

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Institutional Cost Contribution)
Requirement for Competitive Products)

Docket No. RM2017-1

**INITIAL COMMENTS OF THE
AMERICAN CATALOG MAILERS ASSOCIATION (ACMA)**

(January 23, 2017)

Pursuant to Commission Order No. 3624, "Advance Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products" (Nov. 22, 2016), ACMA is pleased to submit these comments.

Through catalogs, our members offer a wide range of goods. Arranging delivery of these goods is an important part of the service they provide, and requires working with a range of carriers, including the Postal Service. Generally, the prices and services these carriers offer are differentiated, making selections complex. We have a strong interest, therefore, in both the prices and the features of the services offered by the Postal Service.

Competition Among Carriers

We see considerable competition among providers of delivery services. This competition has brought differences in computer arrangements and paperwork, pickup arrangements, delivery speeds, ancillary services including insurance and return offerings, damage rates, and prices. Each provider is interested in the needs and experiences of its customers and each makes changes from time to time.

In addition, each carrier is interested in the degree of pricing freedom it has. This requires ongoing attention to markets and their behavior. Most carriers arrange discounts and engage in contracts if it is advantageous to both parties. Contracts are highly customized to the needs of the individual customer, their volumes, requirements, etc.

It is not our observation that the various carriers operate on some kind of level playing field. They each have strengths and weaknesses. If the Postal Service is a reference point, it is an unusual one. In initial comments in Docket No. RM2016-2 (Jan. 27, 2016), which focused on a costing proposal of UPS, after noting that the Postal Service has a delivery network that is unparalleled, ACMA observed that UPS has some strengths of its own, including “a better labor contract; a processing and distribution network tailored specifically to the handling of parcels; freedom to enter into contracts with customers, selectively, without regulatory oversight; freedom to craft the levels and universality of its service, and freedom to do such things as offer loss-leaders” (at 36). And in a much more thorough analysis than ACMA has done, the Federal Trade Commission concluded that the “unique legal status [of USPS] likely provides it with a net competitive disadvantage versus private carriers.”¹

The Minimum Contribution Should Be Eliminated

The PAEA established a category of competitive products. The hope was, and still is, we presume, that the Postal Service, given freedom from some of the constraints that exist for the market-dominant products, can compete and be successful, which means to make profits. That is what firms do. It is consistent with Adam Smith’s

¹ “Accounting for Laws that Apply Differently to the United States Postal Service and its Private Competitors,” A Report by the Federal Trade Commission, December 2007, p. 8.

Invisible Hand and it is consistent with allowing mailers to benefit from what the Postal Service has to offer. As described above, we see the Postal Service as competing.

Currently, the contribution from the competitive products must be at least 5.5 percent of “postal-wide institutional costs.” In FY 2016, the contribution was 16.5 percent.² This is consistent with competition and profit-seeking of the kind discussed herein. The purpose of the instant docket is to “determine whether” the minimum proportion “should be retained in its current form, modified, or eliminated. See 39 CFR 3015.7(c).” Order No. 3624 at 2. ACMA believes it should be eliminated.

Given the dimensions of the market and its complexities, the Commission has no way of selecting a minimum proportion for the contribution that is consistent with workable competition. If the proportion is low, the Postal Service will be above it, as now. If the proportion is high, the Postal Service will be forced to lose money, and thus to fail to provide the service that it could. The most appropriate course of action is to eliminate the proportion.

Respectfully submitted,

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² See Competitive Products Fund Report, file Preface.pdf, p. 4, [USPS](#) Library Reference 39, Docket No. ACR2016.