

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Annual Compliance Report, 2008

Docket No. ACR2008

REPLY COMMENTS OF THE GREETING CARD ASSOCIATION

In these Reply Comments, the Greeting Card Association (GCA) discusses a significant point made in the initial Comments of the Public Representative.

GCA, along with many others in the mailing industry, has expressed skepticism about the benefits – particularly the long-term benefits – of any reduction in the frequency of mail delivery. The analysis offered by the Public Representative provides fresh reasons to believe that such skepticism is justified. In view of the public discussion of possible delivery frequency reductions, triggered in part by the Postmaster General’s recent testimony before the Senate oversight subcommittee¹, GCA believes that the line of inquiry opened up by the Public Representative should be pursued further in the Commission’s compliance report.

The proposition with which we are concerned is that what the Public Representative calls “an ad hoc reduction in service”² would produce, at best, a short postponement of the failure of more and larger mail classes to comply with the cost recovery requirements of the statute. This is said to be the case because unit variable costs are rising faster than the rate of inflation which controls Postal

¹ Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and Homeland Security, Committee on Homeland Security and Governmental Affairs, January 28, 2009.

² Public Representative Comments, p. 5.

Service revenue increases³. The Public Representative also contests the “conventional wisdom” that increasing volumes will (help to) solve the Service’s financial problems: this is said to be impossible if the gap between unit variable cost and unit revenue continues or increases.⁴

GCA acknowledges that neither time nor available resources have permitted it to make a full analysis of the Public Representative’s position.⁵ Nonetheless, it is persuasive enough on its face that the Commission should do so, and should make its conclusions part of the compliance report in this docket. The relevance of the cost-vs.-revenue trend discussed by the Public Representative is clear enough, given that results for FY 2008 show an increase in the number of mail categories not recovering their attributable costs. Nothing in 39 U.S.C. § 3653(b) appears to bar the Commission from including, alongside its findings on compliance with rate and service standards in FY 2008, its best thinking on how compliance can best be assured in the future.

“Compliance,” as discussed in the Public Representative’s submission, is largely a matter of recovery of attributable costs – which can be taken, roughly, as equivalent to variable costs. The bigger picture, however, must include the Service’s ability to recover *all* its costs. Even if variable cost per piece were static, declining volume would create problems in recovering institutional costs (\$32.2 billion, according to the *Public Cost and Revenue Analysis, Fiscal Year 2008* filed in this docket). In this connection, the likelihood that a reduction in service would lead to volume losses over and above those ascribable to electronic diversion again becomes relevant. The Commission has acknowledged⁶ that

³ Barring an “exigency” case under 39 U.S.C. § 3622(d)(1)(E).

⁴ Public Representative Comments, pp. 3-4.

⁵ At least one of the Public Representative’s suggestions for bolstering net revenue – proper alignment of discounted rates with cost savings – parallels the position GCA has taken and continues to support. See Public Representative Comments, pp. 5-6.

⁶ Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly* (December 19, 2008), pp. 125-126.

this effect is not yet well understood – but some such effect is certainly likely, and should not be neglected in the consideration of service reductions. Appropriate contribution to institutional costs is a key element of compliance with the rate standards of the statute.⁷ This issue, therefore, is likewise a suitable subject for analysis and discussion in the Commission’s compliance report, and would make that document much more helpful and influential in the current debate on basic changes in postal policy.

February 13, 2009

Respectfully submitted,

David F. Stover
2970 South Columbus Street
No. 1B
Arlington, VA 22206-1450
(703) 998-2568
(703) 998-2987 fax
postamp@crosslink.net

⁷ 39 U.S.C. §§ 3622(c)(2) (market dominant products), 3633(a)(3) (competitive products).