

BEFORE THE
POSTAL REGULATORY COMMISSION

REPORT ON UNIVERSAL POSTAL SERVICE
AND THE POSTAL MONOPOLY

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DOCKET NO. PI2008-3

REPLY COMMENTS OF UNITED PARCEL SERVICE ON
UNIVERSAL POSTAL SERVICE AND THE POSTAL MONOPOLY
(August 1, 2008)

Pursuant to the Commission's Order No. 71 (April 18, 2008), United Parcel Service ("UPS") hereby provides its reply comments on universal postal service. We reiterate our position, shared by the Postal Service, that the universal service obligation should not extend to competitive products. We also note widespread consensus in the initial comments urging the Commission to initiate a proceeding to study the potential consequences of proposed state "Do Not Mail" legislation.

**The Universal Service Obligation
Should Not Include Competitive Products.**

In its initial comments, the Postal Service argues that under PAEA universal service is no longer obligatory with respect to competitive products. Postal Service Comments (June 30, 2008) at 4. Instead, "[s]uccess in the marketplace and profitability will require the Postal Service to define the service provided to competitive products in response to market forces." Id. We agree with the Postal Service that including competitive products in the universal service obligation is not required by PAEA.

As the Postal Service notes (Postal Service Comments at 3-4), PAEA draws a sharp distinction between Postal Service products for which there are competitive alternatives, and monopoly services or those products “in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product[s] 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). Recognizing that competitive markets provide sufficient protection to users of competitive products, PAEA gives the Postal Service more flexibility over competitive products than it does over market-dominant products. For example, in contrast to its market-dominant regulatory scheme, PAEA’s competitive product provisions do not require Commission-supervised service standards, or pricing based on objectives, factors, and a price cap. Instead, PAEA’s competitive product rules center on ensuring fair competition between the Postal Service and its private competitors. See e.g. 39 U.S.C. § 3633(a).

The Parcel Shippers Association argues that the universal service obligation should include competitive package delivery products -- mainly, Bulk Parcel Post -- because “the Postal Service is the only truly universal parcel delivery service.” PSA Comments (June 30, 2008) at 3. That is an overstatement, especially with respect to the commercial shipments that are sent by Bulk Parcel Post. The protection of the commercial high-volume users of Bulk Parcel Post, for whom a multitude of affordable competitive options are available, does not depend on imposing a universal service obligation on the Postal Service. And, under the position taken by UPS and the Postal

Service, the Postal Service's universal service obligation would continue to apply to single-piece Parcel Post, a market-dominant product.¹

PSA cites the Postal Service's exclusive access to post office boxes and APO and FPO address delivery. PSA Comments at 3-4. Although UPS is currently not permitted to deliver to post office boxes, UPS does deliver to the doorstep of every U.S. residence and business, both to the homes and businesses of those who choose to receive their Postal Service-sent mail at a post office box, and to those who are required to do so. Thus, UPS's parcel delivery services are available to all P.O. box users (including the residents of Monhegan, Maine).²

Furthermore, those who prefer to receive items at a mailbox rather than at the doorstep may receive packages and expedited letters at one mailbox in any of the network of over 4,300 The UPS Store/Mail Boxes Etc. locations in all 50 states and Puerto Rico, along with their mail sent through the Postal Service. That number does not include the many other commercial mail receiving agencies where these

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1. If PSA were correct, its remedy would be to request a section 3642(a) transfer of bulk parcel mailings from the competitive category to the market-dominant category. See Postal Service Comments at 5.
 2. The testimony at the Commission's Portsmouth, NH Field Hearing of Monhegan, ME Postmaster Jeanie Schnell concerning UPS's service there is not accurate. Transcript (June 19, 2008) at 50-52. UPS does in fact deliver packages to, and pick up packages from, the door at every address in Monhegan, ME. This includes pickup and delivery (as promptly as Express Mail) of expedited letters. In short, UPS's products are at least as accessible to Monhegan residents as are the Postal Service's competitive products.

addressees may receive all of their mail. See, e.g., <http://www.ampc.org/Public/AboutAMPC.aspx>; Docket No. MC2008-4, Comments of National Association of Retail Shipping Centers, Inc. (June 14, 2008).

UPS also delivers to any U.S. military site in the world and to any individuals located on those sites, as long as the shipment is addressed to the postal address of the military installation instead of to an APO or FPO address.

The minor restrictions on delivery faced by private carriers do not make the Postal Service the only universal service provider of competitive mail delivery. Nor are those limitations by choice: UPS would welcome the opportunity to deliver to P.O. boxes for those customers who choose to use them, as well as to military personnel at APO and FPO addresses.

PSA's statement that Postal Service competitors "offer less convenient access and higher prices" in harder-to-serve areas is also off the mark. See PSA Comments at 4. UPS picks up packages at the door of every address in all 50 states (including in Monhegan, ME) and Puerto Rico, both on-demand and automatically on a daily basis, at rates that are at least as competitive as those of the Postal Service. UPS's on-demand pickup service charges range from as little as \$3-\$5 per package, and there is no surcharge for pickup in remote locations. The Postal Service's on-demand pickup charge is \$14.75 per pickup, see <http://pickup.usps.com/pickup/>, and the Postal Service does not offer an automatic daily pickup service, as UPS does. Moreover, similar to Postal Service letter carriers who will accept small packages from shippers along their delivery routes, UPS package car drivers will accept pre-paid packages of any size at

any time along their routes as well. These access options are in addition to the almost 60,000 retail locations available to UPS users, which include approximately 38,500 drop boxes.³

Finally, PSA argues that the universal service obligation should include competitive parcels to ensure that remotely-located customers have access to a provider with “reasonable service levels at affordable prices.” PSA Comments at 4. Bulk Parcel Post -- the sole package-only competitive mail class -- is available exclusively to high-volume commercial shippers. Domestic Mail Manual at § 453.2.1. These commercial shippers have a wide variety of competitive parcel shipping alternatives available to them. To the extent these shippers pass on their shipping costs to consumers, the consumers reap the benefit of lower prices agreed to by the shipper in the competitive market. Thus, consumers will not be harmed if the Postal Service has the freedom to decide the scope of service it provides to its large commercial customers. And, as noted, under UPS’s and the Postal Service’s position, the universal service obligation would continue to apply to single-piece Parcel Post.

3. The Postal Service has approximately 37,000 retail locations. <http://www.usps.com/communications/newsroom/postalfacts.htm>. Its collection boxes are not available for packages weighing more than 13 ounces unless postage is paid using Click-N-Ship or a PC Postage provider. <http://www.usps.com/send/preparemailandpackages/preparingpackages.htm>.

**The Commission Should Study the
Potential Consequences of Do Not Mail Legislation.**

Along with UPS, a large number of parties have urged the Commission to initiate a proceeding to consider the potential consequences of “Do Not Mail” legislation. See e.g. PSA Comments at 7.

Like many of these parties, UPS has a multi-faceted relationship with the Postal Service, one that extends even beyond its multiple roles as a Postal Service competitor, customer, and vendor. UPS also has a concrete stake in the success of the Postal Service as an advertising medium. The more successful the catalog industry, the greater the number of catalogs mailed (to the benefit of the Postal Service), and the greater the number of packages ultimately carried by UPS and others in the package delivery industry resulting from the products sold. A healthy postal advertising market provides benefits that extend well beyond the Postal Service to the package delivery industry and to the economy as a whole. As a result, we urge the Commission to carefully study the “Do Not Mail” issue so that all aspects of such proposals are considered.

Respectfully submitted,

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