

July 27, 2022

The Honorable Michael Kubayanda, Chair
The Honorable Ann C Fisher, Vice Chair
The Honorable Mark Acton, Commissioner
The Honorable Ashley Poling, Commissioner
The Honorable Robert Taub, Commissioner
Postal Regulatory Commission
901 New York Ave., N.W., Ste. 200
Washington, DC 20268

BY ELECTRONIC MAIL

Dear Chairman, Vice Chairman and Commissioners:

Pursuant to the mandate of Congress issued in the Consolidated Appropriations Act of 2021 and published in the Joint Explanatory Statement of the House of Representatives Report 117-79, (H. Rep. No. 117-79 at 100 (Jul. 1, 2021) and the Commission's subsequent request for comment, the National Newspaper Association and the News/Media Alliance provide stakeholder views on the size and timing of the 2021 and 2022 postage increases. NNA and N/MA also suggest a specific action by the Commission.

Summary

The magnitude of rate increases in 2021 and 2022 has pummeled a newspaper and magazine industry that is already struggling to stay afloat. National concerns about the impact upon democracy if news journalists are no longer able to cover their communities have captured the attention of policymakers, who are proposing a variety of federal actions to help.

In this environment, the impact of postal rate increases adds fuel to a flame that already threatens American journalism. For community newspapers, the increases have particular impact because of these newspapers' near-total dependence on the Postal Service for distribution. Added to other factors affecting the industry—rapidly-rising paper costs, increased printing expenses and the challenges in maintaining a viable workforce—the exorbitant magnitude of postage increases is troublesome. Because the increases have accompanied dismal on-time service reports—particularly with End-to-End mail where publishers are wholly dependent upon the mail—the cumulative weight has added to the industry's burdens.

The Commission could help to ease these burdens by urging the Postal Service to use its discretion and avoid charging Periodicals mailers the optional two-percent non-compensatory surcharge under the revised rate regulations. While such action would continue to require a funding mechanism within USPS, the burden for this task is light

and the yoke is consistent with historic precedent. NNA and N/MA therefore request that the Commission consider advising the Postal Service at its next available opportunity that the non-compensatory adjustment of 2 percent for Periodicals is not required.

Background

The National Newspaper Association has appeared before the Commission and its predecessor Postal Rate Commission since the creation of these regulatory bodies in 2006 and 1970, respectively, and before Congress in its deliberations over the Post Office Department since NNA's founding in 1885. NNA represents small community newspapers, primarily privately-owned weekly publications in towns across America. It has members in every state. NNA's main focus over the years has been Periodicals rates and service, including the Within County subclass that was created by Congress in 1845 to promote development and sustainability of community newspapers. In a recent survey, nearly 80 percent of NNA members say at least half of their circulations are in the mail, and more than half have nearly all copies in the mail. NNA's median newspaper is a privately-owned weekly publication with circulations of 3,000-5,000 copies per week. NNA members also use Marketing Mail to reach nonsubscribers and First-Class mail for business correspondence, billing, and promotions.

The News/Media Alliance is the successor to the Newspaper Association of America and the American Newspaper Publishers Association which, likewise, have appeared before the regulators both before and since 1970 on behalf of larger newspapers. Recently, the News/Media Alliance merged with the Association of Magazine Media to create N/MA. N/MA members represent many of the biggest and most renowned brands in the news publishing and magazine industries. They rely on the Postal Service to deliver valuable, compelling original journalism and educational, cultural, scientific, and informational periodicals to consumers. A number of N/MA members are also heavy users of Marketing Mail.

In debate over the Postal Reorganization Act, both organizations sought the reaffirmation by Congress of its traditional importance of newspapers in the mail. In the 1970s, second-class mail, as Periodicals mail was then known, was important for smaller newspapers as the primary distribution mechanism and for larger newspapers as the carrier for copies to exurban and interstate subscribers. In the later discussion of legislation that led to the Postal Accountability and Enhancement Act, the two organizations emphasized the importance of affordable postage rates and reliable service. Today, in the broadly changing media environment, these emphases are no less critical. To achieve their missions of serving Americans with news and information, all sizes of newspapers must have a reliable and efficient universal service reaching every household and business in the country at affordable rates.

Rate Increases 2020-2021

Since 2020, the Postal Service has had the authority to increase rates consistent with four variables: the rate of inflation measured by the Consumer Price Index for all Urban

Consumers (CPI-U); a density-based calculation to recognize the impact of declining mail volume; a retirement cost compensation and, for certain mail subclasses, a non-compensatory enhancement of 2 percent. The non-compensatory enhancement is intended to push subclasses whose revenues do not equal Postal Service’s direct and indirect costs for the subclasses toward full cost-coverage.

The resulting increases for Periodicals mailers have been dramatic. At a time when annual inflation, though rising, remained under 3 percent, the Periodicals mailers saw increases at roughly triple the rate of inflation. Adding to the pain has been the fact that Service Performance for Periodicals has failed to meet standards or even USPS’s target of 95% of standards—particularly for End-to-End mail where mailers have no delivery alternative.

Rate Year	Periodicals Rate Increases by %	Periodicals End-to-End Annual Service Performance
2021	10.156	74.3% (from trailing year)
2022	8.54	70.1% (YTD)

Newspapers have suffered as a result of these twin maladies: rapidly rising costs and failed service. In a survey of its members in June 2022, NNA found that 92% had lost subscribers in recent years because of poor mail delivery. N/MA members also lost significant numbers of subscribers, at a time when the pandemic struck businesses hard, causing businesses to reduce advertising in newspapers just when the public relied upon and needed information from their local newspapers the most.

While the inquiry at hand is about rate impact, and not precisely about service failures, it is impossible to gauge the effect of rates or service upon a mailing business without taking both elements into account. A willing buyer’s determination to pay is based upon how well it values the service, but when subscribers are signaling their unwillingness to pay for late newspapers, publishers are left with fewer customers to help bear the consequences of rising rates. A shrinking subscriber base due to USPS poor delivery and rising postage rates leaves newspapers with no good choices.

Present effect of higher rates

While dramatic price increases are rarely welcomed by buyers, the 2021 and 2022 rates hit smaller newspapers at a particularly vulnerable time.

In NNA’s recent member survey, signs of stress appeared from supply chain disruptions:

- Two-thirds experienced increases in printing costs of 15-30% or higher;
- One quarter said that paper shortages were causing them to print fewer pages;
- One quarter said they were having trouble finding paper;

- Two-thirds said the increases in paper cost had been “unpredictable” in the past two years; and
- Perhaps most telling, in an industry where “reliable postal service” has traditionally been ranked as the most urgent priority, nearly half now say that “affordable rates” is the top concern.

Similarly, N/MA members have seen cost increases in paper and freight over 20% as well and printing and manufacturing costs rising over 10%. Paper supply is very tight, and some were forced to reduce the quality of paper to lower grades. The supply chain issues clearly have resulted in part from COVID-19 pandemic disruptions. But a realignment of the paper industry beginning with tariffs on newsprint implemented by the United States in 2018 has led to fewer printing-paper mills. Facing similar problems in the book-publishing industry, Publishers’ Weekly explains some of the factors that have tightened supply and raised prices. Among them: paper producers have been converting their mills to packaging. [Looking for Answers to Paper Shortages \(publishersweekly.com\)](https://publishersweekly.com).

Adding to the paper procurement challenges have been staffing shortages and recruitment barriers. Many members are having difficulties finding independent carriers, leaving them dependent upon the postal service. Unfortunately, due to postage increases and subscriber losses attributed to poor service, some publications have been forced to cut staff or services/products, ultimately hurting the public.

Looking mostly for journalists who wish to live in small towns and cover the quotidian business of schools, city councils, youth sports and local elections, publishers of community papers have a hard time hiring from within current crops of graduating journalists. This challenging outlook lead NNA’s newspaper Publishers’ Auxiliary to host a series of interviews with journalism professors, trying to puzzle out ways for the industry to attract talent in newsrooms. The series suggested that the newsroom shortages would not end in the near future, as students moved toward social media that do not support newsgathering at the local level. As a result, NNA’s foundation began its own journalism courses online, to help newsroom staff recruited from within the communities to better perform their duties. But filling staffing gaps and educating new reporters will take time.

The State of the Industry—News Deserts

For those harboring a vision of multiple online news outlets (hopefully nonprofits, for those most cynical about the business models), a recent report by national media analyst Penelope Muse Abernathy, visiting professor at the Medill School, Northwestern University, dashes the hopes.

Newspapers are dying in many communities, and digital alternatives are not springing up to fill the void, Abernathy reports in *The State of Local News, The 2022 Report*. [The State of Local News | Local News Initiative \(northwestern.edu\)](https://www.nwnews.org/) More than two newspapers a week are disappearing, Abernathy says. The nation has lost more than a

quarter of its newspapers since 2005. The trend has left many Americans relying upon the notable *unreliable* social media for news. Abernathy says:

More than a fifth of the nation's citizens live in news deserts—with very limited access to local news—or in communities at risk of becoming news deserts. Seventy million people live in the 208 counties without a newspaper, or in the 1,630 counties with only one paper—usually a weekly—covering multiple communities spread over a vast area. Increasingly, affluent suburban communities are losing their only newspapers as large chains merge underperforming weeklies or shutter them entirely. However, most communities that lose newspapers and do not have an alternative source of local news are poorer, older and lack affordable and reliable high-speed digital service that allows residents to access the important and relevant journalism being produced by the country's surviving newspapers and digital sites. Instead, they get their local news—what little there is—mostly from the social media apps on their mobile phones.

If the Commission were to join the ranks of important policymakers who worry about what these trends mean for civic participation and democracy, they would not be alone. Major inquiries on the consequences of shrinking newspapers have been carried out by the Federal Trade Commission in 2008¹ the Federal Communications Commission in 2011,² and prominent members of Congress, who have introduced such measures as the Future of Local News Act, (S 1601), Eliminating Local News Deserts Act of 2021, (HR 5393), the Journalism Competition and Preservation Act (HR 1735 and S 673) and the Local Journalism Sustainability Act (HR 3940 and S 2434).

This Commission has the power to make a difference by relieving pressure applied to the news industry from rising postal rates.

The newspaper industry's proposal is affordable and in keeping with traditional public policy.

Newspapers occupy an important position in the mail environment.

They occupy about 18 percent of the Periodicals mailstream (an estimate made by USPS before many small daily newspapers began a migration to mail delivery). As an economic force, Periodicals in the mail are critical; data show that when consumers become wealthier and better educated, their reliance upon Periodicals grows.

¹ From Town Crier to Bloggers: How will Journalism survive the Internet Age? Federal Trade Commission workshop, 2009 From <https://www.federalregister.gov/documents/2009/10/07/E9-24197/public-workshops-and-roundtables-from-town-crier-to-bloggers-how-will-journalism-survive-the>

² Waldman, Information Needs of Communities, Federal Communications Commission, 2011 <https://www.fcc.gov/sites/default/files/the-information-needs-of-communities-report-july-2011.pdf>

Household Diary Study, Mail Use and Attitudes in FY 2019, at 49. [2019 Household Diary Study Final.pdf \(prc.gov\)](#). Keeping them in the mail has been a priority for policy makers concerned not only about the role newspapers play in civic life, but as enticements for postal recipients to pick up their mail. Both of these concerns should inform the Commission's report to Congress.

The storied history of newspapers in the mail provides the Commission with ample justification for protecting the status of these publications through well-advised postage rates and services. In a report to the Commission in 1995, postal historian Richard Kielbowicz guided commissioners on a walk through history, from Benjamin Franklin's decision to fill colonial mailbags with newspapers by what Kielbowicz calls the "striking innovation" to provide newspapers with preferred postage rates to modern day reiterations by Congress of the importance of newspapers in the mail.

The notion of an informed citizenry supported by postal policy has historically enjoyed bipartisan support. Even in the contentious battles of the early Republic between Federalists and Democrats, the parties generally agreed that newspapers should be supported by preferred postage rates. Federalists hoped the public education provided through widely-distributed newspapers would further national cohesion and a strong government while Democrats hoped that greater access to information would expose the excesses of the Federalists. It is not hard to imagine similar sentiments among partisans today and the imagination is buttressed by the bipartisan support in Congress for the various legislative proposals cited above.

Historically, regardless of their partisan viewpoints, both factions supported newspaper distribution at preferred rates, without regard to whether they covered their costs of distribution. At times, the Congressional mandate overrode objections by the postal administrations who seemed constantly buffered by administrative problems in distinguishing which publications deserved preferred treatment and which did not. But postal administrations generally supported the value of the news in the mailbox. See, generally, Kielbowicz, A History of Mail Classification and its Underlying Policies, Docket No. MC95-1 July 17, 1995.

When Congress handed control of the postal system to the independent US Postal Service, regulated by the Postal Rate Commission, it bequeathed a clear expression of the value of Periodicals by reiterating the intention of drafters to preserve this preferred mail class. When Congress adopted the PRA, it gave the Postal Rate Commission wide authority to set rates. It opted for the Commission's independence rather than choosing to statutorily mandate rates for certain mail classes that had been traditionally received rate preferences, but nonetheless cautioned the Commission to heed the public service which certain preferred rates had performed. It included newspapers among those who serve. In the same legislation, Congress softened the impact of requiring postage payments to attain coverage of attributable costs by setting a multi-year schedule for certain preferred classes to gradually absorb the increases. See

Report of the House Post Office and Civil Service Committee, 91st Congress, No 91-912, June 3, 1970 at 12.

Today these values continue in 39 USC 3622(c)(11) where one of the factors the Commission is asked to consider is the educational, scientific, cultural and informational value of the mail, the so-called ECSI value. But in the PAEA era, the Commission has been faced with a conundrum. Though the act encourages the Commission to recognize the value of newspapers and magazines, the Periodicals mail class has been unable to achieve the statute's target that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type; 39 USC 3622(c)(2). In 2011, the Commission jointly studied the plight of the Periodicals' class endemic inability to cover costs and concluded that cost-control mechanisms were unlikely to resolve the tension between conflicting mandates, but that greater "pricing flexibility" from USPS might help. *Periodicals Mail Study, a Joint Report of the United States Postal Service and the Postal Regulatory Commission, July 2011.*

But two substantial factors in the overall environment of postal rates and regulations have occurred since PAEA.

One is that the print industry is clearly shrinking. Whether USPS could ever raise rates high enough to cover costs, even if there were no threat of accelerating the declines, is doubtful. The Commission noted in its Annual Compliance Determination of 2021 that Periodicals cost coverage had sunk to a new low of 53.2 percent, causing the Postal Service to have to absorb about \$828 million. The Commission hoped that changes in mail processing and higher postage rates would stop the decline, but its comments are more hopeful than realistic. *Annual Compliance Determination Report, Fiscal Year 2021, March 29, 2022 at 27-35.* National concern about the disappearance of print journalism altogether should dispose of any lingering hopes that somehow publishers can increase their own prices enough to support double-digit postage increases each year.

Even if the class were to continue to suffer declines in cost coverage (even with inflation-based rate increases), the Postal Service remains a \$77 billion agency. The magnitude of potential loss from a shrinking Periodicals segment becomes a lighter and lighter burden—while the preservation of the value of the class to the Postal Service's own mailbox offerings as well as to the nation is palpable.

The other rising factor is that the US Court of Appeals for the DC Circuit has recently reaffirmed the Commission's authority to resolve the tension between ECSI and cost-coverage pressures when it affirmed the Commission's authority to modify the statutory regulatory system in Title 39 with its own new rate regime to achieve the objectives and

factors.³ For whatever policy disagreements the rate authority decisions underlying the Court's review may have engendered, the result is that the Commission has discretion to resolve ambiguities over conflicting objectives and factors in section 3622 and can exercise its power to preserve newspapers, as a matter of sound public policy. Indeed, in its final order the Commission acknowledged "that the Periodicals class, in particular, comprises mailpieces that offer ECSI value."⁴

The Commission has exercised its PAEA authorities with an eye to sustainability of the US Postal Service. But sustainability of American newspapers is an equally worthwhile goal, and one that the Commission has the power to influence. NNA and N/MA urge the Commission to exercise its authority by waiving the annual 2 percent surcharge on Periodicals at its next opportunity.

Sincerely,

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³ NNA, N/MA (along with MPA) were petitioners in the case that led to this decision, a petition presented out of a desire to resolve ambiguities in the law.

⁴ See Order No. 5763, Docket No. RM2017-3 (Nov. 30, 2020) at 194.

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