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July 8, 2003
Hand Deliver

Mr. Dennis Shea
Executive Director
President's Commission on the United States Postal Service
1120 Vermont Avenue, N.W.
Washington, D.C. 20005

Dear Mr. Shea:

We represent Valpak Direct Marketing Systems, Inc., a subsidiary of Cox Target Media, Inc. As its Final Comments, Valpak would like to submit the following Executive Summary of "Postal Revenues and Costs from Workshared Activities: An Evaluation of USPS Worksharing" by John Haldi and William Olson, June 2003.

The Executive Summary reads as follows:

> Many postal services, such as sorting or transporting mail, are optional for large mailers. These services may be workshared by being performed by the mailer or contracted out to a private firm or they may be purchased from the USPS. Approximately two-thirds of all mail is workshared to some degree.
>
> When mailers perform or privately purchase workshared services, the Postal Service provides fewer services along with delivery, and charges lower rates, published as rate differentials. A host of private firms now compete to provide these "upstream" workshared services. This study examines whether revenues that the USPS realizes from workshared services cover their costs.
>
> The study is based on USPS accounting records of mail processed, to identify for the first time revenues generated, and costs incurred from workshared activities. (The cost incurred by mailers to prepare and transport mail so that it bypasses some or all of the upstream network was not addressed.)

The analysis here finds that **the USPS cost to provide workshared services exceeds by billions of dollars the revenue earned**. The upstream portion of the postal network incurs a significant financial shortfall. The immediate conclusion from this finding is that the **rates charged by the USPS to provide workshared services are inadequate**.

In order to cover the shortfall, the **USPS abuses its monopoly over delivery by overcharging highly workshared mail**, cross-subsidizing the upstream portion of its network. The competitive playing field is not level, slanted against private firms that perform extensive worksharing service.

The study recommends that **all cross-subsidies to upstream services be eliminated**. Competitive services should be priced competitively, with rates set at a level sufficient to cover costs and render those services financially self-supporting. If the Postal Service will not revise its pricing, the only way to avoid these cross-subsidies could be to split the USPS into (i) a processing and transportation company, and (ii) a separate delivery company.

For the Commission's use, we are providing bound copies of the following documents: (i) Executive Summary; (ii) Slides from the presentation of the Haldi-Olson paper at the Conference on Postal and Delivery Economics in Toledo, Spain in June; (iii) "Postal Revenues and Costs from Workshared Activities: An Evaluation of USPS Worksharing" by John Haldi and William Olson; and (iv) two supporting papers ("Postal Revenues Earned from Workshared Activities" and "Postal Service Costs of Workshared Activities").

We believe that this material is highly relevant to the Commission's understanding of the importance of and impediments to the use of worksharing as employed by the United States Postal Service.

We look forward to the issuance of the Commission's report. With best regards.

Sincerely yours,

/s/

William J. Olson

WJO:pw