

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000

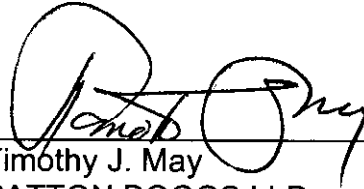
Docket No. R2000-1

RESPONSE OF PARCEL SHIPPERS ASSOCIATION  
WITNESS WIN ZIMMERMANN TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/PSA-T-1-1 through 6)

Parcel Shippers Association hereby provides the responses of witness Win Zimmermann to the following interrogatories of United Parcel Service: UPS/PSA-T-1-1 through 6, filed on June 9, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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Dated: June 23, 2000

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN  
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

**UPS/PSA-TI-1.** Refer to page 5 of your testimony, where you state, "in the short run only USPS is in a position to provide the competition to UPS that is essential to ensure fair prices and good service." Define the term "fair prices" as you use the term in this statement.

**RESPONSE:**

As a general proposition, a "fair price" is one that reflects the pressures of numerous competitors to provide a service, thereby precluding monopoly prices, or "what the traffic will bear" prices. More specifically, in my lexicon a "fair price" is one that does not include a residential surcharge where there is no objective definition of "residential," nor a strict cost justification to the surcharge. Again, more specifically, a "fair price" is also one that encourages the shipper to do as much of the work itself where that work is lower cost to the shipper, and to thereby complete delivery at the lowest combined cost, such as one finds inherent in the USPS DBMC rate structure. A more subjective judgment of a consumer as to what a "fair price" is would be a price that does not exceed a threshold that is unreasonably disproportionate to the price of the goods.

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**UPS/PSA-TI -2.** Refer to pages 5-6 of your testimony, where you state that "Parcel Post rates are right now, and will be even more so, excessive and anticompetitive." Define the terms "excessive" and "anticompetitive" as you use them in this statement.

**RESPONSE:**

Parcel Post rates have been and will be "excessive" in the sense that the current Parcel Post rates, and we believe the proposed rates, are based upon erroneous volume and revenue data employed by the Postal Service in R97-1. This false data caused Parcel Post rates to appear below cost, when that was not, in fact, the case, resulting in rates requested and rates recommended that I believe would never have been recommended were the true revenues and volumes known. Because this erroneous data resulted in much higher Parcel Post rates than would otherwise be the case, these higher rates made Parcel Post less competitive with its only real competitor, United Parcel Service; in that sense, rates that disabled Parcel Post from competing with the UPS *de facto* monopoly constituted anticompetitive rates.

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**UPS/PSA-T1-3.** Refer to page 9 of your testimony, where you state that the United States "is the fastest growing participant in the fastest growing freight transportation market." Define the "freight transportation market" to which you refer.

**RESPONSE:**

The "freight transportation market" to which I refer in my testimony is the small package market.

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**UPS/PSA-T1-4.** Refer to page 10 of your testimony, where you state, "if there is to be competition in the growing ground parcel delivery market the Postal Service must grow its 10% share." Explain why the degree of competition in a market is necessarily linked to the market share of one of a number of firms that operate in that market.

**RESPONSE:**

You have asked me to explain why competition in the ground parcel delivery market is "necessarily linked to the market share of one of a number of firms that operate in that market." I deny the premise of your question. USPS is not one of a number of firms that operate in this market. They are only one of two firms that have historically operated in this market, particularly, in more recent times, in the residential delivery market. It seems to me axiomatic that, if there are only two providers of ground parcel delivery service to a market, and one has only a 10% share, then there will not be competition in that market unless the 10% share can be grown.

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**UPS/PSA-T1-5.** Refer to page 11 of your testimony, where you state, "A very substantial number of major parcel shippers who utilize UPS have secret contract rates that are unrelated to whatever published tariff UPS may have at any given moment." Provide all references, reports, studies, and other documents that support your claim that UPS's contract rates are "unrelated" to published tariffs.

**RESPONSE:**

I am unable to provide documentation that UPS has secret contract rates that deviate greatly from their published tariffs. As I point out these are "secret" contracts and therefore the information is confidential and there is no documentation available because of the secrecy. Nor would I disclose any specific information, if I had any specifics, since to do so might jeopardize carrier/shipper relationships. I do, however, believe, based on various inputs, that there are contracts, some of which have flat rates, sometimes uncoupled from liability and possibly other cost elements, which makes the word "unrelated" to their published tariff a fair usage of that word. My Company is a significant shipper of parcels and, because of my position, I know a number of other persons in similar capacities with other mail order companies. My testimony is based on information that they have given me. Other than the fact that these deals do exist, however, I have not been given the specific details of these "secret" arrangements. Efforts made by PSA in past proceedings to compel United Parcel Service to disclose the existence or details of such secret contract arrangements have been resisted by United Parcel Service, and the Postal Rate Commission has refused to compel such disclosures. I would also point out that United Parcel Service has never, in any proceedings before the Postal Rate Commission, or in any other forum, denied the existence of special contract rate deals with major shippers. The question asked to me

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does not deny it either. The question rather asks why I have characterized these contract rates as being "unrelated" to published UPS tariffs.

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**UPS/PSA-T1-6.** Refer to page 12 of your testimony, where you state that "the competitive rates that the Postal Rate Commission has recommended in the last ten years is [sic] good for consumer and competition alike."

(a) Define the term "competitive rates" as you use the term in this statement. In doing so, indicate whether rates that generate revenues below incremental costs are "competitive rates."

(b) Identify precisely the "consumer" (or consumers) for whom these competitive" rates have been "good."

(c) Identify all consumers who do not benefit from rates that are below costs.

**RESPONSE:**

(a) My definition of a competitive rate is one offered by more than one provider of a service, so that the prices that these competitors charge, taking into account the differences in service provided by the competitors, means that a consumer of these services has a meaningful choice to make. When that condition occurs, competition is fostered and the consumers of those services are the beneficiaries. I have not in my testimony, nor in any other place, stated that below cost rates are "competitive." While below cost rates may temporarily create competition between providers of service, in the long run they are anticompetitive because they will decrease not increase competition.

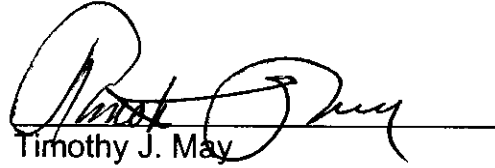
(b) The consumers who have benefited from the more competitive Parcel Post rates over the last decade are both the immediate consumers of parcel delivery services, that is the shippers, and the end users, that is the consumers of the merchandise being shipped by the shippers, consumers that are primarily the consumers of lower end price merchandise.

(c) Since my testimony does not talk about "below cost rates," I am not prepared to talk about the benefits of such rates.



CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Postal Service by hand and by First-Class Mail upon all participants in this proceeding requesting such service.



Timothy J. May

Dated: June 23, 2000