

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

TRANSFERRING INBOUND SURFACE PARCEL
POST (AT UPU RATES)

DOCKET NO. MC2014-28

**UNITED STATES POSTAL SERVICE NOTICE OF FILING
LIBRARY REFERENCE USPS-LR-MC2014-28/NP1 AND
APPLICATION FOR NON-PUBLIC TREATMENT**

The Postal Service files the material indicated below in this proceeding as

Category 2 Library Reference:

USPS-LR-MC2014-28/NP1 Fiscal Year 2013 Data for Inbound Parcel Post
(at UPU rates) [Non-Public]

This library reference shows the combined cost coverage, and related data, for Inbound Air Parcel Post (at UPU rates) and Inbound Surface Parcel Post (at UPU rates) based on FY2013 data. The Postal Service regards the disaggregated cost, volume, and revenue data contained in the library reference to be commercially-sensitive and proprietary information that should not be released into the public domain. Further, the library reference is based on the International Cost and Revenue Analysis shown in USPS-FY13-NP2, which was treated as non-public in Docket No. ACR2013.

Accordingly, the Postal Service is providing USPS Library Reference MC2014-28/NP1 as a non-public library reference. An application for non-public treatment of USPS Library Reference MC2014-28/NP1 is attached to this Notice.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**APPLICATION OF THE UNITED STATES POSTAL SERVICE
FOR NON-PUBLIC TREATMENT OF MATERIALS**
(June 25, 2014)

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,¹ the United States Postal Service (Postal Service) applies for non-public treatment of certain materials filed under seal with the Commission. Library Reference USPS-LR-MC2014-28/NP1 includes sensitive commercial information, consisting of disaggregated cost, volume, and revenue data.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public consist of information of a commercial nature that under good business practice would not be publicly disclosed. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3). Because the materials that the Postal Service applies to file under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials qualify as exempt from public disclosure and grant its application for their non-public treatment.

¹ PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, PRC Docket No. RM2008-1 (June 19, 2009).

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

In the case of the UPU rates such as those at issue here, the Postal Service believes that the postal operators whose governments are members of the UPU are the only third parties with a proprietary interest in the materials. Due to language and cultural differences as well as the sensitive nature of the Postal Service's rate relationship with the affected foreign postal operators, the Postal Service proposes that a designated Postal Service employee serve as the point of contact for any notices to the relevant postal operators.² The Postal Service identifies as an appropriate contact person Peter Chandler, Acting Manager, UPU Relations, International Postal Affairs. Mr. Chandler's phone number is (202) 268-5549, and his email address is peter.r.chandler@usps.gov.

In view of the practical difficulties, the Postal Service has not undertaken to inform all affected postal operators about the nature and scope of this filing and about the ability to address any confidentiality concerns directly with the Commission as provided in 39 C.F.R. § 3007.20(b). To the extent that the Postal Service's filing in the absence of actual notice might be construed as beyond the scope of the Commission's rules, the Postal Service respectfully requests a waiver that would allow it to forgo

² The Postal Service acknowledges that 39 C.F.R. § 3007.21(c)(2) appears to contemplate only situations where a third party's identification is "sensitive" as permitting the designation of a Postal Service employee who shall act as an intermediary for notice purposes. To the extent that the Postal Service's response might be construed as beyond the scope of this exception, the Postal Service respectfully requests a waiver that would allow it to designate a Postal Service employee as the contact person under these circumstances, in light of the practical considerations outlined herein.

providing a notice to each postal operator. It is impractical to communicate with dozens of operators in multiple languages about this technical regulatory matter.

(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;

The non-public materials contain disaggregated cost, volume, and revenue data that is commercial information of the Postal Service. Further, the library reference is based on the International Cost and Revenue Analysis (ICRA) Report from USPS-FY13-NP2, which was treated as non-public in Docket No. ACR2013. The library reference presents the inputs and the analyses used to attribute and distribute costs to Inbound Parcel Post (at UPU rates). The Postal Service maintains that these materials should remain confidential.

(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

If the information that the Postal Service seeks to protect from disclosure due to its confidential nature were disclosed publicly, the Postal Service considers it quite likely that it would suffer harm. Disclosing the data for Inbound Parcel Post (at UPU rates) would provide competitors with valuable information, enabling them to better understand the Postal Service's cost structures. This confidential information includes volume variable costs, as well as disaggregated cost contribution and cost coverage. Such information would be extremely valuable to competitors in assessing the strengths and weaknesses of various postal products. Armed with detailed product cost information, competitors would be able to better identify and understand areas where they could adapt their own operations to be more competitive with international parcels

and better assess how to price and market their own products in such a way as to target the Postal Service's weaknesses and compensate for its strengths in producing and marketing various products.

Furthermore, information contained in the workpapers would provide an even more refined knowledge of the Postal Service's costs, cost structures, and capabilities. Postal costs are recorded in elaborate systems of general ledger accounts. These are grouped into various functional and other categories (cost segments and components) for further analysis and ultimate allocation and distribution to individual products. The level of detail contained in the workpapers is highly refined and would enable competitors and Foreign Postal Operators with whom the Postal Service might negotiate particular contract rates to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

Additionally, competitors could use the product-specific revenue and pieces information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with Foreign Postal Operators, who would be able to ascertain critical information about relevant product trends (*e.g.*, average revenue per piece, average weight per piece).

The Postal Service considers it highly probable that, if this information were made public, the Postal Service's competitors and customers would take immediate advantage of it. Such information is information of a commercial nature, which under good business practice would not be publicly disclosed. In the Postal Service's opinion, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. §§ 552(b)(2,-3).³

(5) At least one specific hypothetical, illustrative example of each alleged harm;

Harm: Competitors could use disaggregated cost, revenue, and volume summary data to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's Inbound Parcel Post (at UPU rates) product. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

Hypothetical: The library reference, including revenue, volume variable costs, contribution, and cost coverage data is made public. Competitors use it to gain a refined understanding of the strengths and weaknesses of the Postal Service's Inbound Parcel Post (at UPU rates) product. Financial analysts for competitors relay their assessments to colleagues in the competitors' marketing and investment divisions.

This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based

³ In certain circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

on such assessments, for example, firms that have individual products comparable to Inbound Parcel Post (at UPU rates) determine that they have potential for competitive gain against the Postal Service and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

Harm: Competitors could use disaggregated product cost, volume, and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: The disaggregated cost, volume, and revenue data are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of Inbound Parcel Post (at UPU rates) on a per-piece basis. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

Harm: Foreign Postal Operators could use the disaggregated cost, volume, and revenue data to undermine the Postal Service's position in contract negotiations with those customers.

Hypothetical: The disaggregated cost, volume, and revenue data are disclosed to the public. Foreign Postal Operators obtain the information and use it to their advantage in negotiating bilateral or multilateral terminal dues rates with the Postal Service.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the disaggregated cost, volume, and revenue data should be withheld from any person who has not agreed to the Commission's standard confidentiality requirements, including any person involved in competitive decision-making for any entity that might gain competitive advantage from use of this information, including competitors and Foreign Postal Operators. The Postal Service further maintains that actual or potential customers of the Postal Service for these or similar products should not be provided access to the nonpublic materials.

(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

(8) Any other factors or reasons relevant to support the application.

The Postal Service considers this Application sufficient to fulfill the Postal Service's obligations to justify its determination that disaggregated cost, volume, and revenue data should be treated as non-public.

Conclusion

For the reasons discussed, the Postal Service requests that the Commission grant this application for non-public treatment of the identified material.