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Washington, DC 20268-0001

Annual Compliance Report, 2014 : Docket No. ACR2014

REPLY COMMENTS OF THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA) files these Reply Comments pursuant to Order No. 2313. In them we address two topics: the relationship of First-Class Letter rates to market-dominant rates as a whole, and the Metered/Stamped Letter differential in Single-Piece First-Class Letters.

I. SINGLE-PIECE AND PRESORT FIRST-CLASS LETTER RATES

Comments filed in this annual compliance proceeding present issues concerning the pricing of First-Class Mail. These issues in fact relate to both Presort and Single-Piece First-Class letters, though the parties raising them address them only as they relate to Presort. In this section, we discuss those comments; while much that is said in them is apposite and convincing, their exclusive focus on Presort letters and cards is not one the Commission should adopt.

Pricing of First-Class Letters. National Postal Policy Council (NPPC) presents extensive argument for the proposition that Presort is overpriced, arguing that the high cost coverage and unit contribution of that category violate 39 U.S.C. sec. 3622(b)(8) ("just and reasonable schedule of rates and classifications"). While NPPC notes in passing that Presort has made a larger contribution to institutional costs that Single-Piece[1], the main focus of its argument seems to

[1] Comments of the National Postal Policy Council ("NPPC Comments"), p. 4, and, inferentially, in fn. 12 on p. 5.

be the relationship between Presort's cost coverage and contribution and those of the (market-dominant) system as a whole. Thus, the table on p. 3 of its Comments compares the cost coverage of Presort with the "System Cost Coverage." For FY 2014, the table contrasts a systemwide cost coverage of 184.31 percent (market-dominant products) with a coverage of 320.16 percent for Presort Letters and Cards.

GCA can see reasonable grounds for the Commission to inquire into whether the price relationship between First Class and the rest of the market-dominant sector has become unbalanced. Where we differ from NPPC is with regard to its narrow focus on Presort. While that concentration allows it to point to a striking disparity in cost coverages, its Objective (b)(8) argument seems to us to apply at least equally well to the entirety of First Class.

GCA would agree that First Class Mail as a whole carries an extremely large institutional cost burden ($0.251 per piece, as against $0.087 for Standard Mail and $0.169 for what remains of market-dominant package services). Our point is rather that this comparison should be between First Class *as a whole* and the market-dominant sector.

In this regard, a good deal of what NPPC says at pp. 7-8 of its Comments could be endorsed by GCA if not for its exclusive focus on Presort prices. Most significantly, at p. 7 NPPC points out that

> . . . In FY2009 – the year the recent recession ended – First-Class Presort mail volume was 48,235,220,000 pieces. . . . Five more years of overpricing has substantially contributed to reducing Presort mail volume to 40,193,309,000, despite the end of the recession in 2009 and five subsequent years of economic growth. [Citations omitted]

CRA data for the same two years show a decline in Single-Piece Letters and Cards from 31,633,220,000 pieces (FY 2009) to 21,524,315,000 (FY 2014). Thus Presort has declined 16.7 percent in that period – but Single-Piece volume has fallen 32.0 percent. If NPPC's argument that overpricing has caused loss of volume is sound, it seems to us that it applies at least equally well to Single-Piece – in other words, that it is an argument which should be evaluated from the standpoint of First Class as a whole.

The relationship between Presort and Single-Piece First-Class rates. NPPC's Comments do not strongly emphasize this relationship, though it is mentioned in passing. We explained our view on this issue in Comments filed in the current price-cap case, Docket R2015-4[2], and need not repeat them at length here. Our main points are that (i) when worksharing prices are set efficiently, per-piece contribution is the appropriate parameter for evaluation, and (ii) per-piece contribution from Single-Piece has more than kept pace with that from Presort, as both have gradually increased. We have argued in the past that concentration on comparative cost coverages is a misleading approach, and that is still GCA's view.

This last observation applies particularly to Pitney Bowes' comments, which do insist on the disparity in both cost coverage and unit contribution as reasons for lowering Presort rates (and, inferentially, raising those for Single-Piece).[3] That their unit contributions differ is due to the real-world fact that not every identifiable cost difference is due to worksharing. The Commission, after extensive analysis, has concluded that some "intrinsic"[4] characteristics of Presort mail should be grounds for pricing differentiation if they are needed to make the worksharing itself valuable to the Postal Service.[5] But that does not mean that pricing of this workshared product is improper unless its unit contribution exactly equals that of Single-Piece.

[2] Docket R2015-4, Comments of the Greeting Card Association (February 4, 2015).

[3] Comments of Pitney Bowes Inc. ("PB Comments"), pp. 1-2.

[4] That is, cost-reducing characteristics not created by mailers' worksharing activities.

[5] See, e.g., Docket No. RM 2010-13, Order No. 1320, pp. 14 et seq.

II. THE METERED/STAMPED LETTER PRICE DIFFERENTIAL

Pitney Bowes (PB) argues that the one-cent price reduction for Metered Single-Piece Letters "is having a positive effect on mail use by small and medium-sized business mailers."[6] We showed in our Initial Comments that the FY 2014 Billing Determinants – which are the sole quantitative basis for PB's argument – prove no more than that mailers who, so far as can be determined, are already using meters, have begun to take advantage of the discount.[7]

PB states that "[t]he billing determinants also suggest that the increase in metered mail letters was due primarily to a decline in non-metered single-piece letters."[8] It is not easy to see the grounds for this conclusion. Between Q2 and Q3 of FY 2014, Metered volume increased by about 473 million pieces, while Stamped volume fell by only 105 million. That quarterly increase in Metered volume, accordingly, can hardly have been "due primarily" to a decline in Stamped mail which was less than a quarter as big. Between Q3 and Q4, Stamped volume declined by 572 million pieces[9] – but Metered did *not* increase, and in fact declined very slightly, by about 11 million pieces.

By their nature, the volume figures found in the Billing Determinants cannot inform us about the volume behavior of an indicia category for periods before that category came into existence as a rate category. The data furnished by the RPW by Indicia reports do provide this information, however, which is why GCA

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[6] PB Comments, p. 4.

[7] Initial Comments of the Greeting Card Association ("GCA Initial Comments"), pp. 9-11.

[8] PB Comments, loc. cit.

[9] There is nothing unusual about a sharp decline in Q4 volume. In FY 2013, for instance, Single-Piece Letter volume fell by 511 million pieces, from 5,200 million in Q3 to 4,689 million in Q4. See Docket ACR2013, FY 2013 Billing Determinants, Sheet A-1, Single-Piece Letters. In FY2013, of course, there was no Metered/Stamped distinction in the Billing Determinants, so this figure includes both categories of indicia.

relied on them in our Initial Comments. We respectfully refer the Commission to those Comments, at pp. 5 et seq., for our explanation of how the RPW data undercut any argument that the Metered/Stamped differential caused an increase either in absolute volume or in Metered volume at the expense of Stamped. We showed in those Comments, for example, that between FY 2013 and FY 2014, the volume of Single-Piece Letters eligible for the Metered rate declined more than did the volume of Stamped Letters or that of non-Permit Imprint Single-Piece Letters as a whole – a result strongly suggesting that the differential was not eliciting new Stamped volume.[10]

GCA continues to believe that the Metered/Stamped differential contravenes Objectives (b)(1), (b)(5), and (b)(8). PB's arguments do not refute GCA's showing, in our Initial Comments, that the differential is failing to produce the hoped-for results and that, accordingly, its effects – unjustified discrimination against household mailers and uncompensated loss of revenue for the Postal Service – should not be permitted to continue.

III. CONCLUSIONS

GCA respectfully urges the Commission –

- To give serious consideration to whether the institutional cost burden imposed on First-Class Letters and Cards – the entire category, and not merely Presort Letters and Cards, as suggested by NPPC – has become excessive when judged by the "just and reasonable" standard of sec. 3622(b)(8); and

- To order the Postal Service to discontinue, entirely, the Metered/Stamped differential in Single-Piece Letters, as violative of Objectives (b)(1), (b)(5), and (b)(8).

[10] GCA Initial Comments, pp. 5-6. "Metered-eligible" volume fell 8.3 percent, Stamped volume 1.9 percent, and the whole category 4.6 percent.

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Respectfully submitted,

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