

**BEFORE THE
POSTAL REGULATORY COMMISSION**

**REPORT ON UNIVERSAL POSTAL SERVICE
AND THE POSTAL MONOPOLY**

DOCKET NO. PI2008-3

**COMMENTS OF UNITED PARCEL SERVICE ON
UNIVERSAL POSTAL SERVICE AND THE POSTAL MONOPOLY
(June 30, 2008)**

Pursuant to Commission Order No. 71 (April 18, 2008), United Parcel Service (“UPS”) comments in response to the Commission’s request for comments on universal postal service and the postal monopoly in order for the Commission to prepare the report required by Section 702 of the Postal Accountability and Enhancement Act (“PAEA”), Pub. L. 109-435 (December 20, 2006). We comment only on the universal service obligation, and suggest that the Postal Service’s universal service obligation extend only to market-dominant products.

The package and expedited letter delivery market is dynamic and ever-changing. Accordingly, we urge the Commission to reexamine universal service obligation and monopoly issues on a periodic basis to account for the inevitable future changes in the market and further experience under a fully-implemented PAEA regulatory regime.

UPS Provides Universal Service.

In the case of competitive products, there is a strong business case for providing universal service. That is why UPS provides a broad range of products for the shipment of packages and expedited letters throughout the entire United States. For products not covered by the postal monopoly, UPS provides universal service -- our products feature each of the six characteristics of universal service identified by the Commission in its Order: (1) full geographic scope, (2) a range of product offerings, (3) wide access to facilities and services, (4) frequent delivery, (5) a choice of affordable rates, and (6) high service quality. See Order No. 71 at 5.

UPS's history demonstrates that providing universal service makes good business sense. In 1975, UPS became the first private package delivery company to serve every address in the 48 continental United States. Shortly thereafter, UPS extended its package delivery service to the major population centers of Alaska and Hawaii. Today, UPS delivers packages and expedited letters sent via its 2nd Day Air and Ground services to every address in all 50 states (including Alaska and Hawaii) and Puerto Rico. In addition, UPS delivers items on the next business day with its Next Day Air service in all 50 states and Puerto Rico, with only a few minor limitations in Alaska and Hawaii where a next day service guarantee cannot be met.

UPS shipping is universally accessible: UPS drivers pick up packages at residences and businesses, and shippers can drop off packages at one of UPS's nearly 60,000 retail locations or with any UPS package car driver. There is a UPS retail channel within 10 miles of 97% of the United States population, and within 5 miles of 93% of the population. See Map of population served by UPS retail channels, attached

as Appendix A. Those retail channels include over 1,000 UPS Customer Centers, over 4,300 The UPS Store locations, over 16,000 authorized outlets, and nearly 39,000 UPS drop boxes. Moreover, UPS provides the highest quality service at competitive rates, including value-added features such as door-to-door tracking, email notification of delivery, and C.O.D. service.

UPS is not alone in the private sector in recognizing the business case for universal service. Federal Express appears to have similar geographic scope. See Federal Express 2008 Service Guide at 9-10, available at http://images.fedex.com/us/services/pdf/Service_Guide_2008.pdf.

While UPS and other private carriers are not obligated to provide universal service, UPS provides universal service because there is a strong business case for doing so. By going to every address in the United States, UPS provides increased value to commercial and residential shippers. Shippers know that they do not need to search for different carriers depending on the destination of their packages because UPS delivers everywhere. Put simply, it is in UPS's business interest to provide the broadest array of services to as many people as possible.

UPS's ability to provide service to even the most remote locations depends to a large extent on its ability to make pricing and service decisions based upon the costs of serving all locations. Even where it is particularly costly to make deliveries, UPS has established a system through which universal service is provided on a sustainable, business basis.

**The Postal Service Should Have Commercial Freedom
to Define the Scope of Its Services for Competitive Products.**

Congress' goals in enacting PAEA include giving the Postal Service added flexibility and putting it and its private sector competitors on a level playing field. See S. Rep. No. 318, 108th Cong., 2d. Sess. (August 25, 2004) at 14. Except for PAEA's explicit competitive safeguards, e.g., section 3633 and related provisions, all competitors, including the Postal Service, should enjoy the same commercial freedom to define the scope of the services they provide as long as all areas of the nation receive reasonable service at affordable prices, as is the case now. As a result, the Postal Service's universal service obligation should be construed narrowly to apply only to market-dominant products as defined by section 3621 of PAEA.

The Commission has recognized that the universal service obligation seeks only to ensure that a *basic* level of services will be available. Order No. 71, Attachment A at 8. Limiting the universal service obligation to market-dominant products would of course not preclude the Postal Service from providing universal service for competitive products.

The Commission has also recognized that the universal service obligation is commonly required in exchange for the government's grant of exclusive rights of a postal monopoly to the postal administration. Order No. 71 at 5. Under our proposal, the Postal Service would continue to have a universal service obligation for the products over which it enjoys a monopoly, as well as for those other products "in the sale of

which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” See 39 U.S.C. § 3642(b)(1). Market-dominant product customers would remain protected.

In sum, UPS believes that the Postal Service’s universal service obligation should be narrowly-construed to apply only to market-dominant products, so that the Postal Service would have the commercial freedom to define the scope of service provided for competitive products.

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There have recently been a number of “Do Not Mail” proposals in various state legislatures which would curtail the services available to those who send mail. “Do Not Mail” legislation typically requires a system which allows addressees to opt out of (or in some cases, to opt in to) receiving catalogs and other advertising mail. The enactment of such proposals could have an adverse effect on the Postal Service’s ability to fulfill its mission. While perhaps broader in scope than the current proceeding, we believe that the potential consequences of “Do Not Mail” laws should be studied by the Commission. We therefore suggest that the Commission initiate a public inquiry, separate from the

current proceeding, to consider the impact that such “Do Not Mail” laws would have on the Postal Service and the public if enacted.

Respectfully submitted,

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APPENDIX A

Total Retail - Population Served

