Postal Regulatory Commission
Submitted 11/2/2012 11:50:04 AM
Filing ID: 85533
Accepted 11/2/2012

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

NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT	Docket No. R2013-1

JOINT COMMENTS OF THE DIRECT MARKETING ASSOCIATION, INC., THE MAILING AND FULFILLMENT SERVICE ASSOCIATION, THE NATIONAL POSTAL POLICY COUNCIL, AND THE PARCEL SHIPPERS ASSOCIATION

(November 2, 2012)

The Direct Marketing Association, Inc. (DMA)., the Mailing and Fulfillment Service Association (MFSA), the National postal Policy Council (NPPC), and the Parcel Shippers Association (PSA) hereby respectfully submit these comments on the Postal Service's notice of price adjustment for market-dominant products.[1] We file these brief comments in support of the Comments of the National Association of Presort Mailers (NAPM Comments).[2] Those comments note a "trend of pricing to excess capacity":

> NAPM is concerned that the current prices reflect a disturbing trend of pricing to excess capacity. These concerns are amplified by public statements of Postal Service executives which observed that the MAADC letter price was intended to bring mail in-house because of excess capacity in mail processing operations. The price increase on MAADC mail is a fraction of the increase imposed on 5-Digit mail. This sends the message to the mailing industry that the Postal Service has no interest in trying to

[1] *United States Postal Service Notice of Market-Dominant Price Adjustment*, Docket No. R2013-1 (October 11, 2012) ("*USPS Notice*"). The Commission gave notice of the price adjustment in Order No. 1501, 77 *Fed. Reg*. 64362 (Oct. 19, 2012).

> provide more cost effective, faster service. It confirms mailers' fears that the Postal Service wants to bring mail in-house to avoid having to make further cost reductions. This pricing philosophy is counterproductive and will succeed only in driving mail out of the system.

NAPM Comments at 5. We share these concerns.

This is the fourth time mailers have commented on this trend. Commenting, with others, on the 2012 price adjustment joint commenters said:

> A shift in focus from price signals designed to drive the lowest combined costs to prices geared to promote the use of excess capacity is problematic. First, it is a substantial and inappropriate departure from the long-standing pricing policy that has resulted in enhanced economic efficiency for both the mailing industry and the Postal Service. Second, it suggests the use of the Postal Service's monopoly position to engage in a form of exclusionary pricing – discouraging the most efficient providers from performing upstream services (e.g., sortation and transportation) at lower cost. Prices that encourage work to be performed by the least cost provider (i.e., whether that provider be a mailer, mail service provider, or the Postal Service) are efficient and allow the Postal Service to size its infrastructure appropriately. In contrast, inefficient prices designed to make work for the Postal Service will result in too large a network, higher costs to mailers, and accelerated volume declines. They will exacerbate the financial crisis facing the Postal Service mailing industry.[3]

Others had expressed similar concerns in comments on the 2011 price adjustment when the Postal Service implemented Standard Mail parcel prices that favored upstream instead of downstream entry.[4] The Commission allowed the 2011 adjustment, but "encourage[d] the Postal Service to maintain rate differentials in such a way that encourages the most efficient preparation . . . thereby minimizing the Postal Service's processing and transportation costs."[5]

Most recently, in comments on the 2011 Annual Compliance Report, mailers said:

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[3] *See* Dkt No. R2012-3, Joint Comments Of The Direct Marketing Association, Inc., the Mailing And Fulfillment Service Association, the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Parcel Shippers Association (Nov. 7, 2011) at 3.

[4] "[In the 2011 price adjustment] the Postal Service pursued a similar, inefficient approach when it significantly reduced the 5-Digit presort discount for Standard Mail machinable parcels. In that case the 5-Digit presort prices for Standard Mail machinable parcels were reduced to reflect less than half of the measured costs avoided by mailer worksharing. These prices discouraged the preparation of 5-Digit presort in favor of NDC presort even when the private sector could perform the sortation at half the cost." Id. at 2.

[5] *See* Dkt. No. R2011-2, PRC Order No. 675 (Feb. 16, 2011), at 33.

> That the Postal Service would attempt to capture more work by reducing workshare discounts in the face of volume declines is predictable, even if it is self-defeating. *See* Comments of the Direct Marketing Association (Feb. 3, 2012) at 3-4 (demonstrating that the Postal Service could maximize the contribution from First-Class Mail by lowering prices on Presort Letters). But the predictability of this shift underscores the importance of the Commission's role in ensuring that pricing signals enhance efficiency. The effects on productive efficiency generally and on postal operations specifically are only one dimension of this issue. Setting discounts at less than costs avoided raises serious competition policy concerns because doing so is inherently exclusionary. *See* Comments of John Panzar (Feb. 3, 2012) at 5. Under the PAEA, it is the Commission's responsibility to prevent exclusionary pricing and to ensure that postal pricing policies promote economic efficiency and the long-term sustainability of the postal system. *See id*. at 14.[6]

As NAPM points out, ". . . excess capacity is a real issue. The Postal Service is burdened with an oversized infrastructure in the face of declining mail volumes. . . But the solution is to remove the excess capacity from the network, not to price to it. Pricing to excess capacity is exclusionary and will only perpetuate the problem and discourage the use of the mail. NAPM Comments at 5.

So, yet again we urge the Commission to act. As joint commenters did earlier this year, "we ask the Commission, in this proceeding, to instruct the Postal Service to construct price signals that recognize the importance of efficiency by promoting worksharing, as opposed to making use of excess capacity. This is necessary to create a more equitable, nonexclusionary price schedule that fully reflects the value of worksharing."[7]

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[6] *See* Dkt. No. ACR2011, Joint Comments of the Direct Marketing Association, Inc., the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Parcel Shippers Association (February 3, 2012) at 2-3.

[7] *Id* at 3.

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