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25 June 2004

Ms. Tasneem Azad  
Deputy Director  
Competition & Regulation  
Postcomm  
Hercules House  
6 Hercules Road  
London SE1 7DB

Dear Ms. Azad,

#### **UPS' VIEWS ON POSTCOMM'S COMPETITIVE MARKET REVIEW**

UPS is an express operator providing a guaranteed, fast, reliable, on-demand, world-wide, integrated, door-to-door movement of shipments which are tracked and controlled throughout the transport chain. Next-day delivery is by far the most important type of express delivery and is used by businesses to achieve the rapid, time-definite delivery of high value goods and documents to customers throughout the world. Next-day delivery has become an important service to businesses and has led to serious cost savings and efficiency gains.

Worldwide, we operate in more than 200 countries, employ more than 350,000 people and have been serving customers since 1907. In the UK, we employ more than 3,600 people out of 26 locations and have been operational here since 1988.

UPS has read the request for information regarding Postcomm's Competitive Market Review and has made a number of comments and observations in the following paragraphs. We have provided information only in areas of direct importance to UPS and have not tried to answer all of the questions outlined in the request for information. UPS' submission deals with two important issues:

- The need to remove the Royal Mail's 'Special Delivery Next Day' service from the Universal Service as it is an express service.
- The need to remove all privileges from the non-Universal Service parts of the Royal Mail and in particular from Parcelforce as these privileges provide an unfair advantage that distorts competition.

***Specify the services to be provided on a Universal Service basis***

UPS is concerned that the Royal Mail has now included its 'Special Delivery Next Day' in the Universal Service in order to meet the requirements of EU law to provide a registered and insured service as part of the Universal Service Obligation (USO).

We have looked closely at the service features of the Royal Mail service 'Special Delivery Next Day' and have found that this service is identical to an express service. Information about the service features of the Royal Mail's 'Special Delivery Next Day' service can be accessed via the following link:

<http://www.royalmail.com/portal/rm/jump2?mediaId=400026&catId=400024>

The key features of this service are:

- "Guaranteed delivery before 12 noon the next working day – or your money back"
- "Prices start at just £3.75 – great value compared to the charges of other next-day express carriers"
- "And don't forget we'll collect your item for delivery from your business for just £5.50 extra" (i.e. door-to-door service starting from £9.25)
- An account can be set up for this service, collections can be booked online and on delivery, the recipient will have to sign for the package and there will be an online confirmation of delivery.

The service features of Royal Mail's 'Special Delivery Next Day' are identical to the key service features of express services provided by UPS and the other integrators. As such, we disagree with the rationale for the inclusion of the 'Special Delivery Next Day' service in the Universal Service.

In paragraph 4.33 on page 28 of *Review of the universal postal service: Postcomm's proposals*, we have noted the following; "*Postcomm takes the view that there is no need for a priority (or faster) parcels service as part of the universal service.*" Given the fact that Royal Mail's 'Special Delivery Next Day' service has features identical to that of express services, it would appear that there is no basis for continuing to include this service in the USO.

UPS understands and appreciates the requirement for the Royal Mail to provide a registered and insured service as part of the universal service obligation. However, we do believe that continuing to include the Royal Mail's 'Special Delivery Next Day' service in the USO will only increase the risk of competitive distortion. In light of this, we would like to reiterate our proposal that the insured/compensatory element could be incorporated into a registered (non-express) service thus creating a value-added registered service.

In addition, Belgium, the Netherlands and Denmark have managed to include registered/insured mail in their USO without involving express services. The Swedish post office also offers an insured and registered service although it is not included in the USO.

*xi. Are you able to compete effectively or are there still significant barriers to entry? If you have experienced barriers to entry, what are they and why are they important?*

#### **VAT Exemption**

UPS believes that the Royal Mail's VAT exemption is unnecessary for the Universal Service and distorts price competition with regard to customers in the domestic, insurance, banking and charitable sectors which are all zero rated and cannot, therefore, reclaim VAT charged on products or services. Not only should Royal Mail's zero-rating be withdrawn but UPS also believes that it would be wrong for the Royal Mail to charge a lower level of VAT than other operators as this would still also distort competition.

UPS believes that there can be no reason for Parcelforce to charge VAT at anything other than the full 17.5%. Parcelforce is now pursuing an identical business model and strategy to that of UPS and the other integrators (DHL, FedEx and TNT). With no USO to justify special dispensation, there can be absolutely no justification for this unequal treatment to continue.

#### **Customs Exemption**

It is the opinion of UPS that customs exemptions distort competition especially with regard to Parcelforce. As Parcelforce is no longer a Universal Service provider but a company operating in direct competition to UPS and others in this sector, this advantage does distort competition and should be removed as a matter of urgency.

#### **Exemption from Traffic Regulations**

UPS believes that Parcelforce should be allowed to retain an exemption from traffic regulations providing other operators have similar rights. We believe that there should be greater flexibility with regard to parking regulations (especially in central London) as express operators provide businesses with a just-in-time/next-day delivery service that has enabled businesses to make vast savings. The catalytic economic benefit of express is significant and so, with escalating parking fines in central London, UPS believes that there needs to be a change in the traffic regulations to allow sensible on-street parking for a short period without the fear of fines. We would ask Postcomm to encourage the Government to launch an inquiry into this issue.

If UPS and other express operators are not allowed the same exemptions from traffic regulations, we believe that Parcelforce and the non-Universal Service parts of the Royal Mail should have to relinquish these privileges. There would otherwise continue to be a serious competitive distortion.

**Conclusion**

In the light of the above, we would ask Postcomm to:

- Reconsider its position and withdraw the Royal Mail's 'Special Delivery Next Day' service from the USO.
- Encourage the Government to create competitive fairness by removing a number of privileges currently granted to the Royal Mail and Parcelforce that currently result in a significant competitive distortion.

Yours sincerely,

**Richard Currie**  
**Director of Public Affairs**  
**UK & Ireland District**