



# E-NAPUS Legislative Newsletter

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## USPS Flying in Unfriendly Skies

Last week's *E-NAPUS Legislative Newsletter* article on the House Appropriations hearing alluded to a point of contention between the airline industry and the USPS. A large number of NAPUS members expressed interest in the "airline postage surcharge."



As drafted by Rep. John McHugh, H.R. 22 would enable the USPS to negotiate the airline transport price of foreign destined mail. Currently, the Department of Transportation (DOT) sets the rate. At the May 3 House Treasury, Transportation and Housing and Urban Development Appropriations hearing, PMG Potter testified in favor of greater flexibility in negotiating the price of air carriage. Competitive bidding accomplishes that goal. Potter stated that the air charge is international mail's second leading cost-driver. Foreign postal delivery constitutes the largest portion of the price.

The domestic airlines bristle at any attempt to eliminate their privileged treatment by the DOT. On April 13, the industry persuaded the House Government Reform Committee to delete the section of H.R. 22 that authorized competition. The airlines alleged that the section granted foreign airlines an unfair advantage, since many overseas carriers get government aid, enabling them to offer subsidized rates. In addition, the airlines argued that competition would further jeopardize their precarious financial position. The AFL-CIO Transportation Trades Department weighed in on the side of the domestic airlines, since the Department believed that jobs would be at risk by a further decline of the airlines.

In early April, the Government Accountability Office sent a letter to Senate Homeland Security and Governmental Affairs Committee Chairman Susan Collins (R-ME), which concluded that the 35-year old DOT system for setting international mail rates was antiquated and does not reflect the prices available in the deregulated airline industry. Moreover, the GAO reported that revenues from transporting mail account for less than 1 percent of the airlines operating budget. (It strains logic to reckon that airmail competition will financially cripple domestic airlines.) Finally, according to USPS and Department of Defense (DOD) data, competition for the carriage of international mail would save the mailing public \$50 million per year in postage and the American taxpayers another \$50 million per year. (The taxpayer supported DOD reimburses the USPS for the costs of transporting military mail overseas.)

As the revisions to the postal enhancement legislation (H.R. 22 and S. 662) continue, it will be interesting to note how the airlines reposition their objection if the competition excludes foreign carriers. It seems unfair to the mailing public and U.S. taxpayers to pay a DOT surcharge for international mail. After all, the airlines fought for deregulation in the 1980s, so is ironic that they support a highly regulated rate for the carriage of foreign mail?



Enjoying a soda at the  
candy store

How much will it  
cost?

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**We are on the Web!**

## Price Flexibility – Return to Murray’s

NAPUS has been fairly consistent about USPS’ need for enhanced flexibility to establish and adjust postage rates. Most stakeholders have agreed that the consumer price index (CPI) is an appropriate yardstick by which to raise rates. H.R. 22 and S. 662 embrace this index. However, there is a difference about where the yardstick should be applied. The USPS believes that it needs to adjust rate at the aggregate class level. This means that so long as the average rate increase for subclasses of mail within a broad rate class does not exceed the CPI, the USPS would comply. This position is reflected in S. 662. However, members of the mailing community believe that the CPI adjustment should be applied at each *subclass level*. This position is suggested in H.R. 22.

To a casual observer, this distinction is *deep in the weeds*. However, the difference represents the REAL meaning of price flexibility. The December 10 issue of this newsletter compared postage allocation to the way in which Murray’s Candy Store operated. Allow me to return to the venue of my second paid job. Murray’s sold different classes of products (e.g., candy, ice-cream, soda, magazines, cards, and dry goods). Murray established the price for each product, based upon a number of factors that were unique to each product. At times, he had to raise the price for his products if his rent increased; his employees received a raise, his utilities increased, or all of the above. Murray tended to raise the prices of all classes of products by the same percentage, but not every product by the same amount. There were important reasons for this. Price increases for soda were a case in point. Assume that Murray’s overhead and product costs increased by 5%. Although Murray raised soda prices by 5%, it did not mean that he raised canned soda, bottled soda, and fountain soda by the same 5%. Instead, he distributed the price increase in a way to reflect the actual cost of providing the specific soda product or used the price change to sway customer decisions about which type product to buy. For example, if he believed that discarded bottles and cans added to his trash bill, or forced his young employees to spend too much time cleaning up trash, he increased the price of the disposables more than the price of fountain service. Also, if he received an incentive to recycle bottles, he would set his price increase to spur the purchase of bottled soda. If Murray was forced to increase all soda by the same percentage, he would have been unable to use his price flexibility to the advantage of store operations and his bottom-line.

Just like Murray’s, the USPS cries out for flexibility to pursue its mission effectively. The USPS should be able to adjust rates to maximize its opportunities to operate efficiently for the public and its employees. For example, a 2% increase in the CPI would limit the average increase for “standard mail” to 2%, but the increase among its subclasses (e.g., regular standard, enhanced carrier route, nonprofit, nonprofit enhanced carrier route, etc.) should be able to vary. If it makes sense to raise the postage of carrier enhanced mail by a smaller amount than regular standard, so be it. After all, enhanced carrier mail does not have to be sorted by address. The check on the process is fair because the average price increase in the standard mail class would limit wide variations among the subclasses. The mailers’ contention is that some of them benefit from the pricing of a unique subclass. These mailers fear that the USPS would allocate the bulk of the adjustments with the aggregate to their subclass. A fear yes – but not to the detriment of reasonable price flexibility and the continued viability of a universal USPS.