entry into the USPS mail processing network at a point that is upstream compared to bulk ad mail and subject to further processing before it resembles bulk ad mail at its entry point. In this way also, bulk First Class mail resembles First Class retail mail more than it resembles bulk ad mail. Indeed, with improvements in mail processing automation read rates for retail mail, the mail processing costs for First Class retail single piece letter mail and bulk metered mail have virtually converged.

In its volume arguments about bulk (ad) mail versus retail, DCG also stresses that “non-household mail” is far more prevalent than “household mail”, that non-households are the principal senders of mail and that “[b]ulk mailers are considered the most vulnerable to competitors. . . .”<sup>14</sup> There are a number of flaws in this argument.

First, one cannot infer from DCG's data that the *economic value* of postal services properly demarcated is greater for non-households than households. It is true that the economic value of ad mail sent to households is substantially less than its economic value to the non-household senders. For that very reason, it makes no sense to group all non-household mail in the way DCG does in its Table 4, not only because it is based on volume rather than revenue, but because one cannot correctly discern relative economic value to households and non-households from that classification. First Class Mail has significant economic value to both senders and recipients, whether bulk or retail, household or non-

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<sup>14</sup> DCG Comments, pp. 15-17.

household. To place bulk ad mail sent by non-households on the same economic value footing as First Class Mail, one would have to discount its economic value by about 50% to reflect the fact that recipients value that mail much less than senders do. Applying this metric to PFY 2007 RPW data, the economic value of postal services to non-household bulk mail senders would approximate \$26.8 billion while the economic value of postal services to household retail mail senders would approximate \$19.6 billion. The disparity here is hardly so great as to justify focusing a future postal USO on bulk mail interests or non-household interests any more than on household or retail interests.

Second, in focusing on non-household mail, DCG fails to point out a critical trend: the precipitous drop in non-household to non-household mail over the 1987-2007 period, from 30.9% of total domestic mail to only 20% of domestic mail.<sup>15</sup> Insofar as the focus on the future of the postal USO is concerned, this is a far more disturbing volume trend than the decline in household to household mail on which DCG focuses, namely from 4.8% of total domestic mail volume in 1987 to 2.7% in 2007. Put differently, in 1987, total domestic mail volume involving households in some manner was 69.1% of all domestic mail volume, whereas today it is higher at 80%. If anything in light of these trends, the postal USO of the future should pay more attention to households, not less. It should be least concerned with *purely* non-household (i.e. business to business) mail.

Third, the latest available elasticity data from the Postal Service together with much other evidence does not at all support DCG's assertion that bulk mailers are the most vulnerable to competition.<sup>16</sup> The drop in First Class "retail"

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<sup>15</sup> U.S. Postal Service, *2007 Household Diary Study*, Table A1-1. Contrast the facts with DCG's emphasis that "retail customers, particularly customers that send documents are shrinking at an increasing rate." DCG Comments, p. 3. It is by far mainly non-household to non-household sending of documents that has shrunk and materially affected USPS volume the past 20 years, not household to household volume.

<sup>16</sup> That has certainly been the perception of bulk ad mailers over the years, and another piece of evidence that the DCG argument is really about bulk ad mail, not all bulk mail.

mail volumes over the past decade has been due in large part to the competitive alternatives available using the Internet and especially broadband technology. When it comes to bills, in fact, household senders of bill remittances have been far more likely to switch from postal to competitive alternatives than have bulk mail senders of bills, as is obvious from the fact that bulk mailers in 2007 sent 18.8 billion bills through the mail whereas households paid only 10.2 million of those by mail.<sup>17</sup> The latest available postal data on elasticities indicates First Class bulk mail is more inelastic than either First Class retail or bulk advertising mail.<sup>18</sup> Furthermore, the data suggest bulk ad mail is becoming more inelastic over time. The healthy growth of ad mail volumes in the aggregate over the past several years is consistent with the changing elasticity findings, just as the fall of retail mail volumes is consistent with findings that the elasticity of retail mail is increasing over time as increasing competition unfolds.

Finally, the effort by DCG to elevate “bulk mail” or “non-household mail” over retail or household mail in an effort to manipulate the postal USO of the future neglects two crucial historical facts: (1) commercial (if not always “bulk”) mail volume has probably exceeded household mail volume from the earliest days of the Post Office<sup>19</sup>, so today’s relative volumes are nothing new and not an

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<sup>17</sup> Contrary to DCG’s worldview on page 6 of its Comments that bulk mailers need to try to “move” their customers into electronic alternatives, the data suggest the household customers have led the way into Internet alternatives, and that to date the housing mortgage crisis has not led financial services firms to embrace electronic alternatives to postal services.

<sup>18</sup> See R2006-1, Direct Testimony of USPS Witness Thomas Thress and supporting workpapers; R2006-1, GCA, Direct Testimony of James A. Clifton and supporting workpapers.

<sup>19</sup> See Richard B. Kielbowicz, *Universal Postal Service: A Policy History, 1790-1970* (Washington, DC: Postal Rate Commission, 2002), pp. 2-3, 14-24. In the earliest days, the Post Office focused on newspapers and the flow of political information; for much of the 19th century, commercial correspondence was the prime beneficiary of efforts to expand the network. “By the 1820s and ‘30s,” Kielbowicz reports, “the rationale for providing reasonable service to all settled areas shifted perceptibly. Policy debates reflected a growing concern about the availability of economic, not just political, information. Government was called upon to democratize access to market information.” *Id.*, p. 20.

argument therefore for changing the USO<sup>20</sup>; (2) notwithstanding the volume dominance of commercial mail, universal postal service has had the interests of all postal patrons in mind over many decades , not just commercial interests. That is the essential public/private character of postal services.

### III. Who Pays for the Net Social Obligations of the Postal Service?

#### A. Who Pays Now, Under the Current USO?

In advancing its argument that the postal USO should reflect the needs of bulk mailers and bulk ad mail in particular, DCG argues that retail mail imposes additional costs on the postal system that bulk mail does not, and in particular imposes additional USO costs that bulk mail would not.<sup>21</sup> This is an untenable argument, for a number of reasons.

First, DCG, GCA and most commenters in this proceeding seem to agree that universal delivery to every address in the U.S. remains an essential aspect of the postal USO of the future. There are no costs that retail imposes on

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<sup>20</sup> In this connection, it is not without interest that DCG, in discussing the decline in the volume of single-piece First-Class letter mail, has graphically represented a 29 percent decline so as to suggest a near-total disappearance. DCG Comments, Fig. 1, p. 19.

<sup>21</sup> The only material area in which the argument has economic merit is the well-known fact that many local post offices are not “self-supporting”. However, one cannot blame retail mailers for what is a complex set of local governmental, small business and Congressional forces that put pressure on the Postal Service to open and maintain such facilities. Insofar as the Congressional input has been embodied in general legislation – i.e., in 39 U.S.C. § 101(b) – it is clear that its motivation is one of national postal policy, not mere parochial job-saving. That such a national policy exists should indicate that whether a given post office is “self-sustaining” is not a relevant consideration in defining the universal service obligation. Furthermore, the value of the real estate on which such facilities sit is considerable, has increased over time, and is not factored into the equation that post offices are not self-supporting. Finally, one might note that the same negative cost/revenue relation obtains for many delivery routes – but DCG, like most participants in this proceeding, advocates continued delivery to *all* addresses nationwide, presumably including those on routes that are not “self-sustaining” (DCG Comments, p. 20).

universal delivery to every address that bulk mail does not also.<sup>22</sup> There is a cost burden that USPS must bear as the number of addresses increases each year by about two million while postal volumes fall or stagnate. It is arguably not as great as USPS maintains, but in any event it is certainly not a USO burden that raises costs for bulk mail any more than retail. Geographic cross-subsidy across mail delivery routes has been a structural feature of postal universal service ever since it became a recognized goal of postal policy, and benefits bulk mailers no less than retail mailers, and imposes costs on retail mailers no less than on bulk mailers.<sup>23</sup> Furthermore, universal service/USO issues in this proceeding are not the mechanism for eliminating cross subsidy as between mail classes; postal rate making proceedings are.

DCG argues at page 22 of its Comments: “A recent Federal Trade Commission report examined the financial implications of all policy goals including universal service and concluded that postal law imposes a net cost to postal customers of between \$243 and \$713 million dollars.”<sup>24</sup> However, almost all of this range is based on two legal factors that have nothing to do with the USO: (1) the 21% wage premium postal workers earn over comparable private sector workers because of collective bargaining arrangements; (2) subsidies afforded periodicals and non-profit mail.<sup>25</sup> Indeed, the only possible USO burdens in the FTC table on which the net cost range cited by DCG is based are the

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<sup>22</sup> The 2007 FTC report, “Accounting for Laws that Apply Differently to the United States Postal Service and Its Private Competitors”, Federal Trade Commission, December 2007, citing M. A. Gibbons (in Crew. M. and Kleindorfer, P., 2005) states the delivery aspect of the USO “has been estimated to be \$2.5 to \$9.8 billion per year.”

<sup>23</sup> On this point GCA must dispute one proposition in the comments filed by Time Warner, with which we otherwise largely agree. Time Warner says that “Congress should therefore allow Postal Service management the freedom to adjust delivery days selectively in areas where *mail volume does not justify the cost of delivery.*” Initial Comments of Time Warner Inc. in Response to Commission Order No. 71, p. 3 (italics added). Such “adjustment” would not only be contrary to the basic notion of universal service, but would also reduce the value of the postal network to mail users of all kinds, and thereby probably reduce volume still further.

<sup>24</sup> The actual numbers in the December 2007 FTC report are \$213 million and \$743 million.

<sup>25</sup> 2007 FTC report, p. 56, Table 2.

Alaska Bypass Service and International Air Transportation, both very small items.

However, taking DCG's own interpretation of the FTC's net competitive disadvantage from all legal constraints relative to its private competitors as being true, this works out to a cost per total domestic mailpiece of between 0.1 and 0.3 cents, hardly a major burden on any customer/sender or recipient/customer. Indeed, if this is the correct measure of the Postal Service's "net social obligation" from all laws which constrain it, it is not out of line with what private businesses voluntarily do; for example, Target's contribution from profits to community charities. The Postal Service's "social obligation" burden could easily be taken off all competitive mailpiece products and placed entirely, for example, on healthy segments of the highly inelastic market dominant products such as all bulk mail or just bulk ad mail. This would result in rate increases of between 0.139 cents to 0.478 cents for each bulk mailpiece or 0.206 cents to 0.709 cents for each bulk ad mailpiece.

If one examines the cost of the postal USO for delivery only, in isolation from the net impact of all postal laws, one estimate places it between \$2.5 and \$9.8 billion annually.<sup>26</sup> Total delivery costs from the 2007 Cost and Revenue Analysis cost segments C/S 6, 7, 8 and 10 equal \$23.3 billion, of which 11.5 billion are attributable by mail class, subclass and finer divisions. One cannot assign a USO overhead cost burden for attributable delivery costs, assuming they are accurate, because those are directly built into rates.

Which mail class shoulders the burden of the \$11.8 billion of delivery costs that are not attributable, and which mail classes carry most of the cost burden of the current USO for delivery only? For all institutional costs of \$28.3 billion, of which non-attributable delivery costs are the largest component at \$11.8 billion, retail mail was paying 12.7 cents more per letter than bulk ad mail in the R2000-1

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<sup>26</sup> 2007 FTC Report, p. 41, citing M. A. Gibbons.

rate case and 14.2 cents more in the last rate case in 2006.<sup>27</sup> It would be hard to argue from the data in Table 2 that retail or household generated mail is not paying its fair share of the USO delivery cost burden. To the contrary, it would seem clear from Table 2 that retail mail bears a highly disproportionate share of the delivery cost burden arising from the current USO, while bulk mail and bulk ad mail in particular clearly bear a disproportionately low share of the delivery cost burden of the USO.

**Table 2**  
**Institutional Cost Burdens of Retail Mail vs Bulk Mail**

	Volumes (1,000)	Institutional Costs	% of Total Institutional Costs	% of Total Volume	Unit Institutional Cost
<b>First-Class Mail:</b>					
<b>Single-Piece Letters.....</b>	40,119,083	\$7,156	25.3%	18.9%	\$0.177
<b>Presort Letters.....</b>	49,978,441	\$10,557	37.4%	23.5%	\$0.211
<b>Total Letters.....</b>	90,097,525	\$17,713	62.7%	42.5%	\$0.196
<b>Total First-Class.....</b>	95,895,303	\$18,411	65.2%	45.2%	\$0.191
<b>Total Standard Mail.....</b>	103,516,112	\$7,641	27.0%	48.8%	\$0.074
<b>Total Mail and Services.....</b>	212,234,469	\$28,258			

Source: CRA Fiscal Year 2007, Revised March 20, 2008.

The in-office activity of delivery carriers for retail mail in PFY 2007 totaled \$1.22 billion in attributable costs for 40.1 billion letters, whereas it cost \$2.41 billion in attributable costs for 153.5 billion bulk mail letters. City delivery of the retail letters cost \$1.27 billion in attributable costs and rural delivery cost \$0.3

<sup>27</sup> Docket No. R2006-1, GCA-T-1, Direct Testimony of James A. Clifton, p. 60, citing response to interrogatory by USPS expert Donald O'Hara.

billion for a total of \$1.57 billion to deliver 40.1 billion retail letters, whereas attributable city and rural delivery costs for bulk mail were roughly *double* that (\$3.121 billion) for well over *three times* the letter volume. Universal delivery is equally important to retail and bulk mailers, but it appears highly disproportionately funded by retail mail's attributable delivery cost assignments as well as the allocation of non-attributable delivery and other institutional costs.

There are a number of other ways beyond the inequitable division of delivery costs in which bulk mail obligates retail mail to shoulder extra costs or burdens. The excess costs of the now substantially underutilized Bulk Mail Centers can fall on retail customers whenever the economic incidence of postage falls on the consumer recipient. Between the Postal Service's mail processing capacity and the private sector's mail processing capacity in automation equipment, there is now considerable excess mail processing capacity in the country. That inefficiency leads to higher costs that are borne by senders and recipients, and by retail mail no less than bulk mail. Furthermore, there is some evidence, though not definitive, introduced in the R2006-1 rate case that the time of delivery for First Class Mail suffers when mail is sent through considerable upstream processing at a presort bureau as opposed to being processed within the USPS network from initial collection.<sup>28</sup> Finally, the existence and spread of do-not-mail legislation is a strong indicator that there are significant non-cost burdens that some bulk mail imposes on retail mailers and households.

Apart from bulk ad mail, retail mail and bulk mail are highly interactive and interdependent. This means that bulk mail users derive value from the facilities and operations that serve retail mailers. In any change to the postal USO, this means that the degradation of service for retail mail is likely to affect bulk mail usage adversely.

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<sup>28</sup> Docket R2006-1, USPS Response to OCA Interrogatory USPS-30, July 25, 2006; Excel table showing "bulk" First Class Letter Mail delivery times are considerably longer than "retail" First Class Letter Mail delivery times.

In summary, the DCG position to define the postal universal service obligation as one applying first and foremost only to senders of bulk ad mail, secondarily perhaps to all bulk mail senders, but clearly last and least to retail mailers and household sender/recipients is untenable. Standard Mail attributes clearly form the underpinning of most of DCG's perspectives and arguments regarding bulk mail and the USO generally, and obligations to bulk mail versus retail mail. Clearly Standard Mail has importance in defining and managing the postal USO of the future. But neither Standard mail nor bulk mail, or non-household mail, generally are any more important to defining, managing and funding the postal USO of the future than is retail or household mail.

B. Who Should Pay for the USO of the Future?

Cost allocation issues among mail classes or arbitrary self-serving mail groupings such as DCG's "bulk mail vs. retail mail" mantra are in GCA's view not a proper subject for this proceeding. However, DCG's Comments – that the costs of the USO should be borne more by retail mail than bulk mail – are such a transparent focal point of its argument, that GCA feels obliged to respond.

The data seem abundantly clear that retail mail pays a highly disproportionate share of the Postal Service's institutional costs for universal delivery and other postal overhead. Furthermore, many more costs of delivery are attributed to retail mail than bulk mail than would seem warranted. While there is no readily available way of estimating the costs of "a sixth day of delivery," it cannot be seriously argued that those costs any more than delivery costs generally fall disproportionately on bulk mail and insufficiently on retail mail. Just the opposite is true. If the Commission adjusts the current USO by dropping the sixth day of delivery, it should pass on the entire savings to retail mail as a way of more equitably sharing the costs of universal delivery than the current situation portrayed in Table 2.

Retail already disproportionately supports the current USO through much higher rate structures than bulk mail, and both volume and elasticity dynamics suggest bulk mail and bulk ad mail in particular can more easily shoulder higher USO burdens into the future. It is nonsensical to shoulder greater USO burdens on a mailstream whose volume is deteriorating and whose rate structure in the face of increasing Internet competition builds in disproportionate contributions to the current USO. The bulk mailstreams with stable or growing volumes and very low or falling elasticities can shoulder greater USO cost burdens.

Beyond the economic arguments raised above, there are purely technical reasons why bulk mail can shoulder a more equitable share of the USO cost. Bulk Mail is already characterized by complex, fractional rate structures that can readily incorporate geographical differences in delivery costs to reduce USO cross subsidies on this account.

#### IV. The Economic Cost Incidence and Value of Mail to the Recipient

##### A. The Economic Value of Mail is Not What DCG Attempts to Limit It To

A pervasive error throughout DCG's Comments is its belief that the only economic value of postal service lies in the acceptance, transportation, processing and delivery of bulk mail entered into the USPS network by large commercial interests. Such a viewpoint may indeed approximate the attitudes of bulk ad mailers; however, mailpieces may have important economic value to the recipient apart from these "inputs" into their delivery.

First, mail has economic value for recipients as well as senders; although this value may be negligible for much advertising mail, it is substantial for other mail types. The consumer recipient who has pre-paid for mail order merchandise has an economic interest in its safe, timely delivery. Especially when a

periodical's value is tied to the time of its receipt, as it is for weekly magazines, pre-paid subscription mail has economic value to the recipient. The economic value of transactions mail to the consumer is high because of the recipient's need for penalty-free timely completion of transactions such as payment of credit card and other bills tendered through the mail. Likewise, in their capacity as recipients of payments, financial institutions and other creditors value the mail for timely remittances from debtors.

The only mail in which the economic value of the sender is not matched by an equivalent or even greater value by the recipient is bulk ad mail. Bulk ad mail obviously has some value for recipients who read it, the greatest value for the small percentage who respond to the ad and purchase a good or service, but no or even nuisance "negative" value for all those recipients who take such mail and dispose of it without even opening it. Only in such cases is DCG's argument correct that the economic value of the mail is limited to USPS operations which accept and deliver its bulk ad mail on a universal service basis, which maximizes the value to the ad industry of the small percentage of households who will respond.

By contrast the percentage rates by which household recipients respond to other types of commercial-origin mail is significantly different. For bills, the response rate is 100% ideally, though the response may not always be through the mail.<sup>29</sup> For advertising mail a response rate of a few percent<sup>30</sup> may be an excellent result. Response rates may indeed be a good general indicator of the economic value of mail to recipients.

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<sup>29</sup> The same is true, of course, for advertising mail, which commonly solicits responses by telephone or on-line, as well as by mail.

<sup>30</sup> See Direct Marketing Association, "DMA Releases 5th Annual 'Response Rate Trends Report'" (October 13, 2007). For campaigns aimed at motivating direct-order purchases or contributions, DMA found response rates of 2.24 percent for catalogs and 2.15 percent for direct mail.

All of the preceding discussion points up what seems to us to be DCG's pervasive error: the assumption that the *only* economic value of postal service lies in the acceptance, processing, transportation, and delivery of mail, for which the sender (whoever that may be) usually (but not always) pays in the first instance (but may be reimbursed for, directly or indirectly). We showed above that much mail has substantial economic value to the recipient, quite apart from these inputs to its delivery.

*Long-term value to recipients of mailed items.* In addition, mail often has value to the recipient that survives its journey through the postal system, persisting long after the last distinctively postal operation, paid for through postage, has been performed on it. Examples:

- A professional periodical is kept by the recipient practitioner as a reference source, useful in his or her work;
- A Form 1099 or W-2 is kept by a taxpayer for tax preparation purposes; a bank statement is retained as a household financial record; and, perhaps most obviously,
- Mail order merchandise is worn, eaten, or otherwise used – perhaps over a period of years – for the purpose for which it was originally bought.

All these forms of economic value to the recipient are, to at least some extent, independent of the fact that the valued item was mailed. The professional periodical might have been bought in a bookstore, many financial documents might be obtained on-line, and the mail order merchandise might be identical to items that could have been bought over the counter. Their net value may be greater because they were obtained by mail, but the fact that they are valued does not depend on that circumstance.

There is, of course, one prominent type of mail for which this is likely not to be true. Any value advertising mail has for the recipient tends to be quickly exhausted, even when the recipient responds to the advertisement by making a purchase. And because DCG focuses so exclusively on advertising mail, it feels free essentially to disregard any persisting economic value of mail to the recipient, and to equate “economic interest in the mail” with the sender’s outlay for mailing it. That interest might be measured as the prospect of responsive purchasing by a certain proportion of recipients, netted against the cost of the mailing. But such value to recipients does exist, and a definition of “customer” which ignores it is incomplete and misleading.

B. The Non-Economic Value of Mail Is Important to This Proceeding

The discussion thus far has focused on economic value to recipients. It is elementary, however, that economic values are not the only ones to be considered. From 1976 until its replacement by PAEA, the Postal Reorganization Act required that ratemaking include attention to the “educational, cultural, scientific, and informational value *to the recipient* of mail matter.”<sup>31</sup> That standard remains in PAEA, as one of the factors to be taken into account in establishing the modern system of rate regulation called for by Title II.<sup>32</sup> It follows that such non-economic values cannot be neglected – as they would be under DCG’s approach – in defining universal service and the USO.

These non-economic values are specific to recipients, and exist for reasons having nothing to do with the postal operations involved in their delivery or the costs of those operations.<sup>33</sup> For example: assume two periodicals of

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<sup>31</sup> Former 39 U.S.C. § 3622(b)(8) (italics added).

<sup>32</sup> 39 U.S.C. § 3622(c)(11).

<sup>33</sup> The distinction between the “intrinsic” value of a mailed item and the value of the resources expended in processing, transporting, and delivering it, goes back to the early days of ratemaking under the 1970 Act. It was drawn in *Association of American Publishers v. Governors*, 485 F.2d

identical weight, circulation, editorial percentage, mailpiece and containerization characteristics, and presort depth. Periodical A covers bicycling; periodical B covers photography and digital imaging. Recipient A' is a recreational cyclist; recipient B' an amateur photographer. They will each attach different non-economic values<sup>34</sup> to each other's periodicals than to their own, even though the operations and costs involved in mailing a copy of A to A' (or of B to B') are identical to those that would be incurred by mailing a copy of B to A' (and conversely).

In the example just given, we considered the non-economic value to recipients of commercially-published periodicals, created and mailed from an economic motive. Cases of that kind are far from exhausting the notion of non-economic value to recipients, since nearly all personal correspondence (greeting cards, invitations, personal letters, and the like) is mailed for *non-economic* reasons.<sup>35</sup>

In summary, therefore, GCA urges the Commission to recognize that the notion of economic value of, and economic interest in, the mail which DCG puts forward is far too narrow to be other than misleading for purposes of defining universal service.

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768, 775 (D.C. Cir., 1973). That decision in large measure provoked Congress's addition of the "ECSE value" ratemaking standard, former 39 U.S.C. § 3622(b)(8), to the Act.

<sup>34</sup> The matter becomes more complicated, and the contrast sharper, if we vary the hypothetical by assuming that B' is a *professional* photographer. In that case, economic as well as non-economic value is conveyed in the mailed periodical.

<sup>35</sup> In its *Household Diary Study* reports, the Postal Service characteristically divides First-Class correspondence mail into "personal" and "business" categories, and studies them separately.

C. Apart from Bulk Ad Mailers, the Cost of Postage is Typically Paid by the Recipient Including Bulk Mail Sent to Households

Recipients pay for postage! Indeed, apart from bulk ad mail, recipients pay for almost all postage either directly or indirectly because the economic incidence of the postage is ultimately reflected in some cost borne by the consumer because it can be passed on by the bulk mailer. This means that in volume terms retail/household recipient/customers pay the postage for about 109 billion pieces of mail valued at \$50 billion while bulk mailers pay postage for about 103 billion pieces of mail valued at \$21 billion.

Recipients pay directly for postage for mail order merchandise as well as handling add-ons. While the cost of sending a periodical to a household is typically not an add-on to the subscription price unless special handling is requested and available, postage and all other costs of the publisher are typically built into the subscription price. Put differently, postage costs do not eat into the profits of periodical publishers anymore than any other cost they bear and that is reflected in the subscription price. In this regard, the claim by DCG that “traditional views of publishers as to the willingness and ability of recipients to pay for delivery may be changing.” is disingenuous. Adding a separate postage charge on top of existing subscription prices would be charging the customer twice for postage.

*“Sender” and “recipient” are not discrete categories.* Another reason the DCG argument fails is that it is in many, perhaps most instances either unrealistic or entirely artificial to attempt to distinguish senders of mail from recipients and vice versa. Individuals, households, small and large organizations, governmental and private sector entities are typically both senders and recipients. That is why it DCG’s attempt to identify obligations for universal service in a way that ties them uniquely to bulk mail senders *who are sender customers only* – and not recipient customers also – is thoroughly fallacious. The only bulk mail organizations for which DCG’s profile is true is bulk ad mail organizations, because such

commercial enterprises are the recipients of very little mail unlike other non-household bulk mailers and unlike households.

Considering only commercial and quasi-commercial mail users, the following are important senders and recipients of mail. Banks send credit card statements and receive payments back. Mail order merchants send catalogs, receive orders, send merchandise, receive returns. The U. S. Treasury and state or local revenue departments send tax return forms and tax bills and receive completed returns and bill payments. States send motor vehicle registration applications and receive completed applications and payments.

In short, if we were to accept DCG's postulate that "customer" means (only) "sender," then a comprehensive view of the spectrum of mail users would show that, apart from senders of advertising mail, most users are both senders and recipients. Thus, on DCG's own postulate, recipients, being senders as well, must also be "customers" – making DCG's position effectively self-refuting.<sup>36</sup>

VI. The Postal Service is a unique public institution with a public service mission, and cannot be made to mimic a private-sector common carrier

At various points in its Comments, but particularly in section 7, DCG advocates adoption of the private-sector common carrier obligation as a model for universal postal service and the USO. This argument rests on a variety of fallacies and omissions of relevant fact, and ignores the special institutional character of the Postal Service.

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<sup>36</sup> It might seem possible to argue that what DCG really intends is that "customer" means "mail user, when, as, and if that user falls under the description of 'sender.'" But – quite apart from the difficulty of imagining how, e.g., a credit-card issuing bank could be a Postal Service "customer" when sending out bills but not when taking in mailed remittances in payment of those same bills – the significant economic value of received mail (see pp. 19-22 above) makes the "customer equals sender" argument untenable.

In part, DCG's argument rests on foundations we have already shown to be at best insecure. DCG says:

Earlier in this memorandum, postal customers were identified as similar to customers of other transportation services, and in particular the customers of parcel and express carriers. Therefore, looking at the legal obligations of these carriers should put the question of what the universal service obligation of the Postal Service should be in a competitive context.

DCG Comments, p. 23 (fn. omitted). Since DCG's characterization of postal "customers" is itself unsound<sup>37</sup>, the Commission could not safely reason from a supposed similarity between them and the customers of a private transportation firm to reach the conclusion that the Postal Service's obligations should mirror the private carrier's. Still, even if DCG had correctly specified what it means to be a postal "customer," and had used that information in an evenhanded way, it would not follow that because the customers of enterprises X and Y share many characteristics, X and Y themselves must also be similar.<sup>38</sup>

In advancing this position, DCG risks ignoring – and as its Comments show, does ignore – the unique institutional character of the Postal Service. Part of that unique character, of course, is the tradition of universal service and the recognized, if incompletely specified<sup>39</sup>, obligation on the Postal Service to provide it. DCG describes in considerable detail the obligations and practices of common carriers – particularly express and delivery companies – but nowhere shows, or even claims, that any of them is subject to a universal service *obligation*.

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<sup>37</sup> See pp. 4-6, 7 et seq., 24-25, above.

<sup>38</sup> This is particularly true since DCG itself evidently wants the Commission to view the question "in a competitive context." In a context of that kind, a *difference* between X and Y may be precisely what makes the situation a competitive one. An innovation by X – even, for example, an enhanced undertaking to provide universality in its service – will not make its customers different *in kind* from Y's. It is much more likely just to cause many of Y's customers to migrate to X.

<sup>39</sup> As noted in the Commission's Order No. 71 (April 18, 2008), p. 5.

Ubiquity of service, in this connection, must be distinguished from uniformity of service as among those points which the carrier does serve. At page 24 of its Comments, for example, DCG describes the common carrier's obligation not to discriminate against similarly situated customers, but does not suggest that such a carrier must offer service to every *potential* customer, even if that person or entity is located in an area the carrier has not undertaken, and is not prepared, to serve. The Postal Service too has a duty not to discriminate unreasonably among its customers (39 U.S.C. § 403(c)) – but that obligation is separate from its obligation to serve universally.<sup>40</sup>

It may be, as DCG states, that some private carriers do “hold themselves out to deliver to all addresses in the United States.”<sup>41</sup> This fact, however, seems to result not from a universal service obligation but from those firms' perception that universal delivery<sup>42</sup> represents the most advantageous business model. Such perceptions of business advantage may and do change. A recent example may be found in DHL's plans to abandon its DHL@home service. DHL@home, to be discontinued after September 1, 2008, is a business-to-household service in which DHL consolidates parcels to USPS for last-mile delivery; it serves major merchandising companies such as Amazon.com.<sup>43</sup>

The DHL example raises another question, ignored by DCG but central to the legitimacy of its attempt to make private-sector common carrier obligations

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<sup>40</sup> For example, the requirement that it “shall render postal services to all communities” (39 U.S.C. § 101(a)) is expressed as part of its basic charter, not of its obligations with respect to establishing rates and classifications.

<sup>41</sup> DCG Comments, p. 25. DCG is referring to DHL, Federal Express, and United Parcel Service.

<sup>42</sup> It should not be forgotten that universal *delivery* is conceivable even without what most postal patrons would think of as universal *service* (i.e., delivery *plus* availability of sending facilities, convenient ways to pay for service, etc.). Here again, DCG's narrow focus on advertising mail leads it to ignore the needs of mail recipients who are also senders and who need to interact by mail with senders of transactional and other types of business mail.

<sup>43</sup> See *Business Mailers Review*, June 16, 2008, p. 1. The article's report of remarks by a DHL spokesperson makes it clear that discontinuance of DHL@home was altogether a business decision.

(or practices, where no obligation exists) appear an appropriate model for the Postal Service. That question is: How far does the ubiquity promised by some private-sector transportation firms depend on the ability of the Postal Service to provide (at least) last-mile delivery?

Both the DHL@home service and another DHL/USPS partnership, created a few months ago, illustrate the practical nature of this question. DHL@home, as noted, combines parcel consolidation by DHL with last-mile delivery by the Postal Service.<sup>44</sup> Another DHL-USPS agreement makes the Postal Service the sole provider of last-mile delivery for (mostly business-to-business) DHL packages in 3,600 ZIP codes, through Priority Mail and Parcel Select.<sup>45</sup> Nor is DHL the only such user. In a recent article<sup>46</sup>, Postal Service Vice President Jim Cochrane notes that

Postal Service business partners, including traditional competitors like FedEx, UPS and DHL, pick up packages from large retailers, then transport and deposit these packages at a Postal Service facility near the customer's address. From there, Postal Service carriers deliver the packages the last mile to their final destination.

It is not hard to see the relevance of these and similar arrangements to the question DCG has put before the Commission. If private-sector carriers offer their customers ubiquitous delivery, and if their ability to do so (or to do so remuneratively) depends on partnering with the Postal Service for last-mile delivery, then it is incoherent to argue that the Service's obligation to provide ubiquitous service should be modeled on the practices of the private sector. In the context of a different Postal Service obligation of universality, those private-sector practices themselves might be very different.

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<sup>44</sup> The key role of the Postal Service is underlined by the fact, also reported in the June 16 article cited above, that with the impending demise of DHL@home, "[t]he Postal Service is scrambling to find consolidators to fill the gap[.]"

<sup>45</sup> *Business Mailers Review*, June 2, 2008, p. 3. The Service has provided last-mile delivery for DHL in many areas since 2003.

<sup>46</sup> Jim Cochrane, "Partners?", *Mailing Systems Technology*, July-August 2008, p. 30.

But the question does not end there. If the service practices of private-sector carriers reflect their business interests, and particularly their use of an ability to exit a local or regional delivery market entirely should it be unremunerative, how far do these practices depend for their existence on the continued presence in the abandoned market of the Postal Service as the universal-service-obligated “carrier of last resort?” If such dependence exists<sup>47</sup>, then DCG’s position is effectively self-refuting: it would have the Commission change the Postal Service’s universal service obligation to mimic a private-sector model that itself significantly depends on the *existing* Postal Service obligation.

These considerations demonstrate that DCG’s arguments for a common-carrier model, even taken in isolation, are radically defective. It is worth noting, however, that these arguments are all of a piece with DCG’s selective focus on bulk advertising mail and its advocacy for remaking the postal USO in the interest of this category and to the prejudice of other, more interactive, mails (e.g., bills and transactional documents, orders and payments for merchandise, personal correspondence).

A parcel carrier’s business pattern involves far less reciprocal communication between sender and recipient than these interactive mail types. This is not to say that sender and recipient of parcels do not interact; they often do, as in the catalog/order/parcel shipment chain, but the parcel carrier is not the medium by which they do it. Thus the parcel carrier – unlike the Postal Service – does not need facilities or special products to enable recipients to communicate responsively to senders.<sup>48</sup> This characteristic of parcel carriers helps distinguish

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<sup>47</sup> DCG does not address the question.

<sup>48</sup> Perhaps for similar reasons, DCG appears to find no relevant distinction between a carrier obligated (like the Postal Service) or offering (like UPS or FedEx) to serve every address nationwide, and a strictly regional carrier serving all addresses within a circumscribed area. DCG Comments, p. 25. If the recipient seldom communicates back in response to a parcel delivery, then the regional carrier need not be overly concerned with responses requiring delivery outside its service area.

them from postal systems in the full sense, and to show that their practices are a poor model for the universal service obligation of the Postal Service.

At pp. 25 et seq. of its Comments, DCG argues that “[t]he common carrier obligation has characteristics similar to those identified by the Commission as pertaining to the Universal Service Obligation.” It refers to the six parameters of universal service listed in Order No. 71: geographic scope, range of product offerings, access to postal facilities and services, frequency of delivery, rates and affordability, and quality of service. This similarity seems to be offered as showing that the common carrier obligation would be a good model for the postal USO. It does no such thing.

Similarity of generalized functional issues, as between a private-sector common carrier and the Postal Service, shows only that both cover certain areas, make more or less regular deliveries, charge for their services, and so on. That this implies nothing about the proper definition of the *postal* USO can be seen easily from the fact that a carrier which did not pretend to offer universal service would face the same functional issues.<sup>49</sup>

By ignoring the fact that the Postal Service *starts with* a USO, which it is the object of this proceeding to help define in appropriate detail, DCG creates a superficial appearance of logical possibility for its argument that the practices of carriers that do *not* have a USO should be a model for the Postal Service. The Commission should not allow itself to be misled.

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<sup>49</sup> A regional or even an intrastate carrier would still face even the geographic scope issue. The notion of geographic scope is not exhausted by the nationwide/regional dichotomy. A local surface carrier might, for example, undertake only to serve addresses located on paved roads, even though it planned to serve all such addresses within its territory. DCG cites nationwide carriers and regional carriers promising universal delivery in a limited area (Eastern Connection is its example; DCG Comments, p. 25) simply as illustrating, apparently equally well, the pervasiveness of the geographic scope issue. That the issue affects all delivery carriers does not mean that all will be able to resolve it in the same way. DCG’s approach simply ignores the established *obligation* of the Postal Service to serve universally.

## VII. Conclusion: GCA Recommendations

In testimony presented at the St. Paul field hearing, GCA urged the Commission to recognize that “the U.S. Postal Service must be a means of communication *for* the people – not just a way of delivering things *to* the people.”<sup>50</sup> DCG’s Comments demonstrate as clearly as anything could that GCA’s reminder was not superfluous rhetoric: there are mailing interests that would have the Commission ignore the interests of household and small volume postal patrons, and indeed of the whole spectrum of mail users in their capacity as recipients, in recommending the future design of universal service.

Those small-mailer and recipient interests, which we trust the Commission will *not* ignore, call for a universal postal service that is ubiquitous, simple to access and use, affordable, and equipped with an adequate range of different postal products. Those whose interests lie only in the bulk distribution of advertising mail have no reason to emphasize any of these values except ubiquity – and that, most probably, with the emphasis on delivery alone, rather than on easy access for purposes of sending mail. In Comments filed on June 30, 2008, GCA extensively discussed three of these parameters – ubiquity, access (including simplicity in use), and affordability; we respectfully refer the Commission to that discussion<sup>51</sup>, which still represents our view as to the shape universal postal service and the USO should assume in the future. GCA’s arguments in these Reply Comments are meant to reinforce that view.

Finally, to summarize what we have said in the present document:

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<sup>50</sup> Statement of George White, President and C.O.O., Up With Paper L.L.C., on Behalf of the Greeting Card Association, p. 2.

<sup>51</sup> Comments of the Greeting Card Association, pp. 6-23.

A. GCA urges the Commission to reject unequivocally the effort of DCG (and some others) to have universal service and the USO recast in the exclusive interest of bulk advertising mail. This implies not only rejecting the explicit arguments of DCG that bulk advertising mail is, or will be, the primary *raison d'être* of the Postal Service. DCG's less-than-transparent supporting arguments should also be discounted.

B. To the extent that this overall argument covers an attempt to have costs shifted from bulk advertising mail to other bulk mails and to the "retail" mail user, we urge the Commission both to keep this proceeding within its planned limits – which do not include reallocation of costs – and to recognize that ample evidence and arguments exist in favor of *increasing* the financial contribution of bulk advertising mail to the system it utilizes.

C. Prominent among the subsidiary or theoretical arguments DCG deploys is the assertion that the postal "customer" is solely the sender of mail. The value of the mail, however, lies not just in the Postal Service resources expended to deliver it, but in the economic and non-economic values it confers on recipients. That the sender "pays the postage" – besides being very frequently false, in any economically meaningful sense – does not mean that the sender is the only party having an economic interest in the mail.

D. Similarly, it is unrealistic and misleading to divide mail users into "senders" and "recipients," as though these were two discrete categories of persons. Most mail users both send and receive mail. Indeed, it is principally the bulk advertising user that (rightly) expects recipients, on average, to derive little or no value from its mail, and to respond to it in relatively few cases.

E. In arguing that bulk advertising mail should dominate universal service planning, DCG uses an inappropriate metric – sheer mail volume – rather than the much more significant criterion of value of the mail (as approximated by the

Postal Service's revenue from various mail types). Seen in that light, it is clear, that what DCG dismissively labels "retail" mail contributes greatly to the total value of the postal system, Examination of DCG's arguments also shows that it has improperly lumped together bulk advertising mail (which confers little value on and elicits little responsive communication from recipients) with other bulk mails such as bank or credit card transactions, bills and statements, and periodicals (which confer far more recipient value and call for far more responsive mailing).

F. DCG completely neglects the non-economic value of much mail (not, for the most part, advertising mail) to the recipient. These non-economic values – those formally encapsulated in statute as "educational, cultural, scientific, and informational" as well as the more personal benefits conferred by correspondence from family and friends – are independent of the "value" represented by the postal operations performed in the course of delivery. The Commission should not neglect them in reaching its conclusions on universal service and the USO.

G. Finally, the suggestion that the "obligations" of private-sector common carriers should form the model for the Postal Service's universal service obligation is wholly misguided. Far from being a pattern for remaking the postal USO, these private-sector business patterns – generally *not* embodied in legal obligations – often depend on the existing model of universal postal service. Even if this were less pervasively true than it is today, the suggestion that the Postal Service should imitate private-sector service patterns ignores the fact that (unlike the private-sector firms) the Postal Service *starts with* a USO, and will continue to provide universal service even if the Commission recommends changes in the way that is done.

Respectfully submitted,

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