

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

COMPETITIVE PRODUCT PRICES
GLOBAL DIRECT CONTRACTS
NEGOTIATED SERVICE AGREEMENTS

Docket Nos.
MC2009-9

COMPETITIVE PRODUCT PRICES
GLOBAL DIRECT CONTRACT (MC2009-9)
NEGOTIATED SERVICE AGREEMENT

CP2009-10

COMPETITIVE PRODUCT PRICES
GLOBAL DIRECT CONTRACT (MC2009-9)
NEGOTIATED SERVICE AGREEMENT

CP2009-11

**REPLY OF UNITED STATES POSTAL SERVICE TO COMMENTS IN RESPONSE TO
ORDER NO. 137
(December 9, 2008)**

The Postal Service hereby offers comments in reply to those filed in response to the Commission's Order No. 137 by the Public Representative on December 2, 2008, and by William Gensburg on December 4, 2008. The Postal Service welcomes the Public Representative's concurrence that "the proposed contracts in this docket are appropriately categorized as a Competitive Product" and as functionally equivalent.¹ Because the two sets of comments use the instant dockets as an occasion to recommend a Commission study into alleged non-competitive effects of terminal dues, however, the Postal Service wishes to dispel any misapprehensions about fundamental aspects of Global Direct Contracts' cost and market characteristics.

¹ Public Representative Comments in Response to Order No. 137, December 2, 2008, at 6.

As background, the product in question here is Global Direct service. This service is designed to offer mailers of U.S. origin items the option of preparing their mailings using the destination country's postal indicia, so that the pieces acquire the appearance of mail of domestic origin in the destination country. To compensate the destination country post for processing, transportation, and delivery in the foreign country, the Postal Service remits to the foreign postal administration the postage due for each piece. The contracts in this docket do not involve Universal Postal Union terminal dues. In some cases, the charges that the Postal Service pays the relevant foreign postal administration consist of the destination country post's applicable domestic rates. In other cases, however, the Postal Service has negotiated discounted rates with the foreign postal administration. Even if these negotiated rates may in some cases be on par with the rates applicable to other categories of mail, the fact remains that the Global Direct rates have been negotiated against the backdrop of published rates. In this respect, the Postal Service is in the same position as any private entity that wishes to negotiate with the same foreign postal administration for a similar service at special rates. The fact that terminal dues exist as another framework for exchanging mail between postal administrations – a framework that the Commission has ruled to be market-dominant in nature – does not affect the comparison.

Aside from the details of a particular cost component, the market characteristics of the Global Direct Contract product are essentially those of a competitive product.² With Global Direct service, the Postal Service offers mailers a means to send mail to a foreign country with the outward appearance of that country's domestic mail, without

² See 39 U.S.C. § 102(6) (defining "product" as "a postal service with a distinct cost or market characteristic" (emphasis added)).

themselves having to set up business operations in that country. As explained in Mr. Cebello's Statement of Supporting Justification, the Postal Service's pricing and marketing position is constrained by the presence of alternative providers. Hence, classification of Global Direct Contracts as a competitive product is warranted regardless of whether the foreign postal administration is paid published or negotiated rates, and irrespective of any extraneous issues surrounding the rates exchanged between posts in other contexts.

Respectfully submitted,

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